

ADYE Holdings Limited

GROUP REPORT & FINANCIAL STATEMENTS

31 March 2012

# ADYE Holdings Limited

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# ADYE Holdings Limited

## DIRECTORS, OFFICERS AND OTHER INFORMATION

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**Directors:**

A Flowers  
N Cruz  
J Jacobson  
P Martinez

**Joint Secretaries:**

Acquarius Company Secretaries Limited  
Elaine Jones

**Auditors:**

Baker Tilly (Gibraltar) Limited  
Regal House  
Queensway  
Gibraltar

**Bankers:**

Coutts & Co  
440 Strand  
London WC2R 0QS

**Registered Office:**

Suite 3, 2nd Floor  
ICOM House  
1/5 Irish Town  
Gibraltar

# ADYE Holdings Limited

## DIRECTORS' REPORT

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During the period, the Company changed its year end from 30 June to 31 March and so the directors submit their report and the audited financial statements for the period from 1 July 2011 to 31 March 2012.

### **Principal activity**

The Company is registered in Gibraltar and is an investment holding company. The principal activity of its main subsidiary undertaking, Enterprise Insurance Company PLC ("EICP") is the provision of a number of bespoke and tailored wholesale insurance solutions.

### **Review of business and future developments**

The Board are delighted with the progress that the Group companies continue to make.

The coming year will see further growth from EICP's key European markets as it continues to pursue its strategy of developing profitable niche income streams. The business will continue to provide shareholders with a significant return on capital invested and the directors of the subsidiary companies are investigating a number of new opportunities currently which will further enhance performance for shareholders and return real long term growth for the Group.

### **Results and dividends**

The results of the Group for the period are shown in the profit and loss account on pages 6 and 7. The directors do not recommend the payment of a dividend.

### **Directors**

The directors of the Company during the period and to the date of signing the financial statements were as stated on page 1.

### **Financial risk management objectives and policies**

The Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from the financial assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of financial risk are price risk, currency risk, credit risk, liquidity risk and cash flow interest rate risk.

The Group manages these positions with its investment managers to achieve investment returns in excess of obligations under insurance contracts.

### **Interest rate risk**

Cash at banks, debt securities and deposits with credit institutions are subject to variations in interest rates. However, given the level of interest earned, it is felt unnecessary to employ any hedging instruments.

### **Credit risk**

Credit risk arises from policies sold by EICP on a deferred basis where premium is due on settlement of the case. As of 31 March 2012, debtors from fully deferred schemes represented £13,503,719 (2011: £8,207,633) of which £356,724 (2011: £163,319) were settled after more than 90 days and £227,612 (2011: £372,640) were settled within less than 90 days. In addition, the debtors for part deferred schemes where a portion of the premium is paid on policy inception and the balance on conclusion represented £559,492 (2011: £774,809).

# ADYE Holdings Limited

## DIRECTORS' REPORT *(continued)*

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### **Financial risk management objectives and policies *(continued)***

#### **Credit risk *(continued)***

In addition, credit risk arises from policies sold on a non-deferred basis where premium is due on or soon after policy inception. The Group actively manages credit control to minimise credit risk. Of the £17,098,711 (2011: £14,093,387) non-deferred debtors, £12,745,323 (2011: £14,066,004) were due within less than 90 days.

#### **Liquidity risk**

The Group, through EICP, retains a significant proportion of Gross Written Premiums in separately identifiable retention bank accounts, thereby ensuring a prudent level of cash is available to meet its obligations arising from policies. In addition, the Group's other financial investments are held in short term and near cash instruments with money market fund deposits, a liquidity fund UCIT and liquid tradable securities.

#### **Currency risk**

The Group, through EICP, writes insurance business in France and Greece, thereby exposing the Group to Euro currency risk. The level of business written in these countries amounted to a sterling equivalent of £29,109,089 (2011: £19,017,159) relative to total premiums written of £75,196,960 (2011: £51,922,789). To the extent that directors are comfortable that they have sufficient euro currency cash balance to discharge potential liabilities, surplus balances are exchanged for sterling.

#### **Statement of Directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

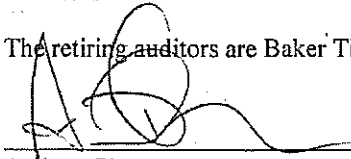
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare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

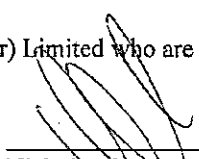
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Gibraltar Companies Act, the Insurance Companies (Accounts Directive) Regulations 1997 and the Companies (Accounts) Act 1999. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility extends to the ongoing integrity of the financial statements contained therein.

#### **Auditors**

The retiring auditors are Baker Tilly (Gibraltar) Limited who are eligible for reappointment.

  
\_\_\_\_\_  
Andrew Flowers  
Director

  
\_\_\_\_\_  
Nicholas Cruz  
Director

31 JUL 2012



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADYE HOLDINGS LIMITED**

This report is made solely to the company's members, as a body, in accordance with section 182 of the Gibraltar Companies Act. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Report on the Financial Statements**

We have audited the Group financial statements of ADYE Holdings Limited for the nine-month period ended 31 March 2012 which comprise the Group Profit and Loss account, the Group Balance Sheet, the Company Balance sheet, the Group Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Directors' responsibilities**

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with the Gibraltar Companies Act, the Insurance Companies (Accounts Directive) Regulations and Gibraltar Accounting Standards (Gibraltar Generally Accepted Accounting Practice). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibilities**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements give a true and fair view, in accordance with Gibraltar Generally Accepted Accounting Practice, of the state of the Group's and the Company's affairs as at 31 March 2012 and of the Group's results for the nine-month period then ended.



**BAKER TILLY**  
(GIBRALTAR) LTD

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
ADYE HOLDINGS LIMITED (continued)**

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**Emphasis of matter**

*Adequacy of claims reserves and going concern*

In forming our opinion, we have considered the adequacy of the disclosures made in note 3 to the financial statements concerning the decision to retain the claims reserves of Enterprise Insurance Company Plc ("EICP"), the main subsidiary of the Group, at directors' valuation as opposed to the external actuary's best estimate. Any negative variance in the level of claim reserves could affect EICP's ability to meet its required solvency margin and could therefore affect the Group's ability to continue as a going concern (see note 1 – Going concern basis of preparation of the financial statements). Our opinion is not qualified in this respect.

**Report on Other Legal and Regulatory Requirements**

In addition to reporting on the financial statements, Gibraltar legal and regulatory requirements also require us to:

- (a) Report to you our opinion as to whether the financial statements have been properly prepared in accordance with the Gibraltar Companies Act and the Insurance Companies (Accounts Directive) Regulations 1997.
- (b) State in our report whether in our opinion the information given in the Directors' Report is consistent with the financial statements.
- (c) Report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

**Opinion**

In our opinion, the financial statements have been properly prepared in accordance with the Gibraltar Companies Act, the Insurance Companies (Accounts Directive) Regulations 1997 and the information given in the Directors' Report is consistent with the financial statements.

We have nothing to report to you in respect of our responsibility set out in (c) above.

**Jose Julio Pisharello**  
Statutory auditor for and on behalf of

**BAKER TILLY (GIBRALTAR) LIMITED**  
Registered Auditors

Chartered Accountants  
Regal House  
Queensway  
Gibraltar

31 JUL 2012

# ADYE Holdings Limited

GROUP PROFIT AND LOSS ACCOUNT for the period from 1 July 2011 to 31 March 2012

## TECHNICAL ACCOUNT

	Notes	Period ended 31/03/2012		Year ended 30/06/2011 (As restated)	
		£	£	£	£
<b>Earned premiums, net of reinsurance</b>					
Gross written premiums	2	75,196,960	51,922,789		
Outward reinsurance premiums	2	(32,495,744)	(13,084,483)		
<b>Net written premiums</b>		<b>42,701,216</b>		<b>38,838,306</b>	
Change in the gross provision for unearned premiums	2	(8,376,094)	(13,518,169)		
Change in the provision for unearned premiums, reinsurers' share	2	7,017,255	5,559,393*		
		<b>(1,358,839)</b>		<b>(7,958,776)</b>	
<b>Earned premiums, net of reinsurance</b>		<b>41,342,377</b>		<b>30,879,530</b>	
<b>Other technical income</b>		<b>1,596,363</b>		<b>453</b>	
Claims incurred, net of reinsurance					
Claims paid					
Gross amount	3	(20,790,171)	(13,586,573)		
Reinsurers' share	3	6,139,098	603,404		
		<b>(14,651,073)</b>	<b>(12,983,169)</b>		
Change in the provision for claims					
Gross amount	3	(16,440,555)	(7,472,293)		
Reinsurers' share	3	7,159,103	1,622,592		
		<b>(9,281,452)</b>	<b>(5,849,701)</b>		
<b>Claims incurred, net of reinsurance</b>		<b>(23,932,525)</b>		<b>(18,832,870)</b>	
<b>Net operating expenses</b>	4	<b>(10,316,254)</b>		<b>(6,023,792)</b>	
<b>Balance on the Technical Account</b>		<b>£ 8,689,961</b>		<b>£ 6,023,321</b>	

The notes on pages 13 to 30 form part of these financial statements.



# ADYE Holdings Limited

GROUP PROFIT AND LOSS ACCOUNT for the period from 1 July 2011 to 31 March 2012

## NON - TECHNICAL ACCOUNT

	Notes	Period ended 31/03/2012 £	Year ended 30/06/2011 (As restated) £
<b>Balance on the General Business Technical Account</b>		<b>8,689,961</b>	<b>6,023,321</b>
<b>Investment income</b>			
Interest receivable		257,968	125,807
Unrealised (loss) / gain on investments		(24,315)	124,408
<b>Other income</b>		<b>15,480</b>	<b>1,910</b>
<b>Other charges</b>	5	<b>(5,725,967)</b>	<b>* (4,277,379)</b>
<b>Profit on ordinary activities before tax</b>		<b>3,213,127</b>	<b>1,998,067</b>
Tax on profit on ordinary activities	6	(411,689)	(157,137)
<b>Profit on ordinary activities after taxation</b>		<b>2,801,438</b>	<b>1,840,930</b>
Minority interest		(6,459)	(108)
<b>Profit for the financial period</b>		<b>£ 2,794,979</b>	<b>£ 1,840,822</b>

The group has had no discontinued activities in the period. Accordingly, the above results for the group relate solely to continuing activities and include all recognised gains and losses in arriving at the profit for the period. This profit is stated on an historical cost basis modified by marking to market of other financial investments and fair valuation of land and buildings.

The notes on pages 13 to 30 form part of these financial statements.

# ADYE Holdings Limited

GROUP BALANCE SHEET as at 31 March 2012

## ASSETS

	Notes	As at 31/03/2012		As at 30/06/2011 (As restated)	
		£	£	£	£
<b>Intangible assets</b>					
Goodwill	7		249,597		307,197
<b>Investments</b>					
Land and buildings	8	1,056,000		906,000	
Financial investments	9	15,066,963		13,564,169	
			16,122,963		14,470,169
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums	2	13,288,867		6,271,612	
Claims outstanding	3	9,667,195		2,508,092	
			22,956,062		8,779,704
<b>Debtors</b>					
Debtors arising out of direct insurance operations		31,161,922		22,503,599	
Debtors arising out of reinsurance operations		4,295,123		736,737	
Other debtors		1,364,765		717,364	
			36,821,810		23,957,700
<b>Other assets</b>					
Tangible fixed assets	10	670,408		173,198	
Cash at bank and in hand		9,587,317		4,189,826	
			10,257,725		4,363,024
<b>Prepayments and accrued income</b>					
Accrued interest		181,377		96,819	
Deferred acquisition costs		7,381,381		4,782,452	
Other prepayments and accrued income		118,111		140,110	
			7,680,869		5,019,381
<b>Total assets</b>		<b>£ 94,089,026</b>		<b>£ 56,897,175</b>	

The notes on pages 13 to 30 form part of these financial statements.

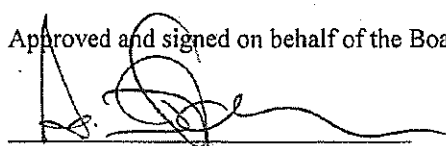
# ADYE Holdings Limited

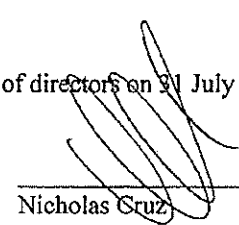
GROUP BALANCE SHEET as at 31 March 2012 *(continued)*

## LIABILITIES

	Notes	As at 31/03/2012		As at 30/06/2011 (As restated)	
		£	£	£	£
<b>Capital and reserves</b>					
Called up share capital	11, 12	700		700	
Share premium account	12	699,550		699,550	
Profit and loss account	12	9,036,942		6,241,963	
<b>Equity shareholders' funds</b>			<b>9,737,192</b>		<b>6,942,213</b>
<b>Equity minority interests</b>			<b>2,457,567</b>		<b>713,608</b>
<b>Technical provisions</b>					
Provision for unearned premiums					
- gross amount	2	32,140,151		23,764,057	
Claims outstanding					
- gross amount	3	27,171,185		10,730,630	
			<b>59,311,336</b>		<b>34,494,687</b>
<b>Creditors</b>					
Creditors arising out of direct insurance operations		3,401,190		2,922,859	
Creditors arising out of reinsurance operations		11,936,847		7,078,736	
Other creditors - including taxation and social security	13	4,066,817		3,484,796	
			<b>19,404,854</b>		<b>13,486,391</b>
<b>Accruals and deferred income</b>			<b>3,178,077</b>		<b>1,260,276</b>
<b>Total liabilities and shareholders' equity</b>		<b>£ 94,089,026</b>		<b>£ 56,897,175</b>	

Approved and signed on behalf of the Board of directors on 31 July 2012.

  
Andrew Flowers  
Director

  
Nicholas Cruz  
Director

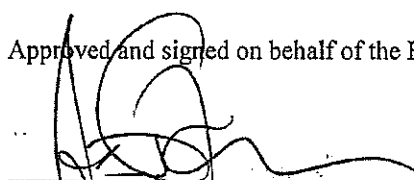
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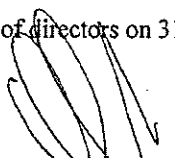
# ADYE Holdings Limited

COMPANY BALANCE SHEET as at 31 March 2012

	Notes	As at 31/03/2012		As at 30/06/2011	
		£	£	£	£
<b>ASSETS</b>					
<b>Investments:</b>					
Investment in subsidiary undertakings	9(b)		2,000,000		2,000,000
<b>Debtors:</b>					
Sundry debtors			251		2,750
<b>Other assets:</b>					
Cash at bank			5,234		372
<b>Total assets</b>			<b>2,005,485</b>		<b>2,003,122</b>
<b>LIABILITIES</b>					
<b>Capital and reserves:</b>					
Called up share capital	11,12		700		700
Share premium account	12		699,550		699,550
Profit and loss account	12		1,020,907		1,287,133
<b>Equity shareholders' funds</b>			<b>1,721,157</b>		<b>1,987,383</b>
<b>Creditors:</b>					
Amounts due to group undertakings			271,170		-
Other creditors			8,308		11,089
			<b>279,478</b>		<b>11,089</b>
Accruals and deferred income			4,850		4,650
<b>Total liabilities and shareholders' equity</b>		<b>£</b>	<b>2,005,485</b>	<b>£</b>	<b>2,003,122</b>

Approved and signed on behalf of the Board of directors on 31 July 2012.

  
 Andrew Flowers  
 Director

  
 Nicholas Cruz  
 Director

The notes on pages 13 to 30 form part of these financial statements.

# ADYE Holdings Limited

GROUP CASH FLOW STATEMENT for the period from 1 July 2011 to 31 March 2012

	Notes	Period ended 31/03/2012		Year ended 30/06/2011	
		£	£	£	£
<b>Net cash inflow from operating activities</b>	14(i)	7,736,877		9,918,551	
<b>Returns on investments and servicing of finance</b>					
Interest received		257,968		125,807	
Interest paid		(21,000)		(27,757)	
			236,968		98,050
<b>Taxation</b>					
Taxation paid		(297,650)		-	
<b>Capital expenditure and financial investments</b>					
Payments to acquire tangible fixed assets		(601,595)		(130,792)	
Payment to acquire land		(150,000)		(769,256)	
<b>Net increase in cash</b>		<b>6,924,600</b>		<b>9,116,553</b>	
<b>Cash flows were invested as follows:</b>					
Increase in cash		5,397,491		1,045,427	
Increase in financial investments		1,527,109		8,071,126	
		<b>6,924,600</b>		<b>9,116,553</b>	

The notes on pages 13 to 30 form part of these financial statements.

# ADYE Holdings Limited

GROUP CASH FLOW STATEMENT for the period from 1 July 2011 to 31 March 2012  
(continued)

	Notes	As at 31/03/2012 £	As at 30/06/2011 £
<b>Movement in opening and closing portfolio investments net of financing:</b>			
Net cash flow for the period		6,924,600	9,116,553
Portfolio investments net of financing b/fwd		17,753,995	8,649,778
Other changes including market values and exchange rate effects		(24,315)	(12,336)
		<u>24,654,280</u>	<u>17,753,995</u>
<b>Portfolio investments net of financing c/fwd</b>			
<b>Cash, portfolio investment and financing consisting of:</b>			
Cash at bank		9,587,317	4,189,826
Financial investments		15,066,963	13,564,169
		<u>24,654,280</u>	<u>17,753,995</u>
	14(ii)	<u>24,654,280</u>	<u>17,753,995</u>

The notes on pages 13 to 30 form part of these financial statements.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group financial statements:

#### **Basis of accounting**

The financial statements have been prepared under the historical cost convention as modified by marking to market of other financial investments and fair valuation of land and buildings, the accounting policies set out below, applicable legislation and in accordance with UK generally accepted accounting principles as adopted by Gibraltar.

Gibraltar legislation applied in the preparation of these group financial statements includes the Gibraltar Companies Act and the Insurance Companies (Accounts Directive) Regulation 1997.

The financial statements have been prepared in accordance with the Statement of Recommended Practice issued by the Association of British Insurers (the "ABI SORP") on Accounting for Insurance Business issued in December 2005.

The annual basis of accounting has been applied to the class of business underwritten by the Group.

#### **Going concern basis of preparation of the financial statements**

The Company's main subsidiary, Enterprise Insurance Company PLC ("EICP") is required to maintain a minimum solvency margin as required by the Insurance Companies (Solvency Margins and Guarantee Funds) Regulations 2004. As at 31 March 2012, EICP had net assets of £14.3 million and a solvency position of £0.6 million in excess of the minimum solvency margin of £12.9 million. Any negative variance in the claims reserves at the balance sheet date would result in a deterioration of the solvency margin position (see note 3).

The directors consider that the Group continues to have adequate resources to manage its business risks successfully. Accordingly, the Group has adopted the going concern basis in preparing the financial statements.

#### **Basis of consolidation**

The group financial statements of the ADYE Group include the assets, liabilities and results of the Company and subsidiary undertakings in which ADYE Holdings Limited has a controlling interest, using accounts drawn up to 31 March 2012.

The Company has taken advantage of the exemption under Section 7 of the Insurance Companies (Accounts Directive) Regulations 1997 from presenting its own profit and loss account.

#### **Business acquisitions**

Business acquisitions are accounted for by applying the acquisition method of accounting, which adjusts the net assets of the acquired company to fair value at the date of purchase. The difference between fair value of net assets of the acquired company and the fair value of the consideration given represents goodwill.

#### **Basis of accounting for insurance business**

The results are determined on an annual basis, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Principal accounting policies (*continued*)

#### **Premiums**

Premiums written relate to business incepted during the period, together with any differences between the booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Group less an allowance for cancellations, discounts, refunds and rebates but before deduction of reinsurance ceded and commission payable.

Premiums are payable on inception of the policy other than for deferred policies where payment is due when the claim has been settled.

Outward reinsurance premiums are accounted for in the same accounting period as the related direct insurance business.

#### **Unearned premiums reserve**

The unearned premiums reserve represents the proportion of premiums written in the period that relate to the unexpired terms of the policies in force at the balance sheet date. For policies with an indefinite period of insurance the premiums are fully earned on the inception date with an appropriate claims reserve created.

#### **Critical accounting estimates - Claims provisions and related reinsurance recoveries**

EICP makes estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group's most critical accounting estimate is the ultimate liability arising from insurance claims.

Claims incurred comprise claims paid during the financial period together with the movement in the provision for outstanding claims. Reinsurance recoveries are accounted for in the same accounting period as the claims for the related business being reinsured.

The provision for claims outstanding is made on an individual basis and is based on the ultimate cost of all claims notified but not settled by the balance sheet date. The provision also includes the estimated cost of claims incurred but not reported at the balance sheet date based on statistical methods.

#### **Claims outstanding**

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claim has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between the initial estimates and the final outcomes because of the greater degree of difficulty of estimating those reserves. Classes of business where claims are typically reported relatively quickly after the claim event will tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims, the Group uses a variety of estimation techniques, generally based upon statistical analyses of historic experience, which assumes that the development pattern of the current claims will be consistent with past experience.



# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Principal accounting policies *(continued)*

#### **Reinsurance recoveries**

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more insurance contracts issued by the Group are classified as reinsurance contracts held.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as long-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on an annual basis. The Group gathers the evidence that a reinsurance asset is impaired by having regard to market data on the financial strength of each of the reinsurance companies.

#### **Acquisition costs**

Acquisition costs are included within net operating expenses and comprise brokerage and service company acquisition costs incurred on insurance contracts written during the financial period. They are spread over an equivalent period to that over which the premiums on the underlying business are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date.

#### **Sliding scale commission**

Where applicable, sliding scale commission is accrued on business written using ultimate loss ratios to calculate the commission. It is spread over a period equivalent to that over which the premiums on the underlying business are earned.

#### **Guarantee fund levies**

Provision is made at the balance sheet date for levies declared by the Financial Services Compensation Scheme and Motor Insurers' Bureau based on premium income recognised in the financial statements. The charge in the technical account is matched to earned premiums.

#### **Foreign currencies**

##### *(i) Functional and presentation currency*

Items included in the group financial statements are measured and presented using British pounds (£), the currency of the primary economic environment in which the Group operates (the 'functional currency'), which is also the Group's presentation currency.

##### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the exchange rate ruling at the balance sheet of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

#### **Land and buildings**

Land and buildings are valued at open market valuation. Full valuations are made by independent, professionally qualified valuers every three years. The aggregate surplus or deficit on revaluation is taken to the non-technical account.

1. **Principal accounting policies (continued)**

No depreciation or amortisation is provided in respect of land and buildings as the directors consider that the residual value is not less than the current carrying value. Depreciation is only one of the factors reflected in the annual valuations, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified.

**Other financial investments**

Investments comprise of shares and other variable yield securities, debt and other fixed income securities and units in unit trusts stated at market value and deposits with credit institutions which are stated at market value.

**Investment income**

Interest income is accounted for as and when it becomes due and receivable.

Realised gains or losses represent the difference between net sales proceeds and purchase price.

Unrealised gains and losses on investments represent the difference between the current value of investments at the balance sheet date and their purchase price. The movement in unrealised investment gains/losses includes an adjustment for previously recognised unrealised gains/losses on investments disposed of in the accounting period.

Investment return (including realised and the movement in unrealised investment gains and losses) on investments attributable to the general business and associated shareholder's funds is reported in the non-technical account.

**Taxation and deferred tax**

*Current taxation*

Current taxation is provided for on the basis of tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

*Deferred taxation*

Deferred tax is recognised in respect of all significant timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

**Goodwill**

Positive goodwill arising on acquisition of a group undertaking represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. This is stated at cost less amortisation.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (continued)

Positive goodwill is capitalised and treated as an asset on consolidation. Positive goodwill is regarded as having a limited useful economic life of eight years and is amortised through the profit and loss account on a straight line basis over its useful economic life.

A provision for impairment is made when necessary.

#### Investments in subsidiary undertakings

Investments in group undertakings are recorded in the Group's balance sheet at cost less any necessary provision for impairment in value.

#### Impairment reviews

A review for impairment of investments is conducted if events or changes in circumstances indicate that the carrying amount of any asset may not be recoverable in full. To the extent that the carrying amount exceeds the recoverable amount, the asset is impaired and is written down. Any impairment loss is recognised in the profit and loss account.

#### Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Leasehold improvement	20%
Computer equipment	25%
Office equipment	25%

#### Operating leases

Rentals payable under operating leases are charged to the profit and loss account as incurred over the term of the lease.

### 2. Earned premiums net of reinsurance

Period ended 31/03/2012

	Gross £	Reinsurance £	Net £
Premiums receivable	75,196,960	(32,495,744)	42,701,216
Unearned premiums carried forward	(32,140,151)	13,288,867	(18,851,284)
Unearned premiums brought forward	23,764,057	(6,271,612)	17,492,445
Change in the provision for unearned premiums	(8,376,094)	7,017,255	(1,358,839)
Premiums earned	£ 66,820,866	(25,478,489)	41,342,377

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Earned premiums, net of reinsurance (continued)

	Year ended 30/06/2011		
	Gross £	Reinsurance £	Net £
Premiums receivable	51,922,789	(13,084,483)	38,838,306
Unearned premiums carried forward	(23,764,057)	6,271,612	(17,492,445)
Unearned premiums brought forward	10,245,888	(712,219)	9,533,669
Change in the provision for unearned premiums	(13,518,169)	5,559,393	(7,958,776)
Premiums earned	£ 38,404,620	(7,525,090)	30,879,530

### 3. Claims incurred net of reinsurance

	Period ended 31/03/2012		
	Gross £	Reinsurance £	Net £
Claims paid	20,790,171	(6,139,098)	14,651,073
Outstanding claims carried forward	27,171,185	(9,667,195)	17,503,990
Outstanding claims brought forward	(10,730,630)	2,508,092	(8,222,538)
	16,440,555	(7,159,103)	9,281,452
Claims incurred	£ 37,230,726	(13,298,201)	23,932,525

## 3. Claims incurred, net of reinsurance (continued)

	Year ended 30/06/2011		
	Gross £	Reinsurance £	Net £
Claims paid	13,586,573	(603,404)	12,983,169
Outstanding claims carried forward	10,730,630	(2,508,092)	8,222,538
Outstanding claims brought forward	(3,258,337)	885,500	(2,372,837)
	7,472,293	(1,622,592)	5,849,701
Claims incurred	£ 21,058,866	(2,225,996)	18,832,870

EICP commissioned its first full actuarial valuation of its geographically diverse motor book since it started writing motor business in France in January 2010. The review was carried out by Towers Watson (TW) as at 31 December 2011 and 'updated' to 31 March 2012 to coincide with the Company's balance sheet date.

The claim reserves relating to the motor book amounted to £22.9 million. TW provided EICP with a best estimate of £27.3 million, a difference of £4.4 million (£1.5 million net of reinsurance) and a range of possible outcomes on claims reserves which were partially based on EICP's limited historical data and comparisons to the overall market and subsections that most resemble EICP's diverse and niche business. The reviews conducted by TW and the best estimates provided therein show wide variations in the ultimate loss ratio and best estimate between the reporting dates with March review showing significant improvements on the December 2011 position. The directors believe that had the actuary taken into account factors specific to EICP's modus operandi and not had to rely on market data in the absence of internal data then their best estimate would have been similar to EICP's reserve position. Therefore, the directors are confident that the claims reserves in the financial statements are more than adequate.

Any negative variance in the claims reserves at the balance sheet date would result in a deterioration of the solvency margin position (see note 1).

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Net operating expenses

	Period ended 31/03/2012	Year ended 30/06/2011 (As restated)
	£	£
Acquisition costs	18,079,100	12,038,589
Change in deferred acquisition cost	(2,598,929)	(3,852,297)
Change in deferred acquisition cost – reinsurers	1,944,485	965,338
Other operating expenses	1,535,755	97,492
Reinsurance commissions	(8,644,157)	(3,225,330)
	<u>£ 10,316,254</u>	<u>£ 6,023,792</u>

### 5. Other charges

	Period ended 31/03/2012	Year ended 30/06/2011
	£	£
Legal and professional fees	1,642,812	1,752,534
Gross wages and salaries	2,322,845	2,210,627
Depreciation of tangible fixed assets	104,385	53,007
Goodwill amortisation	57,600	76,800
Auditor's remuneration	36,095	29,963
Bank charges	32,458	19,987
Bank loan interest payable	21,000	27,757
Other expenses	1,508,772	106,704
	<u>£ 5,725,967</u>	<u>£ 4,277,379</u>

The aggregate amounts of emoluments paid to Directors of Group Companies during the period amounted to £1,706,998 (2011: £1,748,914).

The Group bore the cost of an average twenty-five (2011: nineteen) employees during the period (including directors).

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 6. Taxation

	Period ended 31/03/2012 £	Year ended 30/06/2011 £
<i>Current tax</i>		
Gibraltar corporation tax on profit for the period	410,192	156,527
Tax on ordinary profits	410,192	156,527
<i>Deferred tax</i>		
Origination and reversal of timing differences	1,497	610
Tax on profit from ordinary activities	411,689	157,137

The tax assessed for the period is higher (2011: lower) than the standard rate of corporate tax in Gibraltar of 10%. The differences are explained below:

	Period ended 31/03/2012 £	Year ended 30/06/2011 (As restated) £
Profit on ordinary activities before tax	3,213,127	1,998,067
Profits on ordinary activities multiplied by the standard rate of Corporation tax of 10%	321,313	199,807
Effects of:		
Expenses not deductible for tax purposes	399,682	124,561
Difference between depreciation and capital allowances	(4,942)	1,630
Income not taxable	(305,861)	(169,471)
Current tax charge for the period	410,192	156,527

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

<b>7. Goodwill</b>		£
<b>Cost</b>		
At 31 March 2012 and 1 July 2011	614,397	
	<u>614,397</u>	
<b>Amortisation</b>		
At 1 July 2011	307,200	
Charged during the period	57,600	
	<u>364,800</u>	
At 31 March 2012	364,800	
	<u>364,800</u>	
<b>Net book value</b>		
At 31 March 2012	£ 249,597	
	<u>249,597</u>	
At 30 June 2011	£ 307,197	
	<u>307,197</u>	

Goodwill represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired in EIG Holdings Limited. This is stated at cost less amortisation.

<b>8. Land and buildings</b>		£
<b>Cost</b>		
As at 1 July 2011	769,256	
Additions during the period	150,000	
	<u>919,256</u>	
As at 31 March 2012	919,256	
	<u>919,256</u>	
<b>Revaluation</b>		
As at 31 March 2012 and 1 July 2011	136,744	
	<u>136,744</u>	
<b>Market Value</b>		
As at 31 March 2012	£ 1,056,000	
	<u>1,056,000</u>	
As at 1 July 2011	£ 906,000	
	<u>906,000</u>	



# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 8. Land and buildings *(continued)*

Land and buildings is composed of commercial property units and car parking spaces at Ragged Staff Wharf, Queensway Quay, Gibraltar. The commercial property units are being occupied by the Company as offices.

The last open market revaluation on the commercial property units was on 7 June 2011 by Paul Gibson MRICS of Gibsons Chartered Surveyors. The properties (excluding the parking spaces) were valued at £846,000.

### 9. Other financial investments

#### (a) Financial investments (Group)

	As at 31/03/2012 £	As at 30/06/2011 £
Shares and variable yield securities and units in unit trusts	2,589,854	2,702,695
Debit securities and other fixed income securities.	8,341,391	4,300,108
Deposits with credit institutions	4,135,718	6,561,366
	<u>£ 15,066,963</u>	<u>£ 13,564,169</u>

The cost of financial investments at 31 March 2012 was £14,200,798 (2011: £13,375,483).

#### (b) Investments in subsidiary undertakings (Company)

	As at 31/03/2012 £	As at 30/06/2011 £
Investment in EIG Holdings Limited	£ 2,000,000	£ 2,000,000

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Other financial investments (continued)

The investment represents 100% of the ordinary shares in EIG Holdings Limited, a company registered in Gibraltar.

	Country of incorporation	Percentage held by the Company	Cost of the investments £	Capital and reserves £	Profit & loss £
EIG Holdings Limited	Gibraltar	100% (2011: 100%)	2,000,000 (2011: 2,000,000)	8,282,822 (2011: 5,506,805)	2,776,017 (2011: 3,875,153)

This information is based on the subsidiary company's latest audited accounts as at 31 March 2012.

#### Indirect holdings

Company	Country of incorporation	Percentage held by the Company	Cost of the investments £	Capital and reserves £	Profit & loss £
Enterprise Insurance Company PLC (EICP)	Gibraltar	99.99% (2011: 99.99%)	9,100,000 (2011: 4,050,000)	14,349,085 (2011: 5,175,846)	645,898 (2011: 1,077,341)
EIG Services Limited	Gibraltar	100% (2011: 100%)	11,000 (2011: 11,000)	644,900 (2011: 305,443)	3,139,457 (2011: 2,129,602)
Quality Rating Limited (QRL)	United Kingdom	100% (2011: 100%)	150,000* (2011: 150,000)	79,413* (2011: 100,000)	20,623* (2011: (41,210))
			<b>£9,261,000</b> (2011: 6,461,000)		

\* Figures are based on unaudited financial statements.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Tangible fixed assets

	Leasehold improvements £	Computer equipment £	Office equipment £	Total £
<b>Cost</b>				
At 1 July 2011	47,129	869,976	22,846	939,951
Additions during period	285,502	219,371	96,722	601,595
At 31 March 2012	<u>332,631</u>	<u>1,089,347</u>	<u>119,568</u>	<u>1,541,546</u>
<b>Depreciation</b>				
At 1 July 2011	1,347	743,951	21,455	766,753
Charge for the period	32,125	59,237	13,023	104,385
At 31 March 2012	<u>33,472</u>	<u>803,188</u>	<u>34,478</u>	<u>871,138</u>
<b>Net book value</b>				
At 30 June 2012	<u>299,159</u>	<u>286,159</u>	<u>85,090</u>	<u>670,408</u>
At 31 March 2012	<u>45,782</u>	<u>126,025</u>	<u>1,391</u>	<u>173,198</u>

### 11. Called up share capital

	As at 31/03/2012 £	As at 30/06/2011 £
<b>Authorised:</b>		
1,000 ordinary shares of £1 each	1,000	1,000
1,000 non-cumulative redeemable preference shares of £1 each	1,000	1,000
	<u>£ 2,000</u>	<u>£ 2,000</u>
<b>Share capital allotted, called up and fully paid:</b>		
500 ordinary shares of £1 each	500	500
200 non-cumulative redeemable preference shares of £1 each	200	200
	<u>£ 700</u>	<u>£ 700</u>

The redeemable preference shares are non-cumulative, non-voting, participating redeemable shares which can be redeemed only at the option of the Company.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Reconciliation of shareholders' funds and movements in reserves

#### Group

	Share Capital £	Share Premium account £	Profit and loss account £	Total £
Balance at 1 July 2011	700	699,550	7,449,784	8,150,034
Prior year adjustment (see Note 19)	-	-	(1,207,821)	(1,207,821)
Balance at 1 July 2011, as restated	700	699,550	6,241,963	6,942,213
Profit for the period	-	-	2,794,979	2,794,979
<b>Balance at 31 March 2012</b>	<b>£ 700</b>	<b>699,550</b>	<b>9,036,942</b>	<b>9,737,192</b>

The share premium relates to 200 redeemable preference shares of £1 each issued at a premium of £3,497.75 each.

#### Company

	Share Capital £	Share Premium account £	Profit and loss account £	Total £
Balance at 1 July 2011	700	699,550	1,287,133	1,987,383
Profit for the period	-	-	(266,226)	(266,226)
<b>Balance at 31 March 2012</b>	<b>£ 700</b>	<b>699,550</b>	<b>1,020,907</b>	<b>1,721,157</b>

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 13. Other creditors including taxation and social security

	As at 31/03/2012 £	As at 30/06/2011 £
Insurance premium tax	3,077,001	2,533,458
Taxation and social security costs	186,279	180,401
Rhone Holdings Limited loan	700,000	700,000
Sundry creditors	103,537	70,937
	<u>£ 4,066,817</u>	<u>£ 3,484,796</u>

### 14. (i) Reconciliation of profit to net operating cashflows

	Period ended 31/03/2012 £	Year ended 30/06/2011 (As restated) £
Profit before taxation and minority interest	3,213,127	1,998,067
Adjustments for:		
Depreciation	104,385	53,007
Amortisation of goodwill	57,600	76,800
Interest receivable	(257,968)	(125,807)
Interest expense	21,000	27,757
Unrealised losses / (gains)	24,315	(124,408)
Increase in debtors and prepayments	(15,525,598)	(16,130,300)
Increase in net technical provisions	10,640,291	13,808,477
Increase in creditors and accruals and deferred income	7,722,225	9,672,458
Increase in minority interest	1,737,500	662,500
	<u>£ 7,736,877</u>	<u>£ 9,918,551</u>

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Reconciliation of loss to net operating cashflows (continued)

#### (ii) Movement in opening and closing portfolio investments net of financing:

	2011 £	Cash flows for the period £	Other movements £	2012 £
Cash at bank and in hand	4,189,826	5,397,491	-	9,587,317
Financial investments	13,564,169	1,527,109	(24,315)	15,066,963
	£ 17,753,995	6,924,600	(24,315)	24,654,280

### 15. Segmental reporting

	Period ended 31/03/2012					Total £
	Motor £	Fire and other damage to property £	Legal expense	Third party liability £	Miscellaneous £	
Gross written premiums	54,574,507	1,792,155	10,007,181	4,503,560	4,319,557	75,196,960
Gross earned premiums	45,014,750	1,917,813	9,681,989	4,503,560	5,702,754	66,820,866
Gross claims incurred	(30,405,164)	(1,275,463)	(1,581,754)	(1,062,118)	(2,906,227)	(37,230,726)
Gross operating expenses	(12,548,675)	(753,710)	(1,266,467)	(1,380,584)	(626,306)	(16,575,742)
Reinsurance balance	(3,117,380)	154,751	(2,958,171)	-	-	(5,920,800)

Premiums written for direct insurance business total £75,845,258 and for reinsurance business (£648,298) and have been concluded by the Company in Gibraltar.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 15. Segmental reporting (continued)

Year ended 30 June 2011, as restated

	Motor £	Fire and other damage to property £	Legal expense £	Miscellaneous £	Total £
Gross written premiums	36,135,377	2,043,936	5,548,543	8,194,933	51,922,789
Gross earned premiums	21,966,391	2,533,864	5,312,192	8,592,173	38,404,620
Gross claims incurred	(14,339,292)	(3,075,750)	567,851	(4,211,677)	(21,058,868)
Gross operating expenses	(4,885,544)	(837,133)	(1,888,450)	(672,655)	(8,283,782)
Reinsurance balance	(2,848,270)	617,975	(808,807)	-	(3,039,102)

Premiums written for direct insurance business total £46,556,780 and for reinsurance business £6,837,535 and have been concluded by the Company in Gibraltar.

### 16. Related party transactions

Significant transactions during the period and balances at the end of the period with related parties that require disclosure in accordance with Financial Reporting Standard No. 8 were as follows:

	Expenses		Amounts due to parties	
	For the period 31/03/2012 £	For the year 30/06/2011 £	As at 31/03/2012 £	As at 30/06/2011 £
Rhone Holdings Limited	846,000	1,027,757	702,333	709,333
Monitor Insurance Services Limited	1,431,500	46,329	40,599	1,974
A Flowers	1,075,000	1,000,000	-	-
Aquarius Company Secretaries Limited	4,765	6,650	-	-
Cruz & Co	25,793	61,916	4,000	15,777
PDL International	45,000	60,000	-	5,000

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 16. Related party transactions *(continued)*

The amount for Rhone Holdings Limited includes 2,333 (2011:£9,333) accrued interest included in accruals and deferred income account.

The entities above are considered related parties since they are under common ownership and/or have directors in common with the Company, who exercise influence over the financial and operating policies of the Company.

### 17. Future rental commitments under operating leases

EICP has annual commitment of £29,494 under a six year non-cancellable operating lease commencing on 4 May 2011.

### 18. Charge against assets

The balances held on various accounts with one of its banker, Hampshire Trust PLC, amounting to £3,183 have been charged to Hampshire Trust PLC. No liability to Hampshire Trust PLC greater than the balances held with Hampshire Trust PLC exists.

### 19. Restatements

The Group restated its 30 June 2011 financial statements to correct an error in the elimination of intra-group transactions. The effect is an increase of £1,207,821 to net operating expenses (and, therefore, a reduction in the profit for the year) and a reduction in deferred acquisition cost in the balance sheet.

### 20. Comparatives

The results shown in the profit and loss account relate to the nine month period from 1 July 2011 to 31 March 2012. The comparative information shown is for the year ended 30 June 2011.

### 21. Ultimate controlling party

The immediate parent undertaking and ultimate controlling entity is Aquarius Trust Company Limited, a trust company registered in Gibraltar.

No one individual has a controlling interest in the shares of the Company.