BrokerDirect Plc
A better way to insure

annual report & accounts 2012

Contents

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2958427

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Chairman's Report

Overview

In my last report I was cautiously optimistic that 2012 would see continued growth in profitability. I expressed concern that motor market premiums were softening but could point to significant new contracts and product opportunities. Disappointingly, the group made a small but significant loss. This was mainly due to three factors: timing, continued market pressure on premiums and some disappointing subsidiary results.

The quality of the company's services was recognised during the year. The claims service won the Customer Care Award at the UK Claims Awards and was also awarded the accolade "World Class" in a major insurer audit. Zurich Insurance confirmed that Broker Direct will be entrusted with policy servicing for its entire UK personal lines intermediary market in the major administration contract previously announced.

The company has a number of businesses which are referred to in this report and which are described at the foot of this report.

Motor premiums were 16% down on budget as a result of continued market pressure on our insurers' volumes and this pressure has continued into 2013. The Motor phase of the new administration contracts went live but first year income was affected by timing and market pressures. A client of our claims administration service, Ecclesiastical, withdrew from the Motor market and the effect of this will also carry into 2013/14. As anticipated in my previous report new contracts have been secured, and will start to generate income in 2013 and BD Elite Ltd became profitable.

There has been a further spread of our branded products and volume across our panel of carriers and this makes us less reliant upon any one carrier. The result will be a more robust business going forward.

Results

The group has declared a pre-tax loss of £296,830 (2011 loss £39,635). During the year the group reduced its debt finance from £1,958,893 to £1,107,658, and in early January 2013 the Directors found it prudent to negotiate the deferral of some loan repayments for 2013.

Markets

Some insurers softened their rates in 2012 in response to improved profitability and desire for growth. In part this was also a response to new technology. Motor premiums are being materially affected by the introduction of new sources of underwriting information held on public and private databases which have been shown to predict underwriting result. Our brokers' technology has now been modified to accommodate this development and this is creating new opportunities and challenges.

We are seeing growing demand from our insurer partners for household product.

Government action in relation to the motor sector has progressed. During 2013 there will be a ban on the payment by solicitors for personal injury referrals and significant limits on what can be recovered by the solicitors from the at fault insurers. Further consultation is underway to maintain pressure on third party referral costs. Despite these changes the fundamentals of the BD Elite business remain attractive.

The Competition Commission and the Financial Conduct Authority are looking into other aspects of the motor market during 2013 and although we expect changes we must assume that the authorities will take account of the value of third party protection in any regulation.

Outlook

Conditions continue to be difficult, however some of our insurer partners expect an upturn in Motor and Household business in the second half of 2013 as a result of Broker Direct delivering new technology and new product.

The regional small broker personal lines market has seen reductions in volume over many years. It now offers a substantial niche market delivering good results which many insurers find difficult to access economically. Broker Direct is developing new approaches to this market which should bear fruit in 2013. In addition new products are being designed with a new insurer for 2014 production.

Third Party Administration is now an important business line. The run off of the Ecclesiastical book will continue through 2013 but we expect revenues from the Zurich contract and new Household contracts to increase.

BD Elite has developed its business model to be compliant with the new regulatory environment and although there are now less revenues available, we have designed these new arrangements to be attractive to brokers and policyholders. Subsequent regulation may require further changes to the model but we would expect the Elite protection products will remain attractive to consumers under any reasonable regulation change.

Insurance Compliance Services Ltd continues to be a solid business and expects new opportunities as the Financial Conduct Authority, which came into force at the end of 2012, develops its stance for example as a result of their review of the client money rules.

Personnel

I am delighted to announce that Barbara Bradshaw has agreed to join the Board. Barbara ran the operations of the Institute of Insurance Brokers eventually becoming Chief Executive. She oversaw the merger with BIBA of which she is now a Director. I am sure Barbara's strengths on the Broker Direct Board will be welcome to broker shareholders who have known and valued her for so long.

On behalf of the Company's customers and shareholders I would like to thank the management and staff who have once again shown professionalism and dedication in delivering award winning service and developing the Company's strengths at a pivotal time.

Roy Green
Chairman

7th June 2013

Business Lines

The Group provides a range of inter-related products and services to insurers and brokers.

Broker Direct Agency
Broker Direct branded product distribution and full servicing through the company's own broker agency base.

TPA
Third Party Administration services to insurers including Claims administration, Premium administration and electronic product distribution.

BD Elite Ltd.
Broker claims administration and uninsured loss recovery service.

HBA Ltd.
Lloyd's Broker.

Insurance Compliance Services Ltd.
Regulatory compliance services for Insurance Brokers and Intermediaries plus audit and general compliance services for Insurers and Lloyd's syndicates.

Directors' Report

The directors present their annual report and audited financial statements for the year ended 31 December 2012.

Principal activity

Broker Direct Plc (BD) is an insurance management business, offering product development, distribution, underwriting analysis, premium administration, claims handling supported by comprehensive management information. BD's subsidiaries offer complementary insurance related products and services.

Review of the business

A review of the business for the year ended 31 December 2011 is included within the Chairman's report on pages 4 to 5.

The Group's result for the year ended 31 December 2012 is a loss before tax of £296,830 (2011: £39,635). The Company's profit and loss account shows a loss after taxation for the year of £297,623 (2011: profit £355,997). The directors do not propose a dividend at this time (2011: nil).

The following table sets out the Group's key performance indicators:

	2012	2011
Loss before tax to turnover	**(1.5%)**	(0.2%)
Current ratio	**1.0**	1.1
Loss before tax per employee	**(£1,514)**	(£166)
Sales per employee	**£99,891**	£101,342
E/(L)BITDA per share	**5p**	12p
Staff stability index in continuing operations **	**90.8%**	88.7%

** percentage of staff employed 12 month previously who continue to be employees.

Future developments

The group's business activities, together with the factors likely to affect it's future developments, performance and position are included within the Chairman's report on pages 4 to 5.

Going concern

The directors consider it is appropriate to adopt the going concern basis in preparing these financial statements. In accordance with current best practice further commentary in this regard is set out in the Accounting Policies accompanying the financial statements.

Principal risks and uncertainties

The key business risks affecting the Group are set out below:

Operational risk management objectives and policies

The management of the business and the nature of the group's/company's strategy are subject to a number of risks in its operation such as fraud, failure of management control systems and failure of data systems.

The directors have set out below what they consider to be the main operational risk facing the business.

Risk is recognised and accepted as a normal element of doing business. The Group manages its risk appetite through the application of a risk framework cycle involving:

- identification
- probability
- impact
- mitigation
- contingency
- review

Major risks are managed through the implementation and monitoring of policies and procedures, including:

- Corporate governance
- Business Interruption & Recovery
- Treating Customers Fairly, Agency Management
- Conflicts of Interest, Gifts & Inducements, Supplier Procurement and Management
- Whistleblowing, Anti Money Laundering, Anti Fraud, Anti Bribery and Corruption
- Data Inventory, Protection, Usage & Destruction, IT Security
- Staff Recruitment, Training and Competency, Health & Safety

The directors monitor key strategic indicators and agree actions to either mitigate against negative movements or exploit opportunities. The major strategic challenges are summarised below:

Partnerships
BD's income is primarily derived from the amount of premium processed on behalf of our insurer partners. BD is therefore heavily reliant on insurer appetite for sales volume. To mitigate against this, BD is continually working towards a balanced, diversified range of products and services, underwritten by a selected panel of insurers.

Technology
Early adoption of technologies that make the distribution of our products more efficient or their pricing more effective is critical to the sustainability of Broker Direct's core business. To this end, we work closely with both our insurer partners and our brokers' software system providers in implementing fresh technologies.

Competitors
The personal lines insurance market is intensely competitive. In such a price sensitive market, the pricing actions of our competitors can have immediate and significant affects on our sales. Close attention is paid to the activities of our competitors and where appropriate, actions are taken to counter or exploit their actions.

Legislation
The issue of apparent rampant motor insurance premium inflation in recent years and the perceived association with a developing compensation culture in the UK, has resulted in the government and other regulatory agencies taking action or threatening to take action on organisations operating in the claims handling area of motor insurance. Legislation came into force in 2013 that bans the payment or receipt of a fee for referring claimants to a personal injury solicitor, and reduces the level of fees a personal injury solicitor is able to charge. We have re-engineered our processes to ensure compliance with the regulations as they are known, but many features of the market are still under review.

Staff
The Group operates in business areas that require the contributions of key staff with specialist skills. We have spread the knowledge base across individuals where possible and endeavour to provide employees with attractive personal terms and working conditions.

Financial risk management objectives and policies
The directors review and agree policies for managing the financial risks and these are summarised below. These policies have remained unchanged from previous years.

Market Risk
Market risk encompasses three types of risk : price risk, interest rate risk and currency risk.

Price risk
The Group's exposure to price risk consists mainly of movements in competitors' pricing policies in the insurance market relative to the underwriting strategies of the Group's insurer partners. The current market conditions create uncertainty particularly over (a) level of demand for the Group's insurance products; (b) fresh market dynamics following the introduction of new legislation and regulations concerning the handling of personal injury claims arising from road traffic accidents.

On the basis of the enquiries made of insurer partners, and early experience of the new accident management regulatory environment, the directors have reasonable expectations that both premium volumes and the accident management business will grow.

The objective is to further diversify the income sources in the core businesses. By way of illustration the following tables shows how the group has diversified its class and sources of businesses.

	2012	2011
Group income derived from one class of business **	**16%**	21%
Number of recognised sources of business - continuing operations	**23**	23

** Income is deemed to be net of commissions ceded to insurance brokers.

Interest rate risk

The low interest rate environment throughout 2012, together with modest cash deposits, resulted in only nominal interest income in the year. Consequently loss of such income is not material to the financial integrity of the business.

The Group's borrowings are a mixture of fixed interest leases and variable interest borrowings. For a 1% increase in interest rates, the budgeted cost of borrowing in 2012 would increase by circa £10,000 (2011: circa £10,000).

Currency risk

Other than at the subsidiary HBA Limited, the Group does not transact foreign currency business.

On rare occasions, Broker Direct Plc settles motor insurance claims in Euros. Any loss or gain on foreign exchange is borne by the insurance company underwriting the policy rather than by Broker Direct.

HBA Limited (HBA), conducts business primarily in 3 currencies; UK Sterling, Euro and South African Rand. The business is conducted in currency such that insurance premiums are quoted, collected and settled in currency and insurance claims likewise. HBA's currency exposure is therefore limited to the commission it earns on the premiums placed.

Currency gains/losses can arise through timing differences between:

1. when the brokerage is recognised;
2. when the cash is receipted into the business and deposited in the Client Trust Bank Account; and
3. when the cash is transferred from the Client Trust Account to the Company's office account.

UK Sterling strengthened against both the Euro & Rand currencies in 2012. If the exchange rates had been stable relative to 2012, HBA's retained brokerage income would have been £54,000 higher.

Credit Risk

The Group's principal assets are cash deposits and trade debtors. The credit risk associated with cash deposits is limited as the accounts are held with a major UK high street bank only. The principal credit risk arises therefore from trade debtors.

The principal trade debtor credit risks are:

- Broker agencies: Income due is netted off against premiums collected and then settled to the insurers on a net basis. The Group defines acceptance criteria for the appointment of new broker agencies, then applies and monitors them against agreed credit and settlement terms. The single largest broker agency represents 11% of group turnover (2011: 12%). Bad debt experience in 2012 was negligible;
- Policyholders paying by instalment: Income due is netted off against premiums collected and then settled to the insurers on a net basis. The Group only accepts instalment business by electronic direct debit instruction. Debt management and cancellation terms are agreed with the Group's insurance partners to minimise the bad debt exposure. Bad debt experience in 2012 was negligible; and
- Third party administration and claims handling services:
  (i) Where the Group collects premiums on behalf of insurers, it then settles on to them, net of income due.
  (ii) Where the Group is not involved in collecting premiums it cannot set-off its income earned. Consequently, those income streams are invoiced for subsequent settlement by insurers and key partners. Insurers and key partners are pre-vetted for their financial stability.

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs, the FSA's capital resource requirements and to invest cash assets safely and profitably.

The Group policy during the year was unchanged. To:

- Hold cash balances in readily accessible treasury deposits
- Utilise fixed interest, asset leasing facilities
- Utilise variable rate borrowing facilities for premium instalment business

In 2012 the group renegotiated the variable rate borrowing facility utilised in the acquisition of some subsidiary businesses, such that repayments will be suspended throughout 2013. Periodic repayments of the loan are expected to resume in January 2014.

The sale of the retail insurance broking businesses in 2011 resulted in a one off corporation tax liability.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is expected to continue to trade for the foreseeable future. The Group has:

(a) A commitment from the lender to, if necessary, restructure the loan utilised in the acquisition of some subsidiaries.

(b) Entered discussions with Her Majesty's Revenue & Customs to settle the Corporation Tax charge by instalments, aligned with the Group's forecast cash flows.

Reserving Risk

Broker Direct maintains reserves which are released against the costs of servicing insurance policies of prior underwriting periods. Notably the business maintains reserves for:

- policy administration; the Company incurs costs over the policy year in servicing it. The reserve is released to income against those costs;
- claims handling; the Company is paid in advance to administer claims on behalf of the insurer and therefore holds a reserve for release to income as the expenses of handling claims arise; and
- commission claw-back; income from commission is recognised in the profit and loss account at policy inception (page 16). Where policies cancel mid-term and premiums are returned to policyholders, the Company must likewise return the element of its commission income associated with those cancellations, this return is met via a release from the commission clawback reserve.

Directors

The directors who served during the year are shown below:

Iain Gray	Operations & Group Finance Director	Executive
Roy Green	Chairman	Non-Executive
Neil Harris	Insurance Director	Non-Executive
Kedric Rhodes	Director	Non-Executive
Terry Stanley	Group Chief Executive	Executive
Ann Tomlinson	Operations Director	Executive (appointed 1 March 2012)

Statement of directors' responsibilities

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

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

In preparing these financial statements, the directors are required to:

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

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

In so far as each of the directors is aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Employment policies

The Group maintains a policy of offering employment opportunities that are free from discrimination on any grounds, other than unsuitability for the position in question, whether this relates to initial selection for employment, promotion or any other employment matter. Equal consideration is given to disabled people, where they have the appropriate experience, qualifications and ability to do the job.

Employee involvement

We seek to employ staff who will take the opportunity presented to make positive contributions to the development of the business, and it is the approach of the Group to be as open as possible with staff and obtain their feedback.

Charitable and political contribution

Donations to charitable organisations amounted to £3,246 (2011: £3,462).

Creditor payment policy

It is the Company's policy to:

- settle to the terms of payment with its suppliers when agreeing the terms of each transaction
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts
- pay in accordance with its contractual and other legal obligations.

The payment policy applies to all creditors for revenue and capital suppliers of goods and services without exception.

The Company's average creditor payment period at 31 December 2012 was 38 days (2011: 38 days).

Auditors

Grant Thornton UK LLP have indicated their willingness to be re–appointed and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

Iain Gray

Iain Gray
Operations and Group Finance Director
7th June 2013

Introduction

The Remuneration Committee recognises that directors' remuneration is of legitimate concern to shareholders and is committed to following current best practice.

To avoid potential conflicts of interest, the Board of Directors has delegated responsibility for determining executive remuneration to a Committee comprising of the Chairman and non-executive directors, who:

- are knowledgeable of the business
- are responsive to the shareholders' interests
- have no personal financial interest in the remuneration decisions they are taking.

During 2012 the members of the Committee were:

Roy Green – Chairman of Remuneration Committee

Neil Harris – Non Executive Director

Kedric Rhodes – Non Executive Director

Executive Directors' Remuneration policy – objectives

- To provide packages which attract, retain and motivate the executive directors
- Link rewards to the performance of both the Group and the individual
- Align the interests of directors and shareholders in promoting the Group's progress.

Directors' Service Contracts

The service contract for Terry Stanley, Iain Gray and Ann Tomlinson are in a similar form. The term in each case is for a rolling term of six months. The Group may give three months' notice at any time subject to paying no more than six months compensation (except in specific circumstances when no compensation will be payable).

Remuneration Committee Report

Once it became clear that the upturn in profitability was not expected to continue though 2012 the Board took the lead in voting a 10% cut in directors' pay and the management team accepted a salary stand-still. In 2013, the Board have taken a further 14% cut and the management have taken a minimum 10% cut.

This has been a time of considerable pressure to develop the company's infrastructure to meet the demands of our new business opportunities. The remuneration Committee commend the Executive Directors and management for their loyalty.

There were no changes to Directors' bonus or share option schemes during the year.

Report of the independent auditors to the members of Broker Direct Plc

Independent auditor's report to the members of Broker Direct Plc

We have audited the financial statements of Broker Direct Plc for the year ended 31 December 2012 which comprise the principal accounting policies, consolidated profit and loss account, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities as set out on page 9 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Kevin Engel
Senior Statutory Auditor
Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester

7th June 2013

Basis of preparation
The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards.

The directors have reviewed the accounting policies in accordance with FRS 18 "Accounting Policies" and have concluded that no changes were required from the previous year.

The principal accounting policies of the Group are set out below.

Going Concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's report on pages 4 to 5. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the report of the directors on pages 6 to 10. In addition, the Directors' Report includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

At 31 December 2012, operational cash balances amounted to £863,092 (note 21) (2011: £1,228,258) and other loans amount to £842,233 (2011: £1,482,506).

The directors have prepared consolidated forecasts for the 2 years' ending 31 December 2014. The forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current cash balances. After review of the forecasts and consideration of the Group's resources, together with its long standing relationships with insurers and brokers and the renegotiated borrowing repayment terms (note 28), the directors' believe that the Group is capable of trading through the continued economic turbulence.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Basis of consolidation
The Group financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 December 2012. The acquisition of the subsidiaries is dealt with by the acquisition method of accounting. The results of companies acquired are included in the Group profit and loss account from the date that control passes.

Goodwill
Purchased goodwill arising on acquisitions represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Positive goodwill is capitalised and classified as an asset on the balance sheet and is amortised on a straight line basis over its estimated useful economic life, being twenty years. In accordance with FRS 10, goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently when necessary if circumstances indicate that its carrying value may not be recoverable.

If the recoverable amount of any goodwill is estimated to be less than its carrying amount, the carrying amount of the goodwill is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Tangible fixed assets and depreciation
Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Website development costs are included at cost, within Computer - software development, and amortised straight line over their useful economic lives.

Depreciation is calculated to write down the cost less the estimated residual value of all tangible fixed assets by equal monthly instalments over their expected useful economic lives. The periods generally applicable are:

Leasehold improvements	4 years straight line
Computer – hardware	3 years straight line
Computer – software development	5 years straight line
Equipment	4 years straight line
Furniture and fittings	4 years straight line
Cars	3 years straight line

Investments
In respect of the parent company, investments are included at cost, net of provision for impairment.

Turnover
Turnover is the amount receivable, by the Group, for services provided, exclusive of Value Added Tax ("VAT"). VAT is chargeable on services relating to motor accident management, insurance compliance and human resource consultancy.

Income from commission is received for selling and administering insurance policies and is recognised in the profit and loss account at policy inception. Provisions are maintained to meet potential subsequent bad debts and commission clawbacks for policies that could cancel in the future. Trade debtors are shown net of any provision for bad debts.

An element of commission income relates to post placement services for claims handling and premium administration, hence is deferred and released to the profit and loss account in the period in which these services are provided. The claims handling and policy servicing deferred income accrual are included in "technical reserves" and are analysed between amounts to be recognised within one year and amounts to be recognised after more than one year.

In addition:

- income is received from insurer partners to help fund the development of the IT systems that support the distribution and administration of their products. Income is recognised in the same month the expense is incurred. Sales invoices are raised twice monthly. Any shortfall due to timing differences is accrued.
- income from service charges is received for providing instalment premium funding. A proportion of this income is deferred and released to the profit and loss account throughout the term of the policy in equal monthly instalments.

Cash at bank and in hand
Cash received for insurance premiums, claims and commissions is held on trust in separate insurance client monies accounts until either settled to third parties or in the case of commissions, transferred to group operational cash balances. Cash at hand and in bank therefore includes both insurance client and operational monies (see note 21).

Leased assets
Where the Group enters into a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee, the lease is treated as a finance lease. Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. Future instalments under such leases, net of finance charges, are included in creditors. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

Insurance debtors and creditors
The Group acts as an agent of insurance companies in broking and administering insurance products and is liable as a principal for premiums due to those underwriters. The Group has followed generally accepted accounting practice for insurance brokers by showing debtors, creditors and cash balances relating to insurance business as assets and liabilities of the Group itself. Revenue is recognised on such agency arrangements as set out in the turnover accounting policy.

Contributions to pension funds

Defined contribution schemes
The pension costs charged against profits represent the amount of the contributions payable to the schemes in respect of the accounting period.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Employee share schemes

All share-based payment arrangements granted after 7 November 2002 are recognised in the financial statements in accordance with *Financial Reporting Standard 20: Share-based Payment*.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to "share option reserve".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised. Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are taken into account in arriving at the operating profit.

Exceptional items

Exceptional items are material items of income and expenditure, which due to their size or nature require separate disclosure in the financial statements to allow a better understanding of the financial performance of the year and in comparison to prior periods.

During the current and prior year, the Group has recognised losses on sale of operations as an exceptional item (see note 1).

Key estimates and judgements

In the application of the Group's accounting policies the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historic experience and other factors that are considered to be relevant and are reviewed on an ongoing basis. Actual results may differ from these estimates.

The Directors have considered the key assumptions used to estimate the Group's assets and liabilities as at the balance sheet date, and believe these assumptions to be entirely appropriate. The estimates and judgements most likely to have a significant effect are in the following areas:

- going concern (refer to Going Concern accounting policy)
- technical reserves (refer to Turnover accounting policy).

With respect to these policies, the directors consider that there are no individual underlying assumptions to which the monetary amount is particularly sensitive.

Consolidated profit and loss account

	Note	2012 £	2011 £
Turnover			
- Continuing operations		**19,578,649**	23,404,055
- Discontinued operations		**-**	816,681
	1	**19,578,649**	24,220,736
Cost of sales	2	**(8,228,266)**	(11,414,926)
Gross profit		**11,350,383**	12,805,810
Other operating charges	2	**(11,558,590)**	(12,232,392)
(Loss)/profit on operating activities before interest and taxation			
- Continuing operations		**(208,207)**	527,869
- Discontinued operations		**-**	45,549
		(208,207)	573,418
Loss on sale of operations – discontinued operations	1	**(48,982)**	(552,475)
Net interest	3	**(39,641)**	(60,578)
Loss on ordinary activities before taxation	1	**(296,830)**	(39,635)
Taxation	5	**20,073**	(427,878)
Loss for the financial year	17	**(276,757)**	(467,513)
(Loss)/earnings per share attributable to the owners of the parent Company			
- Basic (pence)	1	**(0.06)**	0.09
- Diluted (pence)	1	**(0.06)**	0.07

There were no recognised gains or losses other than the loss for the year.

The accompanying notes form part of these financial statements.

Consolidated balance sheet

	Note	**2012** **£**	2011 £
Fixed assets			
Intangible assets	7	**2,825,043**	3,011,867
Tangible assets	8	**367,658**	393,385
		3,192,701	3,405,252
Current assets			
Debtors	10	**6,866,420**	9,390,040
Cash at bank and in hand		**5,475,467**	5,988,073
		12,341,887	15,378,113
Creditors: amounts falling due within one year	11	**(12,122,416)**	(14,579,601)
Net current assets		**219,471**	798,512
Total assets less current liabilities		**3,412,172**	4,203,764
Creditors: amounts falling due after more than one year	12	**(1,242,778)**	(1,617,001)
Provisions for liabilities	14	**(166,907)**	(301,346)
Net assets		**2,002,487**	2,285,417
Capital and reserves			
Called up share capital	16	**785,437**	785,437
Special reserve	17	**96,858**	96,858
Share option reserve	17	**42,099**	48,272
Profit and loss account	17	**1,078,093**	1,354,850
Shareholders' funds	18	**2,002,487**	2,285,417

The financial statements were approved and authorised for issue by the Board of Directors on 7th June 2013.

Company No. 2958427

T E Stanley
Chief Executive Officer

I J Gray
Operations and Finance Director

The accompanying notes form part of these financial statements.

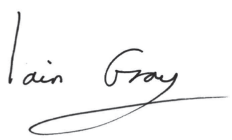
Company balance sheet

	Note	2012 £	2011 £
Fixed assets			
Tangible assets	8	**341,308**	359,962
Investments	9	**5,000**	5,000
		346,308	364,962
Current assets			
Debtors	10	**8,072,937**	8,475,575
Cash at bank and in hand		**3,087,947**	3,132,892
		11,160,884	11,608,467
Creditors: amounts falling due within one year	11	**(6,720,565)**	(6,448,903)
Net current assets		**4,440,319**	5,159,564
Total assets less current liabilities		**4,786,627**	5,524,526
Creditors: amounts falling due after more than one year	12	**(750,245)**	(1,127,628)
Provisions for liabilities	14	**(106,040)**	(162,760)
Net assets		**3,930,342**	4,234,138
Capital and reserves			
Called up share capital	16	**785,437**	785,437
Special reserve	17	**96,858**	96,858
Share option reserve	17	**42,099**	48,272
Profit and loss account	17	**3,005,948**	3,303,571
Shareholders' funds		**3,930,342**	4,234,138

The financial statements were approved and authorised for issue by the Board of Directors on 7th June 2013.

Company No. 2958427

T E Stanley
Chief Executive Officer



I J Gray
Operations and Finance Director

The accompanying notes form part of these financial statements.

	Note	2012 £	2011 £
Net cash (outflow)/inflow from operating activities	19	**(22,103)**	1,595,162
Returns on investments and servicing of finance			
Finance lease interest paid		**(31,016)**	(43,838)
Other loan interest paid		**(27,406)**	(44,917)
Interest received		**18,781**	28,177
Net cash outflow from returns on investments and servicing of finance		**(39,641)**	(60,578)
Taxation		**(6,279)**	(65,664)
Capital expenditure			
Purchase of tangible fixed assets		**(234,759)**	(142,030)
Proceeds from sale of fixed assets		**7,000**	31,629
Net cash outflow from capital expenditure		**(227,759)**	(110,401)
Acquisitions and disposals			
Net proceeds from disposal of operations – discontinued operations		**634,411**	347,386
Net cash inflow from acquisitions and disposals		**634,411**	347,386
Financing			
Repayment of other loans		**(640,273)**	(473,880)
Capital element of finance lease and hire purchase contracts		**(210,962)**	(133,056)
Net cash outflow from financing		**(851,235)**	(606,936)
(Decrease)/increase in cash in the year	20	**(512,606)**	1,098,969

The accompanying notes form part of these financial statements.

Notes to the financial statements

1 Turnover and loss on ordinary activities before taxation

The turnover and loss on ordinary activities before taxation are attributable to the principal activity of the Group which is carried out entirely within the United Kingdom.

The analysis of turnover by class of business, as required by the Companies Act 2006 and SSAP 25 Segmental Reporting, has not been provided as, in the opinion of the directors, such disclosure would be seriously prejudicial to the interests of the Group.

		2012	2011
		£	£
The loss on ordinary activities before taxation is stated after charging:			
Auditors' remuneration:			
Fees payable to the Group's auditors for the audit of the Group's annual financial statements		**36,780**	28,428
Fees payable to the Group's auditor for other services:			
– fees payable to the Group's auditor for the audit of the subsidiaries' annual financial statements		**12,480**	37,492
– tax services		**10,200**	33,360
– other services pursuant to legislation		**3,840**	3,708
Amortisation of goodwill		**186,824**	193,415
Depreciation of tangible fixed assets	– owned	**186,927**	315,028
	– leased	**62,897**	87,376
Loss on sale of fixed assets		**3,662**	18,320
Loss/(gain) on foreign currency		**26,346**	83,792
Operating lease charges – land and buildings		**584,504**	643,899
Operating lease charges – other		**3,320**	3,320
Exceptional items - loss on sale of operations		**48,982**	552,475

Loss on sale of operations

During the prior year, the trades of Group companies, Greenalgh & Gregson Limited, Fitzsimons Insurance Consultants Limited and Barry Fenton Insurance Brokers Limited, were disposed of, resulting in a loss on disposal of £552,475.

Further losses were incurred during the year, relating to the above sale of £48,982.

Earnings per share

		2012	2011
		£	£
(Loss)/profit on operating activities before interest and taxation – continuing operations		**(208,207)**	527,869
Net interest – continuing operations		**(39,641)**	(60,825)
Taxation – continuing operations		**20,073**	(121,415)
(Loss)/profit for the year from continuing operations		**(227,775)**	345,629
Weighted average shares in issue (number)	– Basic	**3,974,061**	3,974,061
	– Diluted	**4,739,061**	4,739,061
Earnings per share (pence)	– Basic	**(0.06)**	0.09
	– Diluted	**(0.06)**	0.07

2 Cost of sales and other operating charges

	Continuing operations 2012 £	Discontinued operations 2012 £	Totals 2012 £	Continuing operations 2011 £	Discontinued operations 2011 £	Totals 2011 £
Cost of sales	**8,228,266**	**–**	**8,228,266**	11,414,926	–	11,414,926
Other operating charges						
Staff costs (note 4)	**6,859,424**	**–**	**6,859,424**	6,627,243	478,730	7,105,973
Other operating costs	**4,206,301**	**–**	**4,206,301**	4,382,724	222,168	4,604,892
Administration expenses	**492,865**	**–**	**492,865**	451,293	70,234	521,527
Total other operating charges	**11,558,590**	**–**	**11,558,590**	11,461,260	771,132	12,232,392

3 Net interest

	2012 £	2011 £
Interest income on bank deposits	**18,781**	28,177
Interest payable on finance leases and hire purchase contracts	**(31,016)**	(43,838)
Interest payable on other loans	**(27,406)**	(44,917)
	(39,641)	(60,578)

4 Directors and employees

Group

Staff costs during the year were as follows :	2012 £	2011 £
Wages and salaries	**5,823,822**	6,099,629
Social security costs	**574,540**	577,963
Pension costs	**461,062**	428,381
	6,859,424	7,105,973

The average number of employees during the year was:	2012 Number	2011 Number
Management	**33**	37
Other	**163**	202
	196	239

Remuneration in respect of directors was as follows:	2012 £	2011 £
Emoluments	**526,430**	389,848
Pension costs	**50,568**	39,609
	576,998	429,457

4 Directors and employees (continued)

During the year, 5 directors (2011: 4 directors) participated in money purchase pension schemes.
No directors exercised share options in the current or prior year.

Directors' remuneration disclosed overleaf includes amounts paid to the highest paid director as follows:

	2012 **£**	2011 £
Emoluments	**141,095**	106,604
Pension Costs	**17,717**	12,391
	158,812	118,995

5 Tax on loss on ordinary activities

	2012 **£**	2011 £
The taxation charge is based on the loss for the year and represents:		
Current tax:		
UK corporation tax at 24.5% (2011: 26.49%)	**43,287**	321,633
Adjustment in respect of prior periods	**17,961**	-
Total current tax	**61,248**	321,633
Deferred tax:		
Origination and reversal of timing differences	**5,290**	119,021
Adjustment in respect of prior periods	**(100,748)**	(28,922)
Effect of tax rate changes on opening balance	**14,137**	16,146
Total deferred tax (note 15)	**(81,321)**	106,245
Tax on loss on ordinary activities	**(20,073)**	427,878

Factors affecting the tax (credit)/charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the United Kingdom of 24.5% (2011: 26.49%). The differences are explained as follows:

	2012 **£**	2011 £
Loss on ordinary activities before tax	**(296,830)**	(39,635)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011: 26.49%).	**(72,715)**	(10,499)
Effect of:		
Expenses not deductible for tax purposes	**124,871**	328,817
Depreciation in excess of capital allowances	**(948)**	9,465
Short term timing differences	**(3,829)**	7,450
Unrelieved tax losses and other deductions	**–**	(10,122)
Previous period adjustments	**17,961**	–
Marginal relief	**(4,092)**	(3,478)
	61,248	321,633

6 (Loss)/profit for the financial year

The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent company's loss for the year was £297,623 (2011: £355,997 profit).

7 Intangible fixed assets

Group

	Goodwill on business acquired £	Goodwill on consolidation £	Total £
Cost			
At 1 January 2012	593,808	6,055,675	6,649,483
Amortisation			
At 1 January 2012	571,933	3,065,683	3,637,616
Provided in the period	1,250	185,574	186,824
At 31 December 2012	573,183	3,251,257	3,824,440
Net book amount			
At 31 December 2012	**20,625**	**2,804,418**	**2,825,043**
At 31 December 2011	**21,875**	**2,989,992**	**3,011,867**

8 Tangible fixed assets

Group

	Leasehold improvements £	Fixtures & fittings £	Car £	Computers and other equipment £	Total £
Costs					
At 1 January 2012	564,809	307,580	97,889	3,025,411	3,995,689
Additions	1,534	2,705	44,650	185,870	234,759
Disposals	–	–	(42,649)	–	(42,649)
At 31 December 2012	566,343	310,285	99,890	3,211,281	4,187,799
Depreciation					
At 1 January 2011	510,858	293,618	61,615	2,736,213	3,602,304
Provided in the year	43,481	13,410	16,277	176,656	249,824
Disposed in the year	–	–	(31,987)	–	(31,987)
At 31 December 2012	554,339	307,028	45,905	2,912,869	3,820,141
Net book amount					
At 31 December 2012	**12,004**	**3,257**	**53,985**	**298,412**	**367,658**
At 31 December 2011	**53,951**	**13,962**	**36,274**	**289,198**	**393,385**

Included in the total net book value is £99,077 (2011: £144,855) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £62,897 (2011: £87,376).

8 Tangible fixed assets (continued)

Company

	Leasehold improvements £	Fixtures & fittings £	Cars £	Computers and other equipment £	Total £
Costs					
At 1 January 2012	556,847	221,200	97,889	2,873,628	3,759,564
Additions	1,534	625	44,650	182,089	228,898
Disposals	–	–	(42,649)	–	(42,649)
At 31 December 2012	558,381	221,825	99,890	3,055,717	3,935,813
Depreciation					
At 1 January 2012	502,896	207,742	61,615	2,617,349	3,389,602
Provided in the year	43,481	12,378	16,277	164,754	236,890
Disposed in the year	–	–	(31,987)	–	(31,987)
At 31 December 20112	546,377	220,120	45,905	2,782,103	3,594,505
Net book amount					
At 31 December 2012	**12,004**	**1,705**	**53,985**	**273,614**	**341,308**
At 31 December 2011	**53,951**	**13,458**	**36,274**	**256,279**	**359,962**

Included in the total net book value is £99,077 (2011: £144,855) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £62,897 (2011: £87,376).

9 Fixed asset investments

	Subsidiary undertaking £
Cost	
At 1 January and 31 December 2012	**5,000**

At 31 December 2012, the Company had the following principal subsidiaries which are registered in England and Wales.

Name of subsidiary	Nature of Business	Class of share capital held	Proportion held	Held by
Broker Direct Retail Holdings Limited	Holding Company	Ordinary shares	100%	Broker Direct Plc
Broker Direct Acquisitions Limited	Holding Company	Ordinary shares	100%	Broker Direct Plc
Our Network Services Limited	Insurance Services	Ordinary shares	100%	Broker Direct Plc
Greenhalgh & Gregson Limited	Insurance Broker	Ordinary shares	100%	Broker Direct Retail Holdings Limited
Fitzsimons Insurance Consultants Limited	Insurance Broker	Ordinary shares	100%	Broker Direct Retail Holdings Limited
Insurance Compliance Services Limited	Management Consultants	Ordinary shares	100%	Broker Direct Acquisitions Limited
HR Experts Limited	Management Consultants	Ordinary shares	100%	Broker Direct Acquisitions Limited
HBA Limited	Insurance Broker	Ordinary shares	100%	Broker Direct Acquisitions Limited
Barry Fenton Insurance Brokers Limited	Insurance Broker	Ordinary shares	100%	Broker Direct Retail Holdings Limited
Intelligent Trading Solutions Limited	Dormant	Ordinary shares	100%	Broker Direct Plc
BD Elite Limited	Motor Accident Management	Ordinary shares	100%	Broker Direct Plc

10 Debtors

	Group 2012 £	Company 2012 £	Group 2011 £	Company 2011 £
Broker and policyholder debtors	**5,405,934**	**2,875,225**	7,123,041	2,869,587
Insurer debtors	**646,890**	**646,890**	654,828	654,828
Deferred consideration	**–**	**–**	645,992	–
Amount owed by Group undertakings	**–**	**3,888,216**	–	4,120,813
Prepayments and accrued income	**577,091**	**485,587**	439,194	355,867
Other debtors	**75,136**	**16,876**	446,937	292,947
Deferred tax asset (note 15)	**161,369**	**160,143**	80,048	181,533
	6,866,420	**8,072,937**	9,390,040	8,475,575

Amounts owed by Group undertakings are repayable on demand, however the directors consider it unlikely that these will be demanded for repayment within twelve months of the balance sheet date.

11 Creditors: amounts falling due within one year

	Group 2012 £	Company 2012 £	Group 2011 £	Company 2011 £
Other loans	**354,850**	**–**	1,000,822	–
Payable to insurers	**9,809,612**	**5,601,952**	11,468,774	5,183,788
Pension contributions	**66,537**	**60,938**	67,878	63,905
Corporation tax	**376,602**	**143,325**	321,633	105,701
Other taxation and social security costs	**209,590**	**111,594**	218,722	152,008
Accruals and deferred income	**1,087,203**	**584,734**	1,262,330	704,059
Obligations under finance leases and hire purchase contracts	**218,022**	**218,022**	239,442	239,442
	12,122,416	**6,720,565**	14,579,601	6,448,903

Amounts due under finance lease and hire purchase contracts are secured on the assets to which they relate.

Included in payables to insurers is £388,772 (2011 : £524,148), which is secured by way of a fixed and floating charge over the assets of the Group.

12 Creditors: amounts falling due after more than one year

	Group 2012 £	Company 2012 £	Group 2011 £	Company 2011 £
Other loans	**487,383**	**–**	481,684	–
Technical reserves creditor	**702,842**	**702,842**	890,683	890,683
Obligations under finance leases and hire purchase contracts	**47,403**	**47,403**	236,945	236,945
Deferred income	**5,150**	**–**	7,689	–
	1,242,778	**750,245**	1,617,001	1,127,628

13 Borrowings

Borrowings are repayable as follows:

Within one year	Group 2012 £	Company 2012 £	Group 2011 £	Company 2011 £
Other loans	**354,849**	**–**	1,000,822	–
Amounts due under finance leases and hire purchase contracts	**218,022**	**218,022**	239,442	239,442
After one year and within two years				
Other loans	**310,646**	**–**	188,351	–
Amounts due under finance leases and hire purchase contracts	**44,516**	**44,516**	205,671	205,671
After two years and within five years				
Other loans	**176,736**	**–**	293,333	–
Amounts due under finance leases and hire purchase contracts	**2,887**	**2,887**	31,274	31,274
	1,107,656	**265,425**	1,958,893	476,387

Group and Company

The other loans are repayable within five years and are secured by a charge over the company's shareholding in Broker Direct Retail Holdings Limited, by Broker Direct Acquisitions Limited's shareholding in Insurance Compliance Services Limited, by a fixed charge over the assets of Insurance Compliance Services Limited and by a capped cross guarantee with Broker Direct Retail Holdings Limited.

14 Provisions for liabilities

Group

The movement in the provisions during the year was:	Commission clawback provision £	Onerous lease provision £	Total £
At 1 January 2012	225,330	76,016	301,346
Utilised in the year	(225,330)	(30,016)	(255,346)
Additional provision for the year	120,907	–	120,907
At 31 December 2012	**120,907**	**46,000**	**166,907**

Onerous lease provision

An onerous lease provision was created as the group expects to receive no further benefit under a lease contract that it is still committed to pay despite no longer utilising the property within the business following the trade disposals during the prior year.

Commission clawback provision

A provision is maintained to meet potential commission clawbacks for policies that could cancel in the future.

14 Provisions for liabilities (continued)

The movement in the provisions during the year was:	**Commission clawback provision £**
At 1 January 2012	162,760
Utilised in the year	(162,760)
Additional provision for the year	106,040
At 31 December 2012	**106,040**

15 Deferred taxation

The potential deferred taxation asset is as follows:

	Group 2012 £	**Company 2012 £**	Group 2011 £	Company 2011 £
Depreciation in excess of capital allowances	**140,285**	**139,059**	158,957	154,707
Technical reserves	**21,084**	**21,084**	26,826	26,826
Capital gains	**–**	**–**	(105,735)	–
Deferred tax asset	**161,369**	**160,143**	80,048	181,533

The deferred taxation asset has been recognised to the extent that in the directors' opinion the Group's and Company's forecasts indicate there will be suitable taxable profits from which the partial reversal of the underlying timing differences can be deducted, this is shown below:

	Group 2012 £	**Company 2012 £**	Group 2011 £	Company 2011 £
Deferred tax asset brought forward	**80,048**	**181,533**	186,293	182,123
Profit and loss account movement in the year (note 5)	**81,321**	**(21,390)**	(106,245)	(590)
Deferred tax asset carried forward (note 10)	**161,369**	**160,143**	80,048	181,533

16 Called up share capital

	2012 £	2011 £
Authorised		
6,000,000 "A" ordinary shares of £0.20 (2011 : £0.20) each	**1,200,000**	1,200,000
Allotted		
3,974,061 "A" ordinary shares of £0.20 (2011 : £0.20) each	**794,812**	794,812
Called up		
Fully paid		
3,911,561 "A" ordinary shares of £0.20 (2011 : £0.20) each	**782,312**	782,312
Partly paid		
62,500 "A" ordinary shares of £0.20 (2011 : £0.20) each one quarter called up and paid	**3,125**	3,125
	785,437	785,437

16 Called up share capital (continued)

All shares are equity shares, carrying the same right to dividends and priority on a winding up and are non-redeemable.

The capital of the Company is £1,200,000 divided into 6,000,000 'A' Ordinary shares of £0.20 each. 3,911,561 of such shares are in issue and fully paid up and 62,500 of such shares are partly paid up to the extent of £0.05 each and none of the remaining shares have been issued.

A number of share options have been granted to directors and staff and these are detailed in note 22.

17 Reserves

Group

	Special reserve £	Share option reserve £	Profit and loss account £	Total £
At 1 January 2012	96,858	48,272	1,354,850	1,499,980
Share option reserve (note 22)	–	(6,173)	–	(6,173)
Loss for the year	–	–	(276,757)	(276,757)
At 31 December 2012	**96,858**	**42,099**	**1,078,093**	**1,217,050**

The special reserve was created by a reduction in share capital being set against the deficit on the profit and loss reserve. The reduction in share capital was greater than the deficit on the profit and loss reserve and this residual established the undistributable special reserve.

Company

	Special reserve £	Share option reserve £	Profit and loss account £	Total £
At 1 January 2012	96,858	48,272	3,303,571	3,448,701
Share option reserve (note 22)	–	(6,173)	–	(6,173)
Profit for the year	–	–	(297,623)	(297,623)
At 31 December 2012	**96,858**	**42,099**	**3,005,948**	**3,144,905**

18 Reconciliation of movements in shareholders' funds

Group

	2012 £	2011 £
Loss for the financial year	**(276,757)**	(467,513)
Share option reserve	**(6,173)**	7,545
Shareholders' funds at 1 January 2012	**2,285,417**	2,745,385
Shareholders' funds at 31 December 2012	**2,002,487**	2,285,417

19 Net cash inflow from operating activities

	2012 £	2011 £
Operating (loss)/profit	**(208,207)**	573,418
Loss on sale of fixed assets	**3,662**	18,320
Depreciation	**249,824**	402,404
Amortisation	**186,824**	193,415
Share option reserve	**(6,173)**	7,545
Decrease/(increase) in debtors	**1,961,549**	(1,063,842)
(Decrease)/increase in creditors	**(2,209,582)**	1,463,902
Net cash (outflow)/inflow from operating activities	**(22,103)**	1,595,162

20 Reconciliation of net cash flow to movement in net funds

	2012 £	2011 £
(Decrease)/increase in cash in the year	**(512,606)**	1,098,969
Cash outflow from other loans	**640,273**	473,880
Cash outflow from finance leases and hire purchase contracts	**210,962**	133,056
Movement in net funds in the year	**338,629**	1,705,905
Net funds at 1 January	**4,029,180**	2,323,275
Net funds at 31 December	**4,367,809**	4,029,180

21 Analysis of changes in net funds

	At 1 January 2012 £	Cashflows £	At 31 December 2012 £
Cash in hand and at bank	5,988,073	(512,606)	**5,475,467**
Other loans	(1,482,506)	640,273	**(842,233)**
Finance leases and hire purchase contracts	(476,387)	210,962	**(265,425)**
	4,029,180	338,629	**4,367,809**

Cash at hand and in bank includes both insurance client and operational monies. Insurance client monies include unsettled premiums and claims and commission not yet transferred into the operational bank accounts. At 31 December 2012, £4,612,375 (2011: £4,759,815) of the total £5,475,467 (2011: £5,988,073) cash held was insurance client monies and operational monies amounted to £863,092 (2011: £1,228,258).

22 Share Based Payments

All schemes are equity settled. Details of the share options granted are set out below.

No 1 Approved Share Option Scheme

The Company adopted an approved share option scheme in 1996 - the No 1 Approved Share Option Scheme. 120,000 options under this scheme were granted to certain directors in 2000. All of these options lapsed without exercise on 1 August 2010. The requirement to expense share options only applies to those granted since 7 November 2002, accordingly no share based payment charge has been recognised in relation to this scheme in current or previous periods.

No 4 Enterprise Management Incentive Scheme

At the Annual General Meeting on 20 July 2006, the shareholders passed a resolution authorising the establishment of the Broker Direct Plc 2006 Share Option Scheme.

In April 2007, the Company granted options (which were granted as qualifying Enterprise Management Incentives pursuant to Schedule 5 of the Income Tax (Earnings and Pensions) Act 2003) to certain employees and directors. The total number of shares over which each option could be exercised depended upon Broker Direct Plc's profit before tax for the financial year ending 31 December 2009 and each option could only be exercised (to the extent that such performance target has been satisfied) at the time the 2009 pre-tax profit was formally determined by the Board. During the prior year, the options were modified such that the financial years on which the performance targets were based were extended to 31 December 2013. In line with FRS 20, the modification has not resulted in a change to the fair value of the options, however has increased the number of options now expected to vest over the extended vesting period.

On 14 March 2008, the Company granted a further 100,000 options under this scheme, all of which lapsed during 2009.

No 5 Company Share Option Plan

At the Annual General Meeting on 23 June 2009, the shareholders passed a resolution authorising the establishment of the Broker Direct Plc 2009 Company Share Option Plan adopted by Resolution of the Board of Directors on 11 December 2008.

These options were subject to various financial performance targets including Broker Direct Plc's profit before amortisation for the financial year ending 31 December 2009 and increasing revenues from existing and new income sources. During the year ended 31 December 2010, the options were modified such that the financial years on which the performance targets were based were extended to 31 December 2013. In line with FRS 20, the modification has not resulted in a change to the fair values of the option, however has increased the number of options now expected to vest over the extended vesting period.

22 Share Based Payments (continued)

Prior to any modification, the vesting period is generally one to two years. If the option remains unexercised after a period of 10 years from the date of grant, the options expire. The movement in the number of share options is set out below:

	2012			2011		
	Number Granted	**Weighted average Exercise price £**	**Weighted average remaining contractual life**	Number Granted	Weighted average Exercise price £	Weighted average remaining contractual life
Outstanding and exercisable at 1 January	**765,000**	**1.01**	**5 years 5 months**	765,000	1.01	6 years 5 months
Outstanding and exercisable at 31 December	**765,000**	**1.01**	**4 years 5 months**	765,000	1.01	5 years 5 months

Assumptions:

The Group uses the Black-Scholes model to fair value the Group's share options which resulted in a fair value charge of £6,173 (2011: £7,545) and a corresponding credit to other reserves.

23 Leasing commitments

Operating lease payments amounting to £584,905 (2011: £597,041) are due within one year. The leases to which these amounts relate expire as follows:

	2012		2011	
	Land and buildings £	**Other £**	Land and ›uildings £	Other £
Annual commitments under operating leases which expire:				
– within one year	**92,125**	**–**	–	–
– within two to five years	**215,631**	**3,320**	116,210	3,320
– over five years	**273,829**	**–**	477,511	–
	581,585	**3,320**	593,721	3,320

At 31 December 2012, there is an onerous lease for a property which is no longer occupied following disposal of certain businesses during the prior year. Accordingly, the annual commitment associated with this lease is not reflected above.

24 Pension scheme

The Group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £461,062 (2011: £428,381). Contributions amounting to £66,537 (2011: £67,878) were payable to the scheme at 31 December 2012 and are included in creditors.

25 Contingent liabilities

There were no contingent liabilities at 31 December 2012 or 31 December 2011.

26 Related party transactions

The company has taken advantage of the exemption within FRS 8 and has not disclosed transactions with wholly owned subsidiaries.

27 Controlling party

The directors do not consider that there is a controlling party of the entity.

28 Post balance sheet events

In January 2013, the directors renegotiated the variable rate borrowing facility, such that repayments will be suspended throughout 2013.

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Authorised and regulated by the Financial Conduct Authority, firm reference number 307607.