

Registered number 04011200

LCO NON-MARINE AND AVIATION LIMITED

Annual report

for the year ended 31 December 2011

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LCO NON-MARINE AND AVIATION LIMITED

Annual report for the year ended 31 December 2011

Contents	Page
Directors and advisors	1
Directors' report	2 - 5
Independent auditors' report	6 - 7
Profit and loss account	8
Statement of total recognised gains and losses	9
Balance sheets	10
Notes to the financial statements	11 - 25

Directors and advisors

Directors

I E Beaton
T A Bolt
M Pell
J Priggen
P Swain
G Brace
J Tutoki

Company secretary

C Fussell

Registered office

34 Leadenhall Street
London
EC3A 1AX

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory auditors
1 Embankment Place
London
WC2N 6RH

Solicitors

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Bankers

Natwest
City of London Branch
PO Box 12258
1 Princes Street
London
EC2R 8PA

Directors' report for the year ended 31 December 2011

The directors present their report and the audited financial statements of the company for the year ended 31 December 2011

Principal activities

The principal activity of LCO Non-Marine and Aviation Limited, registered company 04011200, is the provision of non-marine and aviation claims handling principally to the Lloyd's insurance market

Our core revenue performed well during the year and is expected to continue in 2012. Xchanging Claims Services Limited, the parent company for LCO Non-Marine and Aviation Limited, has agreed to provide the funds if required, to enable LCO Non-Marine and Aviation Limited to pay its debts as they fall due.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to relate to the departure of syndicates from the Lloyd's market and the potential for syndicates to start using their own methods of resolving claims. Further discussion of these risks and uncertainties, in the context of the Xchanging Claims Services Limited group (of which LCO Non-Marine and Aviation Limited is a part), is provided on page 3 of the Xchanging Claims Services Limited ("XCS") group's directors' report.

Review of business and future developments

The company results are set out in the profit and loss account on page 8.

Both the level of business and the year end position were broadly in line with expectations. The directors believe that XCS will be able to work with Lloyds' and customers to remain successful in the future as the regulatory environment evolves to promote greater choice.

Key performance indicators

The directors of Xchanging Claims Services Limited manage the operations of LCO Marine Limited and LCO Non-Marine & Aviation Limited on a departmental basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of LCO Non-Marine and Aviation Limited. The development, performance and position of the business of LCO Non-Marine and Aviation Limited are included in the results discussed on page 2 of the XCS group's directors' report which does not form part of this report.

Financial risk management

Given the size of the XCS group, the directors have not delegated the responsibilities of monitoring financial risk management to the individual companies' boards. The policies set by the board of directors are implemented by the group's finance department.

The XCS group is exposed to a variety of financial risks which are reviewed on a regular basis in order to limit the adverse effects on the financial performance of the company. These are set out overleaf.

**Directors' report
for the year ended 31 December 2011 (continued)****Financial risk management (continued)**

- (i) Foreign exchange risk
The company has no overseas operations or foreign currency exposures
- (ii) Interest rate cash flow risk
The company has no interest bearing liabilities. The company does not use derivative financial instruments as exposure levels are not material
- (iii) VAT risk
The EU is currently reviewing VAT rules on financial and insurance services, with a view to modernise and standardise across the EU. This may lead to some currently exempt services provided by Xchanging Claims Services to become non exempt. Any resulting change is not expected to take effect before 2014. We continue to track these legislative developments, assess their likely impact and seek to mitigate
- (iv) Credit risk
Credit risk is managed on a group basis. Credit risk arises from cash and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions

For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. The company's credit risk with customers is limited as around 77% of all revenue is collected monthly via Central Settlement, through the Lloyd's ARCS system which automatically debits the syndicates accounts and credits the group's. A weekly credit control review is in place for the remaining revenue
- (v) Liquidity risk
The company actively monitors that it has sufficient funds for operations and any planned expansions. The company does not currently make use of any financing arrangements but this will continually reviewed as the business develops and matures
- (vi) Capital management risk
The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt

The principal risk facing the company is liquidity risk, but this is limited as reflected by the above comments

Results and dividends

The company's post tax profit for the year was £7,373,000 (2010 £8,154,000)

During 2011, a dividend of £61.15 per share amounting to £6,115,000 was paid in respect of the final dividend declared for the year ended 31 December 2010 (2010 final dividend of £53 per share amounting to £5,300,000 was paid in respect of the dividend declared for the year end 31 December 2009)

**Directors' report
for the year ended 31 December 2011 (continued)****Directors**

The directors who held office during the year and up to the date of signing the financial statements were

Name

I E Beaton

T A Bolt

P Byrne (resigned 22 December 2011)

M Pell

J Priggen

P Swain

G Brace (appointed 21 June 2011)

J Tutoki (appointed 31 August 2011)

C Fussell was appointed as company secretary on 22 February 2011

Employment policies

The company is committed to employment policies which follow best practice based on equal opportunities for all employees, irrespective of sex, race, colour, disability, marital status, age or religion. The company is also committed to providing employees with information on matters of concern to them on a regular basis, so that the views of employees can be taken into account when making decisions that are likely to affect their interests.

Employees are kept well informed of performance and objectives of the company through regular email communications and periodic briefings by senior management.

The directors consider that the availability of a discretionary bonus scheme has a vital role in motivating and retaining employees. In addition certain employees may participate in the Xchanging plc Group share option plan.

Payment of creditors

The company has a variety of payment terms with its suppliers. The company agrees payment terms with its suppliers when it enters into binding purchasing contracts for the supply of goods and services. Its suppliers are made aware of these terms. The Company seeks to abide by these payment terms when it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

Disabled persons

It is the policy of the company to offer appropriate training and career development to disabled persons as far as possible that are identical to other employees, in line with best practice. In the event of a member of staff becoming disabled every effort is made by the company to continue employment and arrange appropriate retraining and offer opportunities for promotion.

Qualifying third party indemnity provision

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The group has also purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and its Directors.

**Directors' report
for the year ended 31 December 2011 (continued)****Charitable contributions**

During the year the company made no charitable donations (2010 £0).

Statement of directors' responsibilities

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

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

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

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

Statement of disclosure of information to auditors

Each director of the company, in office at the time of approval of this report, acknowledges that

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- he/ she has taken all the steps that he/ she ought to have taken as a director in order to make himself/ herself aware of any relevant audit information and to establish that the company's auditor is aware of that information

By order of the board



J Priggen
Director
30 May 2012

**Independent auditors' report to the members of
LCO NON-MARINE AND AVIATION LIMITED**

We have audited the financial statements of LCO Non-Marine and Aviation Limited for the year ended 31 December 2011 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Balance sheets 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).

Respective responsibilities of directors and auditors

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

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditors' report to the members of LCO NON-MARINE AND AVIATION LIMITED (continued)

Matters on which we are required to report by exception

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

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



Kevin McGhee (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 May 2012

**Profit and loss account
for the year ended 31 December 2011**

	Note	2011 £'000	2010 £'000
Turnover	2	31,968	30,948
Operating costs – pre exceptional item		(21,884)	(19,496)
Exceptional item	3	(20)	-
Total Operating Costs	3	(21,904)	(19,496)
Operating profit		10,064	11,452
Interest receivable and similar income	6	34	25
Interest payable and similar charges	7	(38)	(15)
Profit on ordinary activities before taxation		10,060	11,462
Tax on profit on ordinary activities	8	(2,687)	(3,308)
Profit for the financial year		7,373	8,154

There is no difference between the loss on ordinary activities before taxation and the retained loss for the period stated above and their historical cost equivalent

All results presented above relate to continuing operations of the company

Statement of total recognised gains and losses for the year ended 31 December 2011


	Note	2011	2010
		£'000	£'000
Profit for the financial year		7,373	8,154
Actuarial loss on pension scheme	16	(83)	(46)
Movement on deferred tax relating to pension scheme	12	13	13
Movement on current tax relating to pension scheme		9	-
Total recognised gains relating to the year		<u>7,312</u>	<u>8,121</u>

Balance sheet as at 31 December 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Tangible assets	9	-	-
Current assets			
Debtors amounts falling due within one year	10	47,718	94,283
Cash at bank and in hand		183	373
		47,901	94,656
Creditors amounts falling due within one year	11	(34,814)	(83,068)
Net current assets		13,087	11,588
Total asset less current liabilities		13,087	11,588
Creditors amounts falling due after more than one year	11	(644)	(378)
Net assets excluding pension asset		12,443	11,210
Pension asset	16	22	55
Net assets including pension asset		12,465	11,265
Capital and reserves			
Called up share capital	13	100	100
Share premium account	14	278	278
Profit and loss account	14	12,087	10,887
Total shareholders' funds	15	12,465	11,265

The notes on pages 11 to 25 are an integral part of these financial statements

The financial statements on pages 8 to 25 were approved by the board of directors on 30 May 2012 and were signed on its behalf by


J Priggen
Director

Registered number 04011200

Notes to the financial statements for the year ended 31 December 2011

1 Principal accounting policies

The financial statements are prepared in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom. A summary of the most significant accounting policies, which, unless otherwise stated, have been applied consistently with the prior year, is set out below.

Basis of accounting

The financial statements are prepared on a going concern basis, under the historical cost convention.

Going concern

The directors believe that preparing the accounts on the going concern basis is appropriate based on projections for the foreseeable future.

Cash flow statement

The company is a wholly owned subsidiary of Xchanging plc and is included in the consolidated financial statements of Xchanging plc, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996).

Turnover

Turnover, which is stated exclusive of value added tax, principally comprises amounts receivable for the provision of claims handling and recoveries services, charged on transactional and commission bases respectively. Turnover is recognised in the profit and loss account for the accounting period in which the insurance claim is processed or claim recovery is completed as appropriate. Revenue from additional services is recognised as earned.

Tangible fixed assets

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Cost includes the purchase price and the cost attributable to bring the asset to its working condition for its intended use.

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:

Computer equipment	33%
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**Notes to the financial statements
for the year ended 31 December 2011 (continued)****Financial instruments**

The company does not trade in derivative financial instruments. Capital instruments that contain an obligation to transfer economic benefit are classified as liabilities and are recorded at their net proceeds. Financial assets are recorded at cost and the return on such assets is accrued in the period to which it relates.

The company's financial instruments comprise cash and various items such as trade debtors and trade creditors that arise directly from its operations. The fair value of financial assets and liabilities is approximately equal to their book values.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment.

Cash at bank and in hand

Cash includes cash in hand and demand deposits which are readily convertible to cash and are subject to minimal risk of changes in value. Cash held in foreign currencies is recognised at the exchange rate ruling on the balance sheet date, with any foreign exchange differences recognised in the profit and loss account.

Trade and other payables

Trade and other payables are stated at book value as this is approximately equal to their fair value.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities are translated at the rates of exchange ruling on the balance sheet date and any differences arising are taken to the profit and loss account.

Operating leases

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

**Notes to the financial statements
for the year ended 31 December 2011 (continued)****Deferred taxation**

Deferred tax is recognised in respect of all 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, or a right to pay less, tax in the future have occurred at the balance sheet date. However, deferred tax assets are regarded as recoverable and therefore recognised, only when, on the basis of all available evidence, the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Pensions

The company operates a defined benefit pension scheme. A professional independent actuary values the fund triennially and the valuations were updated at the year-end. Scheme assets are measured at their fair value at the balance sheet date. Scheme liabilities are measured on an actuarial basis using the projected unit method. Current and past service costs are charged to the profit and loss account. Expected returns on assets and interest costs on liabilities are recognised as other finance income in the profit and loss account.

The company also participates in a defined contribution scheme operated by Xchanging UK Limited, a related company. Contributions are charged to the profit and loss account as incurred.

Related party transactions

The company has taken advantage of the exemption available in FRS 8 not to disclose transactions with related parties that are 100% owned by the Xchanging Claims Services group. All other related party transactions are disclosed in note 18.

Provisions

Provisions are recognised when a present obligation exists as the result of a past event and it is probable that this will result in an outflow of economic benefit, the amount of which can be reliably estimated.

Restructuring provisions are only recognised if an obligation exists at the balance sheet date, i.e. a formal plan exists and those affected by that plan have a valid expectation that the restructuring will be carried out. Employee termination payments are included within restructuring provisions. Provisions are not recognised for future operating losses.

Exceptional items

Exceptional items are events or transactions that fall within the ordinary activities of the company, but which by virtue of their size or incidence, have been separately disclosed in order to improve a reader's understanding of the financial statements. These include items relating to the restructuring of a significant part of the company.

Notes to the financial statements for the year ended 31 December 2011 (continued)

2 Turnover

Turnover arises entirely from the company's activities in the United Kingdom, and is derived solely from the principal activity of the company

Contributions to turnover by geographical destination are

	2011 £'000	2010 £'000
United Kingdom	31,968	30,948
	<u>31,968</u>	<u>30,948</u>

3 Operating costs

Operating costs comprise:	Note	2011 £'000	2010 £'000
Staff costs			
Wages and salaries		9,954	8,093
Social security costs		1,069	896
Other pension costs		469	6
		<u>11,492</u>	<u>8,995</u>
Exceptional item		20	-
Other operating costs		<u>10,392</u>	<u>10,501</u>
		<u>21,904</u>	<u>19,496</u>

Operating costs include the following

	2011 £'000	2010 £'000
Depreciation – owned assets	-	15
Rental costs relating to operating leases		
– land and buildings	<u>1,599</u>	<u>1,680</u>

The 2011 and 2010 audit fees were borne by Xchanging Claims Services Limited and not recharged

The exceptional item represents a cost of £20,091 relate to restructuring costs incurred as part of the wider Xchanging Group lean processor strategy in restructuring operations within the UK and further increasing offshoring activities to India

**Notes to the financial statements
for the year ended 31 December 2011 (continued)****4 Directors' emoluments**

The remuneration of the Directors is borne by Xchanging Claims Services Limited. They do not consider it practical to allocate their remuneration between the various subsidiary entities and no recharge is made for their services.

5 Employees

The average monthly number of persons (including executive directors) employed by the company during the year was

	2011 Number	2010 Number
By activity		
Service delivery	170	150
Selling and distribution	2	2
Administration	24	12
	<u>196</u>	<u>164</u>

6 Interest receivable and similar income

	2011 £'000	2010 £'000
Expected return on pension scheme assets	34	25
	<u>34</u>	<u>25</u>

7 Interest payable and similar charges

	2011 £'000	2010 £'000
Interest payable	14	-
Interest on pension scheme liabilities	24	15
	<u>38</u>	<u>15</u>

Notes to the financial statements for the year ended 31 December 2011 (continued)

8 Tax charge on profit on ordinary activities

	2011 £'000	2010 £'000
Current tax		
UK corporation tax on profits for the year	2,672	3,428
Adjustments in respect of prior years	(189)	-
Total current tax	2,483	3,428
Deferred tax		
Changes in tax rate	-	-
Adjustments in respect of prior years	203	(116)
Origination and reversal of timing differences	1	(4)
Total deferred tax (note 12)	204	(120)
Total tax charge for the current year	2,687	3,308

The tax assessed for the year is lower (2010 higher) than the standard rate of corporation tax in the UK (26.5%) (2010 28%). The differences are explained below

Profit on ordinary activities before tax	10,060	11,462
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.5% (2010 28%)	2,666	3,209
Expenses not deductible for tax purposes	7	5
Capital allowances for the year in excess of depreciation	(1)	3
Other timing differences	-	2
Adjustments to tax charge in respect of previous year	(189)	209
	2,483	3,428

Factors affecting current and future tax charges

The Finance Act 2011, which was substantively enacted on 5 July 2011, included legislation reducing the main rate of corporation tax to 25 per cent from 1 April 2012. The relevant deferred tax balances have been re-measured accordingly.

A number of further changes to the UK Corporation tax system were announced in the March 2012 UK Budget Statement. A resolution passed by Parliament on 26 March 2012 reduced the main rate of corporation tax rate from 24% to 23% from 1 April 2013 is expected to be included in the Finance Act 2012. A further reduction to the main rate is also proposed to reduce the rate to 22% from 1 April 2014. None of these rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

9 Tangible fixed assets

	Computer equipment £'000	Total £'000
Cost		
At 1 January 2011	56	56
Additions	-	-
At 31 December 2011	56	56
Accumulated depreciation		
At 1 January 2011	56	56
Charge for the year	-	-
At 31 December 2011	56	56
Net book value		
At 31 December 2011	-	-
At 31 December 2010	-	-

**Notes to the financial statements
for the year ended 31 December 2011 (continued)****10 Debtors**

	2011	2010
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	2	5
Amounts owed by Xchanging group undertakings	47,564	93,876
Other debtors	77	74
Prepayments and accrued income	32	79
Deferred taxation (note 12)	43	249
	47,718	94,283

Amounts owed by Xchanging group undertakings are unsecured, interest free and repayable on demand

11 Creditors: amounts falling due within one year

	2011	2010
	£'000	£'000
Trade creditors	27	1
Amounts owed to Xchanging group undertakings	31,206	79,685
Consortium relief payable	-	1,628
Corporation tax	1,358	304
Taxation and social security	280	236
Accruals and deferred income	1,943	1,214
	34,814	83,068

Amounts owed to Xchanging group undertakings are unsecured, interest free and are repayable on demand

Notes to the financial statements for the year ended 31 December 2011 (continued)

11 Creditors: Amounts falling due after more than one year

	2011 £'000	2010 £'000
Accruals and deferred income	644	378
	<u>644</u>	<u>378</u>

12 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2010 27%) for differences arising in the UK

The movements in deferred tax assets are shown below

	2011 £'000	2010 £'000
Provided		
Deferred tax asset at 1 January	227	80
(Charged)/credited to the profit and loss account (note 8)	(204)	120
Deferred tax through the statement of recognised gains and losses with respect to the pension scheme	13	13
Other deferred tax	-	14
Deferred tax asset at 31 December	<u>36</u>	<u>227</u>
Deferred tax asset comprises		
Accelerated capital allowances	-	7
Other timing differences	<u>43</u>	<u>242</u>
Deferred tax asset (excluding pensions)	43	249
Pensions	(7)	(22)
Deferred tax asset (including pensions)	<u>36</u>	<u>227</u>

The company has recognised deferred tax assets where there are forecast taxable profits in the next 12 months from which the future reversal of the underlying timing difference can be deducted

**Notes to the financial statements
for the year ended 31 December 2011 (continued)**

13 Called up share capital

	2011 £'000	2010 £'000
Allotted and fully paid		
100,000 (2010 100,000) ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>

14 Reserves

	Share premium account £'000	Profit and loss account £'000
At 1 January 2011	278	10,887
Profit for the financial year	-	7,373
Dividends paid	-	(6,115)
Actuarial losses	-	(83)
Share options	-	3
Deferred tax credited through equity Pensions	-	13
Current tax charged through equity Pensions	-	9
At 31 December 2011	<u>278</u>	<u>12,087</u>

15 Reconciliation of movements in shareholders' funds

	2011 £'000	2010 £'000
Opening shareholders' funds	11,265	8,435
Profit for the financial year	7,373	8,154
Dividend paid	(6,115)	(5,300)
Actuarial losses	(83)	(46)
Share options	3	9
Deferred tax credited through equity Pensions	13	13
Current tax charged through equity Pensions	9	-
Closing shareholders' funds	<u>12,465</u>	<u>11,265</u>

Notes to the financial statements for the year ended 31 December 2011 (continued)

16 Pensions

The company participates in a sectionalised multi-employer defined benefit pension scheme in the UK which was established at 1 July 2007. A full valuation of the pension scheme was carried out as at 1 July 2008 by a qualified independent actuary, and the second full valuation, as at 1 July 2011, is currently underway. An actuarial report was last prepared at 1 July 2010. The actuary has identified that part of the assets and liabilities that relate to the Company. Contributions are payable to the pension scheme by members (at the rate of 5% of salary) and by the company (at the rate of 20% of salary). The company contributed £167,000 to the scheme over the year (2010: £150,000). The scheme is closed to new entrants and the age profile of the active membership is increasing. As a result, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

For any increases to pensions in payment that have statutory inflation linked increases, the CPI measure has been used as the basis for determining the assumed rate of pension increase. The effect of this change in assumption is £29,000.

The following figures have been prepared in compliance with FRS 17 "Retirement benefits"

	At 31 December 2011	At 31 December 2010
Rate of increase in salaries	3.8%	4.2%
Pension increases	1.6%	2.0%
Discount rate	4.8%	5.5%
Inflation assumption	3.0%	3.4%

Mortality follows the standard table known as PNA00, using 110% of the base table with CMI 2011 mortality improvements with a 0.75% long term improvement rate. The mortality assumptions used at the previous year end followed the PNA00 table, using 110% of the base table with medium cohort mortality improvements subject to a 0.5% minimum to the annual improvements.

	2011 years	2010 years	2009 years	2008 years	2007 years
For a male aged 65 now	22.0	21.3	21.1	21.0	19.8
At 65 for a male member aged 45 now	23.0	22.6	22.3	22.2	21.1
For a female aged 65 now	23.8	23.6	23.4	23.4	22.1
At 65 for a female member aged 45 now	25.0	24.8	24.4	24.4	23.2

Notes to the financial statements for the year ended 31 December 2011 (continued)

16 Pensions (continued)

The expected rates of return and the market value of the assets of the pension scheme related to members and former members of the company were

	Long-term rate of return expected at 31 December					Value at 31 December				
	2011 %	2010 %	2009 %	2008 %	2007 %	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Equities	7.25%	7.70%	8.50%	n/a	n/a	178	128	86	-	-
Bonds	3.50%	5.10%	5.40%	3.80%	n/a	531	384	253	196	-
Other	0.50%	0.50%	0.50%	n/a	5.50%	4	-	2	-	34
Total market value of assets						713	512	341	196	34
Present value of scheme liabilities						(684)	(435)	(262)	(115)	(33)
Related deferred tax asset (note 12)						(7)	(22)	(9)	(22)	1
Net pension surplus						22	55	70	59	2

Market value is considered to be equivalent to the fair value of the assets which are valued at current mid price

Analysis of the amounts charged to profit and loss account

	2011 £'000	2010 £'000
Charged to operating profit		
Current service costs	143	116
Charged to Interest receivable and similar income		
Expected return on pension scheme assets	(34)	(25)
Charged to interest payable and similar charges		
Interest on pension scheme liabilities	24	15
Total	133	106

Notes to the financial statements for the year ended 31 December 2011 (continued)

16 Pensions (continued)

Analysis of the amounts recognised in the statement of total recognised gains and losses.

	2011 £'000	2010 £'000
Actual return less expected return on assets	(1) (0%)	(4) (1%)
Experience gains on the liabilities	(15) (2%)	- (0%)
Change in assumptions	(67) (9%)	(42) (6%)
Actuarial loss recognised in statement of total recognised gains and losses	<u>(83)</u>	<u>(46)</u>

Movement in surplus during the year

	2011 £'000	2010 £'000
Surplus at beginning of the year	78	81
Movement in the year		
Current service cost	(143)	(116)
Employer contributions received	167	150
Other finance costs	10	9
Actuarial loss	(83)	(46)
Surplus at end of the year	<u>29</u>	<u>78</u>

Reconciliation of present value of scheme liabilities

	2011 £'000	2010 £'000
1 January	435	262
Current service cost	143	116
Interest cost	24	15
Actuarial loss	82	42
Benefits paid	-	-
31 December	<u>684</u>	<u>435</u>

**Notes to the financial statements
for the year ended 31 December 2011 (continued)**
16 Pensions (continued)
Reconciliation of fair value of scheme assets

	2011	2010
	£'000	£'000
1 January	513	342
Expected return on scheme assets	34	25
Actuarial (loss)/ gain on scheme assets	(1)	(4)
Employer contributions (inc employer direct benefit payments)	167	150
Benefits paid	-	-
31 December	713	513

History of experience gains and losses

	2011	2010	2009	2008	2007
	£'000	£'000	£'000	£'000	£'000
Difference between the actual and expected return on assets	(1)	(4)	(1)	2	-
Experience gains on liabilities	(15)	-	17	1	-
Total amount recognised in statement of total recognised gains and losses	(83)	(46)	(45)	25	-

Contributions by scheme participants:

	2011	2010
	£'000	£'000
Contributions	33	30

The company expects to contribute £170,000 to the scheme in 2012

The company also participates in a defined contribution scheme run for the employees of Xchanging UK Limited. Contributions charged against the profit for the period were £326,000 (2010: £308,000). There were nil outstanding contributions at the balance sheet date (2010: There were nil outstanding contributions at the balance sheet date).

Notes to the financial statements for the year ended 31 December 2011 (continued)

17 Parent undertaking and ultimate controlling party

LCO Non-Marine and Aviation Limited is a wholly owned subsidiary of Xchanging Claims Services Limited, a company incorporated in England and Wales. Xchanging Claims Services Limited is the parent company of the smallest group to consolidate these financial statements.

The ultimate parent undertaking is Xchanging plc, a company incorporated in England and Wales. The results of LCO Non-Marine and Aviation Limited are included in the Xchanging plc consolidated accounts, copies of which may be obtained from Xchanging plc, 34 Leadenhall Street, London EC3A 1AX, United Kingdom. Xchanging plc is the parent company of the largest group to consolidate these financial statements.

18 Related party transactions

The Corporation of Lloyd's is a related party by virtue of a 50% interest in Xchanging Claims Services Limited, the immediate parent of LCO Non-Marine and Aviation Limited. During 2011, £15,591 was charged by Lloyd's to the company in relation to IT infrastructure, premises, accounting and administration, and other services (2010: £13,017). As at 31 December 2011, nothing was owed to Lloyd's in respect of these services (2010: £0).

The remaining companies are related parties because they all share the same ultimate controlling party, Xchanging plc. The companies concerned are, Xchanging UK Limited, Xchanging Ins-sure Services Limited Group, Xchanging Procurement Services Limited, Xchanging HR Services Limited, Xchanging Resourcing Services Limited, Xchanging Global Insurance Solutions Limited, Xchanging Insurance Professional Services Limited, Xchanging Advisory Services Limited, Ferguson Snell and Associates Limited, Xchanging Broking Services Limited, Xchanging Technology Services India Private, Cambridge Solutions Europe Ltd and Cambridge Solutions India Ltd.

A description of the nature of the services provided from these companies by/(to) the company and the amount receivable/(payable) in respect of each at 31 December 2011, are set out in the table below.

Services provided by/(to) the company	Revenue/(charge)		Receivable/ (payable)	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
IT infrastructure, IT support, IT systems, accounting & administration, and other services in support of operating activities	(1,382)	(1,239)	2	51