

# **ARISTA INSURANCE LIMITED**

## **FINANCIAL STATEMENTS**

**31 DECEMBER 2008**

**COMPANY NUMBER 05938669**

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**ARISTA INSURANCE LIMITED**

**FINANCIAL STATEMENTS – 31 DECEMBER 2008**

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## **ARISTA INSURANCE LIMITED**

### **CHAIRMAN'S STATEMENT**

**For the year ended 31 December 2008**

I am delighted to report on a second successful trading period for Arista Insurance Limited ("Arista"). The financial statements which follow cover the period 1<sup>st</sup> January 2008 to 31<sup>st</sup> December 2008. The company is now firmly established as a UK commercial lines insurance underwriting agency that offers independent insurance brokers and their customers a viable, secure and efficient alternative to the major established insurers in the UK commercial lines sector.

During 2008, Arista has:


- cemented its reputation as a provider of superior products and efficient service to its customers;
- established two more regional offices in addition to the four offices established in 2007 and these six offices at the year end supported, in close proximity, over 230 relationships with its chosen broker partners;
- launched a web based trading platform for simpler small insurance risks and established five commercial insurance products on this platform making this extremely efficient trading approach available to all its brokers.

All of this has been achieved against a background of soft markets, intense competition and rapid change. I wish to thank the entire Arista team for its dedication and hard work during this continued phase of development.

Arista is a joint venture between Canopus Group ("Canopus"), Equity Insurance Group ("Equity") and the Arista management team. Each of the partners is committed to the continuing development and success of the Arista venture supporting it with the necessary underwriting facilities. The second trading period, while still resulting in a loss, exceeded shareholder expectations and despite challenging market conditions, Canopus and Equity are satisfied that Arista's strong progress has been achieved without sacrificing underwriting discipline. Arista's business proposition is based on implementing a consistent and sustainable service strategy for independent regional brokers, not on undercutting its competitors.

The strong base established in 2008 is paying dividends in 2009. The number of broking partners has now risen to 263 close trading relationships and a further 169 brokers operating solely on the web based Arista platform for small risks. Gross premiums in early 2009 passed £4m per month compared with half that figure in early 2008.

Arista is making rapid strides towards its goal of sustainable profitability, both for its own account and that of its insurance carriers. I look forward to the coming months with continued confidence in the Arista team and business model.



**Michael Watson**

## **ARISTA INSURANCE LIMITED**

### **CHIEF EXECUTIVE'S STATEMENT**

**For the year ended 31 December 2008**

In 2008 Arista Insurance built on the strong base of regional broker support, high quality staff and modern technology established in 2007 to expand its area of operations, product range and income.

In a continuing soft UK commercial insurance market, business levels and results met the expectations inherent in the company's challenging plans.

During the period the company grew to include 84 remarkable staff and opened two additional trading offices to bring the total to six office locations. Arista views independent regional brokers as customers and the number with which there are close trading relationships grew to over 230. The Arista process for renewing business proved as effective with brokers as its new business process and the retention level of policies first written in 2007 was satisfactory as was the continuing growth in new business activity.

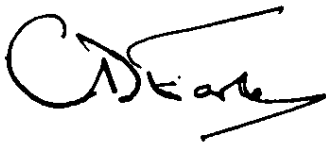
High levels of merger and acquisition activity involving independent brokers early in 2008 had a negative impact on Arista as a small number of valued independent brokers became part of larger groups with which Arista does not trade but hard work by development staff ensured that the income lost was replaced from other sources during the year.

Arista's business model and its key processes continue to evolve in consultation with brokers as further efficiency and cost savings for all parties in the value chain are built into the Arista service. The continuing development of the computer systems and web based trading capabilities form a key part of the response to brokers needs.

As Arista's income has grown it has continued to attract high quality people who have risen to the challenges of delivering the best service to a select broker panel through their technical competence, appropriate insurance experience and enthusiastic service.

The continuing success of their efforts is illustrated by brokers progressively growing business volumes and enthusiastically supporting Arista, all of which has been underpinned by continuing helpful advice and strong support from our investors and insurers.

None of this could have been achieved without the abilities, dedication and commitment of Arista's people, without the support and belief of Arista's independent regional broker customers or without the support and advice of Arista's insurers and suppliers. I thank them all and look forward to responding to their commitments as an employer, underwriter and partner that they can continue to value highly.

A handwritten signature in black ink, appearing to read 'C Earle', with a long horizontal stroke extending to the right.

**Charles Earle**

## **ARISTA INSURANCE LIMITED**

### **DIRECTORS' REPORT**

**For the year ended 31 December 2008**

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2008.

#### **DIRECTORS**

The directors who served during the period under review were as follows:

Michael Watson\* (Chairman)

Lyn Carslake

Charles Earle

John Josiah\*

Chris McGinn\*

Douglas Morgan\*

\* Non-Executive Director

#### **COMPANY SECRETARY**

The company secretaries who served during the year under review were as follows:

Victoria L Cuggy

Steven Griffin (Resigned 3<sup>rd</sup> November 2008)

#### **PRINCIPAL ACTIVITIES**

The principal activity of the company is that of an insurance underwriting agency for commercial property, liability, engineering, legal expenses and motor classes of insurance, sold through a select number of independent insurance brokers.

The company underwrites UK commercial insurance under binding authorities granted by a number of UK licensed insurers.

Arista's underwriting services are delivered by qualified and experienced staff supported by modern operating systems and effective business processes. Together with a wide range of products these combine to create a service that independent regional insurance brokers value as it reduces frictional costs in the risk transfer process and enables them to concentrate more of their own resources on customer service.

#### **RESULTS AND DIVIDENDS**

The results for the year ended 31 December 2008 are set out on page 9. The directors do not recommend payment of a final dividend (2007: Nil).

#### **BUSINESS REVIEW**

The company has expanded its regional office network with the addition of two further offices and has launched an online trading platform for brokers. In addition to offering further efficiencies in processing small transactions to the company's existing independent broker customer base this platform is able to offer a purely web based service and simple product suite to a wide range of smaller independent insurance brokers.

The results for the year and financial position of the company are shown in the annexed financial statements.

In a challenging and competitive marketplace turnover (arising principally from over-ride commission from Arista's supporting insurers) grew to exceed £4.3m which is a satisfactory position against the company's plans for the period. Expenditure within the business (principally arising from staff costs, premises costs and business systems costs) was also satisfactory in relation to the company's plans.

The company has expanded the sound business base which was established in 2007 and it is the directors' intention to develop this in a manner consistent with the company's plans.

## ARISTA INSURANCE LIMITED

### DIRECTORS' REPORT (continued) For the year ended 31 December 2008

#### KEY PERFORMANCE INDICATORS

	2008	2007
Managed broker relationships	230	120
Brokerage	£4,251,633	£1,539,807
Loss before tax	£(4,521,333)	£(6,834,227)
Number of employees	72	51

#### FUTURE DEVELOPMENTS

In 2009 the company will continue to expand its regional network, the number of independent brokers it trades with and the insurance products available to them, as well as obtaining underwriting capacity from a wider number of insurance carriers.

The company will increase the proportion of business that is handled by the online trading platform for brokers and expand both the number of brokers using the platform and the product range available.

#### PRINCIPAL RISKS AND UNCERTAINTIES

The company is not an insurance risk carrier and acts only as an underwriting agency for certain insurers that meet the company's financial security requirements.

The key risks the business faces are:

Failure to achieve planned growth and consequent shortfall of revenue against expenses;

Failure to attract or retain the high quality staff on which the broker service proposition is founded;

Failure to achieve planned profit commissions from underwriting;

Major changes in UK commercial insurance distribution that impact the company's business model.

The company has established a risk management and governance framework that is designed to identify and mitigate risk. Key policies and controls include:

- Monthly meetings of the Board of Directors at which key aspects of the company's business are reviewed including the reports of various executive committees;
- Underwriting guidelines and controls that are aligned with the company's binding authorities and appropriately embedded in the company's core operating systems and processes;
- The company's risk register which is regularly reviewed by the Board and Executives;
- Internal audit of underwriting and operational processes;
- Human resources policies and guidelines designed to ensure the operations are adequately resourced by sufficiently skilled people;
- Financial policies and controls that cover expense management, cash flow and other financial projections, credit risk and debt collection.

## **ARISTA INSURANCE LIMITED**

### **DIRECTORS' REPORT (continued) For the year ended 31 December 2008**

#### **EMPLOYEES**

During the year all staff were employed by Arista Insurance Limited.

During the year the average number of people employed by the company was 72.

During the year the company established an Employee Benefit Trust in order to potentially provide share based incentives to a wider number of employees.

#### **AUDITORS**

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

#### **POLITICAL AND CHARITABLE DONATIONS**

The company made no political or charitable donations during the financial year (2007: Nil).

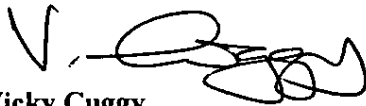
#### **LIABILITY INSURANCE FOR COMPANY OFFICERS, GROUP DIRECTORS AND OFFICERS**

As permitted by the Companies Act 1985, the Group has maintained insurance cover for directors and officers against liabilities arising in relation to the Company.

#### **DISCLOSURE OF INFORMATION TO AUDITORS**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**By order of the board**



**Vicky Cuggy  
Company Secretary**

**11 May 2009**

## **ARISTA INSURANCE LIMITED**

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

**For the year ended 31 December 2008**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for the year.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



## **ARISTA INSURANCE LIMITED**

### **INDEPENDENT AUDITORS' REPORT**

#### **To the members of Arista Insurance Limited**

We have audited the financial statements of Arista Insurance Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, Balance Sheet, Cash Flow Statement and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**ARISTA INSURANCE LIMITED**

**INDEPENDENT AUDITOR'S REPORT (continued)**  
**To the members of Arista Insurance Limited**

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Directors' Report is consistent with the financial statements.

*KPMG Audit Plc*

**KPMG Audit Plc**  
*Chartered Accountants*  
*Registered Auditor*  
**18 May 2009**

1 Canada Square  
Canary Wharf  
London

**ARISTA INSURANCE LIMITED****PROFIT AND LOSS ACCOUNT****For the year ended 31 December 2008**

		<b>Year ended 31 December 2008</b>	<b>Period ended 31 December 2007</b>
	<b>Note</b>	<b>£</b>	<b>£</b>
TURNOVER	2	<b>4,317,636</b>	1,547,631
Administrative expenses		<b>(8,139,208)</b>	(7,712,330)
OPERATING LOSS		<b>(3,821,572)</b>	(6,164,699)
Interest payable and similar charges	5	<b>(841,775)</b>	(754,014)
Interest receivable and similar income	6	<b>142,014</b>	84,486
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<b>(4,521,333)</b>	(6,834,227)
Tax credit on loss on ordinary activities	9	<b>675,000</b>	-
LOSS FOR THE FINANCIAL YEAR		<b>(3,846,333)</b>	(6,834,227)

All amounts relate to continuing activities.

There are no recognised gains or losses other than the loss above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before tax and the retained loss for the year stated above, and their historical cost equivalents.

The notes on pages 12 to 21 form an integral part of these financial statements.

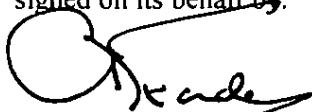
# ARISTA INSURANCE LIMITED

## BALANCE SHEET

As at 31 December 2008

		As at 31 December 2008	As at 31 December 2007
	Note	£	£
<b>FIXED ASSETS</b>			
Tangible assets	11	1,568,024	1,156,763
<b>CURRENT ASSETS</b>			
Debtors	12	8,123,814	3,878,255
Cash at bank and in hand	13	4,358,344	2,839,824
		<u>12,482,158</u>	<u>6,718,079</u>
<b>CREDITORS: amounts falling due within one year</b>	14	<u>(12,035,075)</u>	<u>(7,738,090)</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>447,083</b>	<b>(1,020,011)</b>
<b>CREDITORS: amounts falling due after more than one year</b>	15	<u>(173,759)</u>	<u>(6,246,854)</u>
<b>NET ASSETS/(LIABILITIES)</b>		<u><b>1,841,348</b></u>	<u><b>(6,110,102)</b></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	11,869,957	641,156
Share premium	17	86,644	82,969
Capital contribution reserve	17	570,932	-
Own shares held by EBT	17	(5,625)	-
Profit and loss account	17	<u>(10,680,560)</u>	<u>(6,834,227)</u>
<b>SHAREHOLDERS' FUNDS/(DEFICIT)</b>		<u><b>1,841,348</b></u>	<u><b>(6,110,102)</b></u>

These financial statements on pages 9 to 21 were approved by the board of directors on 11 <sup>May</sup> April 2009 and signed on its behalf by:



**Charles Earle**  
Director

11 May 2009

The notes on pages 12 to 21 form an integral part of these financial statements.

**ARISTA INSURANCE LIMITED**

**CASH FLOW STATEMENT**

**As at 31 December 2008**

		<b>Year ended 31 December 2008</b>	<b>Period ended 31 December 2007</b>
	<b>Note</b>	<b>£</b>	<b>£</b>
Cash flow from operating activities	18	(2,203,504)	(2,689,226)
Returns on investments and servicing of finance	19	(699,761)	71,942
Capital expenditure and financial investment	19	(744,023)	(1,333,686)
		<hr/>	<hr/>
Cash (outflow) before management of liquid resources and financing		(3,647,288)	(3,950,970)
Financing	19	5,165,808	6,790,793
		<hr/>	<hr/>
Increase in cash during the year		1,518,520	2,839,823
		<hr/>	<hr/>

The notes on pages 12 to 21 form an integral part of these financial statements.

# ARISTA INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

### 1. STATEMENT OF ACCOUNTING POLICIES

#### a. Basis of accounting/preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards under the historical cost convention and the accounting policies set out below.

The directors believe it is appropriate to prepare these financial statements on the going concern basis, notwithstanding a net loss for the year of £3,846,333 and the requirement for ongoing financial support from its principle shareholders, Canopus Holdings UK Limited ("Canopus") and Equity Insurance Holdings Limited ("Equity"), for the following reasons.

Canopus and Equity have provided the company with undertakings as at the date of these financial statements that they will continue to make available such funds as are necessary to enable the company to continue in operational existence for at least the next 12 months by meeting its liabilities as they fall due for payment.

In addition, the directors have reviewed the budget and cashflow forecasts for a period of not less than 12 months from the date of approving these financial statements, and are confident that they show that the company will become net cash generative on a monthly basis during the next 12 months.

Based on the undertakings given by Canopus and Equity and their review of the budget and cashflow forecasts, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

#### b. Turnover

Turnover, represented by brokerage commissions, is recognised when cover commences with deferral of revenue for ongoing contractual obligations as appropriate. Policy fees, including mid-term adjustments, are recognised when received. Premium finance fee income is recognised when the service on the relevant contract is performed and contractual obligations are extinguished.

#### c. Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value over the estimated useful economic lives of the tangible fixed assets. The depreciation rates, on a straight line basis, are as follows:

Computer equipment	20% per annum
IT Projects/development	20% per annum

Assets under construction are not depreciated until they are transferred for use in the business.

#### d. Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

# ARISTA INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

### STATEMENT OF ACCOUNTING POLICIES (continued)

**e. Trade debtors and trade creditors**

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

Balances arising from insurance broking transactions included under debtors and creditors are only offset to the extent permitted under the provisions of Financial Reporting Standard 5 'Reporting the substance of transactions'.

**f. Insurance transactions, client money and insurer money**

The company records on its balance sheet amounts due to and from clients and insurers, and money held on behalf of clients and insurers in relation to insurance transactions that the company handles on behalf of those parties. In accordance with the requirements of the Financial Services Authority, client money is held in bank accounts governed by Trust Deeds established for the benefit of such clients. Insurer money is held in accordance with the agreements in place between the insurer and the company. Amounts held in trust cannot be called upon on insolvency of the company, however interest received on all of these cash balances is recognised and reflected as revenue in these financial statements as the company has the right to such interest in accordance with the terms of the business agreed with clients and insurers. The cash at bank balances presented in these financial statements represents the aggregation of the money held for the benefit of the company, clients and insurers.

**g. Tax**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

**h. Own shares held by Employee Benefit Trust**

Transactions of the Company sponsored Employee Benefit Trust (EBT) are treated as being those of the Company and are therefore reflected in the Company's financial statements. Purchases, sales and transfers of own shares are disclosed as changes in shareholders' equity.

## 2. TURNOVER

Turnover represents net brokerage and over-rider fees from Premium Credit Limited as follows:

	Year Ended 31 December 2008 £	Period Ended 31 December 2007 £
Brokerage	4,251,633	1,539,807
Other fees receivable	66,003	7,824
	<hr/>	<hr/>
	4,317,636	1,547,631
	<hr/>	<hr/>

Turnover arises entirely in the United Kingdom.

# ARISTA INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

### 3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before tax is stated after charging:

	Year Ended 31 December 2008 £	Period Ended 31 December 2007 £
Depreciation on fixed assets:		
Owned	226,603	103,846
Leased	106,159	73,077
Fees payable to the auditor for the audit of these financial statements	21,500	20,000
Fees payable to the auditor in respect of other accountancy services	13,881	5,000
Hire of other assets – operating leases	706,638	11,842

### 4. COMMITMENTS

The future commitments under operating leases are as follows:

	Year Ended 31 December 2008 £	Period Ended 31 December 2007 £
Within one year	650,535	18,187
Between two to five years	381,571	24,533
	<hr/> 1,032,106 <hr/>	<hr/> 42,720 <hr/>

### 5. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 2008 £	Period ended 31 December 2007 £
Loan funding	601,961	391,470
Dividend on preference shares classified as liabilities	220,932	350,000
Finance leases	18,882	12,544
	<hr/> 841,775 <hr/>	<hr/> 754,014 <hr/>



# ARISTA INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 December 2008 £	Period ended 31 December 2007 £
Interest received from cash held at bank	142,014	84,486
	<u>142,014</u>	<u>84,486</u>

### 7. DIRECTORS' EMOLUMENTS

The executive directors' emoluments during the year amounted to £397,063 (2007: £392,765).

The emoluments of the highest paid director during the year amounted to £243,640 (2007: £237,210) and company contributions of £46,968 (2007: £45,600) were paid to a self investment pension plan on his behalf.

### 8. STAFF NUMBERS AND COSTS

The average number of persons employed by the company (including directors) during the year was 72 (2007: 51).

The aggregate payroll costs of these persons were as follows:

	Year Ended 31 December 2008 £	Period Ended 31 December 2007 £
Wages and salaries	4,632,013	3,526,789
Social security costs	524,720	419,864
Other pension costs	451,937	302,678
	<u>5,608,670</u>	<u>4,249,331</u>

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £404,969 (2007: £257,078).

There were no outstanding or unpaid contributions at either the beginning or end of the financial year.

# ARISTA INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2008

### 9. TAX ON LOSS ON ORDINARY ACTIVITIES

#### (a) Analysis of credit for the period

	Year Ended 31 December 2008 £	Period Ended 31 December 2007 £
Current tax:		
UK corporation tax on profits of the period	(675,000)	-
	<hr/>	<hr/>
Tax on ordinary activities	(675,000)	-
	<hr/>	<hr/>

#### (b) Factors affecting tax credit for the period

	Year Ended 31 December 2008 £	Period Ended 31 December 2007 £
Loss on ordinary activities before taxation	(4,521,333)	(6,834,227)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.5% (2007: 30%)	(1,288,580)	(2,050,268)
Effects of:		
Expenses not deductible for tax purposes	81,939	106,227
Depreciation in excess of / (less than) capital allowances	(24,265)	31,154
Losses not recognised	555,906	1,912,887
	<hr/>	<hr/>
Current tax credit	(675,000)	-
	<hr/>	<hr/>

Tax losses of £4,318,969 (2007: £6,376,291) have been incurred during the year. Canopus have stated they will acquire their share of the 2008 tax losses, being £2,375,433, which has been recognised at the prevailing effective tax rate of 28.5% giving a tax recovery of £675,000.

No deferred tax asset has been recognised in respect of the remaining tax losses of £8,319,827, as the company is in a start up phase and future recovery remains uncertain at this time.

### 10. DIVIDENDS

No dividend was declared or paid by the Company during the financial accounting year (2007: £nil).

**ARISTA INSURANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2008**

**11. TANGIBLE FIXED ASSETS**

	IT projects/ development £	Computer equipment £	Payments on account and assets in course of construction £	Total £
<i>Cost</i>				
At beginning of year	660,743	382,784	290,159	1,333,686
Additions	117,500	227,906	414,062	759,468
Transfers	529,564	-	(529,564)	-
Disposals	-	-	(15,445)	(15,445)
<b>At 31 December 2008</b>	<b>1,307,807</b>	<b>610,690</b>	<b>159,212</b>	<b>2,077,709</b>
<i>Depreciation</i>				
At beginning of year	103,846	73,077	-	176,923
Charge for year	226,603	106,159	-	332,762
Disposals	-	-	-	-
<b>At 31 December 2008</b>	<b>330,449</b>	<b>179,236</b>	<b>-</b>	<b>509,685</b>
<i>Net book value</i>				
<b>At 31 December 2008</b>	<b>977,358</b>	<b>431,454</b>	<b>159,212</b>	<b>1,568,024</b>
At 1 January 2008	556,897	309,707	290,159	1,156,763

The computer equipment relates to assets held under finance leases.

**12. DEBTORS**

	31 December 2008 £	31 December 2007 £
Trade debtors	7,265,132	3,822,270
Other debtors	858,682	55,985
	<b>8,123,814</b>	<b>3,878,255</b>

# ARISTA INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2008

### 13. CASH AT BANK AND IN HAND

Cash at bank includes client broker accounts amounting to £4,300,499 (2007: £2,495,290). These amounts arise from insurance broking transactions and are held in designated accounts on behalf of clients, for onward payment to insurers.

### 14. CREDITORS: amounts falling due within one year

	31 December 2008 £	31 December 2007 £
Trade creditors	10,221,164	5,626,962
Accruals and deferred income	1,223,427	1,122,071
Interest payable on funding	-	741,470
Obligations under finance leases	137,640	83,133
Other creditors	452,844	164,454
	<hr/> 12,035,075	<hr/> 7,738,090

### 15. CREDITORS: amounts falling due after more than one year

	31 December 2008 £	31 December 2007 £
Loan funding	-	4,316,668
Obligations under finance leases	173,759	180,186
Preference shares classified as liabilities	-	1,750,000
	<hr/> 173,759	<hr/> 6,246,854

The maturity of obligations under finance leases is as follows:

	31 December 2008 £	31 December 2007 £
Within one year	137,640	83,133
Between two and five years	206,457	207,833
	<hr/> 344,097	<hr/> 290,966
Less future finance charges	32,698	27,647
	<hr/> 311,399	<hr/> 263,319

# ARISTA INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2008

### 16. CALLED UP SHARE CAPITAL

	31 December 2008 £	31 December 2007 £
Authorised:		
Ordinary 'A': 106,734,370 of 10p each	10,673,437	360,937
Ordinary 'B': 48,515,630 of 10p each	4,851,563	164,063
Ordinary 'C': 1,312,500 of 10p each	131,250	131,250
Class 1 Preference: 9,926,176 of £1 each	9,926,176	-
Class 2 Preference: 5,073,824 of £1 each	5,073,824	-
	<hr/>	<hr/>
	30,656,250	656,250
	<hr/>	<hr/>
Allotted, issued and fully paid:		
Ordinary 'A': 3,609,370 of 10p each	360,937	360,937
Ordinary 'B': 1,640,630 of 10p each	164,063	164,063
Ordinary 'C': 1,187,813 of 10p each	118,781	116,156
Class 1 Preference: 9,926,176 of £1 each	9,926,176	-
Class 2 Preference: 1,300,000 of £1 each	1,300,000	-
	<hr/>	<hr/>
	11,869,957	641,156
	<hr/>	<hr/>

During the year, 26250 Ordinary "C" shares were issued at 24p each for consideration of £6,300. This resulted in an additional £2,625 of allotted, issued and fully paid Ordinary "C" shares and an additional £3,675 of share premium as shown in Note 17.

On 1 July 2008, all loan funding (including Preference holdings) and accrued interest on loan funding (excluding Preference holdings) were converted to Class 1 Preference shares. This resulted in holdings of £6,824,246 for Canopus and £3,101,930 for Equity. As part of the conversion process, both investors waived their rights to interest of £570,932 on their cumulative Preference holdings as at 30 June 2008. The interest liability has been classified as a capital contribution reserve.

Between 1 July 2008 and 31 December 2008, subscriptions for Class 2 Preference shares were received from Canopus and Equity for £893,750 and £406,250 respectively. These shares were fully issued by 31 December 2008.

The Preference Shares automatically convert to "A" or "B" Ordinary Shares, to match the designation of those Ordinary Shares held by the relevant shareholder, on a pound for pound nominal basis on 30 June 2050. Consequently on 1 July 2008 the number of authorised "A" and "B" Ordinary Shares was increased to anticipate this event. The Preference Shares may only be redeemed on 30 days' notice given by the Company or upon a winding up.

The A, B and C shareholders are entitled to notice of general meetings of the Company and are entitled to attend and vote at such meetings. Preference shareholders are entitled to notice of such meetings but are not entitled to attend and vote.

# ARISTA INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

### 17. SHARE PREMIUM AND RESERVES

	Capital Contribution £	Own shares held by EBT £	Share Premium £	Profit and Loss Reserve £
At beginning of year	-	-	82,969	(6,834,227)
Retained loss for the year	-	-	-	(3,846,333)
Premium on share issues	-	-	3,675	-
Preference dividend waived	570,932	-	-	-
Own shares acquired for EBT	-	(5,625)	-	-
<b>At 31 December 2008</b>	<b>570,932</b>	<b>(5,625)</b>	<b>86,644</b>	<b>(10,680,560)</b>

During the year the company established an employee incentive trust for the benefit of certain employees of the company. This is an offshore trust that is administered by an independent management company; trustees of the scheme are Charles Earle and Lyn Carslake ("the Trustees") who are both executive directors of Arista Insurance Limited. The Trustees may provide shares in the Company to be distributed to executive directors and employees of Arista Insurance Limited under employee share schemes to be set up in the future. The directors regard Arista Insurance Limited as the sponsoring company and, accordingly the assets and liabilities of the Trust are recognised by the company and the group in accordance with the provisions of UITF Abstract No. 38.

### 18. RECONCILIATION OF OPERATING LOSS TO OPERATING CASH FLOW

	31 December 2008 £	31 December 2007 £
Operating loss	(3,821,572)	(6,164,699)
Depreciation charges	332,762	176,923
Increase in debtors	(3,570,559)	(3,878,255)
Increase in creditors	4,855,865	7,176,805
<b>Net cash outflow from operating activities</b>	<b>(2,203,504)</b>	<b>(2,689,226)</b>

# ARISTA INSURANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2008

### 19. ANALYSIS OF CASH FLOW

	31 December 2008 £	31 December 2007 £
<b>Returns on investments and servicing of finance</b>		
Interest received	142,014	84,486
Interest paid	(822,893)	-
Interest element of finance lease rental repayments	(18,882)	(12,544)
	<hr/> (699,761) <hr/>	<hr/> 71,942 <hr/>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(744,023)	(1,333,686)
	<hr/>	<hr/>
<b>Financing</b>		
Issue of ordinary share capital	6,300	724,125
Issue of preference shares	5,159,508	1,750,000
Issue of loan funding	-	4,316,668
	<hr/> 5,165,808 <hr/>	<hr/> 6,790,793 <hr/>

### 20. RELATED PARTIES

During the year, the two main investors, Canopus and Equity, provided additional loan funding of £1,970,427 (2007: £2,967,709) and £895,650 (2007: £1,348,959) respectively.

Interest payable to Canopus and Equity in respect of loan balances, including Preference Shares, was £565,740 (2007: £509,651) and £257,153 (2007: 231,819) respectively.

The additional loan funding and interest payable on loan funding formed part of the funding converted to Class 1 Preference shares with interest payable on Preference Shares being waived as described more fully on page 19.

During the year the Equity Insurance Group provided services relating to Compliance, Treasury, Secretariat, Human Resources, Credit Control and Finance. These were included within administrative expenses and amounted to £155,159 (2007: £309,681).

Brokerage paid during the year amounted to £1,785,922 (2007: £499,348) from Equity Insurance Group and £1,708,167 (2007: £691,039) from Canopus Group.