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**SABRE INSURANCE  
COMPANY LIMITED  
2011**

THURSDAY



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## **Sabre Insurance Company Limited**

### **Reports and Accounts 2011**

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## **Sabre Insurance Company Limited**

### **Directors and Officers**

#### **Directors**

K J Morris  
A Ball  
T Webb  
P Swords  
J L Kavanaugh  
P N O Robinson

#### **Secretary**

K J Morris

#### **Auditor**

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

#### **Registered Office**

Sabre House  
150 South Street  
Dorking  
Surrey  
RH4 2YY

#### **Solicitors**

DLA  
3 Noble Street  
London  
EC2V 7EE

## Sabre Insurance Company Limited

### Chairman's Statement

For the year ended 31 December 2011.

Sabre Insurance Company Limited is a motor insurer writing private car, commercial vehicle and taxi business in the UK

2011 was a good year for Sabre with pre-tax profit of £24.3 million on Gross Written Premium of £168.8 million. The profit is slightly lower than for 2010 largely due to poor investment returns, but on Gross Written Premium some £12 million above 2010. The underlying underwriting performance remains strong, albeit against a background of both rising prices and rising claim costs. The environment in the UK insurance market will undergo some significant changes in 2012 including the expiry of the opt-out in the gender directive prohibiting gender differential pricing from December and the introduction into law of the Jackson reforms, which may bring some relief to the escalation in cost of bodily injury claims. Sabre is preparing for both of these changes.

During 2011 we expanded our direct business, which now comprises 83.0% of our premium.

The vast majority of Sabre's investment portfolio is held in cash and low-yielding short-term gilts, and consequently, investment returns were modest but predictable. However, a small part of the portfolio is held in two properties that were subject to a triennial valuation in 2011. The result of this was a surprising and significant downward adjustment in the holding value.

Market conditions continued to improve for most of 2011, but some price weakness was evident towards the end of the year. The cause may have been competitors' half-year results being much better than the previous year and, in many cases, showing an underwriting profit. Our view is that there is still a deteriorating trend in bodily injury losses and that rate increases will still be required during 2011 to finance this.

The main risks to Sabre are irrational competitor activity, volatility in claims, adverse development in claims reserves, a fall in asset values and credit risk in relation to reinsurers and other counterparties.

We mitigate the potential impact of competitor activity through our rigorous attitude towards controlling our pricing. The main Key Performance Indicator we use in our business tracks the strength of our current pricing and predicts the loss ratio outcome of business written. Additionally our underwriting department carefully monitors incoming business to ensure that it adheres to our underwriting guidelines.

Volatility in claims is controlled through the purchase of reinsurance. Significant contribution is also made by our claims department, the focus of which is rapid settlement of valid claims and active vigilance against fraud.

The risk of adverse developments in claims reserves is minimised by the long term stability of our claims management philosophy and regular actuarial reviews of claims development.

The composition of our investment portfolio has been designed to minimise risks of adverse movements in assets values. At the balance sheet date most of the investments were held in short-term government bonds or cash with no holdings in equities and only £3.3 million in property, equivalent to 1.38% of total investments. As a result of the portfolio composition we also consider liquidity risk to be negligible.

To minimise credit risk we monitor the financial strength of our reinsurers and other counterparties to whom we are exposed and only contract with parties satisfying our criteria.

As part of our preparations for Solvency II we have completed the QIS5 exercise. Additionally, we have put in place a timetable to ensure that we will be compliant when the new regulations come into force, albeit there have been considerable delays in the regulatory timetable itself.

Sabre staff are in large part responsible for the company's achievements in 2011 and I and my fellow directors would like to take this opportunity to thank them for their hard work during the year. Staff turnover at 5%, excluding retirements and temporary workers, was lower than in 2010 and it was pleasing to note that only one member of staff left to join a competitor.

Whilst market conditions improved during 2011, the weakening of price increases towards the end of the year is concerning. However, we will maintain our disciplined approach to pricing and to other aspects of our business and, by doing so, we expect that we can continue to outperform the market in 2012.

K J Morris  
Chairman



## Sabre Insurance Company Limited

### Directors' Report

For the year ended 31 December 2011

The directors present their annual report and audited financial statements for Sabre Insurance Company Limited (the Company) for the year ended 31 December 2011

### Principal Activity

The principal activity of the Company has for the year under review been, and continues to be, the transaction of motor vehicle insurance business and related investment of funds

### Profit and loss account - salient features

|   | Gross premiums<br>written<br>2011<br>£'000 | Net earned<br>premiums<br>2011<br>£'000 | Balance on technical<br>account<br>2011<br>£'000 | 2010<br>£'000 |
|---|--|---|--|---------------|
| United Kingdom                                | 170,103                                    | 157,918                                 | 25,724   | 23,816        |
|   |  |   |  |               |
|   |  |   | 2011<br>£'000                                    | 2010<br>£'000 |
| Profit on ordinary activities before tax      |  |   | 24,761   | 25,903        |
| Tax on profit on ordinary activities          |  |   | (6,556)  | (7,259)       |
| Dividends paid                                |  |   | (15,526)   | (12,500)      |
| <b>Profit retained for the financial year</b> |  |   | <b>2,678</b>                                     | <b>6,144</b>  |
|   |  |   |  |               |
| Balance sheet total assets                    |  |   | 303,252  | 269,730       |
|   |  |   |  |               |
| <b>Shareholder's funds</b>                    |  |   | <b>45,921</b>                                    | <b>43,242</b> |

Full details of the results are set out on pages 12 and 13

These results are discussed in the Chairman's Statement on page 4

### Policies in force

The policies in force at the balance sheet date increased to 215,821 (2010 208,519)

### Dividends

Interim dividends of £15,526,000 were paid during the year (2010 £12,500,000) No final dividend has been declared (2010 NIL)

### Creditor payment policy and practice

It is the Company's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions

The amounts due to trade creditors as at 31 December 2011 represented approximately 6 day of average daily purchases through the year (2010 2 days)

### Resolutions

On 16 June 1997, the members of the Company passed resolutions to dispense with the holding of Annual General Meetings and the laying of directors' reports, financial statements and auditors' reports before the members in general meeting

## **Sabre Insurance Company Limited**

### **Directors' Report (continued)**

**For the year ended 31 December 2011**

#### **Auditors**

The Company has dispensed with the obligation to appoint auditors annually. Ernst & Young LLP have expressed their willingness to continue in office.

#### **Financial Instruments**

The financial risk management objectives of the company in relation to financial instruments are set by the board of directors with a view to maintaining low volatility in investment performance. The majority of the financial instruments held by the company are short term UK government bonds which are not considered subject to material credit risk, liquidity risk or cash flow risk. The composition of the investment portfolio by class of investment is designed to minimise price risk. Derivative instruments have not been used in the year and there were no derivatives held by the company at year end.

#### **Other business risks**

The risks the company is exposed to, and the related risk control processes, are described in the Chairman's statement.

#### **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 elected to prepare the 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 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,
- 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 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.

## **Sabre Insurance Company Limited**

**Directors' Report (continued)**

**For the year ended 31 December 2011**

### **Disclosure of information to the auditors**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to have made himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

By order of the Board

**K J Morris**  
Secretary

A handwritten signature in black ink, appearing to read 'K J Morris', is written over the printed name and title.

22 March 2012

## **Sabre Insurance Company Limited**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SABRE INSURANCE COMPANY LIMITED**

We have audited the financial statements of Sabre Insurance Company Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 17. 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 Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the company's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the company's 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.

#### **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 reports and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any material misstatements or inconsistencies we consider the implications of 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.

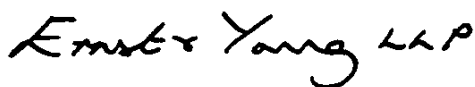
#### **Opinion on other matters prescribed by the Companies Act 2006**

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 company, 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.



Denise Larnder (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
22 March 2012



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## Sabre Insurance Company Limited

### Statement of Accounting Policies

#### (a) Basis of accounts

The accounts have been prepared on the basis of the accounting policies set out below. They have been prepared in accordance with Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers (the ABI SORP 2006). The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 2011, as considered appropriate for an insurance company.

The results of the business are determined on an annual basis.

#### (b) Premiums

Written premiums are accounted for in the year they are notified. An additional adjustment is also made for new business and renewal premiums for risks incepted in the current year, but not notified by the end of the accounting period. All premiums are shown gross of commission payable to intermediaries (where applicable) and are exclusive of taxes, duties and levies thereon. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related business being reinsured are accounted.

Whilst the company has previously disclosed only the earned reinsurance cost in the Technical Account, the Directors have concluded that it is appropriate to disclose the reinsurance cost payable in the year in addition. Since there is no impact of this disclosure change on the result for the year, and the impact on the total assets and total liabilities is not fundamental, the Directors have chosen not to restate prior year statements. The Directors consider that this change is not a change of accounting policy, but only of disclosure. However, for comparative purposes the gross disclosures which would have been made in the prior year are set out in Note 14.

#### (c) Claims

Claims incurred include all losses occurring through the year, whether reported or not, related handling costs and any adjustments to claims outstanding from previous years. Significant delays are experienced in the notification and settlement of certain claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the balance sheet date.

- (i) Unearned premiums are those proportions of the premiums written in a year that relate to the periods of risk subsequent to the balance sheet date. They are computed principally on a daily pro-rata basis.
- (ii) The provision of claims outstanding includes individual case estimates, an IBNR (incurred but not reported) provision and a provision for related claims handling costs. When claims are initially reported, case estimates are set at fixed levels based on previous average claims settlements. As soon as sufficient information becomes available, the case estimate is amended by a claim handler within the Claims Department to reflect the expected ultimate settlement cost of the claim, including external claims handling costs. The case estimate will be amended throughout the life of a claim as further information emerges. Case estimates generally do not allow for possible reductions in our liability due to contributory negligence, favourable court judgements or settlements until these are known to a high probability.

The IBNR provision includes the estimated cost of claims incurred, but not reported, at the balance sheet date ("pure IBNR") and any difference between the case estimates and the estimated ultimate cost of reported claims ("IBNER"). The IBNR is set after considering the results of various statistical methods based on, inter alia, historical claims development trends, average claims costs and expected inflation rates. The provision for claims handling costs is estimated based on the number of outstanding claims at the balance sheet date and the estimated average internal cost of settling claims.

The provision of claims outstanding is based on information available at the balance sheet date. Significant delays are experienced in the notification and settlement of certain claims, accordingly the ultimate cost of such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between provisions and subsequent settlements are dealt with in the technical account - general business of later years.

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## **Sabre Insurance Company Limited**

### **Statement of Accounting Policies (continued)**

#### **(d) Technical provisions (continued)**

- (iii) Provision is made for unexpired risks when, after taking account of an element of attributable investment income, it is anticipated that the unearned premiums will be insufficient to cover future claims and expenses on existing contracts. The expected claims are calculated having regard to events which have occurred prior to the balance sheet date. Unexpired risk surpluses and deficits are offset when business classes are managed together and a provision is made if an aggregate deficit arises.

#### **(e) Deferred acquisition costs**

Deferred acquisition costs represent a proportion of commission and other acquisition costs that relate to policies that are in force at the year end. Deferred acquisition costs are amortised over the period in which the related premiums are earned.

#### **(f) Investment income, realised and unrealised investment gains and losses**

Investment income consists of interest receivable for the year. Income is credited to the profit and loss account at the amounts receivable, with no associated tax credit for income from the United Kingdom. Interest receivable is accounted for on an accruals basis.

Net realised gains / losses on investments are calculated as the difference between net sales proceeds and the cost of acquisition.

Unrealised gains and losses on investments represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year. Net movements in the year are taken to the profit and loss account and disclosed as unrealised gains / (losses) on investments.

#### **(g) Investment expenses and charges**

Investment expenses and charges consist of the expenses relating to the management of the investment portfolio.

#### **(h) Taxation**

The taxation charge in the Non Technical Account is based on the taxable profits for the year. It is group policy to relieve profits where possible by the surrender of losses from group companies with payment for value.

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 have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception.

Deferred tax assets are recognised only to the extent that 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 an undiscounted basis at the tax 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.

#### **(i) Valuation of investments**

Investments are shown in the balance sheet as follows.

- (i) Listed securities and equities at mid market price at the balance sheet date less accrued interest where applicable.

- (ii) Investment properties at open market value, valued by qualified external surveyors. If there has been a material reduction in property values since the last valuation date then the directors will reduce the valuations having regard to appropriate indices of the movement in property market capital values.

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## **Sabre Insurance Company Limited**

### **Statement of Accounting Policies (continued)**

#### **(j) Tangible Assets**

Expenditure on computer equipment and fixtures and fittings is capitalised and depreciated over 5 years, the estimated useful economic lives of the assets on a straight line basis. Depreciation is charged to the technical accounts and is included in administrative expenses.

#### **(k) Pensions**

For staff who were employees on 8 February 2002, the Company operates a non-contributory defined contribution group personal pension scheme. The contribution by the Company depends on the age of the employee.

For employees joining since 8 February 2002, the Company operates a matched contribution group personal pension scheme where the Company contributes an amount matching the contribution made by the staff member.

Contributions to defined contribution schemes are recognised in the profit and loss account in the period in which they become payable.

## Sabre Insurance Company Limited

### Profit and Loss Account: Technical Account For the year ended 31 December 2011

|  | Note | 2011<br>£'000   | £'000       | 2010<br>£'000  | £'000           |
|--|------|-----------------|-------------|----------------|-----------------|
| Gross premiums written from continuing operations              | 1    | 170,103         |             | 156,900        |                 |
| Outward reinsurance premiums                                   | 14   | <u>(12,157)</u> |             | <u>(6,794)</u> |                 |
|  |      |                 | 157,946     |                | 150,106         |
| Change in the net provision for unearned premiums              |      |                 | <u>(28)</u> |                | <u>(32,896)</u> |
| <b>Earned premiums, net of reinsurance</b>                     |      |                 | 157,918     |                | 117,210         |
| Claims paid  |      |                 |             |                |                 |
| - Gross amount   |      | (71,819)        |             | (55,967)       |                 |
| - Reinsurers' share  |      | <u>3,566</u>    |             | <u>872</u>     |                 |
|  |      | (68,254)        |             | (55,095)       |                 |
| Change in the provision for claims                             |      |                 |             |                |                 |
| - Gross amount   |      | (27,511)        |             | (28,307)       |                 |
| - Reinsurers' share  |      | <u>(13,184)</u> |             | <u>13,127</u>  |                 |
|  |      | (40,696)        |             | (15,180)       |                 |
| <b>Claims incurred, net of reinsurance</b>                     | 6    |                 | (108,950)   |                | (70,275)        |
| Net operating expenses   | 2    |                 | (23,244)    |                | (23,119)        |
| <b>Balance on technical account from continuing operations</b> |      |                 | 25,724      |                | 23,816          |

The notes on pages 16 to 22 form an integral part of these accounts

## Sabre Insurance Company Limited

### Profit and Loss Account: Non-technical Account For the year ended 31 December 2011

|  | Note | 2011<br>£'000 | £'000                | 2010<br>£'000 | £'000                |
|--|------|---------------|----------------------|---------------|----------------------|
| <b>Balance on technical account from continuing operations</b> |      |               | <b>25,724</b>        |               | <b>23,816</b>        |
| Investment income  | 3    | 10,568        |                      | 6,929         |                      |
| Unrealised (losses)/gains on investments                       | 3    | (9,100)       |                      | (5,010)       |                      |
| Realised (losses)/gains on investments                         | 3    | (2,417)       |                      | 178           |                      |
| Investment expenses and charges                                | 3    | <u>(14)</u>   |                      | <u>(10)</u>   |                      |
|  |      |               | (963)                |               | 2,087                |
| <b>Profit on ordinary activities before taxation</b>           | 5    |               | <b>24,761</b>        |               | <b>25,903</b>        |
| Taxation charge on profit on ordinary activities               | 7    |               | (6,556)              |               | (7,259)              |
| <b>Profit on ordinary activities after taxation</b>            |      |               | <b><u>18,205</u></b> |               | <b><u>18,644</u></b> |

The notes on pages 16 to 22 form an integral part of these accounts

### Statement of Total Recognised Gains and Losses for the year ended 31 December 2011

All recognised gains and losses are dealt with in the profit and loss account

## Sabre Insurance Company Limited

### Balance Sheet

As at 31 December 2011

|   | Note | 2011<br>£'000  | £'000          | 2010<br>£'000  | £'000          |
|---|------|----------------|----------------|----------------|----------------|
| <b>ASSETS</b>   |      |                |                |                |                |
| <b>Investments</b>  |      |                |                |                |                |
| Land and buildings  | 9    | 3,300          |                | 7,136          |                |
| Other financial investments   | 9    | <u>235,855</u> |                | <u>198,442</u> |                |
|   |      |                | 239,155        |                | 205,578        |
| <b>Reinsurers' share of technical provisions</b>                    |      |                |                |                |                |
| Claims outstanding  |      | 15,057         |                | 28,241         |                |
| Unearned premiums   |      | <u>3,617</u>   |                | <u>-</u>       |                |
|   |      |                | 18,674         |                | 28,241         |
| <b>Debtors</b>  |      |                |                |                |                |
| Debtors arising out of direct insurance operations - intermediaries |      | 9,358          |                | 10,723         |                |
| Debtors arising out of direct insurance operations - policyholders  |      | 5,624          |                | -              |                |
| Other debtors   |      | <u>192</u>     |                | <u>94</u>      |                |
|   |      |                | 15,174         |                | 10,817         |
| <b>Other Assets</b>   |      |                |                |                |                |
| Tangible assets   | 10   | 532            |                | 420            |                |
| Cash at bank and in hand  |      | <u>18,747</u>  |                | <u>10,940</u>  |                |
|   |      |                | 19,279         |                | 11,360         |
| <b>Prepayments and accrued income</b>                               |      |                |                |                |                |
| Accrued interest  |      | 1,942          |                | 2,879          |                |
| Deferred acquisition costs  |      | 8,887          |                | 10,692         |                |
| Prepayments   |      | <u>141</u>     |                | <u>163</u>     |                |
|   |      |                | 10,970         |                | 13,734         |
| <b>Total Assets</b>   |      |                | <u>303,252</u> |                | <u>269,730</u> |

The notes on pages 16 to 22 form an integral part of these accounts

## Sabre Insurance Company Limited

### Balance Sheet (continued) As at 31 December 2011

|  | Note | 2011<br>£'000  | £'000          | 2010<br>£'000  | £'000          |
|--|------|----------------|----------------|----------------|----------------|
| <b>LIABILITIES</b>                                     |      |                |                |                |                |
| Called up share capital                                | 11   | 20,000         |                | 20,000         |                |
| Share premium account                                  | 12   | 114            |                | 114            |                |
| Profit and loss account                                | 12   | <u>25,807</u>  |                | <u>23,128</u>  |                |
| <b>Shareholder's Funds</b>                             | 15   |                | 45,921         |                | 43,242         |
| <b>Technical Provisions</b>                            |      |                |                |                |                |
| Provision for unearned premiums                        |      | 88,555         |                | 84,909         |                |
| Claims outstanding                                     |      | <u>148,308</u> |                | <u>120,797</u> |                |
|  |      |                | 236,863        |                | 205,706        |
| <b>Creditors</b>                                       |      |                |                |                |                |
| Creditors arising out of direct operations             |      | 562            |                | 34             |                |
| Creditors arising out of reinsurance operations        | 14   | 12,363         |                | 10,349         |                |
| Other creditors including taxation and social security | 13   | <u>3,959</u>   |                | <u>6,426</u>   |                |
|  |      |                | 16,884         |                | 16,809         |
| <b>Accruals and deferred income</b>                    |      |                | 3,584          |                | 3,973          |
| <b>Total Liabilities</b>                               |      |                | <u>303,252</u> |                | <u>269,730</u> |

The notes on pages 16 to 22 form an integral part of these accounts

These financial statements were approved by the Board of directors on 22 March 2012

Signed on behalf of the Board by



Director

## Sabre Insurance Company Limited

### Notes to the Accounts

#### 1) Segmental analysis

##### a Analysis of direct insurance by geographical segment

|   | 2011<br>£'000  | 2010<br>£'000  |
|---|----------------|----------------|
| Gross premiums written - United Kingdom | <u>170,103</u> | <u>156,900</u> |

##### b Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balance by class -

|                       | 2011<br>Gross<br>premiums<br>written<br>£,000 | 2011<br>Gross<br>premiums<br>earned<br>£,000 | 2011<br>Gross<br>incurred<br>claims<br>£,000 | 2011<br>Gross<br>operating<br>expenses<br>£,000 | 2011<br>Re-<br>insurance<br>balance<br>£,000 |
|-----------------------|---|--|--|---|--|
| Motor insurance       | 11,465  | 11,427                                       | 12,745                                       | 1,562   | 2,872  |
| Third Party Liability | 158,638                                       | 158,648                                      | 86,585                                       | 21,682  | 15,287                                       |
| Other                 | <u>170,103</u>                                | <u>170,075</u>                               | <u>99,330</u>                                | <u>23,244</u>                                   | <u>18,159</u>                                |

|                       | 2010<br>Gross<br>premiums<br>written<br>£,000 | 2010<br>Gross<br>premiums<br>earned<br>£,000 | 2010<br>Gross<br>incurred<br>claims<br>£,000 | 2010<br>Gross<br>operating<br>expenses<br>£,000 | 2010<br>Re-<br>insurance<br>balance<br>£,000 |
|-----------------------|---|--|--|---|--|
| Motor insurance       | 13,842  | 9,585  | 8,907  | 1,787   | (1,280)                                      |
| Third Party Liability | 143,058                                       | 114,419                                      | 75,367                                       | 21,332  | (5,925)                                      |
| Other                 | <u>156,900</u>                                | <u>124,004</u>                               | <u>84,274</u>                                | <u>23,119</u>                                   | <u>(7,205)</u>                               |

#### 2) Net operating expenses

| Technical account                    | 2011<br>£,000 | 2010<br>£,000 |
|--------------------------------------|---------------|---------------|
| Gross written commission             | 13,182        | 17,979        |
| Other acquisition costs              | 5,207         | 4,789         |
| Change in deferred acquisition costs | 1,805         | (2,805)       |
| Administrative expenses              | <u>3,050</u>  | <u>3,156</u>  |
|                                      | <u>23,244</u> | <u>23,119</u> |

#### 3) Investment return

|   | 2011<br>£,000  | 2010<br>£,000  |
|---|----------------|----------------|
| <b>Investment income</b>                      |                |                |
| Income from other investments                 | 10,568         | 6,929          |
| Unrealised gains/(losses) on investments      | <u>(9,100)</u> | <u>(5,010)</u> |
|   | <u>1,468</u>   | <u>1,919</u>   |
| <b>Investment expenses and charges</b>        |                |                |
| Gain/(loss) on the realisation of investments | (2,417)        | 178            |
| Investment management expenses & interest     | <u>(14)</u>    | <u>(10)</u>    |
|   | <u>(2,431)</u> | <u>168</u>     |
| <b>Total investment return</b>                | <u>(964)</u>   | <u>2,087</u>   |



## Sabre Insurance Company Limited

### Notes to the Accounts (continued)

#### 4) Staff costs & Directors' emoluments

|                       | <b>2011</b>  | <b>2010</b>  |
|-----------------------|--------------|--------------|
|                       | £,000        | £,000        |
| Wages & salaries      | 4,837        | 4,827        |
| Social Security costs | 533          | 542          |
| Other pension costs   | 342          | 306          |
|                       | <u>5,712</u> | <u>5,675</u> |

The average number of employees including executive directors during the year was as follows

|                | <b>2011</b> | <b>2010</b> |
|----------------|-------------|-------------|
| Management     | 11          | 10          |
| Underwriting   | 41          | 38          |
| Claims         | 62          | 61          |
| Administration | 10          | 9           |
|                | <u>124</u>  | <u>118</u>  |

The aggregate amount of emoluments paid to or receivable by directors during the year was as follows

|  | <b>2011</b>  | <b>2010</b>  |
|--|--------------|--------------|
|  | £,000        | £,000        |
| Fees   | -            | -            |
| Emoluments   | 1,049        | 1,425        |
| Contributions to defined contribution pension scheme | 59           | 47           |
|  | <u>1,107</u> | <u>1,472</u> |
| Highest paid director                                |              |              |
| Emoluments   | 303          | 377          |
| Contributions to defined contribution pension scheme | 36           | 28           |
|  | <u>339</u>   | <u>405</u>   |

#### 5) Profit on ordinary activities before taxation

|  | <b>2011</b> | <b>2010</b> |
|--|-------------|-------------|
|  | £,000       | £,000       |
| Profit on ordinary activities before tax is stated after |             |             |
| Depreciation charge for the year                         | 180         | 146         |
| Auditors' remuneration for audit services                | 92          | 86          |

Fees relating to non-audit services paid to the auditor by the group during the year were £10,980 (2010 £2,937)

## Sabre Insurance Company Limited

### Notes to the Accounts (continued)

| 6) Claims Incurred, Net of Reinsurance | 2011<br>£,000  | 2010<br>£,000   |
|--|----------------|-----------------|
| Claims paid net of reinsurance         | 68,254         | 55,095          |
| Change in outstanding claims reserve   |                |                 |
| Gross Amount                           |                |                 |
| Opening provision                      | (120,797)      | (92,490)        |
| Closing provision                      | 148,308        | 120,797         |
| Movement in provision                  | <u>27,511</u>  | <u>28,307</u>   |
| Reinsurance                            |                |                 |
| Opening provision                      | 28,241         | 15,114          |
| Closing provision                      | (15,057)       | (28,241)        |
| Movement in provision                  | <u>13,184</u>  | <u>(13,127)</u> |
| Net claims incurred                    | <u>108,949</u> | <u>70,275</u>   |

The claims incurred figure is increased by £9,392,000 (2010 £1,450,000 decrease) due to movement in the loss provision made at the beginning of the year for outstanding claims incurred in previous years and the loss provision shown at the end of the year in respect of such outstanding claims, less payments made during the year

### 7) Taxation

(a) The tax charged for the period differs from the standard rate of corporation tax in the UK. The differences are explained below:

|   | 2011<br>£,000 | 2010<br>£,000 |
|---|---------------|---------------|
| Profit on ordinary activities before taxation   | 24,761        | 25,903        |
| Profit on ordinary activities multiplied by<br>Standard rate of Corporation Tax of 26.5% (2010 28%) | <u>6,562</u>  | <u>7,253</u>  |
| Effects of  |               |               |
| Expenses not deductible for corporation tax purposes  | 23            | -             |
| Capital allowances in excess of depreciation  | 1             | (4)           |
| Income not taxable  | 1             | (10)          |
| Timing differences  | -             | (9)           |
| Current year U K corporation tax  | <u>6,587</u>  | <u>7,230</u>  |
| Adjustment in respect of previous period  | (20)          | (3)           |
| Current tax charge for the period (Note 7(b))   | <u>6,567</u>  | <u>7,227</u>  |

## Sabre Insurance Company Limited

### Notes to the Accounts (continued)

| Note 7(b)                                      | 2011<br>£,000 | 2010<br>£,000 |
|--|---------------|---------------|
| <i>Current tax</i>                             |               |               |
| Current year U K corporation tax               | 6,587         | 7,230         |
| Adjustments in respect of previous periods     | (20)          | (3)           |
|  | <u>6,567</u>  | <u>7,227</u>  |
| <i>Deferred tax</i>                            |               |               |
| Origination and reversal of timing differences | (1)           | 13            |
| Effect of rate change on opening balance       | (27)          | -             |
| Adjustments in respect of prior periods        | 17            | 19            |
| Total deferred tax (Note 7(d))                 | <u>(11)</u>   | <u>32</u>     |
| Tax on profit on ordinary activities           | <u>6,556</u>  | <u>7,259</u>  |

#### Note 7(c) Factors that may affect future tax charges

There are no items the Company is aware of which will have a material impact on the future tax charge

#### Note 7(d) Provision for deferred tax

The provided tax liability is made up as follows

|                                | 2011<br>£,000 | 2010<br>£,000 |
|--------------------------------|---------------|---------------|
| Fixed asset timing differences | 248           | 262           |
| Short term timing differences  | (25)          | (28)          |
|                                | <u>223</u>    | <u>234</u>    |

#### 8) Dividends

Interim dividends of £15,526,000 (77.6 pence per share) were declared and paid in the year (2010 £12,500,000)

No final dividend has been declared (2010 NIL)

## Sabre Insurance Company Limited

### Notes to the Accounts (continued)

#### 9) Investments

|   | Current Value  |                | Historical Cost |                |
|---|----------------|----------------|-----------------|----------------|
|   | 2011           | 2010           | 2011            | 2010           |
|   | £,000          | £,000          | £,000           | £,000          |
| <b>Land and buildings</b>                                 |                |                |                 |                |
| Properties occupied by the company                        | 1,550          | 2,021          | 1,950           | 1,950          |
| Other investment properties                               | 1,750          | 5,115          | 4,500           | 4,500          |
|   | <u>3,300</u>   | <u>7,136</u>   | <u>6,450</u>    | <u>6,450</u>   |
| <b>Debt securities and other fixed income securities:</b> |                |                |                 |                |
| UK Government gilts, less than one year to maturity       | 196,048        | 110,377        | 203,422         | 112,055        |
| UK Government gilts, one to five years to maturity        | -              | 84,252         | 0               | 84,690         |
| UK corporate bonds, less than one year to maturity        | 1,173          | -              | 1,184           | -              |
| UK corporate bonds, one to five years to maturity         | 2,634          | 3,813          | 2,411           | 3,595          |
|   | <u>199,855</u> | <u>198,442</u> | <u>207,017</u>  | <u>200,340</u> |
| <b>UK Liquidity Funds</b>                                 | 36,000         | -              | 36,000          | -              |
|   | <u>36,000</u>  | <u>-</u>       | <u>36,000</u>   | <u>-</u>       |
| <b>Total investments</b>                                  | <u>239,155</u> | <u>205,578</u> | <u>249,467</u>  | <u>206,790</u> |

The investment properties were valued at open market value of £3 30 million on 14 July 2011 by Hughes Ellard Limited

#### 10) Tangible assets

|                       | Fixtures<br>& fittings<br>£,000 | Computer<br>equipment<br>£,000 | Total<br>£,000 |
|-----------------------|---------------------------------|--------------------------------|----------------|
| <b>Cost</b>           |                                 |                                |                |
| At 1 January 2011     | 397                             | 658                            | 1,054          |
| Additions             | 48                              | 244                            | 292            |
| Disposals             | -                               | -                              | -              |
| At 31 December 2011   | <u>445</u>                      | <u>901</u>                     | <u>1,346</u>   |
| <b>Depreciation</b>   |                                 |                                |                |
| At 1 January 2011     | 306                             | 328                            | 634            |
| Charge                | 44                              | 136                            | 180            |
| Disposals             | -                               | -                              | -              |
| At 31 December 2011   | <u>350</u>                      | <u>464</u>                     | <u>814</u>     |
| <b>Net book value</b> |                                 |                                |                |
| At 31 December 2011   | <u>95</u>                       | <u>437</u>                     | <u>532</u>     |
| At 31 December 2010   | <u>91</u>                       | <u>329</u>                     | <u>420</u>     |

## Sabre Insurance Company Limited

### Notes to the Accounts (continued)

#### 11) Share capital

|  | 2011<br>£,000 | 2010<br>£,000 |
|--|---------------|---------------|
| Authorised<br>20,000,000 (2010 20,000,000) ordinary shares of £1 each                      | 20,000        | 20,000        |
| Allotted, issued and fully paid<br>20,000,000 (2010 20,000,000) ordinary shares of £1 each | 20,000        | 20,000        |

#### 12) Reserves

|                                       | Share<br>Premium<br>account<br>£,000 | Profit<br>& loss<br>account<br>£,000 | Total<br>£,000 |
|---------------------------------------|--------------------------------------|--------------------------------------|----------------|
| At 1 January 2011                     | 114                                  | 23,128                               | 23,242         |
| Transfer from profit and loss account |                                      |                                      |                |
| Non-technical account                 | -                                    | 18,205                               | 18,205         |
| Dividends paid                        | -                                    | (15,526)                             | (15,526)       |
| Retained profit for the year          | -                                    | 2,679                                | 2,679          |
| At 31 December 2011                   | 114                                  | 25,807                               | 25,921         |

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

|                                    | 2011<br>£,000 | 2010<br>£,000 |
|------------------------------------|---------------|---------------|
| Payable to/(from) parent company   | (18)          | 602           |
| Corporation tax                    | 1,810         | 3,266         |
| Deferred corporation tax provision | 223           | 234           |
| Other taxes                        | 1,965         | 2,202         |
| Other sundry creditors             | (21)          | 122           |
|                                    | 3,959         | 6,426         |

#### 14) Reinsurance

##### Note 14 (a) Provision for aggregate excess of loss reinsurance policy

During 2001, the Company effected an unlimited aggregate excess of loss reinsurance policy with Norwich Union Insurance Limited, the effect of which is to limit the Company's exposure to any possible deterioration in reserves for claims occurring in 2001 and prior years. The reinsurance policy also protects the Company against any reinsurance bad debts in respect of these claims.

If the development of the 2001 and prior years is favourable and the aggregate losses fall below the attachment point of the reinsurance contract, there is an obligation in respect of this contract to pay an additional reinsurance premium to Norwich Union Insurance Limited.

Due to favourable development of claims on these years, an additional reinsurance premium of £9,590,234 (2010 £9,590,203) has been accrued (included in "creditors arising out of reinsurance operations"). The movement on the premium due for the current year of £31 is shown in the Technical Account under Outward Reinsurance Premiums. The additional premium is not due to be paid until all claims in respect of 2001 and prior years are finally settled.

## Sabre Insurance Company Limited

### Notes to the Accounts (continued)

#### Note 14 (b) Prior year analysis of gross reinsurance premiums payable

The following extract from the Technical Account sets out the gross disclosure related to comparative reinsurance premiums as referred to in section b) Premiums, within the Statement of Accounting Policies,

|   | £,000          |                 |
|---|----------------|-----------------|
| Gross premiums written from continuing operations | 156,900        |                 |
| Outward reinsurance premiums                      | <u>(9,076)</u> | 147,824         |
| Change in the net provision for unearned premiums |                | <u>(30,614)</u> |
| Earned premiums, net of reinsurance               |                | 117,210         |

#### 15) Reconciliation of movements in shareholder's funds

|                                     | 2011<br>£,000 | 2010<br>£,000 |
|-------------------------------------|---------------|---------------|
| Net addition to shareholder's funds |               |               |
| -Retained profit for the year       | 2,679         | 6,144         |
| Opening shareholder's funds         | <u>43,242</u> | <u>37,098</u> |
| Closing shareholder's funds         | <u>45,921</u> | <u>43,242</u> |

#### 16) Cash flow statement

As the Company was wholly owned within Binomial Group Limited at 31 December 2011, the cash flows of the Company are included in the consolidated cash flow statement of Binomial Group Limited. Consequently the Company is exempt under the terms of Financial Reporting Standard 1 (Revised 1996) from publishing a cash flow statement.

#### 17) Ultimate parent undertaking

The immediate and ultimate parent undertaking is Binomial Group Limited, registered address 150 South Street Dorking Surrey RH4 2YY.