AJBell
Holdings Limited

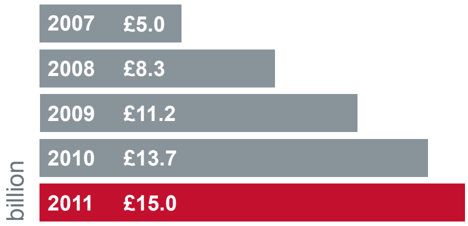
# Success through investment

Annual Report & Financial Statements 2011 |
Company registration number 04503206

# Contents

# Highlights

## Key business and financial information

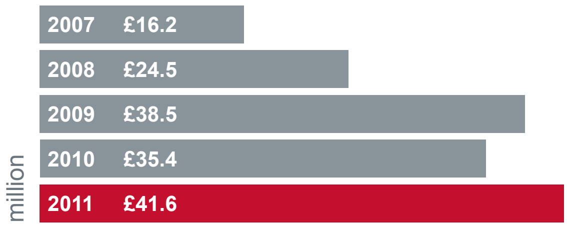



Total assets under administration

**9%** ▲ £15.0 billion from £13.7 billion


Number of retail clients

**24%** ▲ 59,912 from 48,306




Revenue

**18%** ▲ £41.6 million from £35.4 million


Profit before tax

**18%** ▲ £19.0 million from £16.1 million


Diluted earnings per share

**17%** ▲ 34.66 pence from 29.51 pence


Total ordinary dividend

**14%** ▲ 21.00 pence from 18.50 pence

# Success through investment

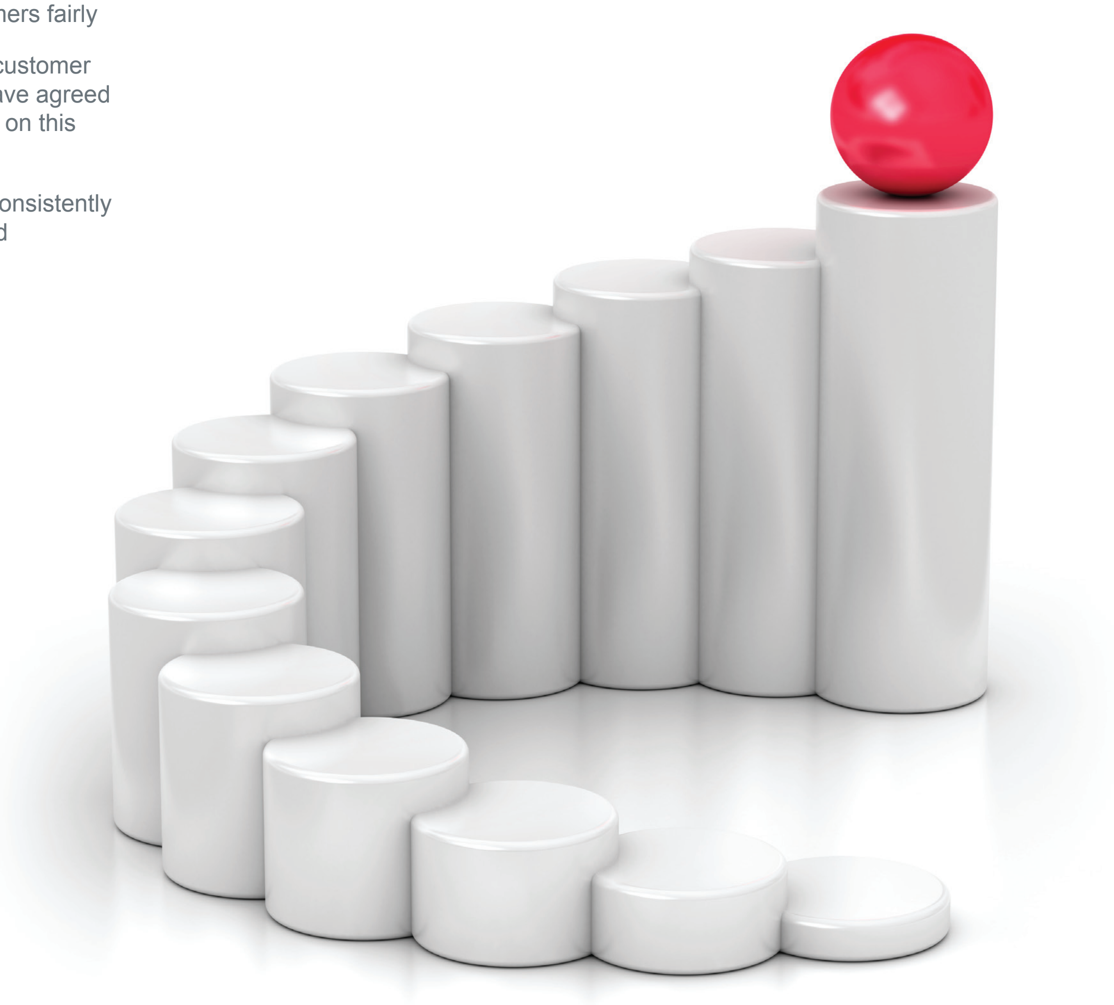
The key ingredients to our success have developed from an appetite to continue to invest retained profits in our business.  This has allowed us to build a proposition with a focus on:

- Price
- Service
- Functionality
- Technology
- Financial strength

These ingredients are further supported by our Group Operating Principles and underlying values that act as a guide and benchmark when determining how our people should act in any given circumstance. We strive to ensure that we:

- Treat all of our customers fairly
- Understand who our customer is, what service we have agreed to provide and deliver on this agreement
- Deliver our services consistently and to a high standard

Our staff are critical in maintaining and enhancing our service excellence. Their dedication in striving to exceed the high expectations of our clients has allowed us to enhance our reputation across the financial services industry.



# Investing in a range of low cost platform solutions

Our aim is to be a market leading provider of investment products and administration services in the adviser and execution only platform markets. This includes providing white labelling, dealing, custody and investment administration services for other financial services firms.

We define market leading by price, service and functionality and not necessarily by market share.

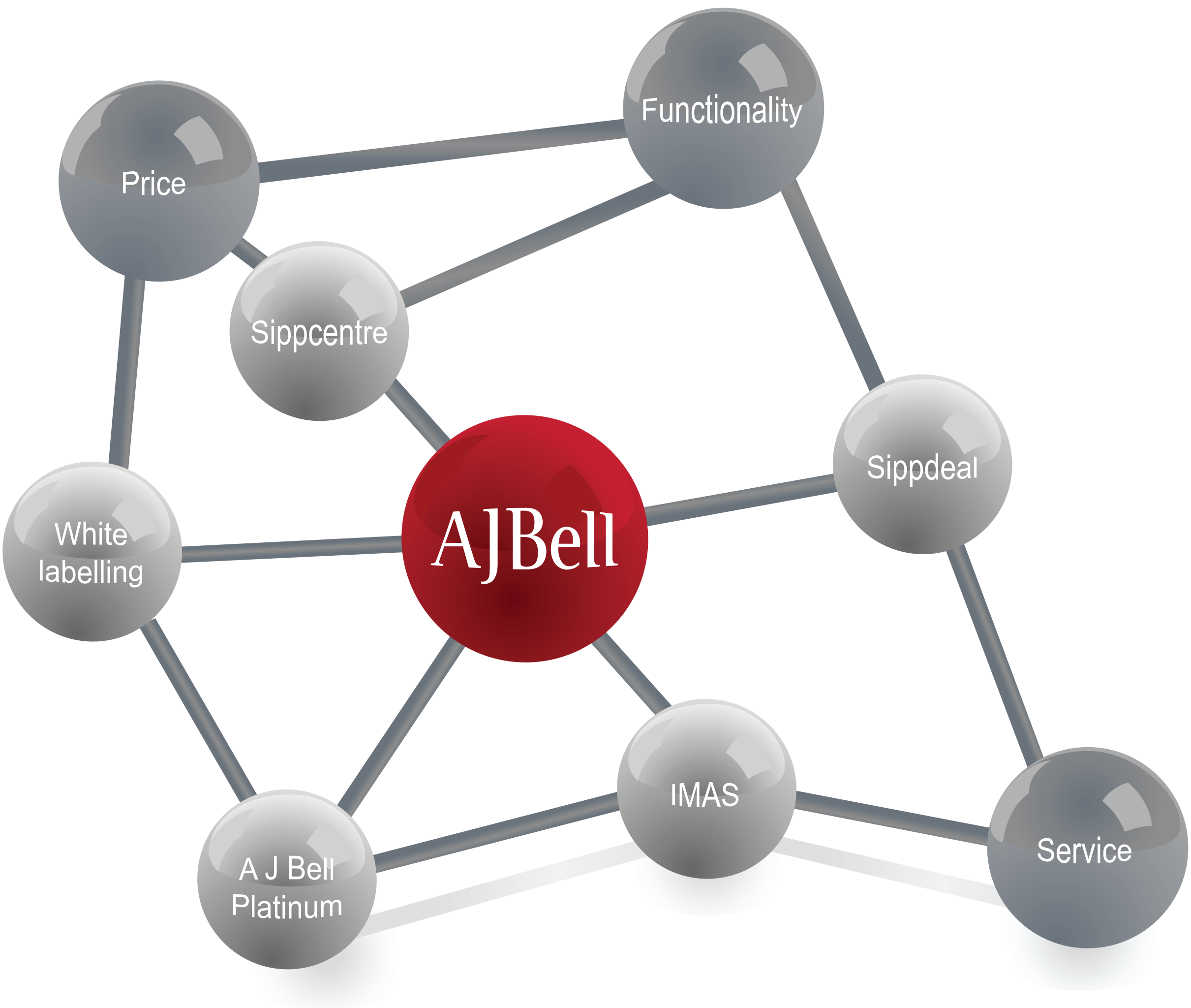
We have never provided financial or investment advice, nor do we intend to do so in the future. We operate exclusively on an execution only basis, whether directed by the investor, their adviser or by our institutional clients.

A J Bell provides a range of platforms that include Sippcentre, Sippdeal and the IMAS service.

The Sippcentre platform offers adviser clients the pricing benefits of a funds platform where they want to invest in retail funds and the investment functionality of a low cost wrap platform where they want to invest wide of this.

Sippdeal is a low cost, online platform that provides execution only investors with access to a comprehensive range of investments via a SIPP, ISA and Dealing Account.

Our IMAS service delivers a fully integrated investment management and custody administration solution that allows wealth managers to focus on delivering a high quality service without the distraction of the administration process.



# A diverse strategy that is fit for the future

In tough economic conditions it is more important than ever that we continue to develop our business. To meet the demands of the advisers and clients we serve, we plan to expand our suite of products and offer additional functionality on our platforms, whilst ensuring that we retain the online features, award winning service standards and pricing philosophy they value.

The launch of our ISA and Dealing Account on the Sippcentre and Sippdeal platforms is evidence of our ongoing commitment to continually improve our platform propositions.

There will be further enhancements delivered in 2012 that will include the addition of our Junior ISA, the introduction of a mobile application and improvements to the research tools that we make available.

Having both specialist product administration and stockbroking expertise within A J Bell gives us confidence that we can meet the demands of the UK platform market. This blend of expertise will allow us to continue to offer a diverse range of products and services, whilst affording us the comfort of knowing we can adapt to an ever changing regulatory landscape.

# An award winning service philosophy

Our service delivery and product propositions have been recognised with us winning several prestigious industry awards. These awards are voted for by our peers, clients and supporting advisers and evidence our track record for delivering against our business objectives whilst keeping a keen focus on the service we deliver.

Whilst receiving awards is always extremely pleasing, they also act as an important reminder that we cannot rest on our laurels.

Our awards in the financial year include:

**Moneyfacts Investment Life and Pensions Awards**
**2011**
Best SIPP Provider

**Moneywise Awards**
**2011**
Best Low Cost SIPP Provider

**Moneywise Awards**
**2011**
Best Comprehensive SIPP Provider

**MoneyAM Awards**
**2011**
Best Online SIPP Provider

**FTAdviser.com Online Service Awards**
**2011**
5 Star - Life and Pensions Provider

**Professional Adviser Awards**
**2011**
Best SIPP Provider (Highly commended)

**Investors Chronicle Awards**
**2010**
Low Cost SIPP Product Provider of the Year

**Daily Telegraph Wealth Management Awards**
**2010**
Best SIPP Service

# Investing in scalable technology

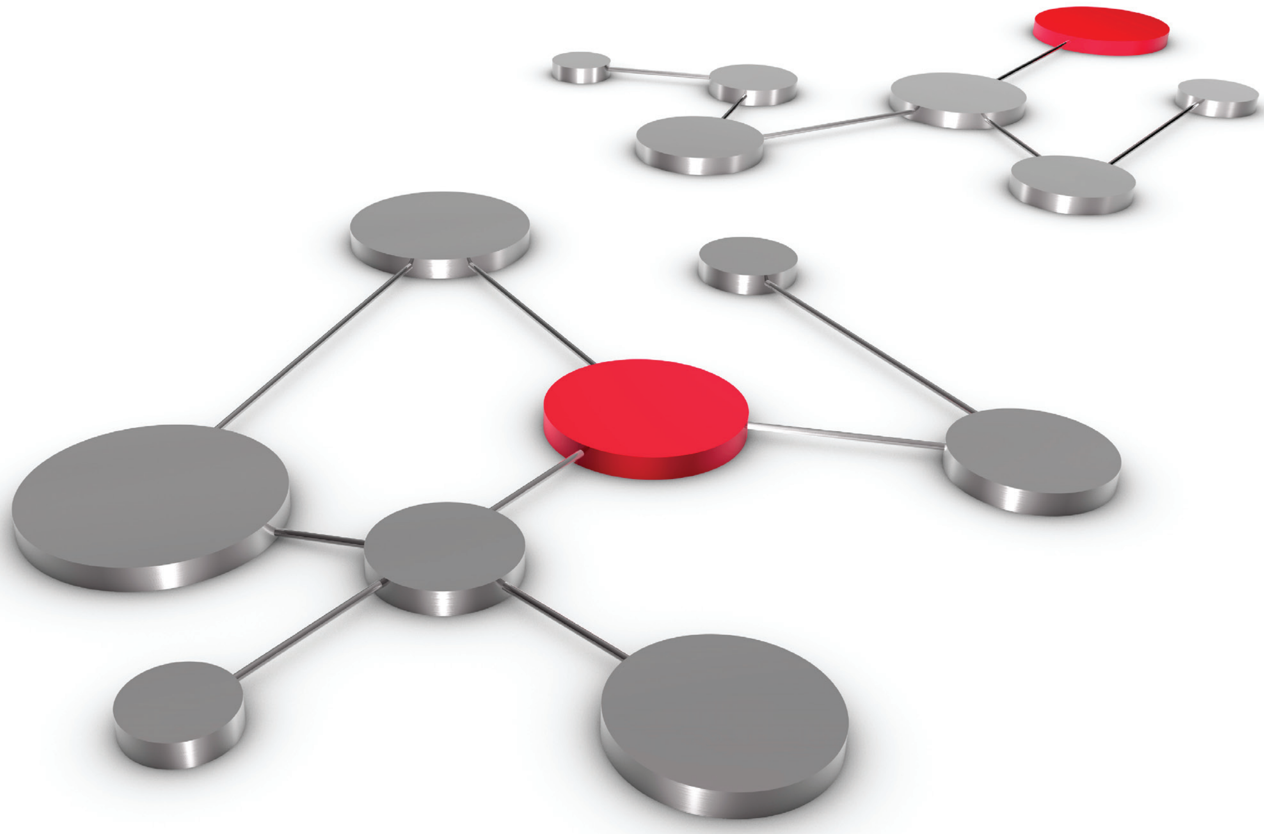
## To ensure that our systems are scalable and capable of dealing with our future growth ambitions we have invested significantly in our IT infrastructure and administration systems.

Our business is supported by a unique blend of in-house and proprietary software. All of our front end application processes, account administration, dealing functionality, messaging interfaces and websites have been enhanced. Our back office administration system, which sits within the above infrastructure, is tailored to meet the specific needs of our business.

Having our own IT development capacity allows us to quickly react to any necessary changes to the core components of our systems.

The improvements we have made to date are only a part of our ongoing business change programme. We have document management and workflow systems to provide a solid base to support our expanding business in the years to come.

Having invested substantially in technology, this gives us the confidence that our systems are scalable and will support our significant growth ambitions for many years to come.



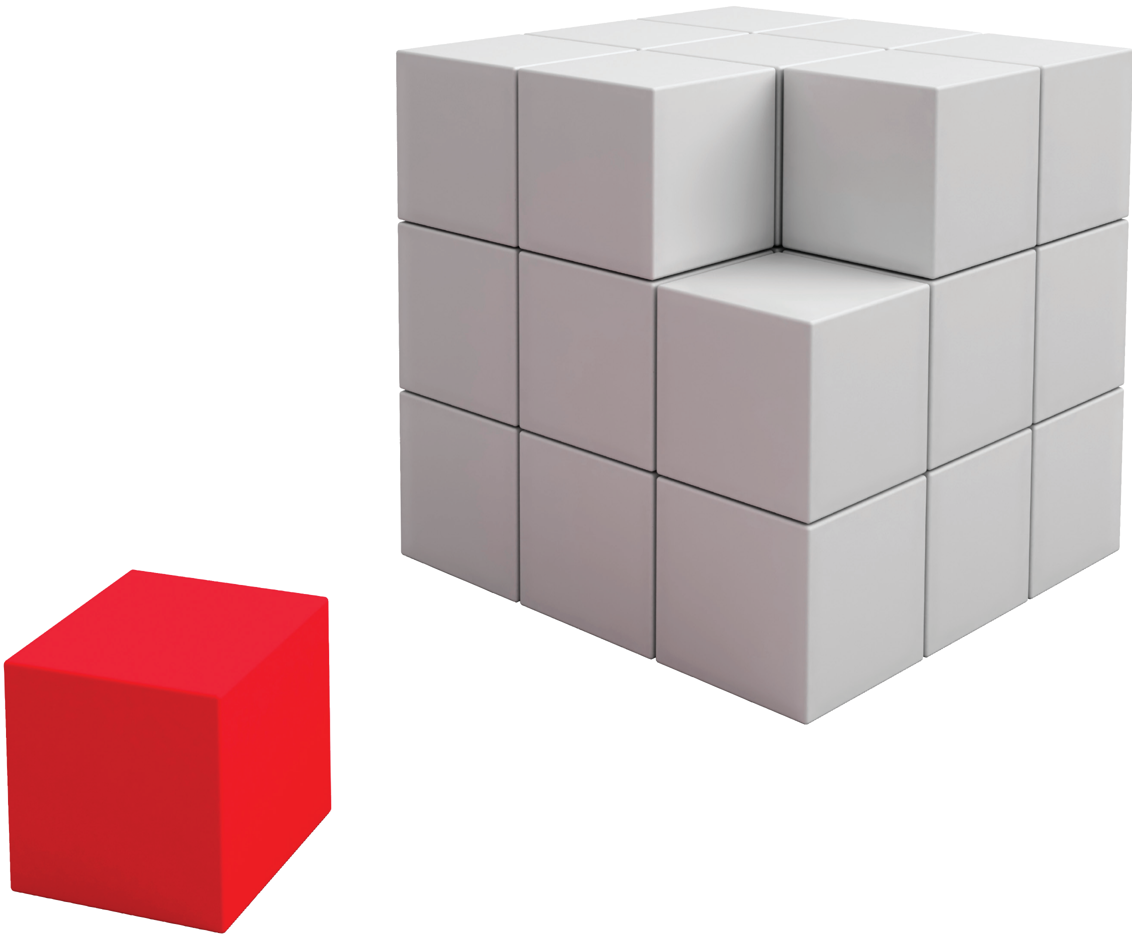
# Financial strength

Since A J Bell was founded in 1995 we have demonstrated a track record for consistent profitable growth, backed by continued reinvestment of retained profits in the business to ensure that our business model remains robust and sustainable.

Having reached critical mass many years ago, we are a profitable privately owned business. We have no debt and a track record of re-investing retained profits in a way that has allowed us to continually develop our adviser and client propositions.

A J Bell is owned by its management team and two institutional investors in the retail funds of Invesco Perpetual and MAM Funds.

We are one of the largest providers of investment platforms in the UK, with assets under administration of £15 billion and more than 59,000 clients.



# Joint statement from the Chairman and Chief Executive

We are delighted to report record results for the year ended 30 September 2011. Revenue, profit before tax, assets under administration and client numbers all hit record levels, this despite the turbulent economic and financial backdrop to the year. These results have been delivered during a transformational period for the Group, when we have made significant strides in achieving our strategic objectives. We successfully launched our Sippcentre and Sippdeal platforms, this involving the extension of our product range to include an ISA and a Dealing Account.

**Jim Martin**
Chairman

**Andy Bell**
Chief Executive

Revenue increased by 18%, up from £35.4 million to £41.6 million whilst profit before tax has also increased by 18%, up from £16.1 million to £19.0 million. We are pleased to announce a final dividend of 13.00 pence per share, taking the total dividend for the year to 21.00 pence per share. This compares with 18.50 pence per share for the previous year, an increase of 14%. Supporting this dividend, the Group's diluted earnings per share increased by 17%, up from 29.51 pence per share to 34.66 pence per share.

## Operational review

### Assets under administration and client numbers

AUA increased to £15.0 billion, up 9% from £13.7 billion, this during a year when the investment markets were very weak and the FTSE 100 fell by 8%.

Our platform assets, which include Sippcentre and Sippdeal retail assets and the institutional assets for which we provide custody, settlement and dealing services, account for £11.4 billion of AUA, up by 11% from £10.3 billion.

Our non-platform assets, which include our pension only products such as Platinum, Sippdealxtra and third party assets under our white label arrangements account for £3.6 billion, up by 6% from £3.4 billion.

The uncertainty in pension contribution rules has been a driver in increasing pension contributions. Pension savers have adopted a "use it or lose it" approach to their annual contribution allowance. This has led to total contributions, being the aggregate of employer and personal contributions adjusted for tax reclaims, increasing by 20%, up to £362 million.

The major source of new funds into SIPPs has historically been from transfers from other pension arrangements and this pattern shows no sign of changing. Inward pension transfers increased in the year by 25%, from £1.6 billion to £2.0 billion.

Our number of retail clients increased significantly during the year, up by 24% from 48,306 to 59,912. Whilst SIPPs accounted for the majority of this increase, ISAs and Dealing Accounts provided welcome new clients.

## Highlights

### Platform launch

The Sippdeal platform was launched in April 2011 and the Sippcentre platform was launched shortly after in July 2011. This was the culmination of a transformational project that has seen A J Bell shift from being a specialist SIPP operator to a platform operator with its own dealing, settlement and custody capabilities.

With the Group's actuarial background, pension administration expertise and being one of the few platform operators to be a member of the London Stock Exchange, we find ourselves in a unique position, in a marketplace where technical skills and dealing, settlement and custody capabilities are key requirements.

### IT infrastructure and administration systems

Excellent progress has been made with the development of our IT infrastructure and administration systems and we expect that this project will be completed by the end of the financial year to 30 September 2012. This investment will allow greater scalability and increased economies of scale.

# Joint statement from the Chairman and Chief Executive

## Pricing and functionality initiatives

The SIPP and platform markets are subject to significant competition, this largely due to the attractiveness of these markets. Lack of scale can be a barrier to entry and there are also legislative and regulatory barriers in the sheer complexity of these markets. There is a downward pressure on pricing and we have made it a key objective to ensure that we remain a market leader by a number of measures, one of which is price. Inevitably, this leads to targeted pricing initiatives which leads to a reduction in client revenue, although this is more than compensated by an increase in clients and AUA.

In April 2011, we introduced rebates on a large number of funds to clients of all Sippdeal products. Sippdeal is one of the few direct to consumer platforms that offers such rebates on the full range of products.

We also introduced a regular investment option in August 2011 for Sippcentre and Sippdeal clients with either significantly reduced or, for the majority of eligible funds, no dealing commission to apply.

Since the end of the financial year, we have also introduced a frequent dealer tariff for Sippdeal clients. For those who deal more than 20 times in a month, across all of their Sippdeal products, the following month they will pay a reduced dealing commission of £4.95 for all online deals, compared to the standard commission rate of £9.95.

Our IMAS service for wealth managers looking to outsource dealing and custody continues to grow. We fully migrated our third major client and a further two contracts have been signed with delivery early in 2012.

## FSCS levy

Administrative expenses include a £428,000 Financial Services Compensation Scheme levy, relating to the Keydata collapse. All intermediaries and fund managers were obligated to contribute. Unlike many of our competitors, we had anticipated this type of event and our terms and conditions allowed us to recharge this cost to our clients.

However, in this instance, the Group decided that it would absorb the cost of this levy.

As the latest FSCS accounts suggested a shortfall in the funding for the Keydata collapse, we have provided for a further increment of £86,000 to the actual levy we incurred, allowing the Group to absorb the entire additional levy raised in respect of Keydata. This additional provision is disclosed in note 21 to the consolidated financial statements.

## Combined assurance

As A J Bell grows, our combined assurance model also develops. With the help of KPMG as our external auditor and Deloitte as our internal auditor, this area has made great strides forward. Our thanks go particularly to Richard Taylor, Chief Operating Officer and Roger Stott, Group Risk Director who have been instrumental in developing this crucial area of our business.

## Awards

We are pleased to have won so many awards, particularly since many of them are voted for by our clients and the advisers that use our services. These are important to us and act as a reminder to all in our business that price, service and functionality remain the key ingredients to success.

## Client and staff surveys

We continue to measure the satisfaction of our clients and staff on a regular basis. The results in both areas have improved in the year and we continue to address any issues arising out of these surveys.

We have one of the highest client persistency rates, compared to other SIPP and platform operators where that information is publicly available. We believe that this client loyalty is directly linked to our market leading proposition measured by price, service and functionality.

We continue to strive to make A J Bell a fulfilling place to work and we believe that the stability of senior and junior management continues to be a key driver in our success.

## Management and Board

We have now implemented the management restructure that we referred to in our interim report earlier this year. We are already benefitting from these changes and the restructure has gone very smoothly. Details of our Executive Management Board can be found on page 16.

Our Board and its sub-committees continue to provide an effective framework for corporate governance. The Board has met on 10 occasions throughout the year, supplemented by 4 meetings of the Audit & Risk Committee, 3 meetings of the Remuneration Committee and 4 meetings of the Nominations Committee.

We would also like to take this opportunity to welcome Bob Gullett to the Board as a non-executive director with effect from 30 September 2011. Further background about Bob can be found on page 15, along with details of the other members of the Board.

## Outlook

Embracing change is key to achieving success in our industry, where legislative and regulatory change is the norm. There were significant pension changes in April 2011 to the annual allowance, tax relief on pension contributions and pension drawdown. The previously announced change to the lifetime allowance comes into effect on 6 April 2012. The Retail Distribution Review awaits us at the end of 2012, although key changes impacting on platforms, namely whether platforms can receive payments from providers or pay cash rebates to clients, remain unresolved by the FSA. Clarity is needed on whether the RDR will be extended to direct offer products and services. The disclosure rules for SIPPs are subject to further consultation and we are pleased that the coalition Government has chosen not to tinker with the pension contribution rules and reliefs in the Autumn Statement. We believe we are as ready as any firm to deal with the above changes and see them as an opportunity, not a threat.

# Joint statement from the Chairman and Chief Executive

We continue to drive our proposition forward and have a number of initiatives planned for the 2011/12 financial year. For both Sippcentre and Sippdeal platforms, a Junior ISA will be launched in the first quarter of the calendar year, followed by a mobile application for iPhones and android phones. Model portfolio and bulk dealing functionality will also be added in the latter part of the financial year.

Whilst we will continue to develop our proposition and add new functionality, our focus for the forthcoming financial year is to compete in the platform market and continue to drive sales forward. Price, service and functionality are all key drivers in the decision making process as to which platform to use, whether the decision is being made by the adviser or client. We will continue to work tirelessly to ensure that we maintain a market leading position on all three fronts.

Finally, our thanks go to all of our staff who continue to provide a professional yet friendly service. In the days of automated and scripted client servicing, we still believe that there is a place in the market for a firm that empowers its staff to engage personally with its clients.

**Jim Martin**
Chairman

**Andy Bell**
Chief Executive Officer

# Board of Directors

## Jim Martin
Non-executive Chairman

Jim joined the Group in February 2007 having held several board appointments across various sectors during his career, including retail and house building, while maintaining a number of non-commercial interests. Jim was CEO of N Brown Group plc until 2002 following which he took up the role of non-executive deputy chairman until retiring from that position in 2005. Since then, he has been involved in a number of private equity-backed and listed companies.

## Andy Bell
Chief Executive Officer

Andy co-founded A J Bell in 1995, having spent a number of years working within the financial services sector. He graduated from Nottingham University in 1987 with a first class degree in mathematics and qualified as a Fellow of the Institute of Actuaries in 1993. He has built A J Bell into one of the largest investment platform businesses the UK. He is the principal driving force behind the business, although increasingly his focus is on strategy and growth opportunities.

## Michael Summersgill
Chief Financial Officer

Michael joined A J Bell in July 2007 and was appointed to the Board as Chief Financial Officer in June 2011. He has firsthand experience of many aspects of the finance function having held various positions in the department. He began his accountancy career in public practice, gaining experience with a broad portfolio of clients. Michael graduated from the University of Sheffield with a degree in Economics and is a Chartered Certified Accountant.

## Les Platts
Non-executive Director

Les joined A J Bell in September 2008 having retired as an Audit Partner and practice Senior Partner for the north-east with international professional services firm Deloitte. Over a period of 33 years with Deloitte, Les has gained extensive UK and international experience across all industry sectors including FTSE 100, FTSE 250, smaller listed PLCs, large private companies and private equity investments. He has advised at board level on a wide range of financial, commercial and governance issues. He is also a Non-executive Director of Leeds Building Society.

## Bob Gullett
Non-executive Director

Bob joined A J Bell in September 2011 having retired as Director of Investment Management at Newton Investment Management. In a financial career spanning 40 years, Bob has gained valuable experience in the insurance, investment banking and equity research sectors from various blue-chip companies including American Express, SG Warburg & Co and Fox-Pitt Kelton. Originally from the United States, Bob also fulfils a current non-executive role with Tenax Capital Limited, an affiliate of the Italian Generali Insurance Group.

# Executive Management Board

The EMB is the decision-making body that is responsible for the execution of the strategy agreed with the Board of Directors. It is charged with the day-to-day management of the Group, this within the confines of the matters reserved to the Board of Directors. The EMB meets regularly to review the performance of the Group and to agree corrective action where issues arise. The EMB consists of the Chief Executive Officer, the Chief Financial Officer and the following members of senior management:

**Fergus Lyons**
Group Commercial Director

Fergus joined the Group in August 2000, having previously been employed at a major bank for over 20 years. Fergus has overall responsibility for all Group sales and marketing activity, including the Business Development teams. In addition, he is responsible for all commercial aspects of the A J Bell business, including the management of relationships with key investment partners and external financial institutions.

**Richard Taylor**
Chief Operating Officer

Richard joined A J Bell in October 2005, with over 25 years experience in the financial services industry. He is responsible for all operational aspects of the A J Bell business, including client services and the IT, HR, risk, compliance and legal teams. In the past, before joining A J Bell, Richard held senior legal, marketing and strategy roles with a number of leading insurance companies. For many years he worked for a company specialising in the SSAS and SIPP market, leading its legal, pensions technical and compliance teams.

**Charles Galbraith**
Managing Director – A J Bell Securities

Charles joined A J Bell Securities in 2006 as Managing Director. He has worked in a number of stockbroking firms over the past 20 years, concentrating on both private and institutional clients. Previously he was Managing Director of Lloyds TSB Stockbrokers Limited and was also responsible for Lloyds TSB's stocks and shares PEP and ISA business.

# Directors' report

The directors present their annual report on the affairs of the Group, together with the consolidated financial statements and auditor's report for the year ended 30 September 2011.

## Principal activities

The principal activities of the Group comprise the provision of dealing, custody and investment administration services.

The subsidiaries and associated undertakings principally affecting the profits and net assets of the Group in the year ended 30 September 2011 are listed in note 16 to the consolidated financial statements.

## Business review

The directors are required by the Companies Act 2006 to set out in this annual report a fair review of the business of the Group during the financial year ended 30 September 2011, the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group ("Business Review"). The information that fulfils the requirements of the Business Review can be found within the Chairman's and Chief Executive's Joint Statement on pages 12 to 14 and in the Principal Risks and Uncertainties section of this report.

## Dividends

The Company has declared a final dividend of 13.00p (2010: 10.50p) per ordinary share which will be paid on 19 December 2011 to ordinary shareholders on the register as at 13 December 2011. This, together with the interim dividend of 8.00p (2010: 8.00p) paid on 17 June 2011, makes a total dividend in respect of the financial year ended 30 September 2011 of 21.00p per share (2010: 18.50p).

## Directors

The directors, who served throughout the year except as noted, were as follows:

Jim Martin
(Non-executive Chairman)

Andy Bell
(Chief Executive Officer)

Stuart Dootson
(Chief Financial Officer)
(Resigned 31 May 2011)

Michael Summersgill
(Chief Financial Officer)
(Appointed 31 May 2011)

Les Platts
(Non-executive)

Nicholas Littlefair
(Non-executive)
(Resigned 31 March 2011)

Bob Gullett
(Non-executive)
(Appointed 30 September 2011)

## Directors' interests

The directors who held office at 30 September 2011 had the following interests in the share capital of the Company:

| | Ordinary | | A ordinary non-voting | |
|---|---|---|---|---|
| | 30 Sept 2011 | 30 Sept 2010 | 30 Sept 2011 | 30 Sept 2010 |
| Jim Martin | 160,000 | 150,000 | - | - |
| Andy Bell | 12,764,019 | 12,749,607 | - | - |
| Michael Summersgill | - | - | 7,500 | - |
| Les Platts | 30,000 | 20,000 | - | - |
| Bob Gullett | - | - | - | - |
| **Total** | 12,954,019 | 12,919,607 | 7,500 | - |

No director held Ordinary non-voting shares at 30 September 2011, 30 September 2010 or at any time during the period between these dates.

## Directors' share options

At 30 September 2011, the directors who held office held the following share options:

| Director | Number | Exercise price £ | Date of grant of option | Earliest date of exercise |
|---|---|---|---|---|
| M Summersgill | 10,000 | 1.90 | 1 Aug 09 | 1 Jul 13 |
| M Summersgill | 2,500 | 3.00 | 1 Oct 10 | 1 Jul 14 |

There are no performance criteria attaching to either of the two tranches of share options.

On 27 May 2011, Stuart Dootson exercised 100,000 share options at 22 pence per share. No options were exercised by the directors during the previous year.

## FSA remuneration code

A J Bell Securities Limited, as a BIPRU firm, is subject to the requirements of the FSA remuneration code. More information about A J Bell Securities Limited and the company's Pillar III disclosure is available to view at www.ajbellsecurities.co.uk.

We have taken the decision to apply the Code to the Group and we do so on the basis of A J Bell Securities Limited's status as a Tier 4 firm. We maintain remuneration policies and practices in accordance with the Remuneration Code, which are overseen by the Remuneration Committee, comprised of the non-executive directors of the Board. Material decisions in relation to the remuneration of staff whose actions have a material impact on the risk profile of the firm and in relation to individuals in control functions are overseen by the Remuneration Committee. Our remuneration policies provide for variable remuneration to be linked to performance.

## Supplier payment policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of the payment and abide by those terms. The average credit period taken for trade purchases during the year was 19 days (2010: 21 days).

## Principal risks and uncertainties

The Board is committed to a continual process of improvement and enhancement to the risk management framework within the Group. This is to ensure that the business identifies both existing and emerging risks and develops appropriate mitigation strategies.

The directors believe that there are a number of potential risks to the Group that could hinder the successful implementation of their strategy. These risks may arise from internal and external events, acts and omissions. The directors are proactive in identifying, assessing and managing all risks facing the business.

The Internal Audit function carries out a rolling programme reviewing key business areas throughout the Group. These reviews have been focussed on areas where the directors believe they require further assurance on controls and risk mitigation. This, along with the Compliance, Quality Assurance and Risk Management functions within the Group, comprise the "Assurance Framework".

# Directors' report

The directors present below the principal risks and uncertainties facing the Group that could pose a threat to the delivery of their strategy. No analysis is included to differentiate between a risk and an uncertainty. Uncertainties create risks and the directors consider both with equal importance.

## Industry risks

### Regulatory risk

The Group operates within an increasingly regulated environment such that new or revised legislation or regulation may have a materially adverse effect on it. The Group retains a substantial cash surplus to provide additional regulatory capital to its regulated subsidiaries if the need arises. The Group also works to ensure FSA best practice and, in particular, Treating Customers Fairly principles are embedded into the entire business and followed consistently.

The Group closely monitors all regulatory developments. This enables an assessment to be made of their impact on the Group's businesses and for steps to be taken to mitigate any regulatory risks. Furthermore, it enables the Group to ensure it continues to operate in line with regulatory best practice.

The FSA Retail Distribution Review changes will not come into force before 31 December 2012. There is a risk that these changes will result in a ban on payments from product providers to platforms, which would have an adverse impact on the Group's current revenues. The Group has a range of other recurring revenue models within its business which could be applied to mitigate any such loss of revenue from product providers.

The Group contributes to the debate on regulatory issues affecting its markets. It does this through its memberships with the Association of Member-directed Pension Schemes (AMPS) and the Association of Private Client Investment Managers and Stockbrokers (APCIMS), as well as through direct responses to Government and FSA consultation.

### Taxation law change risk

Changes to tax legislation may reduce the attractiveness of tax-advantaged savings including SIPPs and SSASs as a means of saving for retirement. It appears the current Government wishes to remove some of the existing complications associated with these products whilst retaining incentives for people to contribute at a reasonable level to their pension. Overall the directors remain optimistic about the prospects for continued growth in the SIPP market. However, the Group's continued diversification into other savings products will reduce its reliance on pension products.

### Competitor and market risks

The Group operates in a highly competitive and dynamic industry which constantly improves the services and products available to clients. This may impact the Group such that its products become either obsolete or uncompetitive when compared to other offerings in the marketplace. The Group reviews continually its product range and prices against competitors and actively seeks new income streams, whilst enhancing its existing portfolio.

The Group has expanded its product range by adding an ISA and Dealing Account to its Sippcentre and Sippdeal platforms during 2011. The launch of these new products will open up substantial new markets to the Group and offer its clients a more extensive range of savings products at highly competitive prices. Furthermore, their launch will also reduce the Group's reliance on pension products and help to tackle the competition risk posed by the growing number of platform providers.

Since the year-end, the Group has also introduced a frequent dealing offer for its Sippdeal clients. This initiative will enable the Group to maintain its competitive advantage and ensure that its execution only clients are using one of the most cost effective investment platforms available in the industry.

### Evolving technology risk

The reliance on evolving technology remains crucial to the Group's effort to develop its services and enhance products. The risk exists that either the Group's technology fails to operate correctly in some way or that the Group fails to take advantage of any emerging technologies. The directors have acknowledged that a scalable operating system is paramount to the continued success of the Group and significant investment has been and continues to be made in a project to renew the IT and administration infrastructure. This project has also delivered significant enhancements to the Group's Sippcentre and Sippdeal websites, using the latest technology to offer improved online services to clients and their advisers. A dedicated project team consisting of experienced employees drawn from across the business has been established to deliver the new system.

A project of this significance does itself carry a number of risks, including failure to deliver on time and within budget leading to a loss of business, reduction in service quality and reputational harm. To mitigate these risks, a robust project governance structure has been created with responsibility for delivery held by a steering committee, including members of the senior management team of the Group. This team, through the project sponsor, reports regularly to the directors who monitor progress against the approved budget and project plan.

### Economic risk

In the event that the economy falls back into recession, this may impact contribution levels and confidence generally in the savings and investment markets. The directors believe that the Group's overall income levels and in particular the balance between the different types of assets and transactions from which that income is derived, provide a robust defensive position against any economic downturn.

### Capital market fluctuations risk

Capital market fluctuations can have an effect on client transactional activity and the value of assets under administration. The Group has a variety of transactional and recurring revenue streams, some of which are monetary amounts while others are ad valorem. This mix of revenue types helps to limit the Group's exposure to capital market fluctuations.

## Operational risks

### Group reputation risk

Damage may be sustained to the Group's reputation or to one of its leading brands because of either the actions of an unassociated third party or the misconduct of an employee. The security procedures within the Group remain robust and are well communicated to ensure any risk of fraudulent access to client accounts is minimised. Thorough controls and checks are in place to ensure the appropriate calibre of individual is recruited into the Group and training is ongoing to ensure employees maintain technical competency in fulfilling their role within the Group along with awareness of risks.

Damage may be sustained to the Group's reputation if there is a significant deterioration in service standards. The level of service provided to clients is monitored on an ongoing basis to ensure any weaknesses are identified and remedial action taken where required.

### Third party reliance risk

As noted in its 2010 Annual Report, the Group now undertakes its dealing, custody and settlement activities in-house. Whilst reducing other risks within the Group, this did increase both the Group's operational processing risks and its reliance on third party software suppliers. As noted above, the Group is undertaking a renewal of its IT infrastructure and administration systems to support service delivery to its SIPP clients along with providing the capability to offer new products. Once completed, this will reduce other risks but the directors recognise that this will increase further the Group's reliance on third party software suppliers.

To mitigate the risk posed by third party software suppliers, the Group maintains a strong partnership relationship with all of them and monitors their performance to ensure their continued commitment to service, financial stability and viability. Where possible, the Group has had, or will have, software code from these suppliers placed into escrow so that access can be gained to that code in the event of the supplier's failure.

Where a regulatory breach or a failure in service supply could be caused by an external supplier, the Group performs extensive due diligence on that supplier prior to entering into the commercial relationship. The Group secures the ability to audit that supplier at regular intervals during the term of the relationship.

### Operational processing risk

There is a risk that the Group's operational processes are subject to error, causing both a reduction in earnings and damage to the Group's reputation. The Group focuses on increasing the effectiveness of all its operational procedures and aims to achieve straight-through processing wherever practical. Certain operational processes are subject to manual intervention. Examples include dealing on the basis of a client's verbal instruction, processing of certain corporate actions and trade and settlement of certain transactions on behalf of clients.

The Group has incorporated a high level of operational resilience within its day-to-day operations. It has documented procedures with pre-set, specified management authorisation limits for all relevant operational processes. The Group employs experienced, FSA registered and approved staff in all its key FSA regulated activities. In addition to regular performance targets, the Group sets tolerance limits for operational errors which are applied from Board level down to the relevant operational department.

### Litigation risk

There is a risk of liability related to litigation from clients or third parties.

The Group has robust systems and controls and maintains an appropriate level of professional indemnity insurance cover against these potential liabilities.

### Business continuity management risk

There is a risk of disruption to the Group's business in the event of a loss of access to any of the Group's properties or in the event of a catastrophic systems failure. The Group has agreements in place with specialist suppliers for geographically remote disaster recovery facilities for all of its operations, including separate offsite IT recovery facilities. There is an extensive, rolling programme of testing of all business continuity plans.

### Key personnel risk

The loss of key personnel within the Group or an inability to find new or replacement employees, appropriately qualified, particularly in periods of sustained growth, may have a material adverse impact on the Group's performance. The Group has sought to mitigate this risk by facilitating equity ownership for employees within the organisation through various share schemes. Furthermore, the Group has developed a succession plan for key members of management across the whole business.

## Financial risks

### Interest rate risk

As at the year-end, the Group had no borrowings and therefore was not exposed to interest rate risk related to debt.

The Group's income levels are affected by prevailing interest rates. In a low interest rate environment, cash balances tend to decline and the revenue the Group earns on cash deposits reduces. The Group maintains good relationships with its banking partners and is able to access competitive rates due to the large value of deposits it places. This, along with the ability to control the interest rate on client balances, enables the Group to mitigate this risk effectively.

### Liquidity risk

This is the risk that the Group may be unable to meet its liabilities as and when they fall due. These liabilities arise from the day-to-day activities of the Group and from its obligations to clients. The Group is a highly cash generative business and maintains sufficient cash and standby banking facilities to fund its foreseeable trading requirements. Where clients' funds are deposited on a term basis with banks, the Group's policy ensures that funds are available at short notice.

### Credit and bank default risk

The Group's credit risk extends to its principal financial assets. These are cash balances held with banks and trade and other receivables.

As regards trade receivables, the Group has implemented procedures that require appropriate credit or alternative checks on potential clients before business is undertaken. This minimises credit risk in this area.

The directors continue to monitor the strength of the banks used by the Group. The banks used by the Group are Bank of Scotland, HSBC Bank plc, The Royal Bank of Scotland plc, Barclays Bank plc, Brown Brothers Harriman & Co and Bank of Ireland UK.

Bank of Scotland, the Group's principal banker, is substantial and is 100% owned by Lloyds Banking Group in which the UK Government has a significant strategic stake. The degree of state ownership is closely monitored by the Group. All of the banks currently used by the Group have long term credit ratings of at least A- (Fitch) or A3 (Moody's), apart from the Bank of Ireland UK, which currently has ratings of BBB (Fitch) and Ba1 (Moody's). Where the services of other banks are used, the Group follows a rigorous due diligence process prior to selection. This results in the Group retaining the ability to further mitigate the counterparty risk on its own behalf and that of its clients.

## Charitable donations and political contributions

During the year the Group made charitable donations of £58,923 (2010: £7,595), all to UK registered charities. This includes donations of £37,000 to The A J Bell Trust and £15,000 to The Prince's Trust.

The A J Bell Trust is a registered charity that helps to support children and young adults who are disadvantaged by financial hardship, poor health or disability.

There were no political contributions in the current year or prior year.

## Disabled employees

Applications for employment by disabled persons are considered bearing in mind the aptitude of the applicant concerned. In the event of employees becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate facilities and training are arranged. It is the policy of the Group that the training, career development and promotion of disabled persons must, as far as possible, be identical to that of other employees.

## Employee consultation

The Group places considerable value on the involvement of its employees. It has continued to keep them informed on matters affecting them as employees and arising from the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and internal publications. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. Employee share schemes have operated since June 2005. These schemes have promoted wider employee involvement in the Group.

The directors believe that the incentivisation of senior management and key employees by equity participation is an important factor in the continuing success of the Group. This policy aligns the interests of management with those of the wider shareholder base.

## Internal control

The Board has overall responsibility for the maintenance of the internal control system established by the Group and places considerable reliance on a strong control environment. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can only provide reasonable and not absolute assurance against material misstatement or loss. Compliance with internal control procedures is monitored by the directors through the Executive Management Assurance Committee which is responsible for overseeing the Group's Risk Management, Compliance and Internal Audit functions.

## Going concern

The consolidated financial statements have been prepared on a going concern basis. After making enquiries, the directors believe that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The going concern basis of preparation is discussed in note 2.1 of the consolidated financial statements.

## Auditor

Each of the persons who are a director at the date of approval of this annual report confirms that:

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

Pursuant to section 487 Companies Act 2006, the auditor will be deemed to have been re-appointed and KPMG Audit Plc will continue in office.

By order of the Board

**Michael Summersgill**
Director and Company Secretary

14 December 2011

# Statement of directors’ responsibilities in respect of the directors’ report and the financial statements

The directors are responsible for preparing the directors’ report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, 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 Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company’s transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

# Independent auditor's report to the members of A J Bell Holdings Limited

We have audited the financial statements of A J Bell Holdings Limited for the year ended 30 September 2011 set out on pages 25 to 63.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK 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 auditor

As explained more fully in the statement of directors' responsibilities set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006

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

## Matters on which we are required to report by exception

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

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

**Richard Gabbertas**
(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
St James' Square
Manchester
M2 6DS

14 December 2011

# Consolidated income statement

For the year ended 30 September 2011

| | Notes | 2011<br>£'000 | 2010 restated*<br>£'000 |
|---|---|---|---|
| Revenue | 4 | 41,570 | 35,435 |
| Administrative expenses | 5 | (22,630) | (19,388) |
| Operating profit | | 18,940 | 16,047 |
| Investment revenue | 8 | 119 | 87 |
| Finance costs | 9 | (13) | (12) |
| Profit before tax | | 19,046 | 16,122 |
| Taxation | 10 | (5,164) | (4,299) |
| **Profit for the financial year attributable to equity holders of the parent company** | | 13,882 | 11,823 |
| Earnings per ordinary share: | | | |
| Basic (pence) | 12 | 34.82 | 29.91 |
| Diluted (pence) | 12 | 34.66 | 29.51 |

The notes and information on pages 29 to 57 form part of these consolidated financial statements. All income, profit and earnings are in respect of continuing operations.

There were no other components of recognised income or expense in either year and consequently no Statement of Other Comprehensive Income has been presented.

* The restatement of the prior year comparative is due to a reclassification from cost of sales to administrative expenses. See note 5 for further information.

# Consolidated statement of financial position

As at 30 September 2011

| | Notes | 2011 £'000 | 2010 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets:** | | | |
| Goodwill | 13 | 420 | 420 |
| Other intangible assets | 14 | 6,440 | 3,827 |
| Property, plant and equipment | 15 | 850 | 1,097 |
| Deferred tax asset | 18 | - | 423 |
| | | 7,710 | 5,767 |
| **Current assets:** | | | |
| Trade and other receivables | 17 | 7,190 | 5,903 |
| Client and market receivables | 17 | 22,209 | 15,958 |
| Cash and cash equivalents | 17 | 18,813 | 15,186 |
| Clients' settlement cash balances | 17 | 9,981 | 10,235 |
| | | 58,193 | 47,282 |
| **Total assets** | | 65,903 | 53,049 |
| **Liabilities** | | | |
| **Current liabilities:** | | | |
| Trade and other payables | 20 | (4,127) | (4,261) |
| Client and market payables | 20 | (31,754) | (25,750) |
| Current tax liabilities | | (2,144) | (2,223) |
| Obligations under finance leases | 19 | (23) | (14) |
| Provisions | 21 | (86) | (33) |
| | | (38,134) | (32,281) |
| **Non-current liabilities:** | | | |
| Obligations under finance leases | 19 | (27) | (9) |
| Provisions | 21 | (136) | (82) |
| Other payables | 20 | (14) | (21) |
| Deferred tax liability | 18 | (38) | - |
| | | (215) | (112) |
| **Total liabilities** | | (38,349) | (32,393) |
| **Net assets** | | 27,554 | 20,656 |
| **Equity** | | | |
| Share capital | 22 | 40 | 39 |
| Share premium | | 573 | 243 |
| Share option reserve | 26 | - | 581 |
| Retained earnings | | 26,941 | 19,793 |
| **Total equity attributable to equity holders of the parent company** | | 27,554 | 20,656 |

The notes and information on pages 29 to 57 form part of the consolidated financial statements.

The financial statements were approved by the Board of directors on 14 December 2011 and were signed on its behalf by:

**Michael Summersgill**
Director and Company Secretary

# Consolidated statement of changes in equity

For the year ended 30 September 2011

| | Notes | Share capital £'000 | Share premium £'000 | Share option reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Balance at 1 October 2009 | | 39 | 198 | 279 | 16,668 | 17,184 |
| **Total comprehensive income for the year:** | | | | | | |
| Profit for the year | | - | - | - | 11,823 | 11,823 |
| **Transactions with owners, recorded directly in equity:** | | | | | | |
| Issue of share capital | | - | 45 | - | - | 45 |
| Dividends | 11 | - | - | - | (8,698) | (8,698) |
| Credit to equity in respect of share-based payments | 26 | - | - | 13 | - | 13 |
| Deferred tax effect of share-based payments | 10 | - | - | 232 | - | 232 |
| Tax relief on exercise of share options | 10 | - | - | 57 | - | 57 |
| Total transactions with owners | | - | 45 | 302 | (8,698) | (8,351) |
| **Balance at 30 September 2010** | | 39 | 243 | 581 | 19,793 | 20,656 |
| **Transfer between reserves** | 26 | - | - | (581) | 581 | - |
| **Total comprehensive income for the year:** | | | | | | |
| Profit for the year | | - | - | - | 13,882 | 13,882 |
| **Transactions with owners, recorded directly in equity:** | | | | | | |
| Issue of share capital | 22 | 1 | 330 | - | - | 331 |
| Share forfeiture | 23 | - | - | - | - | - |
| Dividends | 11 | - | - | - | (7,387) | (7,387) |
| Credit to equity in respect of share-based payments | 26 | - | - | - | 73 | 73 |
| Deferred tax effect of share-based payments | 10 | - | - | - | (303) | (303) |
| Tax relief on exercise of share options | 10 | - | - | - | 302 | 302 |
| Total transactions with owners | | 1 | 330 | - | (7,315) | (6,984) |
| **Balance at 30 September 2011** | | 40 | 573 | - | 26,941 | 27,554 |

The notes and information on pages 29 to 57 form part of the consolidated financial statements.

# Consolidated statement of cash flows

For the year ended 30 September 2011

| | Note | 2011 £'000 | 2010 £'000 |
|---|---|---|---|
| **Net cash from operating activities** | 24 | 13,773 | 18,203 |
| **Investing activities** | | | |
| Purchase of other intangible assets | | (3,321) | (2,137) |
| Purchase of property, plant and equipment | | (117) | (402) |
| Proceeds from disposal of other intangible assets | | 4 | - |
| Interest received | | 119 | 87 |
| Net cash used in investing activities | | (3,315) | (2,452) |
| **Financing activities** | | | |
| Payment of obligations under finance leases | | (29) | (28) |
| Proceeds from issue of share capital | 22 | 331 | 45 |
| Dividends paid | 11 | (7,387) | (8,698) |
| Net cash used in financing activities | | (7,085) | (8,681) |
| **Net increase in cash and cash equivalents** | | 3,373 | 7,070 |
| Cash and cash equivalents at beginning of year | | 25,421 | 18,351 |
| **Total cash and cash equivalents at end of year** | | 28,794 | 25,421 |
| Comprising: | | | |
| Clients' settlement cash balances | | 9,981 | 10,235 |
| Group cash and cash equivalents | | 18,813 | 15,186 |
| **Total cash and cash equivalents at end of year** | | 28,794 | 25,421 |

The notes and information on pages 29 to 57 form part of the consolidated financial statements.

# Notes to the consolidated financial statements

For the year ended 30 September 2011

## 1. General information

The Company is incorporated and registered in England and Wales. The address of the registered office is given on page 67. The nature of the Group's operations and its principal activities are set out on pages 17 to 21.

The consolidated financial statements for the Company and its subsidiaries were approved by the Board on 14 December 2011.

## 2. Significant accounting policies

### Basis of accounting

The consolidated financial statements are presented in sterling, rounded to the nearest thousand. They are prepared on the historical cost basis and the principal accounting policies applied in the preparation of these financial statements are set out on pages 29 to 36.

The consolidated financial statements of A J Bell Holdings Limited have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The directors have elected to prepare the parent company's financial statements in accordance with UK GAAP and as permitted by Section 408 of the Companies Act 2006, no profit and loss account is presented for the Company; the notes and information for the Company are presented on pages 59 to 63.

At the date of issue of these financial statements, the following standards and interpretations were in issue, but not yet effective:

| | |
|---|---|
| IFRS 7 Amendments | Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2011) |
| | Disclosures - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011) |
| IFRS 9 | Financial Instruments – Classification and Measurement (effective for annual periods beginning on or after 1 January 2015) |
| IFRS 10 | Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013) |
| IFRS 11 | Joint Arrangements (effective for annual periods beginning on or after 1 January 2013) |
| IFRS 12 | Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013) |
| IFRS 13 | Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013) |
| IAS 1 Amendments | Presentation of Financial Statements – Presentation of Statement of Changes in Equity (effective for annual periods beginning on or after 1 January 2011) |
| | Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012) |
| IAS 12 Amendment | Deferred Tax - Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012) |
| IAS 19 Amendment | Defined Benefit Plans (effective for annual periods beginning on or after 1 January 2013) |
| IAS 24 (Revised) | Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011) |
| IAS 27 (Reissued) | Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013) |
| IAS 28 (Reissued) | Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2013) |

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the consolidated financial statements.

# Notes to the consolidated financial statements

## For the year ended 30 September 2011

Accounting policies as shown below have been consistently applied throughout the current and prior financial year.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 September each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. They cease to be consolidated from the date that the Group no longer has control.

All inter-company transactions, balances, income and expenses are eliminated on consolidation.

A list of the significant investments in subsidiaries, including the name, country of incorporation, principal activities and proportion of ownership interest is given in note 16 to these financial statements.

### 2.1 Going concern

The Group's business activities together with its financial position and the factors likely to affect its future development and performance are set out in the Chairman's and Chief Executive's Joint Statement and the Directors' Report on pages 12 to 21. Within the Directors' Report, the Principal Risks and Uncertainties section on pages 18 to 21 includes the Group's objectives, policies and processes for managing exposure to credit and liquidity risk. The Group's forecasts and objectives, taking into account a number of potential changes in trading performance show that the Group should be able to operate at adequate levels of both liquidity and capital for the foreseeable future. The Group has also considered a number of stress tests on capital and liquidity and these provide assurance that the Group is adequately capitalised and is capable of operating under stressed liquidity conditions.

Consequently, after making reasonable enquiries, the directors are satisfied that the Group has sufficient resources to continue in business for the foreseeable future and therefore have continued to adopt the going concern basis in preparing the financial statements.

### 2.2 Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable tangible and intangible assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

### 2.3 Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill that is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to one or more of the Group's cash generating units expecting to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are reviewed annually or more frequently when there is an indication that the goodwill relating to that CGU may have been impaired. If the recoverable amount from the CGU is less than the carrying amount of the assets present on the consolidated statement of financial position forming that CGU, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the assets forming that CGU and then to the assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

# Notes to the consolidated financial statements

For the year ended 30 September 2011

## 2.4 Revenue recognition

In recognising revenue, the directors follow the principles contained in IAS 18 "Revenue" to determine appropriate revenue recognition policies. Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group.

Revenue is measured at the fair value of the consideration received or receivable net of discounts, VAT and other sales related taxes.

### Rendering of services

Income is recognised in the period in which the service is rendered using the percentage completion method. The extent to which a service is complete is determined by the different work activity profiles of the associated individual services.

Services rendered at the inception of a fixed-term contract are recognised over the life of that contract.

### Asset-based commissions

Asset-based commissions are accrued on a time basis by reference either to the principal and effective interest rate or the due date for payment.

### Transaction-based commissions

Transaction-based commissions are recognised when receivable in accordance with the date of the underlying transaction.

### Investment revenue

Investment revenue comprises interest income receivable on the Group's bank deposits. Interest income is recognised in the income statement as it accrues, using the effective interest rate method.

## 2.5 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rental payments under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

## 2.6 Finance costs

Finance costs comprise interest payable and finance charges on finance leases. Finance costs are recognised in the income statement using the effective interest rate method.

## 2.7 Foreign currencies

The individual financial statements of each company in the Group are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each company in the Group are expressed in pounds sterling, which is the functional currency of the Company and the chosen presentation format for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on that date. There are no non-monetary items that are denominated in foreign currencies.

All currency movements creating losses or gains relate exclusively to clients. For the avoidance of doubt, the Group has no exposure to exchange rate losses or gains in its ordinary course of business.

## 2.8 Retirement benefit costs

The Group makes payments into the personal pension schemes of certain employees as part of their overall remuneration package. Contributions are recognised in the income statement as they are payable.

The Group also contributes to employees' stakeholder pension schemes to a maximum of 3% of their salary. The assets of the scheme are held separately from those of the Group in independently administered funds. Any amount charged to the income statement represents the contribution payable to the scheme in respect of the period to which it relates.

Alternatively, the Group will pay contributions to an employee's Sippdeal SIPP, if they wish, instead of the stakeholder pension.

## 2.9 Taxation

The tax expense represents the sum of current tax and deferred tax costs. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

### Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years, using tax rates enacted or substantively enacted at the reporting date.

### Deferred Tax

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available in the future, against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises (other than in a business combination) from:

- The initial recognition of goodwill; or
- investment in subsidiaries to the extent that they will probably not reverse in the foreseeable future; or
- the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

## 2.10 VAT

Revenues, expenses and assets are recognised net of the amount of sales tax except where the sales tax incurred on a purchase of assets or services is not recoverable in whole or in part from the taxation authority.

Where the sales tax is not recoverable in whole or in part from the taxation authority, it is expensed through the income statement, except in the case of a capital asset where the irrecoverable proportion is capitalised as part of the capital cost of that asset.

# Notes to the consolidated financial statements

For the year ended 30 September 2011

### 2.11 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment losses.

Depreciation is provided, where material, on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset evenly using a straight-line method over its estimated useful economic life as follows:

| | |
|---|---|
| Leasehold improvements | over the life of the lease |
| Office equipment | 4 years |
| Computer equipment | 4 years |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement immediately.

Where an asset is under construction at the end of a reporting period, the costs involved that meet the relevant recognition criteria are disclosed as a separate class of asset. As these assets are not available for use by the business they are not depreciated, instead they are reviewed for impairment.

### 2.12 Intangible assets excluding goodwill

Intangible assets comprise computer software, acquired non-contractual customer relationships and the Group's key operating system. These are stated at cost or fair value less amortisation and any recognised impairment loss. Amortisation is provided, where material, on all intangible fixed assets excluding goodwill at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly using a straight-line method over its estimated useful economic life as follows:

| | |
|---|---|
| Computer software | 4 years |
| Key operating system | 10 years |
| Non-contractual customer relationships | 10 years |

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement immediately.

Where an asset is under construction at the end of a reporting period, the costs involved that meet the relevant recognition criteria are disclosed as a separate class of asset. As these assets are not available for use by the business they are not amortised, instead they are reviewed for impairment.

### 2.13 Internally-generated intangible assets

An internally generated asset arising from work performed by the Group is recognised only if all the following conditions are met:

- An asset is created that can be identified (such as software);
- it is probable that the asset created will generate future economic benefits; and
- the development costs of the asset can be measured reliably.

Where such an asset is under construction at the end of a reporting period the costs involved that meet the relevant recognition criteria are disclosed as a separate class of asset. As these assets are not available for use by the business they are not depreciated or amortised, instead they are reviewed for impairment. Typically, such projects consist of a mixture of tangible and intangible components and these are disclosed separately in the financial statements.

### 2.14 Impairment of tangible and intangible assets excluding goodwill

At each date of the consolidated statement of financial position the directors review the carrying amount of the Group's tangible and intangible assets to determine whether there is any indication that those assets have suffered impairment.

If such an indication exists then the recoverable amount of that particular asset is estimated. An impairment test is performed for an individual asset unless it belongs to a CGU in which case the present value of the net future cash flows generated by the CGU is tested. A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or of groups of other assets. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

### Recoverable amount

The recoverable amount of a tangible or intangible asset is the higher of its fair value less costs to sell and its value in use. In assessing its value in use, the estimated net future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or the present value of the discounted net cash flows of the CGU in which the asset sits is estimated to be lower than the asset's carrying value, then the carrying amount is reduced to the recoverable amount. An impairment loss is recognised immediately in the income statement as an expense.

### Reversals of impairment

An impairment loss is reversed on tangible and intangible assets only if subsequent external events reverse the effect of the original event which caused the recognition of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment reversal is recognised in the income statement immediately.

### 2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents also includes client money held in accordance with the FSA's client money rules in the course of settlement. Where appropriate, bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position. For the purposes of the consolidated cash flow statement, cash and cash equivalents are defined as above, net of outstanding bank overdrafts.

### 2.16 Financial instruments

Financial assets and liabilities are recognised in the consolidated statement of financial position when a member of the Group becomes a party to the contractual provisions of the instrument.

### Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

All financial assets are classified as loans and receivables.

### Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at fair value, less any impairment. No interest income is recognised as all loans and receivables are short-term receivables and the recognition of interest would be immaterial.

# Notes to the consolidated financial statements

For the year ended 30 September 2011

### Impairment of financial assets

Financial assets are assessed for indicators of impairment at each date of the consolidated statement of financial position. These assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets objective evidence of impairment could include:

- Default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as the observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial assets is reduced by the use of a provision. When a trade receivable is considered uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited against the provision. Changes in the carrying amount of the provision are recognised in the income statement.

### 2.17 Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets in which the investment is made after deducting all of its liabilities.

### Financial liabilities

All financial liabilities are classified as other financial liabilities.

Other financial liabilities, including any borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

### Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating the interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

### Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### Treasury shares

When the company purchases its own equity share capital, the consideration paid (including directly attributable costs) is deducted from total shareholders' equity and is shown separately as 'Treasury shares' until they are reissued or cancelled. Where such shares are reissued, any consideration received is credited to the share premium account.

### 2.18 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the consideration required to settle that obligation at the date of the consolidated statement of financial position and are discounted to present value where the effect is material.

# Notes to the consolidated financial statements

For the year ended 30 September 2011

### 2.19 Share-based payments

The Group has applied the requirements of IFRS 2 "Share-based Payment". For the purposes of this financial information, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2006.

The Group issues equity-settled share-based payments to certain employees. These are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the directors' estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions. Where a grant of equity-settled share-based payments is not subject to vesting conditions, the fair value determined at the grant date is expensed immediately.

Fair value is measured by use of the Black-Scholes model. The expected life applied in the model has been adjusted based on the directors' best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. As the Company's shares are not listed on a recognised stock exchange and therefore no readily available market price exists for the shares, the share price has been estimated using a generally accepted business valuation method. Share price volatility has been estimated as the average of the volatility applying to a comparable group of listed companies.

### 2.20 Dividends

Dividend distributions to the Company's shareholders are recognised in the period in which the dividends are paid. Final dividends declared after the reporting period are not included as a liability in the financial statements but are disclosed in the notes.

## 3. Critical accounting judgements and key sources of estimation uncertainty

In the Group's accounting policies, as described in note 2, the directors are required to make judgements, estimates and assumptions to determine the carrying amounts of certain assets and liabilities. The estimates and associated assumptions are based on the Group's historical experience and other relevant factors. Actual results may differ from the estimates applied.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgements in applying the Group's accounting policies

The following critical judgements have been made by the directors in applying the Group's accounting policies.

### Impairment reviews of non-current assets

At each reporting date, the Group's non-current assets are reviewed for impairment where there are indicators of impairment or a review is specifically required by IAS 36. As it is not possible to test the Group's assets for impairment on an individual basis, impairment reviews are carried out on a CGU basis. In order to determine an asset's recoverable amount, the directors review the expected future cash flows of the CGU to which the asset is allocated.

There are a number of estimations that the directors have used to forecast the expected future cash flows of the CGUs that have been reviewed. Key judgements in arriving at these estimations include:

(i) the revenue generated by the future demand for the Group's products and services

(ii) the anticipated future costs attributable to the supply of the Group's products and services

(iii) the level of ongoing maintenance expenditure required on the Group's assets in order to generate the expected level of cash flows.

## 4. Revenue

| | 2011 £'000 | 2010 restated* £'000 |
|---|---|---|
| An analysis of the consolidated revenue is as follows: | | |
| Investment administration services | 34,848 | 29,400 |
| Dealing and custody services | 6,722 | 6,035 |
| **Total** | 41,570 | 35,435 |

* In the prior period, the Group's revenue was disclosed by the client base from which the revenue was derived, being either the Group's pension clients or institutional stockbroking clients.

During the year, ISAs and dealing accounts were launched, targeted at both the Group's existing pension customers and a new, wider customer base. This led the directors to conclude that the previous revenue disclosure was no longer relevant.

Accordingly, the Group's revenue disclosure has been restated to analyse revenue by the nature of the service provided. The directors believe that this provides more relevant information to the users of the financial statements.

## 5. Administrative expenses

| | | 2011 £'000 | 2010 £'000 |
|---|---|---|---|
| Additional FSCS levy | (note i) | 514 | - |
| Other administrative expenses | (note ii) | 22,116 | 19,388 |
| **Total** | | 22,630 | 19,388 |

(i) The Financial Services Compensation Scheme is funded by levies on firms authorised by the FSA. The scheme is in place to protect customers of failed institutions in the industry. The failure of certain investment intermediary firms has resulted in a significant additional levy being imposed upon the Group by the FSCS.

The total levy recognised includes £428,000 which was invoiced by the FSCS during the year, plus a further provision of £86,000 which is disclosed in further detail in note 21.

(ii) Other administrative expenses includes amounts that were previously recognised as cost of sales. This change in presentation results from the findings of a detailed cost review by the directors.

The directors believe that the separate presentation of cost of sales is not relevant information for users of the Group's financial statements due to the nature of the industry that the Group operates within. Therefore, cost of sales will no longer be presented as a separate line in the Group's financial statements.

The total expense in the current year, which would previously have been classified as cost of sales, was £1,048,000.

The cost of sales comparative amount of £977,000 has been reclassified as other administrative expenses in these financial statements.

# Notes to the consolidated financial statements

For the year ended 30 September 2011

## 6. Profit for the financial year

| | Notes | 2011 £'000 | 2010 £'000 |
|---|---|---|---|
| Profit for the financial year has been arrived at after charging/(crediting): | | | |
| Depreciation of tangible assets | 15 | 406 | 364 |
| Amortisation of intangible assets | 14 | 705 | 566 |
| Profit on disposal of intangible assets | | (1) | - |
| Loss on disposal of tangible assets | | 12 | 9 |
| Operating lease rentals: | | | |
| Other assets | 25 | 731 | 742 |
| Staff costs | 7 | 13,692 | 12,985 |
| Auditor's remuneration for the audit of the Company's annual financial statements | | 13 | 15 |
| Auditor's remuneration for the audit of the Company's subsidiaries pursuant to legislation | | 44 | 38 |
| Auditor's remuneration for other services to the Group | | 22 | 30 |

## 7. Employee benefit costs and employee numbers

| | 2011 No. | 2010 No. |
|---|---|---|
| The average number of employees (including executive directors) in the continuing operations of the Group during the year ended 30 September 2011 was: | | |
| Administrative functions | 366 | 317 |

The aggregate employee costs for the continuing operations of the Group were as follows:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Short-term employee benefits | 12,046 | 11,373 |
| Social security costs | 1,329 | 1,231 |
| Retirement benefit costs | 172 | 381 |
| Termination benefits | 145 | - |
| | 13,692 | 12,985 |

# Notes to the consolidated financial statements

For the year ended 30 September 2011

### Remuneration of key management personnel

| | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|
| Key management personnel is represented by the Board of directors as shown on page 15 and the Executive Management Board as shown on page 16: | | |
| Short-term employee benefits | 1,446 | 1,956 |
| Retirement benefit costs | 10 | 76 |
| Share-based payments | 1 | - |
| Termination benefits | 145 | - |
| | 1,602 | 2,032 |

### Remuneration of directors

The following costs relate to the Board of directors as shown on page 15:

| | | |
|---|---|---|
| Short-term employee benefits | 771 | 1,162 |
| Retirement benefit costs | - | 40 |
| Share-based payments | 1 | - |
| Termination benefits | 145 | - |
| | 917 | 1,202 |

### Remuneration of highest paid director

| | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|
| Short-term employee benefits | 492 | 766 |
| Retirement benefit costs | - | 40 |
| | 492 | 806 |

## 8. Investment revenue

| | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|
| Interest income: | | |
| Interest on bank deposits | 119 | 87 |

# Notes to the consolidated financial statements

For the year ended 30 September 2011

## 9. Finance costs

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Interest expense: | | |
| Obligations under finance leases | 3 | 1 |
| Other | 10 | 11 |
| | 13 | 12 |

## 10. Taxation

An analysis of the charge recognised in the consolidated income statement is presented below:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Current tax | 5,006 | 4,363 |
| Adjustment in respect of prior years | - | (40) |
| Deferred tax | 173 | 142 |
| Adjustment to deferred tax in respect of prior years | (26) | (177) |
| Effect of decrease in tax rate on opening asset | 11 | 11 |
| **Tax charge per Income Statement** | 5,164 | 4,299 |

Corporation tax is calculated at 27% of the estimated assessable profit for the financial year (2010: 28%).

In addition to the amount charged to the income statement, certain tax amounts have been charged/(credited) directly to equity as follows:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Deferred tax relating to share-based payments (see note 18) | 303 | (232) |
| Current tax relief on exercise of share options | (302) | (57) |
| | 1 | (289) |

# Notes to the consolidated financial statements

For the year ended 30 September 2011

The charge for the year can be reconciled to the profit per the income statement as follows:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Profit before tax | 19,046 | 16,122 |
| Profit before tax multiplied by a pro-rata rate of Corporation Tax in the UK of 27% (2010: 28%) | 5,142 | 4,514 |
| Effects of: | | |
| Expenses not deductible | 78 | 35 |
| Deduction on share options exercised | (320) | (94) |
| Adjustment in respect of prior year | - | (40) |
| Adjustment to deferred tax in respect of prior year | (26) | (177) |
| Recognised through reserves | 302 | 57 |
| Tax rate decrease | 9 | 4 |
| Effects of subsidiary liable at small companies rate | (21) | - |
| **Total tax expense in consolidated income statement** | 5,164 | 4,299 |
| Effective tax rate | 27.1% | 26.7% |

During the period the Group has reflected the change in the substantively enacted tax rate from 27% to 25%. The Government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 23% by 1 April 2014. The future 1% main tax rate reductions are not expected to have a material impact on the financial statements.

## 11. Dividends

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders during the year: | | |
| Final dividend for the year ended 30 September 2010 of 10.50p (2009: 14.00p) per share | 4,188 | 5,535 |
| Interim dividend for the year ended 30 September 2011 of 8.00p (2010: 8.00p) per share | 3,199 | 3,163 |
| **Ordinary dividends paid on equity shares** | 7,387 | 8,698 |
| Proposed final dividend for the year ended 30 September 2011 of 13.00p (2010: 10.50p) per share | 5,203 | 4,151 |

Dividends are payable on all classes of issued and fully or partially paid up shares as disclosed in note 22.

# Notes to the consolidated financial statements

For the year ended 30 September 2011

## 12. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent company by the weighted average number of ordinary, non-voting ordinary and A ordinary non-voting shares in issue during the period.

Diluted earnings per share are calculated by adjusting the weighted average number of shares in all classes outstanding to assume exercise of all potentially dilutive share options.

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Earnings for the purposes of basic and diluted earnings per share being profit attributable to equity holders of the parent company | 13,882 | 11,823 |

### Number of shares

| | Number of shares 2011 | Number of shares 2010 |
|---|---|---|
| Weighted average number of ordinary shares (for the purpose of basic earnings per share) in issue during the year | 39,870,485 | 39,521,494 |
| Effect of potentially dilutive share options | 176,960 | 540,559 |
| **Weighted average number of ordinary shares for the purposes of fully diluted earnings per share** | 40,047,445 | 40,062,053 |

In the accounts for the year ended 30 September 2010, the number of potentially dilutive share options was disclosed as being 826,957. This has been recalculated and restated as above, increasing the diluted earnings per share from 29.30 pence disclosed in the prior year to the 29.51 pence disclosed on the face of this year's income statement.

## 13. Goodwill

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| **Cost** | | |
| At 1 October and 30 September | 532 | 532 |
| **Accumulated impairment losses** | | |
| At 1 October and 30 September | 112 | 112 |
| **Carrying value at 30 September** | 420 | 420 |

The directors test goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

### Institutional stockbroking CGU

The total goodwill recognised in the statement of financial position arose on the acquisition of the institutional stockbroking business during the year ended 30 September 2008. The directors attributed a substantial proportion of the consideration paid to the value of the customer list present in the business. The useful life of this customer list was estimated at 10 years on the date of acquisition. In order to estimate the recoverable amount of the assets contained within the institutional stockbroking CGU, the related future cash flows have been projected over the remaining 6 year life of the customer list, based on the most recent budget approved by the Board.

The directors have used past experience to project the future cash flows attributable to the institutional stockbroking CGU. The key judgements exercised by the directors in estimating these future cash flows are as follows:

(i) Revenue
Different growth rates have been used across the various services contained within the CGU. The average growth rates used to extrapolate cash flow projections beyond the most recent forecasts approved by the Board are 5% for the traditional services and 29% for the IMAS service. The high growth rate assumption for the IMAS service is due to the fact that the product is in its infancy.

(ii) Administrative expenses
Economies of scale are expected to be gained in the medium to long-term, although there are not expected to be any significant changes to the nature of administrative expenses.

(iii) Asset maintenance
Modest ongoing maintenance expenditure is required on the assets in the CGU in order to generate the expected level of cash flows.

(iv) Discount rate
A discount rate of 5% has been applied to the forecast cash flows in order to calculate the value in use of the CGU.

Having reviewed the recoverable amount of the assets contained within the institutional stockbroking CGU, the directors are satisfied that goodwill is not impaired.

## 14. Other intangible assets

| | Computer software £'000 | Assets under construction £'000 | Non - contractial customer relationships £'000 | Key operating system £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 October 2009 | 4,383 | - | 1,523 | - | 5,906 |
| Additions | 322 | 1,815 | - | - | 2,137 |
| **At 30 September 2010** | 4,705 | 1,815 | 1,523 | - | 8,043 |
| Additions | 199 | 3,122 | - | - | 3,321 |
| Transfer | 405 | (1,408) | - | 1,003 | - |
| Disposals | (4) | - | - | - | (4) |
| **At 30 September 2011** | 5,305 | 3,529 | 1,523 | 1,003 | 11,360 |
| **Amortisation** | | | | | |
| At 1 October 2009 | 3,384 | - | 266 | - | 3,650 |
| Charge for the financial year | 414 | - | 152 | - | 566 |
| At 30 September 2010 | 3,798 | - | 418 | - | 4,216 |
| Charge for the financial year | 507 | - | 152 | 46 | 705 |
| Disposals | (1) | - | - | - | (1) |
| **At 30 September 2011** | 4,304 | - | 570 | 46 | 4,920 |
| Carrying value at 30 September 2010 | 907 | 1,815 | 1,105 | - | 3,827 |
| **Carrying value at 30 September 2011** | 1,001 | 3,529 | 953 | 957 | 6,440 |
| Average remaining amortisation period | 2 years 2 months | N/a | 6 years 3 months | 9 years 7 months | |

# Notes to the consolidated financial statements

For the year ended 30 September 2011

### Assets under construction

During the year ended 30 September 2010 the Group embarked upon a project to renew its IT infrastructure and administration systems in order to enhance its products and services. This project continued throughout the year and remained ongoing at the year-end.

The first phase of the project was completed during the year and the asset generated was brought into use, enabling the Group for the first time to offer ISAs and dealing accounts. The costs specifically relating to the completed components of the system were approximately £1.4m. These costs were transferred from assets under construction into the appropriate category of other intangible assets on the date that ISAs and dealing accounts were launched.

Although part of the project was complete, work on the remaining components of the system was still ongoing at the year-end. The costs associated with this continuing part of the project have been classified as assets under construction.

At the date of the consolidated statement of financial position, approximately £3.5m of costs (2010: £1.8m) had been incurred in acquiring intangible assets which have been classified as assets under construction. These costs are a mixture of purchased software, external consultancy costs, other external costs and internal staff costs. The total costs incurred at the reporting date are analysed as follows:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Purchased software | - | 298 |
| External consultancy costs | 2,241 | 1,012 |
| Other external costs | 20 | - |
| | 2,261 | 1,310 |
| Internal costs | 1,268 | 505 |
| **Total assets under construction** | 3,529 | 1,815 |

Having reviewed the recoverable amount of the asset, the directors are satisfied that the recoverable amount supports the costs capitalised as assets under construction.

At the date of the consolidated statement of financial position, the Group had a contracted commitment of £82,000 (2010: £905,000). This commitment relates to the ongoing project to renew its IT infrastructure and administration systems, for which the costs to date are disclosed as assets under construction.

# Notes to the consolidated financial statements

For the year ended 30 September 2011

## 15. Property, plant and equipment

| | Leasehold improvements £'000 | Computer equipment £'000 | Office equipment £'000 | Assets under construction £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 October 2009 | 530 | 1,344 | 681 | - | 2,555 |
| Additions | 6 | 266 | 29 | 118 | 419 |
| Disposals | - | (80) | (2) | - | (82) |
| Transfers | - | 9 | (9) | - | - |
| **At 30 September 2010** | 536 | 1,539 | 699 | 118 | 2,892 |
| Additions | - | 74 | 97 | - | 171 |
| Disposals | - | (258) | (9) | - | (267) |
| Transfers | - | 118 | - | (118) | - |
| **At 30 September 2011** | 536 | 1,473 | 787 | - | 2,796 |
| **Depreciation** | | | | | |
| At 1 October 2009 | 258 | 898 | 350 | - | 1,506 |
| Charge for the financial year | 50 | 222 | 92 | - | 364 |
| Disposals | - | (75) | - | - | (75) |
| **At 30 September 2010** | 308 | 1,045 | 442 | - | 1,795 |
| Charge for the financial year | 70 | 210 | 126 | - | 406 |
| Disposals | - | (246) | (9) | - | (255) |
| **At 30 September 2011** | 378 | 1,009 | 559 | - | 1,946 |
| Carrying amount at 30 September 2010 | 228 | 494 | 257 | 118 | 1,097 |
| **Carrying amount at 30 September 2011** | 158 | 464 | 228 | - | 850 |

During the year, additions of property, plant and equipment under finance leases totalled £54,000 (2010: £17,000).

The carrying amount of the Group's office equipment includes an amount of £51,000 (2010: £49,000) in respect of assets held under finance leases.

As outlined in note 14, the Group continued with the project initiated in the year ended 30 September 2010 to renew its IT infrastructure and administration systems. Part of the project was completed in the year and the related asset was subsequently brought into use, resulting in £118,000 being transferred from assets under construction to computer equipment.

At the year-end, the Group had no commitments (2010: £Nil) to purchase any tangible fixed assets.

# Notes to the consolidated financial statements

For the year ended 30 September 2011

### 16. Subsidiaries

The Group has investments in the ordinary share capital of subsidiaries shown below. All of the subsidiaries are registered in England & Wales.

| Name of Company | Country of incorporation | Principal activity | Holding % |
|---|---|---|---|
| A J Bell Limited * | England | Pension/Group administration | 100 |
| A J Bell Trustees Limited | England | Dormant | 100 |
| Ken Hovers (Pension Consultants) Limited | England | Dormant | 100 |
| Ashby London Trustees Limited | England | Dormant | 100 |
| A J Bell Number 2 Limited * | England | Dormant | 100 |
| Ashby London Actuarial Services Limited * | England | Dormant | 100 |
| A J Bell Management Limited * | England | Pension administration | 100 |
| Sippdeal Trustees Limited | England | Dormant | 100 |
| A J Bell (PP) Trustees Limited | England | Dormant | 100 |
| Whitehead Trustees Limited | England | Dormant | 100 |
| Ashby London (PP) Trustees Limited | England | Dormant | 100 |
| Sippdeal Limited | England | Dormant | 100 |
| Fi Software Limited * | England | Dormant | 100 |
| A J Bell Securities Limited * | England | Stockbroking | 100 |
| Lawshare Nominees Limited | England | Dormant | 100 |

* Held directly by A J Bell Holdings Limited.

# Notes to the consolidated financial statements

For the year ended 30 September 2011

## 17. Other financial assets

### Trade and other receivables

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Trade receivables | 3,687 | 2,773 |
| Prepayments and accrued income | 3,503 | 3,130 |
| **Total trade and other receivables** | 7,190 | 5,903 |

The directors consider that the carrying value of trade and other receivables approximates to their fair value.

The maturity profile of the Group's trade receivables was as follows:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Neither past due nor impaired | 3,479 | 2,642 |
| 31 to 60 days | 3 | 17 |
| 61 to 90 days | 42 | 61 |
| 91 days and over | 237 | 119 |
| | 3,761 | 2,839 |
| Less provision for doubtful debts | (74) | (66) |
| **Trade receivables per consolidated statement of financial position** | 3,687 | 2,773 |

The movement in the provision for doubtful debts is as follows:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| At 1 October | 66 | 72 |
| Amounts charged to the income statement as irrecoverable | 43 | 27 |
| Amounts recovered during the year | (35) | (33) |
| **At 30 September** | 74 | 66 |

The directors have reviewed the collectability of all receivables and are satisfied that those balances not otherwise provided against are recoverable.

### Client and market receivables

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Client and market receivables | 22,209 | 15,958 |

Client and market receivables relate entirely to the stockbroking business and arise during the share settlement process. Client and market receivables are subject to the same valuation methodology as trade and other receivables.

# Notes to the consolidated financial statements

For the year ended 30 September 2011

### Cash and cash equivalents

| | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|
| Cash and cash equivalents | 18,813 | 15,186 |
| Clients' settlement cash balances | 9,981 | 10,235 |
| **Total** | 28,794 | 25,421 |

Cash and cash equivalents comprise cash held by the Company and any of its operating subsidiaries. It also includes short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value. Any client bank accounts in foreign currency have been translated into sterling at the prevailing exchange rate at the statement of financial position date.

Clients' settlement cash balances are those amounts of cash held on behalf of clients by A J Bell Securities Limited in accordance with the FSA's client money rules and arise in the settlement process of share transactions. All other clients' and trustees' cash balances are not included.

### Financial assets

Financial assets consist of cash and cash equivalents, trade receivables and client and market receivables and total £54,690,000 (2010: £44,152,000).

### Risks arising from financial assets

#### Credit and bank default risk

The Group's credit risk extends to its principal financial assets. These are cash balances held with banks and trade and other receivables.

As regards trade receivables, the Group has implemented procedures that require appropriate credit or alternative checks on potential clients before business is undertaken. This minimises credit risk in this area.

The directors continue to monitor the strength of the banks used by the Group. The banks used by the Group are Bank of Scotland, HSBC Bank plc, The Royal Bank of Scotland plc, Barclays Bank plc, Brown Brothers Harriman & Co and Bank of Ireland UK.

Bank of Scotland, the Group's principal banker, is substantial and is 100% owned by Lloyds Banking Group in which the UK Government has a significant strategic stake. The degree of state ownership is closely monitored by the Group. All of the banks currently used by the Group have long term credit ratings of at least A- (Fitch) or A3 (Moody's), apart from the Bank of Ireland UK, which currently has ratings of BBB (Fitch) and Ba1 (Moody's). Where the services of other banks are used, the Group follows a rigorous due diligence process prior to selection. This results in the Group retaining the ability to further mitigate the counterparty risk on its own behalf and that of its clients.

### Embedded derivatives

In accordance with IAS39, 'Financial Instruments: Recognition and Measurement', the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. The directors are satisfied that there are no material embedded derivatives held by the Group.

## 18. Deferred tax

The following are the major deferred tax assets/(liabilities) recognised by the Group and movements thereon during the current and prior reporting period.

| | Accelerated capital allowances £'000 | Share-based payments £'000 | Short-term timing differences £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 October 2009 | 315 | 180 | (328) | 167 |
| Credit to income in respect of prior year | 183 | - | - | 183 |
| Credit/(charge) to the income statement | (208) | 4 | 45 | (159) |
| Credit to equity | - | 232 | - | 232 |
| **At 1 October 2010** | 290 | 416 | (283) | 423 |
| Credit/(charge) to the income statement | (227) | 4 | 65 | (158) |
| Charge to equity | - | (303) | - | (303) |
| **At 30 September 2011** | 63 | 117 | (218) | (38) |

The current year deferred tax adjustment relating to share-based payments reflects the estimated total future tax relief associated with the cumulative share-based payment benefit arising in respect of share options granted but unexercised as at 30 September 2011.

Certain deferred tax assets and liabilities have been offset.  The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Deferred tax asset | 180 | 706 |
| Deferred tax liability | (218) | (283) |
| **Net deferred tax (liability)/asset** | (38) | 423 |

# Notes to the consolidated financial statements

For the year ended 30 September 2011

## 19. Obligations under finance leases

### Minimum lease payments

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Amounts payable under finance leases: | | |
| Within one year | 26 | 15 |
| In the second to fifth years inclusive | 29 | 10 |
| After five years | - | - |
| | 55 | 25 |
| Less: future finance charges | (5) | (2) |
| **Present value of lease obligations** | 50 | 23 |

### Present value of minimum lease payments

Amounts payable under finance leases:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Within one year | 23 | 14 |
| In the second to fifth years inclusive | 27 | 9 |
| After five years | - | - |
| **Present value of lease obligations** | 50 | 23 |

It is the Group's policy to lease certain items of office equipment under finance leases. The average lease term is three years. All lease obligations are denominated in sterling. The fair value of the Group's lease obligations approximates to their carrying amount.

## 20. Other financial liabilities

### Trade and other payables

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Trade payables | 485 | 697 |
| Social security and other taxes | 923 | 895 |
| Accruals and deferred income | 2,719 | 2,669 |
| | 4,127 | 4,261 |

Trade payables, accruals and deferred income principally comprise amounts outstanding for trade purchases and ongoing costs. The directors consider that the carrying amount of trade payables approximates to their fair value.

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Client and market payables | 31,754 | 25,750 |

Client and market payables arise from the settlement process of share transactions in the stockbroking business.

### Non-current payables

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Other payables | 14 | 21 |

### Financial liabilities

Financial liabilities consist of trade payables, client creditors and obligations under finance leases.

The following details the Group's remaining contractual maturity for its non-derivative financial liabilities.

| | Less than 1 month £'000 | 1 to 3 months £'000 | 3 to 12 months £'000 | 1 to 5 years £'000 | Total £'000 |
|---|---|---|---|---|---|
| 2011 | | | | | |
| **Fixed rate instruments** | 32,164 | - | 98 | 27 | 32,289 |
| 2010 | | | | | |
| **Fixed rate instruments** | 26,392 | 1 | 68 | 9 | 26,470 |

### Risks arising from financial liabilities

#### Liquidity risk

This is the risk that the Group may be unable to meet its liabilities as and when they fall due. These liabilities arise from the day-to-day activities of the Group and from its obligations to clients. The Group is a highly cash generative business and maintains sufficient cash and standby banking facilities to fund its foreseeable trading requirements. Where clients' funds are deposited on a term basis with banks, the Group's policy ensures that funds are available at short notice.

### 21. Provisions

| | Vacant property £'000 | FSCS Levy £'000 | Office dilapidations £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 October 2010 | 33 | - | 82 | 115 |
| Utilised in the year | (33) | - | - | (33) |
| Charged in the year | - | 86 | 54 | 140 |
| **At 30 September 2011** | - | 86 | 136 | 222 |
| Included in current liabilities | - | 86 | - | 86 |
| Included in non-current liabilities | - | - | 136 | 136 |

The office dilapidations provision represents an estimate of costs for which the Group is contractually obliged at the end of its property lease agreements. The provision is based on the directors' best estimate of the costs that will ultimately be suffered by the Group. The total provision is spread over the life of the lease agreements which have been entered into by the Group for its two trading premises.

The FSCS levy provision represents an estimate of the potential further levy that may arise in respect of the failure of Keydata.

# Notes to the consolidated financial statements

For the year ended 30 September 2011

## 22. Share capital

| | 2011 £ | 2010 £ |
|---|---|---|
| **Authorised:** | | |
| 100,239,482 ordinary shares of 0.1p each | 100,239 | 100,239 |
| 900,000 ordinary non-voting shares of 0.1p each | 900 | 900 |
| 8,860,518 A non-voting ordinary shares of 0.1p each | 8,861 | 8,861 |
| | 110,000 | 110,000 |
| **Issued, fully called and paid:** | | |
| 37,903,878 (2010: 37,859,466) ordinary shares of 0.1p each | 37,904 | 37,859 |
| 75,000 (2010: 75,000) ordinary non-voting shares of 0.1p each | 75 | 75 |
| 1,913,681 (2010: 1,408,850) A non-voting ordinary shares of 0.1p each | 1,914 | 1,409 |
| | 39,893 | 39,343 |
| **Issued, partly called and paid:** | | |
| 77,910 (2010: 192,322) A non-voting ordinary shares of 0.1p each – 10% partly called and paid | 8 | 19 |
| 10,000 (2010: Nil) A non-voting ordinary shares of 0.1p each – 0.3% partly called and paid | - | - |
| | 8 | 19 |
| **Issued, fully called and partly paid:** | | |
| 45,336 (2010: Nil) A non-voting ordinary shares of 0.1p each – fully called, 10% partly paid | 4 | - |
| **Total value of issued, fully or partly paid shares** | 39,905 | 39,362 |

During the year:

| Transaction type | Share class | Number of shares | Premium £'000 |
|---|---|---|---|
| New issue | A non-voting ordinary shares of 0.1p each | 54,831 | 105 |
| New issue | A non-voting ordinary shares of 0.1p each, 0.3% partly-paid | 10,000 | - |
| New issue | Ordinary shares of 0.1p each | 25,336 | 76 |
| Exercise of options | A non-voting ordinary shares of 0.1p each | 405,000 | 88 |
| Conversion of A non-voting ordinary shares of 0.1p each | Ordinary shares of 0.1p each | 19,076 | - |
| 90% balance on partly-paid shares called up and paid | A non-voting ordinary shares of 0.1p each | 69,076 | 62 |
| Repurchase and cancellation | A non-voting ordinary shares of 0.1p each | (5,000) | (1) |
| | | | 330 |

The ordinary non-voting shares and A non-voting ordinary shares have the same rights as to dividend and on winding-up as the ordinary shares except that they cannot vote at meetings of shareholders.

## 23. Treasury shares

At the date of the statement of financial position, the Company held 45,336 0.1p A non-voting ordinary 10% partly-paid shares (2010: Nil), pending reissue. As the shares were forfeited to the Company, no consideration was paid and as such there is no deduction from shareholders' equity.

# Notes to the consolidated financial statements

For the year ended 30 September 2011

## 24. Notes to the statement of cash flows

| | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|
| Profit for the financial year | 13,882 | 11,823 |
| Adjustments for: | | |
| Investment revenue | (119) | (87) |
| Finance costs | 13 | 12 |
| Income tax expense | 5,164 | 4,299 |
| Depreciation of property, plant and equipment | 406 | 364 |
| Amortisation of intangible assets | 705 | 566 |
| Share-based payment expense | 73 | 13 |
| Deferred tax effect of share-based payments | (303) | 232 |
| Tax relief on exercise of share options | 302 | 57 |
| Increase/(decrease) in provisions and other payables | 100 | (46) |
| (Profit) on disposal of intangible assets | (1) | - |
| Loss on disposal of fixed assets | 12 | 9 |
| Operating cash flows before movements in working capital | 20,234 | 17,242 |
| (Increase)/decrease in receivables | (7,538) | 19,018 |
| Increase/(decrease) in payables | 5,870 | (13,345) |
| **Cash generated from operations** | 18,566 | 22,915 |
| Income taxes paid | (4,780) | (4,700) |
| Interest paid | (13) | (12) |
| **Net cash from operating activities** | 13,773 | 18,203 |

## 25. Operating leases

| | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|
| **The Group as lessee:** | | |
| Minimum lease payments under operating leases recognised as an expense in the year | 731 | 742 |

At the date of the consolidated statement of financial position, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases as shown in the table presented below. The calculations represent the minimum payments up to the next available break point in each of the Group's leases.

| | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|
| Within one year | 732 | 740 |
| In the second to fifth years inclusive | 1,229 | 1,931 |
| | 1,961 | 2,671 |

Presented below are the minimum lease payments to which the Group would be contractually obligated if all break options were removed:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Within one year | 732 | 740 |
| In the second to fifth years inclusive | 1,722 | 2,233 |
| After five years | 330 | 444 |
| | 2,784 | 3,417 |

Operating lease payments represent rentals payable by the Group for all of its office properties plus sundry plant and equipment. At original inception, office property leases are negotiated for an average term of 10 years and rentals are fixed for an average of 5 years.

## 26. Share-based payments

### Equity-settled share option schemes

During the year there have been two HMRC-approved share option schemes in operation, an EMI scheme and CSOP. Following amendments to the EMI thresholds, the Group ceased to qualify as an eligible participant and the EMI scheme was closed to new entrants in July 2008. The CSOP was created in July 2009 to replace the EMI scheme, and to ensure that equity ownership for all levels of employees within the organisation continued to be facilitated.

All unexercised options granted under the EMI scheme prior to July 2008 are fully vested and remain exercisable. Options granted under the EMI scheme are usually forfeited if the employee leaves the Group before the option expires. There were no unvested EMI scheme options in existence during the current or prior year. Therefore, there was no share-based payment expense in respect of the EMI scheme in either the prior year or current year, nor will there be any expense in future accounting periods.

Options granted under the CSOP vest between three and ten years after the date of grant. They are exercisable at a price determined by the directors but not materially less than the greater of the market value of a share on the date of grant and, in the case of an option which is a right to subscribe for shares, the nominal value of the share. Options granted under the CSOP are usually forfeited if the employee leaves the Group before the option expires. The expense for share-based payments under the CSOP is recognised over the respective vesting period of these options. The expense recognised in the year to 30 September 2011 is £14,004 (2010: £13,469).

The fair value of equity-settled share options granted is estimated as at the date of grant using the Black-Scholes method, taking into account the terms and conditions upon which the options were granted.

During the period, a total of 68,667 options were granted under the CSOP. The fair value of these options has been estimated using the Black-Scholes method.

The inputs to that model for this new issue of options are listed below:

| | |
|---|---|
| Fair value of share from generally accepted business model (£) | 3.00 |
| Exercise price of an option (£) | 3.00 |
| Expected volatility | 25% |
| Expected dividend yield | 6.17% |
| Risk free interest rate | 0.98% |
| Expected option life to exercise (months) | 36 |

The share price at the date of grant of all options is based on the market value of the shares on that date. As the Company is unlisted, it has no readily available share price and so its share value is calculated using dividend and earnings-based models to determine a range of valuations. The average price indicated by these two valuations is assumed to be the approximate market value at the date of grant and is agreed with HMRC prior to the granting of options. The expected life of the options is based on the minimum period between grant of the option, the earliest possible exercise date and an analysis of the historical exercise data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that historical volatility is indicative of future trends, which may also not necessarily be the case.

Details of the aggregate share options (EMI and CSOP) outstanding during the year are as follows:

**Reconciliation of the movement in the number of share options:**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price (£) | Number of options | Weighted average exercise price (£) |
| Outstanding at beginning of period | 801,635 | 0.80 | 944,135 | 0.74 |
| Granted during the period | 68,667 | 3.00 | - | - |
| Exercised during the period | (405,000) | 0.22 | (127,500) | 0.22 |
| Forfeitures | (49,545) | 0.92 | (15,000) | 1.90 |
| **Outstanding at the end of the period** | 415,757 | 1.72 | 801,635 | 0.80 |
| **Exercisable at the end of the period** | 137,090 | 0.77 | 141,635 | 1.00 |

The Company is unlisted so no quoted price is available for its stock.

The lowest exercise price for share options outstanding at the end of the period was 22p and the highest exercise price was 300p. The weighted average remaining contractual life of share options outstanding at the end of the period was 7 years and 8 months.

## Discretionary share award

During the year, the Group made a discretionary share award to certain employees in recognition of their past service to the Group, at a price lower than fair value. The recipients are liable for any resulting income tax payable.

These share awards fall within the definition of share-based payments contained within IFRS 2 “Share-Based Payment”. Accordingly a charge to the income statement has been made relating to this award.

The share awards that were made in the period are summarised below:

| Number of shares awarded | Amount paid per share £ | Fair value per share £ | Expense in the period £’000 |
|---|---|---|---|
| 19,833 | 0.001 | 3.00 | 59 |

## Share option reserve

The balance brought forward within the share option reserve of £581,000 represents the cumulative effect of share-based payments and the associated tax in prior years. This balance brought forward has been transferred to retained earnings in the current year. All share-based payment transactions in the current year have been recognised directly in retained earnings. All future share-based payment transactions will also be recognised directly in retained earnings.

## Option to buy shares scheme

In October 2010, the directors introduced the A J Bell option to buy shares scheme. This scheme was implemented to facilitate equity ownership in the Group for scheme members through the grant of share options under the CSOP and the issue of A non-voting ordinary shares in the parent company. Members’ entitlements will be based on a proportion of their remuneration in the Group’s financial year. There were no transactions resulting from this scheme in the year ended 30 September 2011. The first awards to be made to members of the scheme will take place during the year ended 30 September 2012.

# Notes to the consolidated financial statements

For the year ended 30 September 2011

## 27. Related party transactions

### Subsidiaries

The Company has a related party relationship with its subsidiaries. Transactions between the Company and its subsidiaries and between subsidiaries have been eliminated on consolidation.

### Key management personnel

The Group has a related party relationship with its directors and members of the senior management team (the "key management personnel"). Remuneration of key management personnel is disclosed in note 7. During the year there were no material transactions or balances between the Group and its key management personnel or members of their close family, other than noted below.

### Directors

Remuneration of the directors is disclosed in note 7.

As disclosed in note 23, 45,336 0.1p A non-voting 10% partly-paid shares were forfeited by Mr Dootson following his resignation as a director.

### Directors' loans

During the year, outgoing director Mr Dootson repaid the full balance of £18,000 on a loan which was provided to him in the previous financial year.

Mr Bell operates a loan account with the Company. The balance of this loan at 30 September 2011 was £Nil (2010: £313 payable by the Company to Mr Bell). The highest amount of the loan within the year was £313 payable by the Company to Mr Bell (2010: £12,576 payable by the Company).

Repayments in the year from the Company to Mr Bell totalled £806. The loan carries no interest charge.

### Charitable donations

During the year, Mr Bell became a trustee of the A J Bell Trust, a registered charity. Donations by the Group to the A J Bell Trust totalled £37,000 in the year (2010: £Nil) and are included in the total charitable donations disclosed in the Directors' Report.

In addition, Mr Bell entered into an agreement with the Group to forego the performance-related bonus to which he would have become entitled for the year ended 30 September 2011, requesting that an equivalent amount be instead paid to the A J Bell Trust.

In March 2011, the directors provisionally agreed to pay to the A J Bell Trust an amount equal to the bonus to which Mr Bell would have become entitled, subject to final approval of the amount to be paid at the November 2011 Remuneration Committee meeting.

The Trust also acquired 14,412 ordinary shares of 0.1p each in A J Bell Holdings Limited during the year.

## 28. Events after the date of the consolidated statement of financial position

At the date of approval of these consolidated financial statements, the directors are not aware of any material events after the date of the consolidated statement of financial position.

# Company balance sheet

## At 30 September 2011

| | Notes | 2011 £'000 | 2011 £'000 | 2010 £'000 | 2010 £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Investments | 4 | | 5,555 | | 5,555 |
| **Current assets** | | | | | |
| Debtors: | 5 | | | | |
| - due within one year | | 7,770 | | 4,336 | |
| - due after one year | | 7 | | 4 | |
| | | 7,777 | | 4,340 | |
| Cash at bank and in hand | | 10,721 | | 6,249 | |
| | | | 18,498 | | 10,589 |
| **Current liabilities** | | | | | |
| Creditors: Amounts falling due within one year | 6 | | (1,298) | | (2,065) |
| **Net assets** | | | 22,755 | | 14,079 |
| **Capital and reserves** | | | | | |
| Called up share capital | 7 | | 40 | | 39 |
| Share premium account | 9 | | 573 | | 243 |
| Share-based payment reserve | 9 | | - | | 51 |
| Profit and loss account | 9 | | 22,142 | | 13,746 |
| **Shareholders' funds** | 10 | | 22,755 | | 14,079 |

The financial statements of A J Bell Holdings Limited (registered number 04503206) were approved by the Board of directors and authorised for issue on 14 December 2011. They were signed on its behalf by:

**Michael Summersgill**
Director and Company Secretary

# Notes to the Company financial statements

For the year ended 30 September 2011

## 1. Significant accounting policies

### Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historic cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The accounting policies that are different to those used in the preparation of the consolidated financial statements are summarised below. They have all been applied consistently throughout the year and the preceding year.

The separate statements have been prepared on a going concern basis. The directors believe that they have a reasonable expectation that the Company has adequate resources to continue in operational existence for 12 months from the date the financial statements are adopted.

### Investments

Investments in subsidiary undertakings are shown at cost less provision for impairment.

### Taxation

The charge or credit for taxation is based on the profit or loss 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 FRS 19.

## 2. Profit for the financial year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company reported a profit for the year ended 30 September 2011 of £15,659,000 (2010: £7,541,000). This profit was generated from the Company's principal activity which is that of a holding company.

The auditor's remuneration for the audit and other services is disclosed in note 6 to the consolidated financial statements.

## 3. Charitable donations

During the year, the Company made Charitable donations of £42,500 (2010: £7,401).

## 4. Investments

| | £'000 |
|---|---|
| **Cost** | |
| At 1 October 2010 and 30 September 2011 | 5,957 |
| **Provisions for impairment** | |
| At 1 October 2010 and 30 September 2011 | 402 |
| **Net book value at 30 September 2010 and 30 September 2011** | 5,555 |

# Notes to the Company financial statements

For the year ended 30 September 2011

The Company has investments in the ordinary share capital of the following subsidiaries.

| Name of Company | Country of incorporation | Principal activity | Holding % |
|---|---|---|---|
| A J Bell Limited * | England | Pension/Group administration | 100 |
| A J Bell Trustees Limited | England | Dormant | 100 |
| Ken Hovers (Pension Consultants) Limited | England | Dormant | 100 |
| Ashby London Trustees Limited | England | Dormant | 100 |
| A J Bell Number 2 Limited * | England | Dormant | 100 |
| Ashby London Actuarial Services Limited * | England | Dormant | 100 |
| A J Bell Management Limited * | England | Pension administration | 100 |
| Sippdeal Trustees Limited | England | Dormant | 100 |
| A J Bell (PP) Trustees Limited | England | Dormant | 100 |
| Whitehead Trustees Limited | England | Dormant | 100 |
| Ashby London (PP) Trustees Limited | England | Dormant | 100 |
| Sippdeal Limited | England | Dormant | 100 |
| Fi Software Limited * | England | Dormant | 100 |
| A J Bell Securities Limited * | England | Stockbroking | 100 |
| Lawshare Nominees Limited | England | Dormant | 100 |

* Held directly by A J Bell Holdings Limited.

## 5. Debtors

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Due within one year: | | |
| Trade debtors | 1,455 | 1,093 |
| Amounts owed by group undertakings | 6,184 | 3,123 |
| Prepayments and accrued income | 131 | 120 |
| | 7,770 | 4,336 |

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| **Due after one year:** | | |
| Deferred tax asset relating to share-based payments | 7 | 4 |

# Notes to the Company financial statements

For the year ended 30 September 2011

## 6. Creditors - Amounts falling due within one year

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Trade creditors | 15 | 21 |
| Amounts owed to Group undertakings | 448 | 342 |
| Taxation and social security | - | 1 |
| Corporation tax | 795 | 1,500 |
| Accruals and deferred income | 40 | 201 |
| | 1,298 | 2,065 |

## 7. Called up share capital

The Company's share capital is disclosed in note 22 to the consolidated financial statements.

## 8. Treasury shares

Details of shares held by the Company at the balance sheet date are disclosed in note 23 to the consolidated financial statements.

## 9. Reserves

| | Notes | Share premium £'000 | Share-based payment reserve £'000 | Profit & loss £'000 |
|---|---|---|---|---|
| At 1 October 2010 | | 243 | 51 | 13,746 |
| Transfer between reserves | | - | (51) | 51 |
| Retained profit for the financial year | | - | - | 15,659 |
| Issue of new shares | | 330 | - | - |
| Forfeited shares | 8 | - | - | - |
| Dividends paid | | - | - | (7,387) |
| Credit to equity for equity-settled share-based payments | | - | - | 73 |
| **At 30 September 2010** | | 573 | - | 22,142 |

The balance brought forward within the share-based payment reserve of £51,000 represents the cumulative effect of share-based payments and the associated tax in prior years. This balance brought forward has been transferred to the profit and loss account in the current year. All share-based payment transactions in the current year have been recognised directly in the profit and loss account. All future share-based payment transactions will also be recognised directly in the profit and loss account.

# Notes to the Company financial statements

For the year ended 30 September 2011

## 10. Reconciliation of movement in equity shareholders' funds

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Retained profit for the financial year | 15,659 | 7,541 |
| Credit to equity for equity-settled share-based payments | 73 | 13 |
| Dividends | (7,387) | (8,698) |
| | 8,345 | (1,144) |
| Proceeds from issue of new shares | 331 | 45 |
| Net addition/(reduction) to shareholders' funds | 8,676 | (1,099) |
| Opening shareholders' funds at 1 October | 14,079 | 15,178 |
| **Closing shareholders' funds at 30 September** | 22,755 | 14,079 |

## 11. Operating lease commitments

| | Land and buildings | |
|---|---|---|
| | 2011 £'000 | 2010 £'000 |
| Annual commitments under non-cancellable operating leases are as follows: | | |
| Expiry date: | | |
| Within one year | - | 12 |
| | - | 12 |

# Five-year summary

## For the year ended 30 September 2011

| | IFRS | | | | |
|---|---|---|---|---|---|
| | 2011<br>£'000 | 2010<br>£'000 | 2009<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
| **Results** | | | | | |
| Revenue | 41,570 | 35,435 | 38,491 | 24,532 | 16,150 |
| Profit from operations | 18,940 | 16,047 | 16,298 | 9,501 | 6,296 |
| Profit before tax | 19,046 | 16,122 | 16,420 | 9,686 | 6,552 |
| Profits attributable to equity holders of A J Bell Holdings Limited | 13,882 | 11,823 | 11,538 | 6,974 | 4,472 |
| **Assets employed** | | | | | |
| Non-current assets | 7,710 | 5,767 | 3,892 | 4,202 | 954 |
| Current assets | 58,193 | 47,282 | 59,230 | 24,566 | 8,453 |
| Current liabilities | (38,172) | (32,281) | (45,828) | (18,588) | (2,911) |
| Non-current liabilities | (41) | (30) | (38) | (453) | (208) |
| Long-term provisions | (136) | (82) | (72) | (169) | (53) |
| **Net assets** | 27,554 | 20,656 | 17,184 | 9,558 | 6,235 |
| **Financed by** | | | | | |
| Equity | 27,554 | 20,656 | 17,184 | 9,558 | 6,235 |
| **Key statistics** | | | | | |
| Earnings per share | 34.82 | 29.91 | 29.33 | 17.93 | 11.60 |
| Fully diluted earnings per share | 34.66 | 29.51 | 28.71 | 17.59 | 11.47 |
| Dividends paid in year (pence per share) | 18.50 | 22.00 | 10.75 | 9.55 | 3.00 |
| Dividend declared with respect to profits generated in year (pence per share) | 13.00 | 18.50 | 18.25 | 10.75 | 8.30 |

# Definitions

The following definitions are used throughout the annual report and financial statements.

| | |
|---|---|
| **A J Bell, Group** | A J Bell Holdings Limited and its wholly owned subsidiaries |
| **AUA** | Assets Under Administration |
| **Board** | The Board of Directors of A J Bell Holdings Limited |
| **Company** | A J Bell Holdings Limited |
| **CGU** | Cash Generating Unit |
| **CSOP** | Company Share Option Plan |
| **EMB** | Executive Management Board |
| **EMI** | Enterprise Management Incentive |
| **FSA** | Financial Services Authority |
| **FSCS** | Financial Services Compensation Scheme |
| **HMRC** | HM Revenue and Customs |
| **ISA** | Individual Savings Account |
| **RDR** | Retail Distribution Review |
| **SIPP** | Self Invested Personal Pension |
| **SSAS** | Small Self Administered Scheme |

# Company information

| | |
|---|---|
| **Company number** | 04503206 |
| **Company Secretary** | Michael Summersgill |
| **Registered office** | A J Bell Holdings Limited<br>Trafford House<br>Chester Road<br>Manchester<br>M32 0RS |
| **Auditor** | KPMG Audit Plc<br>St James' Square<br>Manchester<br>M2 6DS |
| **Principal banker** | Bank of Scotland plc<br>1 Lochrin Square<br>92-98 Fountainbridge<br>Edinburgh<br>EH3 9QA |
| **Solicitors** | Weightmans LLP<br>India Buildings<br>Water Street<br>Liverpool<br>L2 0GA |

**A J Bell Holdings Limited**

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