Global Aerospace Underwriting Managers Limited

Directors' Report and Financial Statements for the year ended 31 December 2019

Registered Number 02512067

Contents

Directors

N Brown

G Finney

C U Kroll
(resigned 24 Apr 19)

R Love

S A Michael

S Österlein

A M E Tasker

J C Wilkinson
(appointed 08 Jul 19)

Registered Office
Fitzwilliam House
10 St Mary Axe
London EC3A 8EQ

STRATEGIC REPORT

Business review and principal activities
The Company is the holding company of a group of companies, the principal activity of which is the transaction, as agent, of aerospace insurance. During 2019, business was underwritten on behalf of the Global Aerospace Pool, the members of which were:

National Indemnity Company
Münchener Rückversicherungs-Gesellshaft Aktiengesellschaft in München
The Tokio Marine & Nichido Fire Insurance Co. Ltd
Mitsui Sumitomo Insurance Co. Ltd
Mapfre Re, Compañia de Reaseguros, S.A.

The Group handles claims arising from current and previous business underwritten, and manages the run-off of the British Aviation Insurance Group pool in the UK and Canada and the Associated Aviation Underwriters pool in the US. The Group also provides management services to a number of aerospace insurance operations in run-off. The Company is authorised and regulated by the Financial Conduct Authority as an insurance intermediary. The Group has its Head Office in the UK and has operations in the US, Canada, Switzerland, France and Germany.

The financial performance of the Group depends primarily on the state of the aviation insurance market which has historically been cyclical. The income of the Group comes largely from management charges, fees and commissions charged to current and run-off pool members and depends upon the expenses of the Group, premiums written and pool profitability. The expenses of the Group together with any deficit arising in the Group's defined benefit retirement plans are charged to the pool members by way of a management charge. The profit of the Group is therefore derived from the management fees and profit commissions from the Global Aerospace Pool but also reflects the difference between the reimbursement of any deficit in the defined benefit retirement plans less any amounts recognised as expense during the year.

The business model of the Group also depends on it retaining its own regulatory approvals worldwide and the maintenance of a pool of financially strong insurers who can make available to the Group licensed insurance capacity in the jurisdictions in which the Group transacts aviation insurance worldwide.

Over recent years the aviation insurance market has been highly competitive as a number of new entrants joined the market and sought to acquire business, depressing premium rates. In this trading environment the Group adopted a selective approach to pool underwriting as a result of which premium volumes declined between 2009 and 2016, and this was reflected in the Group's management fee. During the period of this soft market, underwriting results gradually declined too but generally remained acceptable and generated a satisfactory level of profit commission for the Group. However, for the most recent pool years, we have experienced some exceptional large losses as well as worse claims experience more generally, leading to unsatisfactory underwriting results. The market started to improve during 2017 and premium volumes underwritten have continued to grow since that time. In light of recent loss experience we expect market conditions to continue to improve and satisfactory underwriting profitability to return.

Note 1 to the financial statements explains the various elements of Group income. The Group's income and Key Performance Indicators (KPIs) in 2019 includes the 2019 management fee and profit commission on the 2018 pool along with an update to the 2017 position. Income also includes the management charge in respect of the Group's expenses. Total income in 2019 was £52 million compared with £50 million in 2018. Because of the charging agreement with pool members, total comprehensive income for the year before currency translation movements is a KPI. This was £5.3 million in 2019 compared with £4.3 million in 2018.

The Group continues to develop and refine its underwriting approach and adopts a selective and disciplined approach to risk selection. The overall financial position at the end of the year was satisfactory and the directors expect this to continue.

In 2015 the Group acquired Fireside Partners Inc., a company which provides emergency response services in the US. Its sales in 2019 were $1.9 million (2018: $1.6 million) and the result for the year was a profit of $55,000 (2018: profit of $29,000).

STRATEGIC REPORT

The Group has adequate financial resources and enjoys the continued commitment of its pool members. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully. Effective 1 January 2019, Mapfre Global Risks Compañia International De Seguros Y Reaseguros, SA. was replaced as pool member by Mapfre Re, Compañia de Reaseguros; all other pool members are unchanged from 2018. Terms in the agreement between the Company and its shareholders allow the directors to require the shareholders to subscribe for further shares (up to the outstanding amount on the shareholders' loans) in the Company in order to enable the Company to avoid insolvency. This further strengthens the financial position of the Company.

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

Principal risks and uncertainties
The management of the business and execution of the Group's strategy are subject to a number of risks. The key business risks affecting the Group are set out below. Risks are formally reviewed by the Board and processes are in place to monitor and mitigate them.

Market conditions
The aviation market has historically been cyclical, with market premium rising and falling both as capacity leaves and enters the market and as losses affect trading results. During soft market conditions the business underwritten on behalf of pool members is likely to be less profitable. Underwriting losses could arise due to the potential for catastrophic losses. To mitigate these risks, the Group's underwriting strategy is based on prevailing market conditions and senior management closely monitors and manages the underwriting, which includes holding regular formal reviews. The underwriting is underpinned by loss models and pricing algorithms which are regularly reviewed and updated.

Employees
The Group's performance depends largely on the expertise and commercial judgments of its staff. The resignation of key individuals or the inability to recruit people with the right experience and skills could adversely impact the Group's results. To mitigate this risk the Group's employment and remuneration strategies contain a number of elements specifically aimed at retaining key staff.

Financial risks
The Group's activities expose it to financial risks, mainly credit risk, currency risk and interest rate risk. Credit risk arises on deposits with financial institutions and is managed by restricting such deposits to highly rated institutions only and by spreading deposits over several institutions. Currency risk arises as substantial amounts of the Group's income and assets are US dollar denominated. These exposures are monitored but not generally hedged. Interest rate risk arises as the Company has loans from shareholders at a floating Sterling interest rate. The significance of financial instruments to the Group's performance and financial position is further detailed in the financial instruments disclosure note to the financial statements (Note 3).

Impact of Brexit
The transacting of business from the European Union in the UK has hitherto been made possible by 'passporting' rights afforded by the FCA's regulation of the UK Company. The regulatory authorisation of the UK Company's branches in the European Union has been achieved by the FCA's regulation of the UK Company. The Group planned for a post-Brexit situation where these provisions disappear and implemented a new structure accordingly. This involved the establishment of a new subsidiary company in France, namely Global Aerospace Underwriting Managers (Europe) which from the start of 2019 assumed the business from the former French branch of the Company. The former German branch of the Company has now become a branch of Global Aerospace Underwriting Managers (Europe). It is believed that these new arrangements to access business from the European Union after Brexit will not result in a noticeable loss of the business currently transacted. The new structure has incurred financial cost to plan and implement, but it is not expected that Brexit will have a long-term adverse effect on the business done by the Group.

STRATEGIC REPORT

Impact of COVID-19
The extent and duration of COVID-19 and its impact on the economy and the aviation insurance market is unknown. However, in order to assess the scale of the impact on the Company, management have assumed that airline traffic will be depressed throughout 2020 with ordinary service resuming towards the end of the year. On that basis, the 2020 calendar year is expected to remain profitable, albeit with reduced management fee revenue, and any impact on future years is expected to be immaterial. Management has no reason to believe that key reporting controls may have become unreliable in the current environment or that there will be any impediments to securing relevant and reliable financial and operational information on a continuing basis.

Section 172 Statement
The Company considers its key stakeholders to be its customers, its shareholders and pool members, its employees, and the wider aerospace industry, as follows:

- Customers - by being responsive to their aircraft insurance needs and providing excellent service through long-term partnerships based on mutual respect and confidence;
- Shareholders and Pool Members - through underwriting profitability and operational efficiency;
- Employees - by rewarding performance and encouraging personal development;
- The Aerospace Industry - by positively supporting its growth and the improvement of safety.

Approved and signed on behalf of the Board

N Fernandes
Company Secretary
16 April 2020

DIRECTORS' REPORT

Group directors' report for the year ended 31 December 2019
The directors present their report and the audited consolidated financial statements for the year ended 31 December 2019.

Results and dividend
The profit of the Group before income tax for the year ended 31 December 2019 amounted to £6,207,000 (2018: £4,796,000). The profit for the year for the Group was £5,303,000 (2018: £3,116,000). An interim dividend of £4,269,000 was paid in the year (2018: £3,283,000); no final dividend is proposed (2018: nil).

Directors and their interests
The names of the directors who held office during the year and up to the date of signing are shown on page 2.

None of the directors had any beneficial interest in the share capital of the Group companies at the beginning of the year, during the year, or at the end of the year.

Directors' indemnities
A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of each of the directors and the Company secretary in respect of liabilities incurred as a result of their office, to the extent permitted by law.

Employees
The Group encourages the involvement of employees by means of regular updates on business performance and forecasts, staff surveys and performance related remuneration.

The Group is committed to employment policies which follow best practice based on equal opportunities for all employees irrespective of sex, race, disability or marital status. The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. If members of staff become disabled, where possible, the Group continues their employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Financial Instruments
The Company holds financial instruments to support unfunded pension and post-retirement benefits as described in Note 14.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006.

DIRECTORS' REPORT

They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the Auditors

Each of the persons who is a director at the date of this report confirms that:

- so far as each of them is aware, there is no information relevant to the audit of the Company's consolidated financial statements for the year ended 31 December 2019 of which the auditors are unaware; and
- the director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution to reappoint Mazars LLP as auditors to the Company will be put to the Annual General Meeting.

Approved and signed on behalf of the Board

N Fernandes
Company Secretary
16 April 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GLOBAL AEROSPACE UNDERWRITING MANAGERS LIMITED

Opinion

We have audited the financial statements of Global Aerospace Underwriting Managers Limited (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the Consolidated and Parent Balance Sheet, the Consolidated Statement of Comprehensive Income, the Consolidated and the Parent Statement of Changes in Equity, the Consolidated and the Parent Cash Flows Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's comprehensive income for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties due to the United Kingdom exiting the European Union on our audit

The directors' view on the impact of Brexit is disclosed on page 4.

The United Kingdom withdrew from the European Union on 31 January 2020 and entered into an Implementation Period which is scheduled to end on 31 December 2020. However the terms of the future trade and other relationships with the European Union are not yet clear, and it is therefore not currently possible to evaluate all the potential implications to the Company's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible implications for the Company and this is particularly the case in relation to Brexit.

Emphasis of matter – Impact of the outbreak of COVID-19 on the financial statements

In forming our opinion on the Company and Group financial statements, which is not modified, we draw your attention to the directors' view on the impact of the COVID-19 as disclosed on page 5, and the consideration in the going concern basis of preparation on page 4 and non-adjusting post balance sheet events on page 51.

Since the balance sheet date there has been a global pandemic from the outbreak of COVID-19. The potential impact of COVID-19 became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK, United States of America, Canada, and Europe.

The full impact following the recent emergence of the COVID-19 is still unknown. It is therefore not currently possible to evaluate all the potential implications to the Company and Group's trade, customers, suppliers and the wider economy.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Director's Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

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.

Lionel Cazali (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London
E1W1DD
16 April 2020

CONSOLIDATED BALANCE SHEET
as at 31 December 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Non-current assets			
Goodwill	4	**66,219**	68,506
Intangible assets	4	**1,253**	1,178
Property, plant and equipment	5	**10,224**	2,043
Deferred tax asset	7	**3,167**	4,110
Trade and other receivables	8	**386**	1,234
Financial assets	9	**10,577**	14,426
Retirement plan assets	14	**3,045**	5,038
		94,871	96,535
Current assets			
Trade and other receivables	8	**8,238**	7,035
Cash and cash equivalents	10	**22,323**	21,129
Current tax asset		**983**	1,039
		31,544	29,203
Total Assets		**126,415**	125,738
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	11	**25,000**	25,000
Cumulative translation reserve	12	**6,135**	8,852
Retained earnings		**6,192**	5,208
Total Equity		**37,327**	39,060
Non-current liabilities			
Borrowings	16	**57,430**	50,502
Trade and other payables	13	**2,861**	4,200
Contract liabilities	17	**1,250**	1,190
Deferred tax liability	7	**419**	623
Retirement benefit obligations	14	**8,191**	8,931
Provisions and other liabilities	15	**228**	221
		70,379	65,667
Current liabilities			
Borrowings	16	**2,384**	18
Trade and other payables	13	**9,052**	14,221
Contract liabilities	17	**6,966**	6,772
Current tax liabilities		**307**	-
		18,709	21,011
Total Liabilities		**89,088**	86,678
Total Equity and Liabilities		**126,415**	125,738

The financial statements on pages 11 to 51 were approved by the Board on 16 April 2020 and signed on its behalf by

S A Michael Steve Michael
Director

A M E Tasker Alan Tasker
Director

Registered number: 02512067

PARENT COMPANY BALANCE SHEET
as at 31 December 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Non-current assets			
Intangible assets	4	**138**	187
Property, plant and equipment	5	**4,480**	748
Investments in subsidiaries	6	**91,839**	91,706
Trade and other receivables	8	**208**	763
Retirement plan assets	14	**2,196**	3,831
		98,861	97,235
Current assets			
Trade and other receivables	8	**5,226**	4,459
Cash and cash equivalents	10	**5,957**	7,595
Current tax asset		**3**	395
		11,186	12,449
Total Assets		**110,047**	109,684
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	11	**25,000**	25,000
Retained earnings		**24,070**	24,284
Total Equity		**49,070**	49,284
Non-current liabilities			
Borrowings	16	**54,390**	50,502
Trade and other payables	13	**1,303**	1,818
Contract liabilities	17	**66**	33
Deferred tax liability	7	**258**	495
Provisions and other liabilities	15	**228**	221
		56,245	53,069
Current liabilities			
Borrowings	16	**585**	18
Trade and other payables	13	**1,943**	5,438
Contract liabilities	17	**2,028**	1,870
Current tax liability		**176**	5
		4,732	7,331
Total Liabilities		**60,977**	60,400
Total Equity and Liabilities		**110,047**	109,684

The financial statements on pages 11 to 51 were approved by the Board on 16 April 2020 and signed on its behalf by

S A Michael
Director

Steve Michael

A M E Tasker
Director

Alan Tasker

Registered number: 02512067

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Revenue	18	**52,095**	49,717
Administrative expenses	19	**(44,753)**	(44,294)
Other gains/(losses)	20	**(48)**	8
Operating profit		**7,294**	5,431
Finance income	21	**668**	693
Finance costs	21	**(1,755)**	(1,328)
Profit before tax		**6,207**	4,796
Tax expense	22	**(904)**	(1,680)
Profit for the year		**5,303**	3,116
OTHER COMPREHENSIVE INCOME (NET OF TAX)			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit obligation		**(1,180)**	1,962
Items that may be subsequently reclassified to profit or loss			
Gain/(losses) on financial assets measured at fair value through other comprehensive income		**1,130**	(809)
Total comprehensive income for the year before currency translation movements		**5,253**	4,269
Currency translation difference	12	**(2,717)**	4,468
Total comprehensive income for the year		**2,536**	8,737

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Note	Share Capital £'000	Cumulative translation reserve £'000	Retained Earnings £'000	Total Equity £'000
Balance at 1 January 2018		25,000	4,384	4,222	33,606
Profit for the year				3,116	3,116
Other comprehensive income					
Remeasurement of defined benefit obligation				1,962	1,962
Losses on financial assets measured at fair value through other comprehensive income				(809)	(809)
Currency translation differences	12		4,468		4,468
Total comprehensive income for the year					8,737
Transactions with owners					
Dividend paid				(3,283)	(3,283)
Balance at 31 December 2018		25,000	8,852	5,208	39,060
Balance at 1 January 2019		25,000	8,852	5,208	39,060
Profit for the year				5,303	5,303
Other comprehensive income					
Remeasurement of defined benefit obligation				(1,180)	(1,180)
Gains on financial assets measured at fair value through other comprehensive income				1,130	1,130
Currency translation differences	12		(2,717)		(2,717)
Total comprehensive income for the year					2,536
Transactions with owners					
Dividend paid				(4,269)	(4,269)
Balance at 31 December 2019		25,000	6,135	6,192	37,327

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Share Capital £'000	Retained Earnings £'000	Total Equity £'000
Balance at 1 January 2018	25,000	24,419	49,419
Profit for the year		3,440	3,440
Other comprehensive income			
Remeasurement of defined benefit obligation		(292)	(292)
Total comprehensive income for the year			3,148
Transactions with owners			
Dividend paid		(3,283)	(3,283)
Balance at 31 December 2018	25,000	24,284	49,284
Balance at 1 January 2019	25,000	24,284	49,284
Profit for the year		5,504	5,504
Other comprehensive income			
Remeasurement of defined benefit obligation		(1,449)	(1,449)
Total comprehensive income for the year			4,055
Transactions with owners			
Dividend paid		(4,269)	(4,269)
Balance at 31 December 2019	25,000	24,070	49,070

Total recognised income and expense for the year is the same as profit for the year.

CONSOLIDATED CASH FLOWS STATEMENT
for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flow from operating activities			
Cash generated from operations	25	6,130	8,078
Interest paid on leases		(362)	(16)
Income tax refunded/(paid)		(98)	452
Net cash generated from operating activities		5,670	8,514
Cash flow from investing activities			
Purchases of property, plant and equipment		(903)	(165)
Purchases of intangible assets		(784)	(696)
Purchase of investments		(29)	(360)
Interest received		261	693
Proceeds from sale of property, plant and equipment		173	-
Proceeds from sale of investments		5,014	-
Net cash used in investing activities		3,732	(528)
Cash flow from financing activities			
Repayment of lease borrowings		(1,952)	(74)
Dividends paid to Company's shareholders		(4,269)	(3,283)
Interest paid on shareholder loan		(1,387)	(1,257)
Net cash used in financing activities		(7,608)	(4,614)
Net increase in cash and cash equivalents		1,794	3,372
Cash and cash equivalents at beginning of year	10	21,129	17,214
Exchange gain/(loss) on cash and cash equivalents		(600)	543
Cash and cash equivalents at end of the year	10	22,323	21,129

PARENT COMPANY CASH FLOWS STATEMENT
for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flow from operating activities			
Cash generated from operations	25	**2,656**	2,809
Interest paid on leases		**(148)**	(16)
Income tax paid		**(147)**	(79)
Net cash generated from operating activities		**2,361**	2,714
Cash flow from investing activities			
Purchases of intangible assets		**(59)**	(149)
Purchases of property, plant and equipment		**(44)**	(77)
Dividend received		**2,232**	837
Interest received		**80**	54
Cash transferred to Global Aerospace Europe		**(175)**	-
Net cash generated from investing activities		**2,034**	665
Cash flow from financing activities			
Repayment of lease borrowings		**(377)**	(74)
Dividends paid to Company's shareholders		**(4,269)**	(3,283)
Interest paid on shareholder loan		**(1,387)**	(1,257)
Net cash used in financing activities		**(6,033)**	(4,614)
Net decrease in cash and cash equivalents		**(1,638)**	(1,235)
Cash and cash equivalents at beginning of year	10	**7,595**	8,830
Cash and cash equivalents at end of the year	10	**5,957**	7,595

1. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Global Aerospace Underwriting Managers Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, modified by the revaluation of financial assets at fair value through profit or loss. The going concern basis has been used.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

Consolidation

The consolidated financial statements comprise the financial statements of Global Aerospace Underwriting Managers Limited and its subsidiaries as at 31 December each year. No profit or loss account is presented for Global Aerospace Underwriting Managers Limited, as provided by Section 408 of the Companies Act 2006. The profit after tax of the Company for the year is £5,504,000 (2018: £3,440,000).

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method to account for the purchase of subsidiaries. The excess of the consideration transferred over the fair value of the net assets acquired is recorded as goodwill.

The Group uses the predecessor value method to account for the transfer of business within the Group, where ultimate control of the transferred business remains unchanged. Assets and liabilities are transferred at their net book value, no goodwill is recorded and no profit or loss is recognised.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Foreign currency

Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in sterling, which is the parent company's functional and presentation currency.

Foreign currency transactions
Transactions in foreign currencies are translated into the functional currency at the exchange rate prevailing at the date of the transaction. Since most of the income in foreign currencies is earned over the year, the use of the average rate for the year is the most appropriate rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the foreign exchange rate at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

1. ACCOUNTING POLICIES (continued)

Financial statements of foreign operations
The results and financial position of all group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1) The assets and liabilities of foreign operations, including goodwill arising on consolidation, are translated to Sterling at exchange rates at the balance sheet date.
2) The revenues and expenses of foreign operations are translated to sterling at rates approximating the exchange rates at the dates of the transactions.

Net investment in foreign operations
Exchange differences arising at year end from the translation of net investment in foreign operations are taken to the translation reserve.

Property, plant and equipment

All property, plant and equipment are shown at cost less subsequent depreciation.

Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life as follows:

Computer equipment	3-6 years
Equipment	5-6 years
Aircraft and motor vehicles	4-5 years

Equipment includes furniture and fixtures. Premises leases and leasehold improvements are depreciated over the lease term.

Intangible assets

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. The costs are amortised on the basis of the expected useful life (2-3 years).
Computer software development costs recognised as assets are amortised using the straight line method over their useful lives (2-3 years).

Investments in subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is an intangible asset presented separately in the balance sheet. Goodwill has an indefinite useful life and is tested annually for impairment, or more frequently if events or changes in circumstances indicate potential impairment, and carried at cost less accumulated impairment losses. For the purposes of impairment testing, goodwill is allocated to individual subsidiaries as these are regarded as being individual cash generating units (CGUs).

Goodwill arising on acquisitions before the transition to IFRS on 1 January 2004 has been retained at the previous UK GAAP amounts subject to being tested for impairment.

Financial Assets

Financial assets are investments held to support deficits and liabilities of the Group's post-retirement schemes. Purchases and sales of investments are recognised on the date of trade. The fair value of the mutual funds are based on their net asset value per share.

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

1. ACCOUNTING POLICIES (continued)

Borrowings

Borrowings are recognised initially at fair value and their carrying amount thereafter approximates their fair value. Borrowings are classified as non-current liabilities as the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Deferred taxation

Deferred taxation is recognised on all taxable temporary differences using the balance sheet liability method. In addition, a deferred tax asset is recognised to the extent that it is probable that a taxable surplus will be available against which the deductible temporary difference can be utilised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Pension obligations

The Group operates defined benefit pension schemes and defined contribution savings plans. Separate schemes are offered to employees in the United Kingdom, United States of America, Canada, France, Switzerland and Germany. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

The asset recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined obligation at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligations.

Actuarial gains and losses that arise from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Past service costs are recognised immediately in income.

For defined contribution plans, amounts payable to the plan are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available. The group has no further payment obligations once the contributions have been paid.

Other post-retirement benefits

In the United States of America post-retirement healthcare is provided to certain retirees. The entitlement to those benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments are charged or credited to comprehensive income.

Leases

The Group is the lessee of certain property, plant and equipment.

On the commencement date of each lease, a right-of-use asset is recognised in property, plant and equipment and a corresponding lease liability is recognised in borrowings. The lease liability is equal to the contractual cash flows discounted at the rate of interest implicit in the lease or at the Group's incremental borrowing rate. The lease term covers any non-cancellable period and any optional periods which management are reasonably certain will be exercised.

The right of use asset is depreciated over the shorter of the lease term and the useful life of the asset. The finance costs of the lease liability are charged to the statement of comprehensive income. Lease payments reduce the lease liability.

1. **ACCOUNTING POLICIES (continued)**

The Group uses an incremental borrowing rate of LIBOR + 2.00%, where LIBOR is the three month maturity rate at the commencement date, in the underlying lease currency. The payments of low value leases and short term leases are charged to the statement of comprehensive income on a straight line basis. As a practical expedient, non-lease components are only separated from lease components for premises leases.

The Group is also sublets certain property as an intermediate lessor. The sublease is classified as an operating lease because the Group substantially retains the risks and rewards of ownership. Operating lease income is recognised over the sublease term on a straight line basis.

Provisions

Provisions are recognised when the Group has a present obligation 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 expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Revenue

Management charge
Pool Members reimburse the Group's expenses as consideration for transacting aerospace insurance as their agent. Funding is received quarterly in advance and revenue is recognised through the year as expenses are incurred. The excess of funding received over revenue recognised for the current calendar year is a liability repayable to the pool members since by year end the Group has fulfilled its performance obligations for the year. Any funding received during the year in respect of the following year is a contract liability which reflects the Group's obligations in respect of the following calendar year.

Management fee
Pool Members pay a fee based on the aggregate gross written premium as consideration for transacting aerospace insurance on their behalf. Revenue is recorded on an estimated basis as premiums are written and is adjusted over the next two years, to reflect changes in estimated gross written premium, until the fee is received. Once the fee is received, no further adjustments to revenue are made.

Profit commission
Pool Members pay the Group a fee based on the total pool trading return as consideration for transacting aerospace insurance on their behalf. This performance obligation is satisfied throughout the year. The total trading returns cannot be reliably estimated until sometime after the year end as claims take time to be notified and settled. Therefore profit commission is only recognised as a receivable when it's probable that a significant reversal of revenue will not be required. For the 20x1 pool year total trading return, profit commission will first be recognised on an expected value basis in 20x2, then revised in 20x3 as loss experience develops; consideration is received in 20x4. Once consideration is received, no further adjustments to revenue are made. When an underwriting year makes a loss, the reduction this makes to the profit commission for the next profitable underwriting year is recognised when that profit commission is credited.

Other Aviation Insurance Management Revenue
This revenue category includes fees charged to policyholders, co-insurers and reinsurers. Where the Group transacts insurance as the lead market, policyholders are charged for the additional administrative work undertaken. Co-insurers are charged for claims handling and surveys undertaken. Ceding commission and other similar income streams are received from proportional reinsurers. In each of these contracts, revenue is recognised as services are provided. Some elements of this consideration are variable but are not constrained and all payment terms are within one year.

Fireside Disaster Response
Fireside generates revenue from service agreements and other emergency response related services. Service agreements typically cover a one year term and provide asset monitoring by Fireside's Emergency Operations Centre. Consideration is received at contract inception and revenue is recognised evenly over the contract term. A contract liability for outstanding service agreement obligations is recognised each reporting period. Additional revenues are generated from training, speaking, seminars, consulting engagements, and disaster response services. Revenue for these engagements are recognised when the services are performed.

Sublease Income
The Company sublets its Vancouver office space, the head lease and sub-lease both expire on 30 June 2023.

1. ACCOUNTING POLICIES (continued)

Dividend distribution

Dividend distribution to the Company's shareholders is not recognised in the Group's financial statements until dividends are approved by the board and paid.

Changes to accounting standards

New and amended standards adopted by the group

IFRS 16: 'Leases' sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that users of financial statements can assess the effect that leases have on the financial position, financial performance and cash flows of the entity. The standard replaces IAS 17 'Leases' and related interpretations.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimated impairment of goodwill and investments in subsidiaries

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 1 above. The recoverable amount of a cash-generating unit (CGU) is determined based on cash flows of the underwriting pool. These calculations require the use of estimates of premiums written, loss ratios and the timing of cash flows (see Note 4).

Pension Benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the group considers the interest rates of high quality corporate bonds denominated in the currency in which the benefits will be paid, and with terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 14.

Revenue Recognition

The Pool Members' Agreement describes the services to be provided by the Group as agent to the Pool Members in exchange for remuneration via management charge, management fee and profit commission. The Group provides these services as a single integrated product. For that reason, in the opinion of management, the services in the Pool Members' Agreement constitute a single performance obligation which is fulfilled each calendar year.

3. FINANCIAL RISKS

The financial instruments held by the Group and Company are as follows:

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Cash and cash equivalents	**22,323**	21,129	**5,957**	7,595
Trade and other receivables	**7,264**	6,789	**4,809**	4,396
Financial assets at fair value through profit or loss	**325**	306	**-**	-
Financial assets at fair value through other comprehensive income	**10,252**	14,120	**-**	-
Trade and other payables	**11,305**	16,685	**3,246**	6,557
Lease liabilities	**9,394**	100	**4,555**	100
Borrowings	**50,420**	50,420	**50,420**	50,420

The carrying amount of financial instruments approximates to their fair value.

The Group charges all expenses incurred in managing pool business and other entities directly to those pool members and other entities. Funds for those expenses are generally collected in advance and expenses charged are reduced by interest received on such funds held. Accordingly, with the exception of market risk, any risks giving rise to changes in the net expenses charged to pool members and other entities has no effect on the Group's profit or shareholders' equity.

The main risks arising from the use of financial instruments by the Group are credit risk, market risk (encompassing currency risk, interest rate risk and other price risk) and liquidity risk. The Group's exposure to these risks and how the exposure is managed is set out below:

3a. Credit risk

Credit risk arises on deposits with financial institutions and is managed by restricting such deposits to highly rated institutions only. Credit risk also arises on trade and other receivables as debtors could default on their obligation to pay monies due to the Group.

i) ***Trade and Other Receivables Overdue***

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Under one month	**133**	207	**43**	187
Two to six months	**164**	147	**70**	59
Six months to one year	**10**	45	**10**	45
More than one year	**9**	-	**-**	-
	316	399	**123**	291

No expected credit losses have been recognised during the period in respect of trade receivables. Receivables due from pool members carry very low credit risk since any default would be recovered from forthcoming payables. When the historical default rate for each category of receivable is applied to the respective outstanding balances at the reporting date, the total expected credit losses are immaterial. The majority of aged receivables detailed above are leaders fees which routinely take longer than 60 days to recover but historically have a negligible default rate. Management monitors the leaders fee recoverability monthly and balances are written off only in the case of default. Other receivable categories with marginally higher default rates are written off when they are 12 months past due but they remain subject to enforcement activity until they default. Management considers receivables to be in default only when there is no reasonable possibility of recovery.

3. FINANCIAL RISKS (continued)

3a) Credit risk (continued)

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Maximum exposure to credit risk	**3,469**	3,207	**882**	883

ii) Debt Instruments at Fair Value through Other Comprehensive Income

To measure expected credit losses, each of the underlying debt instruments are grouped by credit quality and the relevant Standard and Poors default rate is applied to the aggregate value of each group. Loss allowances are limited to 12 months of expected credit losses since there has been no significant increase in credit risk since initial recognition. The size of the loss allowance measured is trivial and therefore no impairment has been recognised in respect of financial assets held at fair value through other comprehensive income. Changes in credit risk are assessed annually by calculating the composite default rate of the assets held on the reporting date and comparing them to the composite default rate when the same assets were initially recognised.

3b) Market risk

Currency risk
The Group is exposed to currency risk on items that are denominated in a currency other than the respective functional currency of the Group entities. The risk arises primarily for the UK parent company as substantial amounts of the Group's income and receivables are US dollar denominated. As the Group's net income is expected to be distributed to shareholders by way of dividends, and as each shareholder's functional currency is different (and not sterling) these exposures are not hedged. Foreign currency income is sold at spot rates to fund the tax, interest and dividend cash flows which are denominated in sterling. The Group's sensitivity to changes in the USD:GBP rate of exchange is shown below.

The Group and Company had the following exposures to the US Dollar (based on notional amounts):

	Group		**Company**	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Cash and cash equivalents	**17,867**	15,561	**3,120**	2,027
Trade and other receivables	**7,558**	8,698	**3,191**	5,340
Financial assets at fair value through profit or loss	**325**	306	**-**	-
Financial assets at fair value through other comprehensive income	**10,252**	14,120	**-**	-
Trade and other payables	**(8,902)**	(11,129)	**(15)**	(36)
Lease liabilities	**(3,676)**	-	**-**	-
	23,424	27,556	**6,296**	7,331

At 31 December 2019, £1 = US $1.3210 (2018: US $1.2769) and the average exchange rate during the year was £1 = US $1.2770 (2018: US $1.3350).

3. **FINANCIAL RISKS (continued)**
3b) Market risk (continued)

Movements in the value of financial instruments arising from movements in the value of the US dollar at 31 December would have had the following effects on profit after tax and equity:

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Profit				
Increase of 10 %	**(322)**	(210)	**(322)**	(210)
Decrease of 10 %	**394**	257	**394**	257
Equity				
Increase of 10 %	**(2,214)**	(2,049)	**(322)**	(210)
Decrease of 10 %	**2,706**	2,505	**394**	257

Interest rate risk
At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Variable rate instruments				
Cash and cash equivalents	**22,323**	21,129	**5,957**	7,595
Financial assets at fair value through profit or loss	**118**	107	**-**	-
Financial assets at fair value through other comprehensive income	**10,252**	14,120	**-**	-
Borrowings	**50,420**	50,420	**50,420**	50,420

Short term interest rate risk primarily arises as the Company has loans from shareholders at a floating sterling interest rate. Interest payable on the loan is at a rate of two percent above the National Westminster Bank base rate. Part of this risk is offset by the interest-bearing cash balances the Group holds in the US and UK. However, to the extent that cash is held to cover expenses and post retirement obligations, the interest is treated as a credit to the management charge so changes in the interest rate will have no overall impact on profit as they will result in an increase or decrease in the management charge. During 2019, the UK base rate averaged 0.75% (2018: 0.60%); had it been 1.00% lower throughout the year, the increase in profit after tax would have been £278,000 (2018: £397,000). Had the interest rate been 1.00% higher in 2019, the decrease in profit after tax would have been £278,000 (2018: £397,000).

Longer term interest rate risk arises on investments in bond funds. Investments are held to support various post retirement benefit plans and are limited to the liability associated with those plans. They are designated as fair value though other comprehensive income in order to avoid any accounting mismatch with the pension charge in the income statement. A one percent change in long term interest rates would have resulted in a movement of £1,421,000 (2018: £1,797,000) in valuation. There would have been no change in profit after tax as the management charge income would be adjusted to reflect the change in value.

3c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Funding for the Group's operating expenses is received from pool members in advance each quarter. Other significant cash out flows, mainly loan interest and tax, are expected to be covered by the management fee from the insurance pools and dividends from subsidiaries and are monitored via a cash flow forecast. Cash balances are monitored regularly, at least on a weekly basis.

3. FINANCIAL RISKS (continued)

3c) Liquidity risk (continued)

A maturity analysis for financial liabilities showing the remaining contractual maturities is shown below:

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Trade and other payables				
Less than one year	**8,791**	15,320	**2,152**	5,427
1 to 5 years	**1,487**	1,751	**801**	974
More than 5 years	**1,027**	578	**293**	156
Borrowings				
Less than one year	**-**	-	**-**	-
1 to 5 years	**50,420**	50,420	**50,420**	50,420
Lease liabilities				
Less than one year	**2,666**	18	**709**	18
1 to 5 years	**5,600**	82	**2,790**	82
More than 5 years	**1,971**	-	**1,532**	-

3d) Capital management

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern, to provide returns for shareholders, to maintain adequate capital to meet regulatory requirements in the UK and to maintain an efficient capital structure to ensure an optimal cost of capital. The Group's capital consists of equity and borrowings in the form of a loan from the shareholders. The agreement described above in Note 3c) substantially reduces the risk that notice from the shareholders to the Company to repay the loans would lead to insolvency of the Company. Because of the business model of the Group whereby the Group's expenses are reimbursed by the companies to which it provides services, the Group can normally distribute as dividends its comprehensive income for the year excluding currently translation difference.

The parent Company needs to maintain a minimum level of capital to meet FCA regulatory requirements. Compliance with these requirements is reviewed regularly including a formal board review of capital adequacy which includes stress and scenario testing. The Company has complied with the FCA requirements during the year.

3e) Fair value estimation

Effective 1 January 2013, the group adopted IFRS 13 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The financial instruments totalling £10,577,000 constitute £10,370,000 of bond fund investments and £207,000 of equity investments held by the group. In 2018 the financial instruments totalling £14,426,000 constituted £14,227,000 of bond fund investments and £199,000 of equity investments held by the group. These are valued at their net asset value and are all categorised as level 1.

4. INTANGIBLE ASSETS

A) Group	Goodwill £'000	Software £'000
At 1 January 2019		
Cost or valuation	99,206	10,857
Accumulated amortisation	(30,700)	(9,679)
Net book amount	68,506	1,178
Twelve months ended 31 December 2019		
Opening net amount at 1 January 2019	68,506	1,178
Exchange differences	(2,287)	(14)
Additions	-	784
Amortisation charge	-	(695)
Net book amount	66,219	1,253
At 31 December 2019		
Cost or valuation	95,894	11,330
Accumulated amortisation	(29,675)	(10,077)
Net book amount	66,219	1,253

Goodwill is allocated to the Group's CGUs identified according to the country of operation.

The recoverable amount of a CGU is determined based on returns of the underwriting pool managed by that CGU. These calculations use discounted cash flow projections which extend forward to a terminal value. The cash flows are based on financial forecasts approved by management, covering a five year period, and are projected beyond that using a growth rate of 3.00%. Cash flows are discounted to net present value using an after tax discount rate of 6.46%. Forecasts assume that premium income will increase over the next five years, that loss ratios will not be materially different from current trading and that investment income on funds generated will be 2.26% p.a. An alternative value in use model has also been used to support the recoverable amount which is based on the projected cash flows arising from the income streams of the agency, covering a five year period, projected to perpetuity using a growth rate of 3.00%, and discounted to net present value using an after tax discount rate of 5.61%.

B) Company	Software £'000
At 1 January 2019	
Cost or valuation	1,616
Accumulated amortisation and impairment	(1,429)
Net book amount	187
Twelve months ended 31 December 2019	
Opening net amount at 1 January 2019	187
Additions	59
Amortisation charge	(108)
Net book amount	138
At 31 December 2019	
Cost or valuation	1,660
Accumulated amortisation and impairment	(1,522)
Net book amount	138

5. PROPERTY, PLANT AND EQUIPMENT

A) Group

	Premises £'000	Equipment £'000	Computer Equipment £'000	Aircraft and Motor Vehicles £'000	Total £'000
At 1 January 2019					
Cost or valuation	-	6,437	1,875	424	8,736
Accumulated depreciation	-	(4,919)	(1,350)	(424)	(6,693)
Net book amount	-	1,518	525	-	2,043
Twelve months ended 31 December 2019					
Opening net amount at 1 January 2019	-	1,518	525	-	2,043
Exchange differences	46	(20)	(5)	-	21
Additions	9,704	904	207	-	10,815
Disposals	-	(3)	(5)	-	(8)
Depreciation charge	(1,940)	(508)	(199)	-	(2,647)
Closing net book value at 31 December 2019	7,810	1,891	523	-	10,224
At 31 December 2019					
Cost or valuation	9,704	6,611	1,508	178	18,001
Accumulated depreciation	(1,894)	(4,720)	(985)	(178)	(7,777)
Net book amount	7,810	1,891	523	-	10,224

B) Company

	Premises £'000	Equipment £'000	Computer Equipment £'000	Total £'000
At 1 January 2019				
Cost or valuation	-	1,458	1,118	2,576
Accumulated depreciation	-	(920)	(908)	(1,828)
Net book amount	-	538	210	748
Twelve months ended 31 December 2019				
Opening net amount at 1 January 2019	-	538	210	748
Additions	4,382	-	44	4,426
Disposal	-	(36)	-	(36)
Depreciation charge	(517)	(76)	(65)	(658)
Closing net book value at 31 December 2019	3,865	426	189	4,480
At 31 December 2019				
Cost or valuation	4,382	1,344	843	6,569
Accumulated depreciation	(517)	(918)	(654)	(2,089)
Net book amount	3,865	426	189	4,480

6. INVESTMENTS IN SUBSIDIARIES

	2019 £'000	2018 £'000
At 1 January	**91,706**	91,706
Investment in Global Aerospace Europe	**133**	-
At 31 December	**91,839**	91,706

Details of Investments in Subsidiaries can be found in Note 27.

7. DEFERRED TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Deferred tax assets:				
Deferred tax asset to be recovered after more than 12 months	**2,345**	3,565	**115**	156
Deferred tax asset to be recovered within 12 months	**1,070**	858	**-**	-
	3,415	4,423	**115**	156
Deferred tax liabilities				
Deferred tax liability to be paid after more than 12 months	**(667)**	(936)	**(373)**	(651)
Deferred tax liability to be paid within 12 months	**-**	-	**-**	-
	2,748	3,487	**(258)**	(495)
The gross movement on the deferred income tax account is as follows:				
At beginning of the year	**3,487**	3,314	**(495)**	(398)
Exchange differences	**(111)**	229	**-**	-
Income statement (charge)/credit	**(484)**	524	**(65)**	(134)
Adjustment in respect of prior years	**15**	(22)	**5**	(31)
Tax (charge)/credit relating to components of other comprehensive income	**(159)**	(558)	**297**	68
	2,748	3,487	**(258)**	(495)
Disclosed in the balance sheet as:				
Deferred tax asset	**3,167**	4,110	**-**	-
Deferred tax liability	**(419)**	(623)	**(258)**	(495)
	2,748	3,487	**(258)**	(495)

7. DEFERRED TAX (continued)

The deferred tax balance is analysed below. All items are charged through the statement of comprehensive income.

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Fixed asset decelerated capital allowances	**57**	69	**57**	63
Employee remuneration liabilities	**198**	659	**58**	93
Other timing differences	**930**	333	**-**	-
Post retirement obligations	**2,230**	3,362	**-**	-
Total gross deferred tax asset	**3,415**	4,423	**115**	156
Fixed asset accelerated capital allowance	**(144)**	(133)	**-**	-
Pension asset	**(523)**	(803)	**(373)**	(651)
Total gross deferred tax liability	**(667)**	(936)	**(373)**	(651)
Deferred tax asset/(liability)	**2,748**	3,487	**(258)**	(495)

8. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Non-Current				
Receivable from contracts with customers				
Management services to pool members	**259**	1,079	**145**	665
Other				
Other receivables	**127**	155	**63**	98
	386	1,234	**208**	763
Current				
Receivable from contracts with customers				
Management services to pool members	**1,699**	1,149	**1,123**	290
Other management services	**4,743**	4,029	**1,437**	1,433
Fireside disaster response	**218**	156	**-**	-
Other				
Amounts owed by subsidiaries	**-**	-	**1,919**	1,824
Other receivables	**301**	342	**205**	206
Prepayments	**1,277**	1,359	**542**	706
	8,238	7,035	**5,226**	4,459

9. FINANCIAL ASSETS

	FVOCI £'000	FVPL £'000	Total £'000
At 1 Jan 2018	14,052	325	14,377
Investment income	534	-	534
Realised gain on investments	6	-	6
Unrealised loss on investments	(1,095)	(14)	(1,109)
Additions	-	17	17
Disposals	(180)	(40)	(220)
Exchange differences	803	18	821
At 31 Dec 2018	14,120	306	14,426
At 1 Jan 2019	14,120	306	14,426
Investment income	401	-	401
Realised loss on investments	(227)	-	(227)
Unrealised gain on investments	1,499	-	1,499
Additions	-	29	29
Disposals	(5,014)	-	(5,014)
Exchange differences	(527)	(10)	(538)
At 31 Dec 2019	10,252	325	10,577
Investments in bond funds	10,252	118	10,370
Investments in equity funds	-	207	207
At 31 Dec 2019	10,252	325	10,577

Assets held at fair value through other comprehensive income (FVOCI) are investments held in respect of post-employment medical scheme deficits and supplemental pension scheme liabilities.

Assets held at fair value through profit or loss (FVPL) are investments held in respect of US post-retirement liabilities. Management has made an irrevocable election to designate the US post-retirement liabilities as fair value through profit or loss in order to eliminate accounting mismatches. Accordingly, changes to the fair value of the investments have no impact on the statement of comprehensive income, since all such movements are eliminated by the equal and opposite movements in the fair value of the US post-retirement liabilities.

10. CASH AND CASH EQUIVALENTS

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Cash at bank and in hand	**12,988**	10,428	**5,190**	3,067
Short-term bank deposits	**9,335**	10,701	**767**	4,528
	22,323	21,129	**5,957**	7,595

Cash and cash equivalents for the purposes of the cash flow statement are the same as those listed above.

11. SHARE CAPITAL

	2019 £'000	2018 £'000
Authorised, allotted, called up and fully paid 25,000,000 (2018: 25,000,000) Ordinary shares of £1 each	**25,000**	25,000

12. CUMULATIVE TRANSLATION RESERVE

	2019 £'000	2018 £'000
At 1 January	**8,852**	4,384
Exchange adjustments	**(2,717)**	4,468
At 31 December	**6,135**	8,852

13. TRADE AND OTHER PAYABLES

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Non-current				
Accrued expenses	**2,536**	3,894	**1,303**	1,818
Financial liabilities at fair value through profit or loss	**325**	306	**-**	-
	2,861	4,200	**1,303**	1,818
Current				
Amount due to subsidiaries	**-**	-	**50**	190
Other payables	**7,467**	8,599	**1,176**	1,719
Accrued expenses	**1,585**	5,622	**717**	3,529
	9,052	14,221	**1,943**	5,438

14. POST-RETIREMENT BENEFITS

The Group has a number of pension and post-retirement benefit schemes for its employees. Schemes are administered in accordance with local laws and practice. The principal schemes are the ones established in the UK and US, which together cover the vast majority of the employees in the Group.

The UK scheme provides defined contribution type pension benefits for employees. Previously the scheme also provided defined benefit pension benefits to certain employees but following a consultation process with affected members, defined benefit accrual ceased on 31 March 2018. The Trustee is required to equalise UK Guaranteed Minimum Pensions between men and women.

In the US there is a defined contribution savings scheme for all employees. There is also a funded scheme of the defined benefit type with assets held in a separate trustee administered fund and a further defined benefit scheme (the US supplemental pension scheme) for which the company holds assets but not within a trust fund. Both these defined benefit schemes are closed to accrual. In 2015, annuities for all pensioner members of the US defined benefit scheme were purchased for £32,003,000. The purchase of these annuities was funded through the liquidation of scheme assets; a corresponding £31,557,000 reduction in scheme liabilities was realised as a result of the purchase.

In Canada, a smaller scheme is operated. The scheme has a defined benefit section and a defined contribution section which was introduced with effect from 1 January 2003. Employees joining the company on or after 1 May 2002 are eligible for membership of the defined contribution scheme, while employees who were members of the defined benefit scheme were able to elect to remain in that scheme or transfer their membership to the new scheme. During 2018, the remaining members of the defined benefit scheme still accruing benefits were advised that the company intended to close the scheme to further accrual effective 31 March 2020. The impact of this anticipated closure has been taken into account in determining the scheme's liabilities at 31 December 2019.

The Group provides defined benefit medical and dental post-retirement benefits to certain employees in the US. The cost and obligation is accrued and recognised over the period of relevant employee service. This scheme closed to new members with effect from 31 December 2002. Medical benefits under the scheme are provided through a fully insured Medicare supplement program for participants over the age of 65. Medical benefits for participants under the age of 65 are provided through the Company's primary medical insurance program. This obligation is supported through assets held in both a separate trust as well as assets held by the Company but outside of the trust. The trust was initially funded during 2017. The amount funded, was the maximum amount permissible under US tax regulations. The funds in the trust were invested in identical assets to those outside of the trust. With effect from 1 January 2019, the Company changed how medical benefits are provided to participants over the age of 65. Previously, the Company purchased a supplemental medical insurance policy for each eligible participant and the participant made a contribution to the Company for a portion of the insurance premium. For 2019, the Plan was changed, as the Company will now provide a set amount (stipend) every month to each eligible participant. Each participant will then select the medical insurance policy that is best suited for their particular circumstances. The amount of the Company's stipend will increase 5% per year.

14. POST-RETIREMENT BENEFITS (continued)

The amounts recognised in the balance sheet for retirement benefit obligations are determined as follows:

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Present value of funded pension obligation	**94,677**	86,502	**78,381**	71,941
Fair value of pension scheme assets	**(97,722)**	(91,540)	**(80,577)**	(75,772)
	(3,045)	(5,038)	**(2,196)**	(3,831)
Present value of unfunded pension obligation	**2,367**	2,305	**-**	-
Total deficit / (surplus) of defined benefit pension schemes	**(678)**	(2,733)	**(2,196)**	(3,831)
Present value of post-employment medical benefit obligation	**9,222**	9,948	**-**	-
Fair value of post-employment medical scheme assets	**(3,398)**	(3,322)	**-**	-
Total deficit of post-employment medical scheme	**5,824**	6,626	**-**	-
Retirement benefit obligation / (asset) in balance sheet	**5,146**	3,893	**(2,196)**	(3,831)
Retirement benefit asset in balance sheet	**(3,045)**	(5,038)	**(2,196)**	(3,831)
Retirement benefit obligation in balance sheet	**8,191**	8,931	**-**	-

14. POST-RETIREMENT BENEFITS (continued)

14.1 Defined benefit pension schemes

14.1a Analysis of movement in the net funded obligation

	Group			Company		
	Present value of obligation £'000	Fair value of scheme assets £'000	Total £'000	Present value of obligation £'000	Fair value of scheme assets £'000	Total £'000
At 1 January 2018	95,443	(97,670)	(2,227)	79,139	(82,662)	(3,523)
Current service cost	224	-	224	145	-	145
Past service cost, curtailment and settlements	(2,127)	1,400	(727)	(624)	-	(624)
Administration expenses	-	58	58	-	-	-
Interest expense/(income)	2,471	(2,571)	(100)	1,925	(2,015)	(90)
	568	(1,113)	(545)	1,446	(2,015)	(569)
Return on scheme assets excluding amounts included in interest expense	-	5,683	5,683	-	4,672	4,672
Actuarial (gain)/loss arising from:						
change in demographic assumptions	574	-	574	1,161	-	1,161
change in financial assumptions	(4,391)	-	(4,392)	(3,527)	-	(3,527)
Experience gains	(1,914)	-	(1,914)	(1,946)	-	(1,946)
	(5,731)	5,683	(48)	(4,312)	4,672	360
Exchange differences	646	(651)	(5)	-	-	-
Employer contributions	-	(2,213)	(2,213)	-	(99)	(99)
Benefits paid	(4,424)	4,424	-	(4,332)	4,332	-
At 31 December 2018	86,502	(91,540)	(5,038)	71,941	(75,772)	(3,831)
At 1 January 2019	86,502	(91,540)	(5,038)	71,941	(75,772)	(3,831)
Current service cost	32	-	32	-	-	-
Past service cost, curtailment and settlements	-	-	-	-	-	-
Administration expenses	-	65	65	-	-	-
Interest expense/(income)	2,615	(2,763)	(148)	2,046	(2,157)	(111)
	2,647	(2,698)	(51)	2,046	(2,157)	(111)
Return on scheme assets excluding amounts included in interest expense	-	(7,147)	(7,147)	-	(5,483)	(5,483)
Actuarial (gain)/loss arising from:						
change in demographic assumptions	(154)	-	(154)	-	-	-
change in financial assumptions	9,674	-	9,674	7,779	-	7,779
Experience gains	(227)	-	(227)	(550)	-	(550)
	9,293	(7,174)	2,119	7,229	(5,483)	1,746
Exchange differences	(450)	453	3	-	-	-
Employer contributions	-	(78)	(78)	-	-	-
Benefits paid	(3,315)	3,315	-	(2,835)	2,835	-
At 31 December 2019	94,677	(97,722)	(3,045)	78,381	(80,577)	(2,196)

14. POST-RETIREMENT BENEFITS (continued)

14.1 Defined benefit pension schemes (continued)

Assets/liabilities are held in respect of the net benefit obligation as follows:	2019 £'000	2018 £'000
Cash	5,595	637
Due to pool members	(8,640)	(5,673)
	(3,045)	(5,038)

14.1b Analysis of movement in the net unfunded obligation

	Group Present value of obligation £'000
At 1 January 2018	2,388
Interest expense	78
	78
Actuarial (gain)/loss arising from:	
change in demographic assumptions	(6)
change in financial assumptions	(146)
Experience losses	23
	(129)
Exchange differences	133
Benefits paid	(165)
At 31 December 2018	2,305
At 1 January 2019	2,305
Interest expense	89
	89
Actuarial (gain)/loss arising from:	
change in demographic assumptions	(41)
change in financial assumptions	246
Experience losses	22
	227
Exchange differences	(82)
Benefits paid	(172)
At 31 December 2019	2,367

Assets/liabilities are held in respect of the net benefit obligation as follows:	2019 £'000	2018 £'000
Investments at fair value through OCI	2,539	2,401
Due to pool members	(172)	(96)
	2,367	2,305

14. POST-RETIREMENT BENEFITS (continued)

14.2 Post-employment medical benefits

Analysis of the movement in the post-retirement medical obligation

	Group		
	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000
At 1 January 2018	15,024	(3,702)	11,322
Current service cost	154	-	154
Plan amendments	(2,921)	-	(2,921)
Administrative expenses	-	26	26
Interest expenses	456	(125)	331
	(2,311)	(99)	(2,410)
Return on scheme assets excluding amounts included in interest expense	-	290	290
Actuarial (gain)/loss arising from:			
change in demographic assumptions	(58)	-	(58)
change in financial assumptions	(819)	-	(819)
Experience gains	(2,041)	-	(2,041)
	(2,918)	290	(2,628)
Exchange differences	633	(194)	439
Employee contributions	179	(179)	-
Employer contributions	-	(97)	(97)
Benefits paid	(660)	660	-
At 31 December 2018	9,948	(3,322)	6,626
At 1 January 2019	9,948	(3,322)	6,626
Current service cost	99	-	99
Plan amendments	-	-	-
Administrative expenses	-	27	27
Interest expenses/(income)	376	(129)	247
	475	(102)	373
Return on scheme assets excluding amounts included in interest expense	-	(442)	(442)
Actuarial (gain)/loss arising from:			
change in demographic assumptions	(1,135)		(1,135)
change in financial assumptions	1,301		1,301
Experience gains	(680)		(680)
	(514)	442	(956)
Exchange differences	(319)	117	(201)
Employee contributions	78	(78)	-
Employer contributions	-	(17)	(17)
Benefits paid	(446)	446	-
At 31 December 2019	9,222	(3,398)	5,824

14. POST-RETIREMENT BENEFITS (continued)

14.3 Post-employment benefits (pension and medical)

Assets/liabilities are held in respect of the net benefit obligation as follows:	**2019**	2018
	£'000	£'000
Investments at fair value through OCI	**7,713**	11,719
Due to pool members	**(1,889)**	(5,093)
	5,824	6,626

The significant actuarial assumptions used in determining pension and post-employment benefit obligations for the Group's schemes are shown below:

	2019			2018		
	UK	**US**	**Canada**	UK	US	Canada
Discount rate	**2.1%**	**2.7%**	**3.1%**	2.9%	3.9%	4.0%
Pension growth rate	**3.2%**	**N/A**	**N/A**	3.4%	N/A	N/A
Deferred pension growth rate	**2.2%**	**N/A**	**N/A**	2.4%	N/A	N/A
Average life expectancy for pensioners aged 62, in years:						
Male	**25.4**	**24.7**	**24.7**	25.4	24.9	24.6
Female	**27.6**	**26.1**	**27.4**	27.5	26.5	27.3

Mortality assumptions for 2019 in the UK are from the PCxA00 tables with the CMI 2017 projections and a long term rate of improvement of 1.25% pa; and for 2018 are from the PCxA00 tables with the CMI 2017 projections and a long term rate of improvement of 1.25% pa. Mortality assumptions for 2019 in the US are from the PRI-2012 Private Pension Plans Mortality Tables with White Collar adjustments projected forward with Scale MP-2019; and for 2018 are from the RP 2014 Blue Collar Mortality Table (with White Collar adjustments) adjusted backwards to 2006 with Scale MP-2014 and projected forward with Scale MP-2018. Mortality assumptions for 2019 in Canada are from the 2014 CPM Private Sector Mortality Table with Improvement Scale MI-2017; and for 2018 are from the 2014 CPM Private Sector Mortality Table with Improvement Scale MI-2017.

14. POST-RETIREMENT BENEFITS (continued)

14.3 Post-employment benefits (pension and medical) (continued)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

Group	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption £'000	Decrease in assumption £'000
Discount rate	+/-1%	Decrease by 15,757	Increase by 20,449
Pension growth rate	+/-1%	Increase by 11,954	Decrease by 9,889
Deferred pension growth rate	+/-1%	Increase by 2,430	Decrease by 2,674
Medical inflation	Trend +/-1%	Increase by 1,635	Decrease by 1,299
Life expectancy	+/-1 year	Increase by 2,939	Decrease by 2,367

Company	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption £'000	Decrease in assumption £'000
Discount rate	+/-1%	Decrease by 12,935	Increase by 16,962
Pension growth rate	+/-1%	Increase by 11,954	Decrease by 9,889
Deferred pension growth rate	+/-1%	Increase by 2,430	Decrease by 2,674
Life expectancy	+/-1 year	Increase by 3,720	Decrease by 3,750

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension obligation recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analyses did not change compared to the previous period.

Pension and medical scheme assets are comprised as follows:

Group	**2019**				2018			
	Quoted £'000	**Unquoted £'000**	**Total £'000**	%	Quoted £'000	Unquoted £'000	Total £'000	%
Equity instruments	**8,872**	-	**8,872**	**8.8%**	8,482	-	8,482	8.9%
Debt instruments	**54,468**	-	**54,468**	**53.9%**	49,117	-	49,117	51.8%
Annuities	-	**36,902**	**36,902**	**36.5%**	-	35,624	35,624	37.6%
Cash and cash equivalents	-	**879**	**879**	**0.9%**	-	1,639	1,639	1.7%
Total	**63,340**	**37,781**	**101,121**	**100%**	57,599	37,263	94,862	100.0%

Company	**2019**				2018			
	Quoted £'000	**Unquoted £'000**	**Total £'000**	%	Quoted £'000	Unquoted £'000	Total £'000	%
Equity instruments	**6,631**	-	**6,631**	**8.2%**	5,794	-	5,794	7.6%
Debt instruments	**36,498**	-	**36,498**	**45.3%**	33,404	-	33,404	44.1%
Annuities	-	**36,902**	**36,902**	**45.8%**	-	35,624	35,624	47.0%
Cash and cash equivalents	-	**546**	**546**	**0.7%**	-	950	950	1.3%
Total	**43,129**	**37,448**	**80,577**	**100.0%**	39,198	36,574	75,772	100.0%

14. POST-RETIREMENT BENEFITS (continued)

14.4 Risks

Through its defined benefit pension schemes and post-employment medical schemes, the Group is exposed to a number of risks, the most significant of which are detailed below:

14.4a) Asset Volatility

For the purposes of these financial statements the defined benefit scheme obligations are calculated using a discount rate set with reference to corporate bond yields; if scheme assets underperform this yield, ceteris paribus, scheme funding will deteriorate. Both the UK and US schemes hold a proportion of their investments in equities, which are expected to outperform bonds in the long-term while providing increased volatility and risk in the short-term. The UK scheme has a policy of purchasing annuities in respect of pensioner obligations when trustees consider it cost effective to do so.

The Group believes that due to the long-term nature of the scheme obligations and the strength of the supporting Group, a level of continuing equity investment is an appropriate element of the Group's long term strategy to manage the schemes cost effectively. See below for more details on the Group's asset-obligation matching strategy.

As the schemes mature, the Group is reducing the level of investment risk by investing more in assets that better match the obligations.

14.4b) Changes in bond yields

A decrease in bond yields will increase scheme obligations, although this will be partially offset by an increase in the value of the schemes' bond holdings.

14.4c) Inflation risk

The UK scheme's obligations are linked to inflation, and higher inflation will lead to higher obligations. The majority of the scheme's bond assets are index linked government bonds of long duration which will move broadly in line with the obligations as inflation expectations change. Equity investments are loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

The US medical scheme is exposed to inflation in medical costs.

The US pension payments are not linked to inflation, so this is not a relevant risk.

14.4d) Life expectancy

The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the schemes' obligations. This is particularly significant in the UK scheme, where inflationary increases to pensions result in higher sensitivity to changes in life expectancy.

14.4e) Insurer default risk

As a significant proportion of the UK scheme's assets are held in annuities, the scheme bears the risk of the insurance company defaulting on the payments, resulting in the scheme being forced to make additional pension payments.

14. POST-RETIREMENT BENEFITS (continued)

14.5 Asset matching and funding

14.5a) Asset matching

For the funded schemes, the Group ensures that a portion of the schemes' investments are invested in bonds of a broadly similar duration to and in the same currency as the schemes' obligations. The Group does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

A significant proportion of the UK scheme assets are held in annuity policies in respect of almost all of the current pensioner obligations in the scheme. The Scheme has historically bought annuities in respect of pensioner obligations and further purchases may be made in the future for new pensioners. Equities are invested in a globally diversified portfolio of international entities, generally via index tracking funds offered by leading international investment managers.

14.5b) Funding

The Group has established a practice with its pool members whereby pension deficits calculated under International Accounting Standards are charged to them and funded by them in the year following the year in which they arise. Such receipts are either paid into the appropriate scheme or held on the balance sheet. There are no plans to change this practice. The triennial valuation of the UK scheme reported a surplus on 1 January 2018. The next triennial valuation is due to be completed as at 1 January 2021.

Expected contributions to post-employment defined benefit schemes for the year ending 31 December 2020 are £49,180. At 31 December 2018, the expected contributions for the following year were £75,835.

The weighted average duration of the defined benefit obligation is 17.1 years (2018: 16.9 years).

15. PROVISIONS AND OTHER LIABILITIES

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
At 1 January	**221**	214	**221**	214
Additional provisions and increases to provisions	**7**	7	**7**	7
Unused amounts reversed	-	-	-	-
At 31 December	**228**	221	**228**	221

The provision for the Group and Company is the present value of the expected dilapidations cost of Fitzwilliam House, which the Company leases for its head office. On expiry of the lease the Company will be required to restore the occupied space to its original condition at its own expense.

16. BORROWINGS

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Non-current				
Lease liabilities	**7,010**	82	**3,970**	82
Loan from shareholders	**50,420**	50,420	**50,420**	50,420
	57,430	50,502	**54,390**	50,502
Current				
Lease liabilities	**2,384**	18	**585**	18
	2,384	18	**585**	18

The loan from shareholders is repayable on 30 June 2022 or on 53 weeks' notice from the shareholders. Interest is charged on the loan at 2.00% above the NatWest base rate.

17. CONTRACT LIABILITIES

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Non-current				
Other management services	**1,250**	1,190	**66**	33
	1,250	1,190	**66**	33
Current				
Management services to pool members	**2,493**	2,447	**1,082**	1,025
Fireside disaster response	**352**	318	**-**	-
Other management services	**4,121**	4,007	**946**	845
	6,966	6,772	**2,028**	1,870

Non-current contract liabilities outstanding at 31 December 2019 are expected to be recognised as revenue within six years.

18. REVENUE

	2019	2018
	£'000s	£'000s
Revenue from services provided during the period		
Management services to pool members	**41,632**	39,330
Other management services	**9,503**	8,398
Fireside disaster response	**1,335**	1,072
Sublease income	**13**	221
Revenue from services provided in prior periods		
Management services to pool members	**(215)**	335
Other revenue		
Foreign exchange gain/(loss)	**(173)**	361
	52,095	49,717

19. ADMINISTRATIVE EXPENSES

	2019 £'000	2018 £'000
Depreciation, amortisation and impairment charges	**3,342**	1,353
Employee benefit expense (see Note 19.2)	**29,030**	28,419
Operating lease rentals	**-**	2,690
Other expenses	**12,381**	11,832
	44,753	44,294

19.1 Auditors' remuneration

During the year the Group (including overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:

	2019 £'000	2018 £'000
Fees payable to Mazars:		
Audit services		
Audit of the Consolidated financial statements	**90**	97
Non-audit services		
Tax services	**67**	69
Other services not covered above	**230**	332
Fees in respect of the Global Aerospace pension scheme		
Audit	**9**	18
	396	516
Fees payable to MNP:		
Audit services		
Audit of the Consolidated financial statements	**11**	-
Non-audit services		
Tax services	**4**	-
Other services not covered above	**44**	-
Fees in respect of the Global Aerospace pension scheme		
Audit	**11**	-
	70	-
	466	516

19.2 Employee benefit expenses

	2019 £'000	2018 £'000
Wages and salaries	**23,809**	26,413
Social security costs	**2,178**	2,438
Other pension costs – defined contribution plans	**2,612**	2,504
Other pension costs – defined benefit plans	**290**	(3,421)
Other post-employment benefits	**141**	485
	29,030	28,419

19.3 Employee numbers

	2019	2018
Average number of employees:		
UK	**87**	89
Canada	**26**	26
US (Global Aerospace Inc.)	**160**	160
US (Fireside Partners Inc.)	**44**	43
Switzerland	**4**	4
France	**8**	7
Germany	**3**	2
	332	331

20. OTHER GAINS/(LOSSES)

	2019 £'000	2018 £'000
Gain/(loss) on disposal of financial assets at fair value through other comprehensive income	**(227)**	6
Gain on disposal of property, plant and equipment	**179**	2
	(48)	8

21. FINANCE INCOME AND COSTS

	2019 £'000	2018 £'000
Finance income		
Other interest	**668**	693
	668	693
Finance costs		
Shareholder loan interest	**(1,387)**	(1,313)
Lease interest	**(362)**	(6)
Other interest	**(6)**	(9)
	(1,755)	(1,328)

Finance income and costs are interest on financial instruments.

22. INCOME TAX EXPENSE

	2019 £'000	2018 £'000
Current tax:		
- on profit for the year	**882**	2,158
- adjustments in respect of prior years	**(447)**	24
Deferred tax (see Note 7)	**469**	(502)
	904	1,680

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2019 £'000	2018 £'000
Profit before tax	**6,207**	4,796
Tax calculated at domestic tax rates applicable to profits in the respective countries	**1,337**	1,018
Expenses not deductible for tax purposes	**29**	30
Change in tax rates or regulations	**(1)**	543
Adjustments in respect of prior years	**(462)**	46
Excess foreign taxes	**1**	43
	904	1,680

The weighted average applicable tax rate was 21.54% (2018: 21.27%).

22. INCOME TAX EXPENSE (continued)

The tax charge/(credit) relating to components of other comprehensive income is as follows:

	2019		
	Before tax £'000	Tax charge/ (credit) £'000	After tax £'000
Re-measurement of defined benefit obligation	1,390	(210)	1,180
Gains on financial assets measured at FVOCI	(1,499)	369	(1,130)
Currency translation difference	2,717	-	2,717
Other comprehensive expense/(income)	2,608	159	2,767
Current tax		-	
Deferred tax		159	
		159	

	2018		
	Before tax £'000	Tax charge/ (credit) £'000	After tax £'000
Re-measurement of defined benefit obligation	(2,806)	844	(1,962)
Losses on financial assets measured at FVOCI	1,095	(286)	809
Currency translation difference	(4,468)	-	(4,468)
Other comprehensive expense/(income)	(6,179)	558	(5,621)
Current tax		-	
Deferred tax		558	
		558	

23. NET FOREIGN EXCHANGE GAINS/(LOSSES)

The exchange differences credited/(charged) to the statement of comprehensive income are included as follows:

	2019 £'000	2018 £'000
Revenue	**(173)**	361
Other Comprehensive Income	**(2,717)**	4,468
	(2,890)	4,829

24. DIVIDENDS PER SHARE

The interim dividends paid in 2019 and 2018 were £4,269,000 (17.08 pence per share) and £3,283,000 (13.13 pence per share) respectively. No final dividends were paid (2018: nil).

25. CASH GENERATED FROM OPERATIONS

A) Group

	2019 £'000	2018 £'000
Profit before taxation	**6,207**	4,796
Adjustments for:		
Amortisation	**695**	738
Depreciation	**2,647**	659
Impairment of property, plant and equipment	**9**	-
Realised loss on sale of investments (FVOCI)	**227**	6
Realised gain on sale of property, plant and equipment	**(179)**	-
Finance income	**(668)**	(693)
Finance costs	**1,755**	1,328
Unrealised loss on investments	**-**	14
Post-employment benefits	**(1,390)**	2,943
Changes in working capital		
Trade and other receivables	**4,028**	3,335
Trade and other payables	**(7,208)**	(5,055)
Provisions	**7**	7
Cash generated from operations	**6,130**	8,078

B) Company

	2019 £'000	2018 £'000
Profit before taxation	**6,273**	4,140
Adjustments for:		
Amortisation	**108**	129
Depreciation	**658**	218
Dividends receivable	**(2,233)**	(837)
Finance income	**(80)**	(54)
Finance costs	**1,534**	1,328
Post-employment benefits	**(1,746)**	(360)
Changes in working capital		
Trade and other receivables	**789**	(824)
Trade and other payables	**(2,654)**	(938)
Provisions	**7**	7
Cash generated from operations	**2,656**	2,809

26. LEASES

26.1 Lease amounts in the Statement of Financial Position

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Property, plant and equipment				
Right-of-use assets				
Premises	**7,811**	-	**3,865**	-
Equipment	**223**	-	**78**	-
	8,034	-	**3,943**	-
Borrowings				
Lease liabilities				
Non-Current	**7,010**	-	**3,970**	-
Current	**2,384**	-	**585**	-
	9,394	-	**4,555**	-

Additions to right-of-use assets during 2019 were £9,912,000 for the Group and £4,382,000 for the Company.
See Note 3c for a maturity analysis of lease liabilities.

26.2 Lease amounts in the Statement of Comprehensive Income

	Group	
	2019	2018
	£'000	£'000
Revenue		
Sublease income	**13**	-
Administrative expenses		
Depreciation charges		
Premises	**(1,940)**	-
Equipment	**(101)**	-
Short term lease expenses	**(151)**	-
Low value lease expenses	**(31)**	-
Finance Costs		
Lease liability interest	**(362)**	-
	(2,572)	-

26.3 Lease terms and cash flows as a lessee

Some of the Group's leases contain options to extend the lease term. Where it is reasonably certain that leases will be extended, the additional cash outflows are included in the lease liability at a discounted rate. Otherwise, where extension is not reasonably certain, additional cash outflows are excluded.

Some premises leases contain variable lease payments that are linked to an inflation index. The cash flow impact from a 1.00% increase in the inflation index is shown below.

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Cash outflow from lease payments	**2,507**	-	**582**	-
Cash outflow from extension options				
Included in the lease term	-	-	-	-
Excluded from the lease term	**825**	-	-	-
Variable lease payments				
1.00% increase to index	**4**	-	-	-

26. LEASES (continued)

26.4 Lease terms and cash flows as a lessor

The Group sublets premises as an intermediate lessor where office space has become superfluous. The terms of the sublease issued match the head lease, but the Group retains the credit risk for the sublease. The following payments are receivable in respect of the sublet premises:

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Less than one year	**38**	-	-	-
1 to 2 years	**38**	-	-	-
2 to 3 years	**38**	-	-	-
3 to 4 years	**19**	-	-	-
	133	-	-	-

27. COMPANY INFORMATION AND PRINCIPAL SUBSIDIARIES

The Company is incorporated and domiciled in England, and is a company limited by shares.

The Company owns the entire share capital of GAUM Holdings Inc. (formerly Global Aerospace Underwriting Managers (USA) Inc.) registered in Delaware, USA and the US company owns the entire share capital of Global Aerospace, Inc. registered in Delaware, USA, which is the management company for the Group in the US. It also owns Fireside Partners, Inc. registered in Delaware, USA which was acquired in April 2015.

The Company owns the entire share capital of Global Aerospace Underwriting Managers (Canada) Limited (incorporated in Canada), which is the management company for the Group in Canada.

The Company owns the entire share capital of Global Aerospace Underwriting Managers (Europe) SAS which was incorporated in France on 25 July 2018. The Company transferred its French and German business into Global Aerospace Underwriting Managers (Europe) SAS, in exchange for newly issued shares, with retroactive effect on 1 January 2019. Global Aerospace Underwriting Managers (Europe) SAS was established to ensure continuity of business in the European Union after Brexit. Refer to 'Impact of Brexit' in the Strategic Report above for further details.

The Company owns the entire share capital of British Aviation Insurance Group (Underwriting Services) Limited, British Aviation Insurance Group (Technical Services) Limited, BAIG Limited, Global Aerospace Underwriters Limited, Associated Aviation Underwriters Limited and Global Limited. All of these companies are registered in England and were dormant throughout the year.

All subsidiaries are included in the consolidated financial statements.

28. RELATED PARTY TRANSACTIONS

On 3 January 2018, Northern States Agency Inc. (NSA) sold 11% of the Company's shares to Munich Re, after which NSA held 49% of the Company's share capital and Munich Re 51%.

The Articles of Association provide that the voting rights between Shareholders remain equal after the sale of shares on 3 January 2018. In addition, resolutions at directors' meetings will be decided by a majority of votes cast, with each Shareholder having an equal number of votes. Therefore there remains no ultimate controlling party of the Company.

The pool member National Indemnity Company is under common ownership with Northern States Agency, Inc.

28. RELATED PARTY TRANSACTIONS (continued)

Management fees, profit commission, and management charges were charged to these parties as follows:

	Management fees		Profit commission		Management charges	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
National Indemnity*	**263**	199	**(25)**	39	**2,002**	2,390
Munich Re**	**3,898**	3,038	**(133)**	210	**19,484**	18,241

At year end the following balances were due to and from these parties:

	Amounts owed to related party		Amounts owed by related party		Shareholder loan	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
National Indemnity*	**273**	154	**78**	267	**24,706**	24,706
Munich Re**	**2,152**	1,524	**1,143**	1,049	**25,714**	25,714

* includes other fellow companies under common ownership with the National Indemnity Company.
** includes other fellow companies under common ownership with Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München

Interest is charged on the Shareholder loan at 2% above the NatWest base rate. The interest payable for 2019 was £1,387,000 (2018: £1,313,000).

In 2019 the Group purchased internal audit services from Resolute, a fellow group company of NSA, amounting to £38,200 (2018: £36,400). The Company also received management charge funding of £2,300 (2018: £2,300) from Tenecom Limited, a run-off pool member.

In 2019 the Group paid Munich Re and the Munich American Reinsurance Company, a fellow group company of Munich Re, £178,100 (2018: £140,800) for leased office space in Paris and Atlanta; £2,100 of this payment was in respect of 2020 (2018: £2,000). The lease agreements are non-cancellable up to 2022; accordingly the Group has a £421,400 (2018: £393,600) commitment to the Munich Re group included in Note 26 above.

At 31 December 2019 the parent Company had amounts due from subsidiaries of £1,919,000 (2018: £1,824,000) and due to subsidiaries of £50,000 (2018: £190,000).

Contributions paid into post-retirement benefit plans are given in Note 14.

Key management compensation

	2019 £'000	2018 £'000
Salary and other benefits	**3,249**	2,968
Bonus based on pool trading profits	**-**	1,033
Total	**3,249**	4,001

During 2019, a close family member of a key manager received compensation of £297,000 as an employee. Separately, a close family member of a director received compensation of £6,000, as a temporary employee for administrative work.

No impairments or provisions were recognised during the period and there were no outstanding balances or commitments at the reporting date in respect of either close family member.

28. RELATED PARTY TRANSACTIONS (continued)

Directors' Remuneration

	2019		2018	
	Highest Paid Director £'000	**Total Emoluments £'000**	Highest Paid Director £'000	Total Emoluments £'000
Salary and other benefits	**369**	**693**	359	678
Bonus based on pool trading profits	**-**	**-**	346	486
Total	**369**	**693**	705	1,164

In the bonus paid on pool trading profits are amounts relating to profits of prior pool years. No Company contributions were made into pension schemes for directors in 2018 or 2019.

29. IFRS 16 TRANSITION DISCLOSURE

	£'000s
Operating lease commitments at 31 December 2018	***12,774***
Discounted at incremental borrowing rate 3.45%	11,173
Add finance lease liabilities at 31 December 2018	100
Less short term leases expensed	(86)
Less low value leases expensed	(3)
Exchange loss	234
Lease liabilities at 1 January 2019	**11,418**

30. CHANGES TO ACCOUNTING POLICIES

The Group adopted IFRS 16 'Leases' on 1 January 2019. The standard replaces IAS 17 where lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). In contrast, IFRS 16 requires lessees to recognise a 'right-of-use' asset and a lease liability, effectively bringing almost all leases onto the balance sheet. Operating lease expenses recognised under IAS 17 have been replaced by depreciation charges on the right-of-use asset and finance costs incurred on the lease liability. Note 26 has been introduced to convey the impact that leases have on the financial position, financial performance and cash flows.

Transitional provisions of IFRS 16 do not require the restatement of comparative periods or the remeasurement of leases classified as finance leases under IAS 17. As practical expedients, management has excluded initial direct costs from the measurement of right-of-use assets and accounted for leases which expire before 31 December 2019 as short-term leases.

31. EVENTS AFTER THE REPORTING PERIOD

The following non-adjusting events occurred after 31 December 2019:

UK Government Budget 2020
Deferred tax arising in the Company has been calculated using a corporation tax rate of 17% as legislated in the 2016 Finance Act. On 11 March 2020, the government announced that the corporation tax rate will remain at 19%, on 17 March 2020 the announcement was substantively enacted into law. If deferred tax had been calculated using a rate of 19% the profits of the Company and Group would have decreased by £27,000.

Issue of Ordinary Shares and Cancellation Shareholders' Loan
On 5 March 2020, the Board agreed to issue 50,420,379 ordinary shares, each with a nominal value of £1, to its existing shareholders in exchange for cancelling the shareholders' loan. The transaction is contingent on approval by shareholders resolution on 17 April 2020. The proposed transaction will not change the relative holding of either shareholder or their voting rights.

COVID-19 Pandemic
Management fee revenue, which is derived from estimated gross written premium, is recognised during the reporting period, then is adjusted over the next two years as changes to the estimated gross written premium arise. Premiums on some airline policies are adjusted when passenger numbers differ from those originally expected at the time the policy was written. The emerging COVID-19 pandemic has reduced airline passenger numbers, although for how long and to what extent this will continue is unknown. In these circumstances management can make no reliable estimate of the impact of the pandemic on the management fee. However, the contribution that such airline policies make to the management fee is low, and the impact in the context of the financial statements is almost certainly immaterial.

Similarly, management can make no reliable estimate of any impairments to financial assets or receivables as a result of the COVID-19 pandemic, but any such impairment would be offset by the management charge.