

Registration number: 02696420

Morgan Law Limited

Annual Report and Financial Statements

for the Year Ended 30 December 2016

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Morgan Law Limited

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Morgan Law Limited

Company Information

| | |
|--------------------------|--|
| Directors | M S Mugge D C Ross |
| Company secretary | J A Gregory |
| Registered office | Towergate House Eclipse Park Sittingbourne Road Maidstone Kent ME14 3EN |
| Auditor | KPMG LLP 15 Canada Square Canary Wharf London E14 5GL |

Morgan Law Limited

Strategic Report for the Year Ended 30 December 2016

The directors present their strategic report for the year ended 30 December 2016 for Morgan Law Limited ("the Company"). The strategic report provides a review of the business for the financial year and describes how the directors manage risks. The report outlines the developments and performance of the Company during the financial year, the position at the end of the year and discusses the main trends and factors that could affect the future. The Company is part of the Sentry Holdings Limited Group ("the Group" or "Towergate"). Whilst Sentry Holdings Limited is the ultimate parent company, the directors of its subsidiary The Ardonagh Group Limited (formerly known as TIG Topco Limited) manage the Group's operations on a daily basis.

Principal activities and business review

The principal activity of the Company is the provision of insurance services, with a focus on the provision of construction and property insurance.

The results for the Company show turnover of £2,361,582 (2015: £2,541,863) and profit before tax of £497,962 (2015: £1,162,713) for the year. At 30 December 2016 the Company had net assets of £4,103,588 (2015: £3,441,720). The Company was subject to additional management charges of £338,835 from the Group, and had higher operational recharges and staff costs, resulting in a drop in profits. The accounting policies note on page 16 sets out the reasons why the directors continue to believe that the preparation of the financial statements on the going concern basis is appropriate.

The company has transitioned to Financial Reporting Standard 101 ("FRS 101 Reduced Disclosure Framework") with a conversion date of 31 December 2014. As required by IFRS 1 First-time adoption of IFRSs, the Company has applied the relevant accounting policies in place on 30 December 2016 to all periods presented. The Company has taken advantage of the disclosure exemptions allowed under this standard. A summary of the recognition and remeasurement adjustments arising on the adoption of FRS 101 can be found note 25.

Business strategy and objectives

The Company continues to emphasise the fundamental importance of putting customers first. The Company has developed policies and processes with the aim of treating every customer fairly and consistently. This includes endeavouring to provide them with the best products, advice and service, which can build loyalty and advocacy, which in turn will strengthen reputation and support profits. Serving customers well involves dealing with complaints promptly and effectively, having high standards around underwriting and pricing, and taking a customer-focused approach to sales and marketing. The development of a strong customer base assists in developing income growth which is another objective of the business. The Company aims to both increase retention rates and attract new customers.

The Company also aspires to create a high performance culture, creating excellent customer service through highly engaged employees. The Company aims to attract, develop and promote the best talent and to create a supportive environment in which every employee continuously learns and develops. The Company's culture and competitive remuneration packages enable it to attract and retain key staff. This will also be achieved by creating a shared understanding of the Company's strategic goals and objectives, building the capability of managers and leaders to manage performance and by every employee having the knowledge, skill and capability to perform their role.

Outlook

The directors do not expect there to be any changes in the nature of the business in 2017.

Morgan Law Limited

Strategic Report for the Year Ended 30 December 2016

Key performance indicators

The Company's key financial and other performance indicators during the year were as follows:

| | Unit | 2016 | 2015 |
|----------------------------------|------|------|------|
| Gross written premium (GWP) | £m | 10.4 | 11.5 |
| Turnover | £m | 2.4 | 2.5 |
| Administrative expenses | £m | 1.9 | 1.4 |
| Turnover/GWP | % | 23.1 | 21.7 |
| Administrative expenses/turnover | % | 79.2 | 56.0 |

Non-financial key performance indicators include staffing levels which have decreased by 19% throughout the year as part of the Group restructuring. The Company actively encourages all employees to become involved in Group affairs and is also keen to encourage two way communications on relevant business issues. This is achieved through regular employee meetings and presentations by senior management and is supported by a Group wide communication plan. Further discussions on employee matters can be found in the directors' report.

The directors of The Ardonagh Group Limited manage the Group's operations on a divisional basis. For this reason, the Company's directors believe that a separate analysis for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business. The development, performance and position of the Group which includes this Company as a member of the insurance brokers division, is discussed in the Group's annual report. Financial key performance indicators relevant to the Company are Gross Written Premium and commission and fees income as a percentage of premium.

Principal risks and uncertainties

Risk management

The Group has a comprehensive strategy for the identification, mitigation and management of risk. A wide ranging assessment of business risks has been undertaken resulting in the compilation of a risk register. The risk register is subject to discussion at regular Risk Management Committee meetings and the Group's ongoing risk management ensures there is appropriate reporting from the business which will highlight changes in risk profile to the Risk Management Committee. The risks are managed and monitored to be within the agreed risk appetite. If a risk exceeds appetite, management actions will be put in place to bring it within appetite.

The principal risks and their mitigation are as follows:

Strategic and commercial risk

There are risks of changes to the competitive and economic environment. This is mitigated by a robust strategy and planning process, regular monitoring of economic and competitive environment and diversification of product lines and channels.

Financial risk

There is the risk of adverse impact on business value or earning capacity as well as risk of inadequate cash flow to meet financial obligations. This risk is mitigated by proactive management of the business plan, regular monitoring of cash flows against risk appetite and a focus on debt collection.

Morgan Law Limited

Strategic Report for the Year Ended 30 December 2016

Operational risk

There is the risk of losses arising from inadequate or failed internal processes or systems, from personnel and / or from external events. These are mitigated by having an Enterprise Risk Management Framework in place, which is owned by the Group Risk Officer. The framework requires all risks to have owners, and these owners have appropriate controls in place which are regularly monitored and significant changes to the risk escalated as required.

The Company's business depends on the ability of employees to process transactions using secure information systems. The capacity to service customers depends on storing, retrieving, processing and managing information. Interruption or loss of information processing capabilities through loss of stored data, the failure of computer equipment or software systems, a telecommunications failure or other disruption could have a material adverse effect on business, results of operations and financial condition. To mitigate these risks the Company has certain disaster recovery procedures in place and insurance to protect against such contingencies.

Regulatory and legal risk

This is the risk of regulatory sanctions, material financial loss or loss to reputation suffered as a result of non compliance with laws, regulations and applicable administrative provisions. This risk is mitigated by a proactive relationship with the Financial Conduct Authority, a dedicated compliance function, and a compliance monitoring programme. Furthermore, there is a control framework that has been rolled out and embedded within the culture throughout the Company to reduce the risk of errors and non compliance.

Volatility in premiums and insurance market cycle

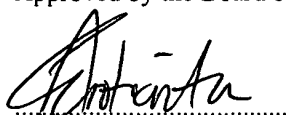
The Company derives most of its revenue from commissions, fees for broking services. Its commissions are generally based on insurance premiums, which are cyclical in nature and may vary widely based on market conditions. A significant reduction in commissions, along with general volatility or declines in premiums, could have a material adverse effect on the results of operations and the Company's financial condition. This risk is mitigated by ensuring that the Company has a range of products and by diversifying its portfolio. This should reduce the effect of a cycle on one specific class of business.

Future impact of Brexit

As a business that operates predominantly in the United Kingdom (UK) the Company is affected by economic conditions in the UK and the associated possibility of decline in business and customer confidence. This risk has been exacerbated by the uncertainties surrounding the UK's decision to leave the European Union ("Brexit"). Our typical small to medium-sized business (SME) customers and individual consumers may be more vulnerable to any economic downturn than larger commercial customers, reducing or delaying insurance purchases or making premium payments.

The Brexit decision could lead to the UK leaving the single market for goods and services and the ability of businesses to passport between the UK and other EU states. The direct impact on the Company will not be significant because it currently conducts little business outside the UK, although there may be some effects on the insurance markets into which we place business.

Approved by the Board on ²⁰..... September 2017 and signed on its behalf by:



A Erotocritou
Director

Morgan Law Limited

Directors' Report for the Year Ended 30 December 2016

The directors present their report and the financial statements for the year ended 30 December 2016.

Directors of the Company

The directors, who held office during the year, were as follows:

M S Mugge

D C Ross (appointed 20 December 2016)

The following director was appointed after the year end:

A Erotocritou (appointed 15 March 2017)

Dividends

The directors do not recommend a final dividend payment to be made in respect of the financial year ended 30 December 2016 (2015: £Nil).

Proposed dividend

The directors do not recommend a dividend payment to be made in respect of the financial year ended 30 December 2016 (2015: £Nil).

Financial risk management objectives and policies

Details of financial risk management objectives and policies can be found in the strategic report within the 'Risk management' section on page 3.

Future developments

Details of future developments can be found in the strategic report within the 'Outlook' section on page 2.

Political donations

The Company has not made any political donations during the year (2015: £Nil).

Employment of disabled persons

The Company's policy is to recruit disabled workers for those vacancies that they have the appropriate skills and technical ability to perform. Once employed, a career plan is developed to ensure that suitable opportunities exist for each disabled person. Employees who become disabled during their working life will be retrained if necessary and wherever possible will be given help with any necessary rehabilitation and training. The Company is prepared to modify procedures or equipment, wherever practicable, so that full use can be made of an individual's abilities.

Employee involvement

Employees are key to the Company's success, so an appropriate remuneration package is offered which rewards an individual's performance and contribution to the organisation. The Company is also keen to encourage individual's personal development to ensure that they have the skills required to undertake their role. The Company places considerable value on the involvement of its employees and continues to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company and the Group as a whole. This is achieved by formal and informal meetings, circulation of the Company magazine and by encouraging employees to take part in regular employee engagement surveys.

Morgan Law Limited

Directors' Report for the Year Ended 30 December 2016

Going concern

The Company's business activities, together with the factors likely to affect its future development are described in the strategic report on page 2. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the next 12 months. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further details of this assessment can be found in note 2 to these financial statements.

Directors' liabilities

All directors benefit from qualifying third party indemnity provisions, subject to the conditions set out in the Companies Act 2006, in place during the financial year and at the date of this report.

Disclosure of information to the auditor

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditor

The auditors KPMG LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 20..... September 2017 and signed on its behalf by:



.....
A Erotocritou
Director

Towergate House
Eclipse Park
Sittingbourne Road
Maidstone
Kent
ME14 3EN

Morgan Law Limited

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework (FRS 101).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

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

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

Independent Auditor's Report to the members of Morgan Law Limited

We have audited the financial statements of Morgan Law Limited for the year ended 30 December 2016, set out on pages 10 to 39. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements (set out on page 7), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

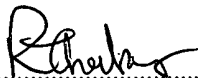
- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor's Report to the members of Morgan Law Limited

Matters on which we are required to report by exception

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

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



.....
Rajan Thakrar (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL

Date: 20..... September 2017

Morgan Law Limited

Statement of Comprehensive Income for the Year Ended 30 December 2016

| | Note | 2016 £ | 2015 £ |
|--|------|-----------------------|-----------------------|
| Turnover | 4 | 2,361,582 | 2,541,863 |
| Administrative expenses | | (1,847,462) | (1,400,446) |
| Other (losses)/gains | | <u>(4,858)</u> | <u>30,404</u> |
| Operating profit | 5 | 509,262 | 1,171,821 |
| Finance costs | 6 | <u>(11,300)</u> | <u>(9,108)</u> |
| Profit before tax | | 497,962 | 1,162,713 |
| Income tax credit/(expense) | 9 | <u>163,906</u> | <u>(245,568)</u> |
| Total comprehensive profit for the year | | <u><u>661,868</u></u> | <u><u>917,145</u></u> |

The above results were derived from continuing operations.

Morgan Law Limited

(Registration number: 02696420)

Statement of Financial Position as at 30 December 2016

| | Note | 2016 £ | 2015 £ |
|------------------------------------|------|--------------------------|-------------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 60,859 | 147,726 |
| Intangible assets | 11 | 334,033 | 334,033 |
| Other non-current financial assets | 12 | 1 | 1 |
| Deferred tax assets | 9 | 47,410 | 39,602 |
| | | <u>442,303</u> | <u>521,362</u> |
| Current assets | | | |
| Trade and other receivables | 13 | 8,344,880 | 6,084,140 |
| Cash and cash equivalents | 14 | 1,764,295 | 2,485,559 |
| Other current financial assets | 12 | 140,204 | - |
| | | <u>10,249,379</u> | <u>8,569,699</u> |
| Total assets | | <u><u>10,691,682</u></u> | <u><u>9,091,061</u></u> |

The notes on pages 14 to 39 form an integral part of these financial statements.

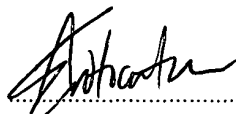
Morgan Law Limited

(Registration number: 02696420)

Statement of Financial Position as at 30 December 2016

| | Note | 2016 £ | 2015 £ |
|-------------------------------------|------|--------------------------|-------------------------|
| Equity and liabilities | | | |
| Equity | | | |
| Called up share capital | 16 | 601,000 | 601,000 |
| Retained earnings | | <u>3,502,588</u> | <u>2,840,720</u> |
| | | <u>4,103,588</u> | <u>3,441,720</u> |
| Non-current liabilities | | | |
| Loans and borrowings | 15 | 25,996 | 48,012 |
| Provisions | 20 | <u>34,519</u> | <u>20,674</u> |
| | | <u>60,515</u> | <u>68,686</u> |
| Current liabilities | | | |
| Trade and other payables | 19 | 6,389,100 | 5,272,049 |
| Loans and borrowings | 15 | 22,231 | 57,297 |
| Income tax liability | 9 | 116,248 | 242,956 |
| Provisions | 20 | <u>-</u> | <u>8,353</u> |
| | | <u>6,527,579</u> | <u>5,580,655</u> |
| Total liabilities | | <u>6,588,094</u> | <u>5,649,341</u> |
| Total equity and liabilities | | <u><u>10,691,682</u></u> | <u><u>9,091,061</u></u> |

Approved by the Board on 20 September 2017 and signed on its behalf by:



A Erotocritou

Director

Morgan Law Limited

Statement of Changes in Equity for the Year Ended 30 December 2016

| | Share capital £ | Retained earnings £ | Total £ |
|---|--------------------|---------------------------|------------------|
| At 31 December 2015 | 601,000 | 2,840,720 | 3,441,720 |
| Total comprehensive profit for the year | - | 661,868 | 661,868 |
| At 30 December 2016 | <u>601,000</u> | <u>3,502,588</u> | <u>4,103,588</u> |

| | Share capital £ | Retained earnings £ | Total £ |
|---|--------------------|---------------------------|------------------|
| At 31 December 2014 | 601,000 | 1,923,575 | 2,524,575 |
| Total comprehensive profit for the year | - | 917,145 | 917,145 |
| At 30 December 2015 | <u>601,000</u> | <u>2,840,720</u> | <u>3,441,720</u> |

The notes on pages 14 to 39 form an integral part of these financial statements.

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

1 Authorisation of financial statements

The Company is a private company limited by share capital incorporated and domiciled in the United Kingdom.

These financial statements for the year ended 30 December 2016 were authorised by the Board on 20 September 2017 and the statement of financial position was signed on the Board's behalf by A Erotocritou.

2 Accounting policies

Basis of preparation

These financial statements were prepared in accordance with FRS101 'Reduced Disclosure Framework'.

These financial statements have been prepared on a historical cost basis. The financial statements are presented in GBP sterling (£), which is also the Company's functional currency.

Summary of disclosure exemptions

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the company has adopted FRS 101 for the first time.

In the transition to FRS 101, the Company has applied IFRS 1 with assets and liabilities measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and financial performance of the Company is provided in note 25.

On the first-time adoption of FRS 101, the entity has applied paragraphs 6 to 33 of IFRS 1 except for the requirements of paragraphs 6 and 21 to present an opening statement of financial position at the date of transition.

In these financial statements, the Company has taken advantage of the following disclosure exemptions under FRS 101 where relevant:

- (a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-Based Payment because the arrangement concerns instruments of another group entity;
- (b) the requirements of IFRS 7 Financial Instruments: Disclosures and of paragraphs 91-99 of IFRS 13 Fair Value Measurement apart from those which are relevant for the financial statements which are held at fair value not held as part of a trading portfolio;
- (c) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to provide comparative period reconciliations in respect of outstanding shares, property, plant & equipment and intangible assets;
- (d) the requirements in paragraph 10(d) and 111 of IAS 1 Presentation of Financial Statements to prepare a Cash flow statement and the requirements in IAS 7 Statement of Cash Flows regarding the same;

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

2 Accounting policies (continued)

(e) the requirements in paragraph 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements, which includes the need to provide details on capital management;

(f) the requirements of paragraphs 30 and 31 in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors regarding disclosure of new IFRS standards not yet effective at the reporting date and their potential impact;

(g) the requirements in paragraphs 17 and 18A of IAS 24 Related Party Disclosures around the need to disclose information on key management personnel and details on related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member;

(h) the requirements of paragraphs 134(d) - 134(f) and 135(c) - 135(e) of IAS 36 Impairment of Assets in respect of disclosure of assumptions on which projections used in the impairment review are based and sensitivity analysis.

Equivalent disclosures are included in the Group's consolidated financial statements as required by FRS 101 where exemptions have been applied.

Judgments made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the Critical accounting judgements and key sources of estimation uncertainty disclosure on page 21.

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

2 Accounting policies (continued)

Going Concern

The financial statements of the Company have been prepared on a going concern basis. At 30 December 2016 the Company had net assets of £4,103,588 (2015: £3,441,720) and net current assets of £3,721,800 (2015: £2,989,043). The net current assets include amounts receivable from related parties of £8,107,194 (2015: £5,844,456), and amounts due to related parties of £4,801,453 (2015: £3,207,623).

On 23 June 2017 Ardonagh Midco 3 Plc ("Midco 3"), a newly established intermediate holding company and indirect subsidiary of The Ardonagh Group Limited, completed a refinancing. It resulted in consolidation of the Group's debt at that level and the debt is guaranteed by direct and indirect subsidiaries of Midco 3 including the Company.

The sub-group headed by Midco 3 includes Towergate Insurance Limited ("TIL"), an indirect parent of the Company. TIL provides central treasury functions, funding and oversight for certain of the Group's operating entities including the Company. TIL is also the intermediate holding company of certain subsidiaries which are in run-off and have exposure to potential liabilities arising from a past business review of enhanced transfer value products, the ultimate cost of which cannot be estimated with any certainty.

The Company, among others within the Group, is a guarantor for the Group debt arising from the refinancing and the Company has support from TIL and ultimately from the Group, so the directors believe that the going concern assessment for the Company is fundamentally linked to the going concern assessment for the Group. The directors have therefore considered the anticipated future cash flows of the Group as a whole following the refinancing which in turn were considered by the Board of Midco 3 as the principle funding entity for the Group, in connection with preparation of the Group's half year consolidated accounts and these cash flows were subjected to stress testing and sensitivity analysis when considering whether the Group is able to cope with reasonably foreseeable adverse trading and cash flow outcomes over the next twelve months.

The Board of Midco 3 has agreed to provide support to TIL through an intermediate company and therefore the Company for a period of at least twelve months from the date of signing the Company's accounts, to continue to make available such funds as are needed to enable TIL and therefore the Company to continue in existence for the foreseeable future.

On the basis of the directors' assessment of the Company's financial position, the cash flow projections for the Group and TIL's ability to continue to provide such support as might be required, the directors have a reasonable expectation that the Company will be able to continue to operate for at least the next 12 months. Therefore, the annual financial statements have been prepared on a going concern basis.

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

2 Accounting policies (continued)

Revenue recognition

Commission and fees

Revenue includes commission and fees receivable at the later of policy inception date or when the policy placement has been completed and confirmed. To the extent that the company is contractually obliged to provide services after this date, a suitable proportion of income is deferred and recognised over the life of the relevant contracts to ensure that revenues appropriately reflects the cost of fulfilment of these obligations.

Tax

The tax credit for the year comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax credit is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Property, plant and equipment

Property, plant and equipment is stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

| Asset class | Depreciation method and rate |
|------------------------|--------------------------------------|
| Fixtures and fittings | 15% per annum straight line |
| Computer hardware | 25% per annum straight line |
| Motor vehicles | 25% per annum straight line |
| Leasehold improvements | Over the remaining life of the lease |

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

2 Accounting policies (continued)

Intangible assets

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Goodwill is not subject to amortisation but is tested for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the income statement on disposal.

Financial assets

Financial assets are initially measured at fair value plus directly attributable transaction costs. The Company's financial assets include cash and trade and other receivables. The subsequent measurement of financial assets depends on their classification:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

Trade receivables are recognised initially at fair value and subsequently at amortised cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, dispute, default or delinquency in payments are considered indicators that the receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables.

Held to maturity financial assets are deposits held at banks with a maturity date of greater than three months from the reporting date.

Available for sale financial assets held by the Company can all be categorised as unlisted investments; these investments are held at fair value unless a fair value cannot be accurately determined in which case they are held at cost less any provision for impairment. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

2 Accounting policies (continued)

Impairment of non-current assets

The carrying amounts of the Company's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the non-current asset may not be recoverable and at least annually, in the case of goodwill. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to income-generating units. A cash-generating unit is the smallest identifiable group of assets that generates income that is largely independent of the income streams from other assets or groups of assets.

Calculation of recoverable amount

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Insurance transactions

Insurance brokers act as agents in placing the insurable risks of their clients with insurers and, as such, are not liable as principals for amounts arising from such transactions. In recognition of this relationship, debtors from insurance broking transactions are not included as an asset of the Company. Other than the receivable for fees and commissions earned on a transaction, no recognition of the insurance transactions occurs until the Company receives cash in respect of premiums or claims, at which time a corresponding liability is established in favour of the insurer or the client.

In certain circumstances, the Company advances premiums, refunds or claims to insurance underwriters or clients prior to collection. These advances are reflected in the statement of financial position as part of trade receivables.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

2 Accounting policies (continued)

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

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

Assets held under finance leases are recognised as non-current assets of the company at the lower of their fair value at the date of commencement of the lease and at the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance costs in the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and 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.

For defined contribution plans contributions are paid publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Financial liabilities

Financial liabilities within the scope of IAS 39 are initially classified as financial liabilities at fair value plus directly attributable transaction costs. The Company's financial liabilities include trade and other payables. The subsequent measurement of financial liabilities depends on their classification.

Financial guarantees

Contracts meeting the definition of a financial guarantee, including inter-group financial guarantee contracts, are recognised at fair value under IAS 39, or under IFRS 4 where the conditions required in order to regard it as an insurance contract are satisfied. This is determined on a contract by contract basis, depending on whether the risk transferred represents a financial risk or an insurance risk.

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 31 December 2015 have had a material effect on the financial statements.

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Statement of Financial Position date and the amounts reported for revenues and expenses during the year.

The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

Impairment of assets

The Company tests annually whether investments and other assets that have indefinite useful lives suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount of an asset or a cash generating unit is determined based on the higher of fair market value less costs to sell and a value in use calculation prepared on the basis of management's assumptions and estimates. This determination requires significant judgement. In making this judgement the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investment, including factors such as industry and sector performance, changes in regional economies and operational and financing cash flow.

Long term incentive plans

The Company operates a number of Long Term Incentive Plans (LTIPs), under which the Company receives services from employees as consideration for cash settled incentives which vest over a number of years based on achievement against certain performance measures and/or service conditions. The incentives are paid to participants at the end of the relevant performance and/or service period (the 'performance period'), in some instances interim payments are made but in all instances participants must then remain in employment for a further period (the 'clawback period') in order to retain the full value of their pay out.

The Company recognises an expense in respect of LTIPs over the vesting period, which is deemed to commence when the Company makes participants aware of their right to participate in the LTIP and ends on conclusion of the clawback period.

Where an LTIP is payable in instalments the Company recognises an expense either based on (i) the staged vesting approach or (ii) the plan's benefit formula, depending on the specific facts and circumstances of the relevant award. Where benefits are materially higher in later years the expense is recognised on a straight-line basis over the vesting period.

At the end of each reporting period the Company revises its estimate of the expected pay out, it recognises the impact of the revision to original estimate, if any, in the income statement with a corresponding adjustment to the related provision (during the performance period) or prepayment (during the clawback period) as relevant.

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

4 Turnover

The analysis of the Company's turnover for the year from continuing operations is as follows:

| | 2016 £ | 2015 £ |
|---------------------|------------------|------------------|
| Commission and fees | <u>2,361,582</u> | <u>2,541,863</u> |

Turnover consists entirely of sales made in the United Kingdom.

5 Operating profit

Arrived at after charging/(crediting)

| | 2016 £ | 2015 £ |
|---|----------------|-----------|
| Depreciation expense | 45,348 | 78,764 |
| Auditor's remuneration: audit of these financial statements | 21,663 | 20,460 |
| Operating lease expense - property | 35,329 | 38,936 |
| Operating lease expense - other | 1,815 | 2,768 |
| Loss/(profit) on disposal of property, plant and equipment | 4,858 | (30,404) |
| Management charge paid to parent | <u>338,835</u> | <u>-</u> |

Amounts receivable by the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, Sentry Holdings Limited.

6 Finance costs

| | 2016 £ | 2015 £ |
|--|---------------|--------------|
| Interest on obligations under finance leases and hire purchase contracts | 8,892 | 7,439 |
| Interest expense on other financing liabilities | <u>2,408</u> | <u>1,669</u> |
| | <u>11,300</u> | <u>9,108</u> |

Interest expense on other financing liabilities represents unwinding of discount calculated on provisions (note 20).

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

7 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

| | 2016 £ | 2015 £ |
|--|------------------|----------------|
| Wages and salaries | 893,655 | 759,614 |
| Social security costs | 88,515 | 80,969 |
| Pension costs, defined contribution scheme | 28,777 | 25,096 |
| | <u>1,010,947</u> | <u>865,679</u> |

The average number of persons employed by the Company (including directors) during the year, analysed by category was as follows:

| | 2016 No. | 2015 No. |
|----------------|-------------|-------------|
| Administration | 14 | 17 |
| Sales | 4 | 5 |
| Management | 3 | 4 |
| | <u>21</u> | <u>26</u> |

8 Directors' remuneration

The emoluments of all directors are paid by other Group companies, which make no recharge to the Company. These directors are directors of The Ardonagh Group Limited and/or other fellow subsidiaries and it is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries. Their total emoluments are included in the consolidated financial statements of The Ardonagh Group Limited.

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

9 Income tax

Tax charged/(credited) in the statement of comprehensive income

| | 2016 £ | 2015 £ |
|--|-------------------------|-----------------------|
| Current taxation | | |
| UK corporation tax | 116,248 | 242,956 |
| UK corporation tax adjustment to prior periods | <u>(272,346)</u> | <u>7,156</u> |
| | (156,098) | 250,112 |
| Deferred taxation | | |
| Arising from origination and reversal of temporary differences | <u>(7,808)</u> | <u>(4,544)</u> |
| Tax (credit)/expense in the statement of comprehensive income | <u><u>(163,906)</u></u> | <u><u>245,568</u></u> |

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2015: higher than the standard rate of corporation tax in the UK) of 20% (2015: 20.25%).

The differences are reconciled below:

| | 2016 £ | 2015 £ |
|--|-------------------------|-----------------------|
| Profit before tax | <u>497,962</u> | <u>1,162,713</u> |
| Corporation tax at standard rate | 99,592 | 235,449 |
| Increase (decrease) in current tax from adjustment for prior periods | (272,346) | 7,156 |
| Increase from effect of capital allowances depreciation | 1,507 | 6,516 |
| Increase from effect of different UK tax rates on some earnings | 2,271 | - |
| Increase from effect of expenses not deductible in determining taxable profit (tax loss) | 6,284 | 4,498 |
| (Decrease) / increase in current tax from unrecognised tax loss or credit | 49 | 322 |
| Deferred tax expense (credit) from unrecognised temporary difference from a prior period | <u>(1,263)</u> | <u>(8,373)</u> |
| Total tax (credit)/charge | <u><u>(163,906)</u></u> | <u><u>245,568</u></u> |

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

9 Income tax (continued)

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. These reductions will reduce the Company's future current tax charge / credit accordingly.

The deferred tax asset at 30 December 2016 has been calculated based on the rates disclosed in the above paragraph.

Deferred tax

Deferred tax assets and liabilities

| | Asset £ |
|------------------------------|---------------|
| 2016 | |
| Accelerated tax depreciation | 46,859 |
| Provisions | 551 |
| | <u>47,410</u> |
| 2015 | Asset £ |
| Accelerated tax depreciation | 39,316 |
| Provisions | 286 |
| | <u>39,602</u> |

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

9 Income tax (continued)

Deferred tax movement during the year:

| | At 31 December 2015 £ | Recognised in income £ | At 30 December 2016 £ |
|------------------------------|--------------------------------|------------------------------|--------------------------------|
| Accelerated tax depreciation | 39,316 | 7,543 | 46,859 |
| Provisions | 286 | 265 | 551 |
| Net tax assets/(liabilities) | <u>39,602</u> | <u>7,808</u> | <u>47,410</u> |

Deferred tax movement during the prior year:

| | At 31 December 2014 £ | Recognised in income £ | At 30 December 2015 £ |
|------------------------------|--------------------------------|------------------------------|--------------------------------|
| Accelerated tax depreciation | 34,829 | 4,487 | 39,316 |
| Provisions | 229 | 57 | 286 |
| Net tax assets/(liabilities) | <u>35,058</u> | <u>4,544</u> | <u>39,602</u> |

It is anticipated that the Company will have sufficient profitability in future years to ensure the utilisation of the capital allowances claim.

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

10 Tangible assets

| | Leasehold improvements £ | Fixtures and fittings £ | Motor vehicles £ | Computer hardware £ | Total £ |
|--------------------------|--------------------------------|-------------------------------|------------------------|---------------------------|------------|
| Cost or valuation | | | | | |
| At 31 December 2014 | - | 24,395 | 315,941 | 250,849 | 591,185 |
| Additions | - | - | 47,974 | - | 47,974 |
| Disposals | - | (9,887) | (146,554) | (206,334) | (362,775) |
| At 30 December 2015 | - | 14,508 | 217,361 | 44,515 | 276,384 |
| At 31 December 2015 | - | 14,508 | 217,361 | 44,515 | 276,384 |
| Additions | 1,434 | - | - | - | 1,434 |
| Disposals | - | - | (86,019) | - | (86,019) |
| At 30 December 2016 | 1,434 | 14,508 | 131,342 | 44,515 | 191,799 |
| Depreciation | | | | | |
| At 31 December 2014 | - | 22,849 | 117,289 | 238,203 | 378,341 |
| Charge for year | - | 224 | 73,313 | 5,227 | 78,764 |
| Eliminated on disposal | - | (9,217) | (113,364) | (205,866) | (328,447) |
| At 30 December 2015 | - | 13,856 | 77,238 | 37,564 | 128,658 |
| At 31 December 2015 | - | 13,856 | 77,238 | 37,564 | 128,658 |
| Charge for the year | - | 191 | 41,327 | 3,831 | 45,349 |
| Eliminated on disposal | - | - | (43,067) | - | (43,067) |
| At 30 December 2016 | - | 14,047 | 75,498 | 41,395 | 130,940 |
| Carrying amount | | | | | |
| At 30 December 2016 | 1,434 | 461 | 55,844 | 3,120 | 60,859 |
| At 30 December 2015 | - | 652 | 140,123 | 6,951 | 147,726 |
| At 30 December 2014 | - | 1,546 | 198,652 | 12,646 | 212,844 |

Leased assets

Included within the net book value of tangible assets is £48,226 (2015: £152,580) in respect of assets held under finance lease and similar hire purchase contracts. Depreciation for the year on these assets was £50,659 (2015: £63,317).

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

11 Intangible assets

| | Goodwill £ |
|-------------------------------|-----------------------|
| Cost or valuation | |
| At 31 December 2014 | <u>364,400</u> |
| At 30 December 2015 | <u>364,400</u> |
| At 31 December 2015 | <u>364,400</u> |
| At 30 December 2016 | <u>364,400</u> |
| Accumulated impairment | |
| At 31 December 2014 | <u>30,367</u> |
| At 30 December 2015 | <u>30,367</u> |
| At 31 December 2015 | <u>30,367</u> |
| At 30 December 2016 | <u>30,367</u> |
| Carrying amount | |
| At 30 December 2016 | <u><u>334,033</u></u> |
| At 30 December 2015 | <u><u>334,033</u></u> |
| At 31 December 2014 | <u><u>334,033</u></u> |

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

11 Intangible assets (continued)

Impairment testing

The recoverable value of the Company is determined as the higher of fair value less costs to sell (FVLCS) or value in use (VIU), in accordance with its accounting policy. For the year ended 30 December 2016, FVLCS is deemed to be the appropriate valuation basis.

The Company has assessed its FVLCS as its proportion of the total Group FVLCS which is calculated on the basis of the recent share transactions in the Group. Prior to these transactions the VIU basis was used.

The FVLCS is considered to be a level 3 valuation in the fair value hierarchy, as it is not based on observable market data.

The FVLCS of the Company is in excess of its carrying value and no impairment of goodwill is required in the year ending 30 December 2016.

Year ended 30 December 2015

The year ending 30 December 2015 valuation was based on the Group's VIU calculation. The VIU calculations were carried out based on the business plan prepared for the Group and approved by the Group Board. The VIU was calculated using post-tax cash flows and applying a post-tax discount rate. The post-tax VIU was then used to determine the pre-tax discount rate required on pre-tax cash flows to return the same VIU.

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

11 Intangible assets (continued)

The post-tax WACC, pre-tax discount rate and terminal growth rates used in the prior year are set out in the table below:

| Post-tax discount rate | Pre-tax discount rate | Terminal growth value |
|---------------------------|--------------------------|--------------------------|
| 2015 | 2015 | 2015 |
| 11% | 13% | 2.3% |

12 Other financial assets

| | 2016 £ | 2015 £ |
|-------------------------------------|----------------|-----------|
| Non-current financial assets | | |
| Available for sale financial assets | <u>1</u> | <u>1</u> |
| Current financial assets | | |
| Held to maturity investments | <u>140,204</u> | <u>-</u> |

Held to maturity assets represent cash placed on 12 month fixed term deposits during 2016. The cash placed on deposit represents restricted own funds.

In 2015, all the Company's restricted funds were held within the cash and cash equivalents, however in 2016 due to the nature of the fixed term deposits these balances no longer met the definition of cash and cash equivalents and are shown separately within current assets on the statement of financial position.

13 Trade and other receivables

| | 2016 £ | 2015 £ |
|---|------------------|------------------|
| Trade receivables | 185,404 | 206,916 |
| Provision for impairment of trade receivables | <u>(7,650)</u> | <u>-</u> |
| Net trade receivables | 177,754 | 206,916 |
| Receivables from related parties | 8,107,194 | 5,844,456 |
| Accrued income | 36,810 | - |
| Prepayments | 17,853 | 32,768 |
| Other receivables | <u>5,269</u> | <u>-</u> |
| Total current trade and other receivables | <u>8,344,880</u> | <u>6,084,140</u> |

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

14 Cash and cash equivalents

| | 2016 £ | 2015 £ |
|--------------|------------------|------------------|
| Cash in hand | 250 | 250 |
| Cash at bank | <u>1,764,045</u> | <u>2,485,309</u> |
| | <u>1,764,295</u> | <u>2,485,559</u> |

Cash at bank includes £1,616,068 (2015: £1,963,456) which constitutes restricted client money and insurer money and £60,215 (2015: £200,167) in office accounts which are considered restricted and not available to pay the general debts of the Company.

15 Loans and borrowings

| | 2016 £ | 2015 £ |
|---|---------------|---------------|
| Non-current loans and borrowings | | |
| Finance lease liabilities | <u>25,996</u> | <u>48,012</u> |

| | 2016 £ | 2015 £ |
|-------------------------------------|---------------|---------------|
| Current loans and borrowings | | |
| Finance lease liabilities | <u>22,231</u> | <u>57,297</u> |

16 Share capital

Allotted, called up and fully paid shares

| | No. | 2016 £ | No. | 2015 £ |
|----------------------------|----------------|----------------|----------------|----------------|
| Ordinary shares of £1 each | <u>601,000</u> | <u>601,000</u> | <u>601,000</u> | <u>601,000</u> |

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

17 Obligations under leases and hire purchase contracts

Operating leases

The total future value of minimum lease payments is as follows:

| | 2016 £ | 2015 £ |
|----------------------|----------------|----------------|
| Within one year | 119,972 | 88,452 |
| In two to five years | 246,189 | 545,453 |
| | <u>366,161</u> | <u>633,905</u> |

The amount of non-cancellable operating lease payments recognised as an expense during the year was £37,143 (2015: £41,704).

18 Pension and other schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £28,777 (2015: £25,096).

19 Trade and other payables

| | 2016 £ | 2015 £ |
|---|------------------|------------------|
| Current trade and other payables | | |
| Trade payables | 1,537,401 | 1,986,220 |
| Accrued expenses | 50,246 | 62,054 |
| Amounts due to related parties | 4,801,453 | 3,207,623 |
| Other payables | - | 16,152 |
| | <u>6,389,100</u> | <u>5,272,049</u> |

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

20 Provisions

| | Long term incentive plan £ | Dilapidations £ | Other provisions £ | Total £ |
|--|----------------------------------|--------------------|--------------------------|---------------|
| At 31 December 2015 | - | 27,442 | 1,585 | 29,027 |
| Additional provisions | 3,235 | 1,434 | - | 4,669 |
| Provisions used | - | - | (1,585) | (1,585) |
| Increase (decrease) due to passage of time or unwinding of discount | - | 2,408 | - | 2,408 |
| At 30 December 2016 | <u>3,235</u> | <u>31,284</u> | <u>-</u> | <u>34,519</u> |
| Non-current liabilities | <u>3,235</u> | <u>31,284</u> | <u>-</u> | <u>34,519</u> |

Dilapidation provision - provides for the estimated amounts payable for dilapidation on each property at the end of the lease term.

Long term incentive plan provision. Three new LTIP schemes were established in 2016 and the Company utilises two of these, being Growth incentive and Senior leaders; the amounts which will ultimately vest are dependent on achievement against various performance measures (including Group EBITDA and individual Contribution targets) and/or service conditions. The incentives are paid to participants at the end of the relevant performance and/or service period, for one scheme this is in 2018 and for the other two schemes an interim payment is due in 2017, the amount of which will be deducted from the final payments due in 2019.

Other provision - provides for the estimated onerous cost in relation to a single contract for commercial electronic comparison platform.

Provisions due in greater than one year are discounted at the rate of 8.75%. The finance charge relating to unwinding of the discount has been charged to the income statement.

21 Commitments

Guarantees

On 2 April 2015, Ardonagh Finco Plc (formerly TIG Finco Plc) issued £425.0m of 8.75% Senior Secured Notes and £75.0m of Floating Rate Super Senior Secured Notes ("the Finco Notes").

The obligations of Ardonagh Finco Plc under the Finco Notes are guaranteed by Ardonagh Midco 1 Limited, (formerly TIG Midco Limited) the immediate parent company of Ardonagh Finco Plc and all its material and certain other subsidiaries. These companies are listed below:

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

21 Commitments (continued)

| | |
|---|---|
| Berkeley Alexander Limited | Protectagroup Limited |
| Capital & Country Insurance Brokers Limited | Richard V Wallis & Co Limited |
| Countrywide Insurance Management Limited | Roundcroft Limited |
| Cox Lee & Co Limited | T F Bell Holdings Limited |
| Crawford Davis Insurance Consultants Limited | T L Risk Solutions Limited |
| Cullum Capital Ventures Limited | Towergate Insurance Limited |
| Four Counties Finance Limited | The T F Bell Group Limited |
| Fusion Insurance Holdings Limited | Three Counties Insurance Brokers Limited |
| Fusion Insurance Services Limited | Bishopsgate Insurance Brokers Limited (formerly Towergate London Market Limited) |
| HLI (UK) Limited | Townfrost Limited |
| Just Insurance Brokers Limited | CCV Risk Solutions Limited |
| Managing Agents Reference Assistance Services Limited | Eclipse Park Acquisitions Limited |
| Moffatt & Co Limited | Towergate Risk Solutions Limited |
| Paymentsshield Holdings Limited | Broker Network Holdings Limited |
| Paymentsshield Limited | Oyster Risk Solutions Limited |
| Portishead Insurance Management Limited | The Broker Network Limited |
| Protectagroup Holdings Limited | Paymentsshield Group Holdings Limited |
| Protectagroup Acquisitions Limited | Towergate Underwriting Group Limited |

Some of the companies noted above have ceased trading since 2 April 2015 and other companies in the Group have commenced trading or have become material subsidiaries. Due to these changes on 4 November 2016 the Group companies comprising the entities which guarantee and secure the obligations of Ardonagh Finco Plc under the Finco Notes were amended in order to ensure that the guarantor / chargor group reflected the material entities within the Group.

The amended list of material entities are below:

| | |
|--|---|
| Antur Insurance Services Limited | Morgan Law Limited |
| Arista Insurance Limited | Paymentsshield Holdings Limited |
| Berkeley Alexander Limited | Paymentsshield Limited |
| B.I.B (Darlington) Limited | Roundcroft Limited |
| Bishop Skinner Insurance Brokers Limited | Bishopsgate Insurance Brokers Limited (previously Towergate London Market Limited) |
| Cullum Capital Ventures Limited | Townfrost Limited |
| Dawson Whyte Limited | CCV Risk Solutions Limited |

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

21 Commitments (continued)

| | |
|---|---------------------------------------|
| Four Counties Finance Limited | Towergate Risk Solutions Limited |
| Four Counties Insurance Brokers Limited | Broker Network Holdings Limited |
| Fusion Insurance Holdings Limited | Oyster Risk Solutions Limited |
| Fusion Insurance Services Limited | Paymentsshield Group Holdings Limited |
| Managing Agents Reference Assistance Services Limited | Towergate Underwriting Group Limited |
| Moffatt & Co Limited | Towergate Insurance Limited |

On 23 June 2017, the Finco Notes were repaid in full.

On 20 June 2017, Ardonagh Midco 3 Plc, a newly incorporated intermediate holding company, issued £400.0m of 8.375% Senior Secured Notes and U.S.\$520.0m of 8.625% Senior Secured Notes ("the Midco 3 Notes").

The obligations of Ardonagh Midco 3 Plc under the Midco 3 Notes are guaranteed by Ardonagh Midco 2 Plc, the immediate parent company of Ardonagh Midco 3 Plc and all its material and certain other subsidiaries. These companies are listed below:

| | |
|--|--|
| Nevada InvestorCo Limited | Morgan Law Limited |
| Nevada Investments 1 Limited | Paymentsshield Group Holdings Limited |
| Nevada Investments 2 Limited | Paymentsshield Holdings Limited |
| Nevada Investments 3 Limited | Paymentsshield Limited |
| Nevada Investments 4 Limited | Paymentsshield Services Limited |
| Nevada Investments 5 Limited | Towergate Insurance Limited |
| Nevada Investments 6 Limited | Towergate Risk Solutions Limited |
| Nevada Investments 7 Limited | Towergate Underwriting Group Limited |
| Arista Insurance Limited | Direct Group Limited |
| Bishopsgate Insurance Brokers Limited (previously Towergate London Market Limited) | Direct Group Property Services Limited |
| Broker Network Holdings Limited | Direct Newco Limited |
| CCV Risk Solutions Limited | Direct Validation Services Limited |
| Cullum Capital Ventures Limited | Millennium Insurance Brokers Limited |
| Four Counties Insurance Brokers Limited | Direct Group Topco Limited |
| Fusion Insurance Holdings Limited | Chase Templeton Group Limited |
| Fusion Insurance Services Limited | Chase Templeton Holdings Limited |
| Lunar 101 Limited | Chase Templeton Limited |

These guarantees have been treated under IFRS 4 in line with the accounting policy described in note 2.

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

22 Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with a number of related parties within the Sentry holdings Limited Group of companies. The Company has taken the exemptions under FRS 101 not to disclose transactions with fellow wholly owned subsidiaries or key management personnel.

| | 2016 | 2016 (Due to) | 2015 | 2015 (Due to) |
|---|--------------------------------|--------------------------------------|---------------------------------|--------------------------------------|
| | Received from/ Paid to £ | /receivable from at year end £ | Received from / paid to £ | /receivable from at year end £ |
| Oyster Property Insurance Specialists Limited | - | 330,000 | - | 330,000 |

23 Ultimate parent company

On 2 April 2015, HPS Investment Partners LLC, formerly known as Highbridge Principal Strategies LLC became the Group's majority shareholder when its investment in Sentry Holdings Limited (incorporated in Jersey, registered office 22 Grenville Street, St Helier, Jersey, JE4 8PX) acquired a direct interest in The Ardonagh Group Limited (incorporated in Jersey, registered office address, 47 Esplanade, St Helier, Jersey, JE1 0BD) and indirect interests in Towergate Insurance Limited and its subsidiaries. At 30 December 2016, the ultimate parent company was Sentry Holdings Limited. Sentry Holdings Limited is the largest group in which the results are consolidated. These financial statements are available upon request from:

Towergate House
Eclipse Park
Sittingbourne Road
Maidstone
Kent
ME14 3EN

24 Subsequent event

On 20 June 2017 Ardonagh Midco 3 Plc issued £400.0m of 8.375% Senior Secured Notes and U.S.\$520.0m of 8.625% Senior Secured Notes.

On 23 June 2017, the £425.0m of 8.75% Senior Secured Notes and £75.0m of Floating Rate Super Senior Secured Notes issued by Ardonagh Finco Plc were repaid in full.

For more details of these transactions see note 21, Commitments.

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

25 Transition to FRS 101

Balance sheet at 31 December 2014

| | As originally reported £ | Reclassification £ | Remeasurement £ | As restated £ |
|---|--------------------------------|-----------------------|--------------------|--------------------|
| Intangible assets | 334,033 | - | - | 334,033 |
| Tangible fixed assets | 212,844 | - | - | 212,844 |
| Investments | 1 | - | - | 1 |
| Deferred tax asset | - | 32,491 | 2,567 | 35,058 |
| | <u>546,878</u> | <u>32,491</u> | <u>2,567</u> | <u>581,936</u> |
| Current assets | | | | |
| Debtors | 5,093,032 | (1,345,859) | - | 3,747,173 |
| Cash at bank and in hand | <u>1,030,715</u> | <u>-</u> | <u>-</u> | <u>1,030,715</u> |
| | 6,123,747 | (1,345,859) | - | 4,777,888 |
| Creditors: Amounts falling due within one year | <u>(4,020,084)</u> | <u>1,313,368</u> | <u>(12,677)</u> | <u>(2,719,393)</u> |
| Net current assets | <u>2,103,663</u> | <u>(32,491)</u> | <u>(12,677)</u> | <u>2,058,495</u> |
| Total assets less current liabilities | 2,650,541 | - | (10,110) | 2,640,431 |
| Creditors: Amounts falling due after more than one year | <u>(115,856)</u> | <u>-</u> | <u>-</u> | <u>(115,856)</u> |
| Net assets | <u>2,534,685</u> | <u>-</u> | <u>(10,110)</u> | <u>2,524,575</u> |
| Capital and reserves | | | | |
| Share capital presented as equity | (601,000) | - | - | (601,000) |
| Profit and loss account | <u>(1,933,685)</u> | <u>-</u> | <u>10,110</u> | <u>(1,923,575)</u> |
| Shareholders' funds | <u>(2,534,685)</u> | <u>-</u> | <u>10,110</u> | <u>(2,524,575)</u> |

Adjustments shown in the above table during the transition from UK GAAP to FRS 101 consist of (i) reclassification of deferred tax asset from current assets to non current assets of £32,491 (ii) netting of insurance debtors and creditors £1,313,368 (iii) remeasurement of holiday pay accrual of £12,677 and (iv) remeasurement of deferred tax of £2,567.

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

25 Transition to FRS 101 (continued)

Balance sheet at 30 December 2015

| | As originally reported £ | Reclassification £ | Remeasurement £ | As restated £ |
|---|--------------------------------|-----------------------|--------------------|--------------------|
| Intangible assets | 315,833 | - | 18,200 | 334,033 |
| Tangible fixed assets | 147,726 | - | - | 147,726 |
| Investments | 1 | - | - | 1 |
| Deferred tax asset | - | 40,864 | (1,262) | 39,602 |
| | <u>463,560</u> | <u>40,864</u> | <u>16,938</u> | <u>521,362</u> |
| Current assets | | | | |
| Debtors | 6,962,811 | (878,671) | - | 6,084,140 |
| Cash at bank and in hand | 2,485,559 | - | - | 2,485,559 |
| | 9,448,370 | (878,671) | - | 8,569,699 |
| Creditors: Amounts falling due within one year | (6,398,140) | 837,807 | (11,969) | (5,572,302) |
| Net current assets | <u>3,050,230</u> | <u>(40,864)</u> | <u>(11,969)</u> | <u>2,997,397</u> |
| Total assets less current liabilities | 3,513,790 | - | 4,969 | 3,518,759 |
| Creditors: Amounts falling due after more than one year | (48,012) | - | - | (48,012) |
| Provisions for liabilities | (29,027) | - | - | (29,027) |
| Net assets | <u>3,436,751</u> | <u>-</u> | <u>4,969</u> | <u>3,441,720</u> |
| Capital and reserves | | | | |
| Share capital presented as equity | (601,000) | - | - | (601,000) |
| Profit and loss account | (2,835,751) | - | (4,969) | (2,840,720) |
| Shareholders' funds | <u>(3,436,751)</u> | <u>-</u> | <u>(4,969)</u> | <u>(3,441,720)</u> |

Adjustments shown in the above table during the transition from UK GAAP to FRS 101 consist of (i) reclassification of deferred tax asset from current assets to non current assets of £40,864 (ii) netting of insurance debtors and creditors £837,807 (iii) reversal of Goodwill amortisation £18,200 (iv) remeasurement of holiday pay accrual of £11,969 and (v) remeasurement of deferred tax of £1,262.

Morgan Law Limited

Notes to the Financial Statements for the Year Ended 30 December 2016

25 Transition to FRS 101 (continued)

Profit and loss account for the financial year ended 30 December 2015

| | As originally reported £ | Remeasurement £ | As restated £ |
|--------------------------------------|--------------------------------|--------------------|------------------|
| Turnover | 2,541,863 | - | 2,541,863 |
| Administrative expenses | (1,388,950) | 18,908 | (1,370,042) |
| Operating profit | 1,152,913 | 18,908 | 1,171,821 |
| Interest payable and similar charges | (9,108) | - | (9,108) |
| Profit before tax | 1,143,805 | 18,908 | 1,162,713 |
| Tax on profit on ordinary activities | (241,739) | (3,829) | (245,568) |
| Profit for the financial year | 902,066 | 15,079 | 917,145 |

Adjustments shown in the above table during the transition from UK GAAP to FRS 101 consist of (i) remeasurement of amortisation of goodwill £18,200 (ii) remeasurement of holiday pay accrual of £708 and (iii) remeasurement of deferred tax of £3,829.