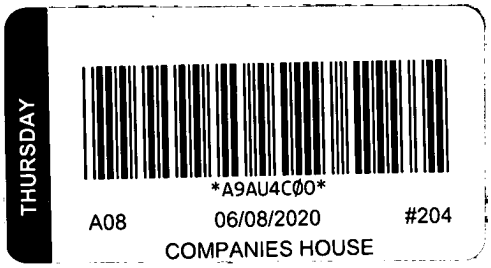
Registration number: 04043759

Towergate Underwriting Group Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019



Towergate Underwriting Group Limited

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Towergate Underwriting Group Limited

Company Information

Directors	R L Worrell H S Williams N Palmer-Minnis J Thelwell
Company secretary	D Clarke
Registered office	4th Floor 1 Minster Court Mincing Lane London EC3R 7AA
Auditor	Deloitte LLP 1 New Street Square London EC4A 3HQ United Kingdom

Towergate Underwriting Group Limited

Strategic Report for the Year Ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019 for Towergate Underwriting Group Limited ("the Company" or "TUGL"). 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 Ardonagh Group Limited ("the Group").

Principal activities and business review

The principal activity of the Company is the provision of insurance intermediary services.

The results for the Company show turnover of £206.7m (2018: £198.4m) and loss before tax of £0.6m (2018: £46.5m) for the year. At 31 December 2019 the Company had net assets of £251.5m (2018: £253.3m). The going concern note (part of accounting policies) on page 18 sets out the reasons why the directors continue to believe that the preparation of the financial statements on a going concern basis is appropriate.

Business strategy and objectives

The Company continues to focus on the provision of advice on insurance and risk management for our primarily commercial SME clients. The advice is delivered face-to-face, over the telephone or online, and offers clients a tailored insurance broking service with a wide choice and access to specialist products and solutions designed to meet their individual needs across the full spectrum of personal, commercial and corporate classes. As part of the wider Group strategy to align legal entity structure with its operating segments, the Company has acquired and disposed of several operations in 2019 and is now well positioned as the principal broking entity for the Group's Advisory segment.

Companies Act s.172 Duty

The directors take seriously their obligations under s.172 (1) (a)-(f) of the Companies Act 2006 ("S.172 Duties") to act in a way they consider, in good faith, would be the most likely to promote the success of the company for the benefit of its members as a whole and in doing so, have regard to; the likely consequences of any decision in the long-term, the interests of the company's employees, the need to foster the company's business relationships with suppliers, customers and others, the impact of the company's operations on the community and the environment, the desirability of the company maintaining a reputation for high standards of business conduct and the need to act fairly as between members of the company. The day to day Board level governance over the TUGL business is undertaken by the Board of Ardonagh Advisory Holdings Limited ("Segment Board"), of which 2 TUGL directors are members.

The Board considers the long-term consequences of its decisions and these are guided by a 5-year business plan, risk appetite and risk framework, which seeks to ensure that the business plan is executed with due regard to our stakeholders and maintaining our high standards of business conduct. Ongoing engagement with our shareholders and bondholders is primarily exercised by the Group Board and a voluntary disclosure of how the Group Board applies the Wates Corporate Governance Principles for Large Private Companies and discharges their s.172 Duties are set out in the Group Annual Report. The Board have identified the following as our key stakeholders and how the Board engages with each stakeholder is set out below; employees, the Financial Conduct Authority ("FCA"), insurers and suppliers.

Employees

The Board recognises that our talented employees are our biggest asset and our remuneration structures are designed to reward good performance at the individual and business level and support our culture. In addition, our businesses focus on providing excellent working conditions and providing a long-term career for staff with opportunities to up-skill through training and study support. Our culture is further supported by our Ardonagh values that are set out in our code of conduct that is also subject to all-staff mandatory training.

As a Board we believe in the importance of communication and engagement with our employees. The Business undertakes regular communication and other engagement activities. The first Group-wide employee pulse survey was undertaken in Q4 2019 which achieved an excellent 73% response rate from over 6,000 employees across the Group. Management have identified the following eight priorities to drive positive employee experiences across the Group and in turn, ensure the successful delivery of business strategy, strategic priorities and great client outcomes.

Our People Commitments:
- Attract and retain the best people by providing a high-performing, collaborative and flexible working environment, where people feel engaged with the Group and valued for their contribution
- Recruit people using fair and professional selection methods
- Provide a good onboarding experience and ongoing career support to give people the best possible start and return to work following periods of extended leave
- Develop the personal and professional skills and knowledge of all employees throughout their careers, helping them achieve their full potential within the Group
- Recognise achievements at all levels and provide opportunities for all our people to progress their career
- Reward people fairly within transparent and appropriate remuneration frameworks; remaining competitive and allowing for changing external factors
- Build a supportive culture which is inclusive, positive and fair; where opportunities are open to all, people can lead and are led effectively, and change is well managed
- Provide an environment where health, wellbeing and the importance of community are actively promoted, where people can bring their whole self to work

The survey has highlighted a number of areas that evidence a strong baseline culture and an indication of the calibre of our people, which is increasingly becoming recognised by the industry, with Ardonagh being voted "Best of the Best Broker" by 3,000 leading insurance professionals at the British Insurance Awards in July 2019.

Customers
Seeking good customer outcomes is central to the success of the business. Put simply, it's what we always seek to achieve. Management keep track of how our customers perceive our products and services and review our products and services to ensure they continue to meet the needs of our customers. Management also undertakes root cause analysis on complaints to ensure that when things do go wrong, we are able to learn from them and improve our service and achieve a good customer outcome. During 2020 the Business will be implementing and embedding an enhanced conduct risk framework and risk appetite that will support the Board in discharging effective oversight over how well we perform against key customer related metrics and ensure we put the customer at the heart of our decision making.

Regulatory relationships
The FCA are a key stakeholder and the Board prioritise positive, open and transparent engagement with the FCA and with all our regulatory relationships around the world by ensuring the right 'tone from the top' which starts with how the Board engages with regulators. The Business regularly participate in regulatory thematic reviews and we believe that a strong relationship with our regulators is a competitive advantage.

Insurers
Our insurance partners are fundamental to the success of the business. The Business regularly meets with our key insurance partners to discuss performance and ways in which we can enhance cover for customers and feedback on insurer relationships are reported to our Segment Board. The Ardonagh Portfolio Solutions business established by the Group in 2019 will support the business to foster deeper and more long-term relationships across a more focussed number of insurers that will enable us to offer enhanced products and services to our customers.

Our Suppliers
Our key suppliers are defined by the Group Outsourcing and Procurement Policy which ensures that all key suppliers are identified and are subject to appropriate monitoring and engagement - the level of which is dependent on the size and critical nature of the services supplied to the Group. We also have minimum due diligence standards to be performed on suppliers before being engaged, which includes a requirement that

Community
The Group's UK registered charity, Ardonagh Community Trust (ACT) celebrated two years in October 2019. Over the last two years, ACT has allowed us to harness the collective power of The Ardonagh Group to help local communities become stronger, better and brighter. Through the match funding programme, which supports personal fundraising activity such as marathons and bake sales, over 167 Group employees, including those employed within the TUGL business, had their chosen charity supported by ACT benefitting 72 charities as at 31 December 2019. Alongside match funding, ACT's community grant programme awarded a total of 25 grants in 2019 which benefitted initiatives and organisations within communities closely linked to our employees. The grants covered a breadth of areas such as arts & culture, community development, education, healthcare, mental health, people in need and sport and applications are submitted by teams and individuals across the Group.

In order to further support the communities our employees live and work in, the Group announced the introduction of one paid day per year from 2020 for all employees to encourage our people to give back through skilled or un-skilled volunteering to causes they care about.

Outlook
Following further rationalisation of trade through a series of acquisitions and disposals in 2019, the Company will use this base to deliver a strong environment for the insurance broking business and a base to drive growth on a cost-efficient basis. The unprecedented and rapidly evolving nature of the global COVID-19 pandemic (including the short-term and long-term effects thereof) creates unprecedented and extraordinary uncertainties for most businesses including Ardonagh. Consideration of the financial risk and future impact can be found in the Strategic Report within the 'Risk management' section on page 5 and the 'Going concern' disclosure in note 2.

Key performance indicators

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

	Unit	2019	2018
Gross written premium (GWP) brokered	£m	790.70	765.90
Total income (commission and fees, and other income)	£m	206.70	198.40
Administrative expenses (salaries and associated costs, and other operating costs)	£m	170.00	200.10
Total income/GWP ratio	%	26.10	25.90
Administrative expenses/total income ratio	%	82.30	100.90

The Turnover/GWP ratio has not changed materially in the period, increasing from 25.9% in 2018 to 26.1% in 2019. Administrative expenses have decreased from £200.1m in 2018 to £170.0m in 2019. The decrease is mainly due to the implementation of a Group-wide business transformation programme that has implemented process improvements, restructuring and redundancies in the period as part of a focused cost saving initiative.

Non-financial key performance indicators include staffing levels which have decreased by 6% throughout the period. This has largely been driven by the Towergate transformation plan, a cost saving initiative which includes the rationalisation of headcount. Further discussions on employee matters can be found in the Directors' Report.

Principal risks and uncertainties
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 the economic and competitive environment and by diversification of product lines and channels.

Financial risk
There is the risk of an adverse impact on business value or earnings capacity as well as the risk of inadequate cash flows to meet financial obligations. The Board has developed a strategy that is heavily focused on the achievement of long-term sustainable growth including a diversified business portfolio and the Board believes that this is the most effective way of mitigating the risk of general decline in economic conditions.

The Company and Group have considered the consequences and ramifications of the Covid-19 pandemic. Business Continuity Plans are in place across each of the Group's operating segments, with measures to manage employee absences, access to the wider network of all offices, the efficiency and stability of the Group's infrastructure and the ability for home working for a significant portion of our employee base. Leadership teams and working groups led by senior managers are in place to support operational resilience and taking common-sense precautions with a view to ensuring the wellbeing of colleagues. We continue to review this approach on a daily basis in line with latest global developments and government guidance. Insurance broking is a resilient and defensive market, which has historically had limited impact from past economic or capital market downturns. Ardonagh is highly diversified and not materially exposed to a single carrier, customer or market sector.

The Company has sufficient liquidity to withstand a period of potential poor trading resulting from a sustained impact of Covid-19 and closely monitors available liquidity on an ongoing basis.

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 risks 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 a risk are 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 has 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 throughout the Group and embedded within its culture to reduce the risk of errors and non-compliance.

Underwriting capacity risk

The Company is an insurance intermediary and depends on insurance companies providing it with insurance underwriting capacity and products. The underwriting capacity of insurance companies depends on, among other things, their ability to procure reinsurance, over which the Company has no control. To retain underwriting capacity, the Company also needs to maintain satisfactory loss ratios for its insurance company partners.

General Data Protection Regulation

The Company's computer systems store information about our customers, some of which is sensitive personal data. Database privacy, identity theft and related computer and internet issues are matters of growing public concern and are subject to changes in rules and regulations. Our failure to adhere to or successfully implement processes in response to changing regulatory requirements in this area could result in legal liability or harm to our reputation. Although the Company has taken reasonable and appropriate security measures to prevent unauthorised access to information stored in our database and to ensure that our processing of personal data complies with the relevant data protection regulations, our technology may fail to adequately secure the private information the Company maintain in its databases and protect it from theft or inadvertent loss.

Volatility in premiums and insurance market cycle

Volatility or declines in premiums, as well as declines in commission rates, may seriously undermine our business and results of operations. The Company derives most of its revenue from commissions and fees for underwriting and 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.

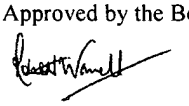
On a longer term horizon, the insurance markets might be disrupted by new technologies, "open finance" or new distribution structures, which may give rise to both risks and opportunities for the Company.

Future impact of Brexit

The Brexit decision may lead to the UK leaving the single market for goods and services, affecting the ability of businesses to passport from the UK into other EU states and likewise into the UK from the EU.

We believe that the direct impact on the Company will not be significant because it conducts only limited business within the EU and, importantly, because several additional mitigation strategies have been put in place (i.e. gaining direct authorisation in certain EU member states). However, the loss of passporting rights may affect the insurance markets in which the Group operates, possibly reducing insurance capacity, competition and choice.

Approved by the Board on 19 May 2020 and signed on its behalf by:



R L Worrell
Director

Towergate Underwriting Group Limited

Directors' Report for the Year Ended 31 December 2019

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

Directors of the Company
The directors, who held office during the year and up to the date of signing, were as follows:

R L Worrell (appointed 17 December 2019)

H S Williams (appointed 17 December 2019)

D C Ross (resigned 17 December 2019)

A Erotocritou (resigned 1 August 2019)

D Cougill (appointed 1 August 2019 and resigned 17 December 2019)

The following directors were appointed after the year end:

N Palmer-Minnis (appointed 14 February 2020)

J Thelwell (appointed 14 February 2020)

Dividends
The directors do not recommend a final dividend payment to be made in respect of the financial year ended 31 December 2019 (2018: £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 5.

Future developments
Details of future developments can be found in the Strategic Report within the 'Outlook' section on page 4.

Political donations
The Company has not made any political donations during the year (2018: £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.

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 a period of at least twelve months from the date of approval of the financial statements. 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.

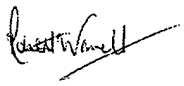
Directors' liabilities
All directors of the Company and fellow Group companies benefit from qualifying third party indemnity provisions, subject to the conditions set out in the Companies Act 2006, in place during the financial year and at the date of this report.

Directors' Report for the Year Ended 31 December 2019 (continued)

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.

Appointment of auditor
The auditor, Deloitte LLP, is deemed to be reappointed under section 487 (2) of the Companies Act 2006.

Approved by the Board on 19 May 2020 and signed on its behalf by:



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R L Worrell
Director

Towergate Underwriting Group 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standards 101 'Reduced Disclosure Framework'.

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

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Towergate Underwriting Group Limited

Independent Auditor's Report to the Members of Towergate Underwriting Group Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Towergate Underwriting Group Limited ("the Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 25;

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 Financial Reporting Council's (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.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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 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.

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of Towergate Underwriting Group Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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 respect of these matters.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities, 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 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 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 FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report to the Members of Towergate Underwriting Group Limited (continued)

Report on other legal and regulatory requirements

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.

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

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of following matters 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.

We have nothing to report in respect of these matters.

Use of our 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.

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Claire Clough (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

19 May 2020

Towergate Underwriting Group Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	Continuing operations 2019 £ 000	Discontinued operations 2019 £ 000	Total 2019 £ 000	Continuing operations 2018 £ 000	Discontinued operations 2018 £ 000	Total 2018 £ 000
Commission and fees	4	186,301	20,390	206,691	170,321	28,115	198,436
Salaries and associated costs	7	(96,504)	(6,627)	(103,131)	(90,877)	(9,665)	(100,542)
Other operating costs		(61,759)	(5,126)	(66,885)	(87,482)	(12,087)	(99,569)
Impairment of financial assets		(133)	(14)	(147)	(752)	(190)	(942)
Depreciation, amortisation and impairment of non-financial assets	12, 13, 14	(33,035)	(1,847)	(34,882)	(12,570)	(12)	(12,582)
Loss on disposal of goodwill		(145)	-	(145)	(31,203)	(2)	(31,205)
Operating (loss)/profit	5	(5,275)	6,776	1,501	(52,563)	6,159	(46,404)
Finance income		30	-	30	-	-	-
Finance costs		(2,036)	(50)	(2,086)	(67)	-	(67)
Net finance cost	6	(2,006)	(50)	(2,056)	(67)	-	(67)
(Loss)/profit before tax		(7,281)	6,726	(555)	(52,630)	6,159	(46,471)
Income tax (expense)/credit	11	(502)	(55)	(557)	4,429	731	5,160
(Loss)/profit for the year		(7,783)	6,671	(1,112)	(48,201)	6,890	(41,311)

Towergate Underwriting Group Limited

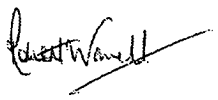
(Registration number: 04043759)
Statement of Financial Position as at 31 December 2019

	Note	2019 £ 000	2018 £ 000
Non-current assets			
Intangible assets	12	191,418	221,386
Property, plant and equipment	13	4,529	8,839
Right of use assets	14	14,819	-
Trade and other receivables	16	348	375
Financial assets at fair value through OCI	17	77	77
Deferred tax assets	11	15,250	10,108
		226,441	240,785
Current assets			
Cash and cash equivalents	15	100,986	94,481
Trade and other receivables	16	140,881	126,364
		241,867	220,845
Current liabilities			
Trade and other payables	18	193,638	201,721
Lease liabilities	14	4,400	-
Tax liabilities	11	833	64
Provisions	20	3,405	3,689
		202,276	205,474
Net current assets		39,591	15,371
Non-current liabilities			
Lease liabilities	14	11,957	-
Provisions	20	2,189	2,653
Trade and other payables	18	422	209
		14,568	2,862
Net assets		251,464	253,294
Capital and reserves			
Called up share capital	22	557,261	557,261
Other reserves		293	293
Retained losses*		(300,031)	(298,755)
Merger reserves		(6,059)	(5,505)
Total equity		251,464	253,294

The notes on pages 17 to 54 form an integral part of these financial statements.

*The Company subsumed its share-based payment reserve, which was previously presented separately as a capital contribution reserve, within retained losses. The amount subsumed was £0.06m at 31 December 2018.

Approved by the Board on 19 May 2020 and signed on its behalf by:



R L Worrell
Director

Towergate Underwriting Group Limited

Statement of Changes in Equity for the Year Ended 31 December 2019

	Note	Share capital £ 000	Merger reserves £ 000	Other reserves £ 000	Retained losses £ 000	Total £ 000
At 1 January 2019		557,261	(5,505)	293	(298,755)	253,294
Transition to IFRS 16	2	-	-	-	(178)	(178)
Share-based payment		-	-	-	14	14
Net loss for the year		-	-	-	(1,112)	(1,112)
Merger reserve	9, 10	-	(554)	-	-	(554)
At 31 December 2019		557,261	(6,059)	293	(300,031)	251,464

The £0.2m adjustment to opening retained losses is a result of the adoption of IFRS 16 from 1 January 2019. The Company adopted this standard applying the cumulative catch-up approach without restatement.

During the year, changes to the grant date fair value of shares previously issued under the Management Incentive Plan resulted in a £0.01m credit to equity.

In 2019, the Company acquired and disposed of business and assets from/to fellow Group entities. This resulted in a £0.6m movement to Merger reserves. For further details please refer to note 2 Business combinations.

	Share capital £ 000	Merger reserves £ 000	Other reserves £ 000	Retained losses* £ 000	Total £ 000
At 1 January 2018	557,261	(2,528)	293	(259,360)	295,666
Prior period adjustment	-	-	-	1,854	1,854
Opening balance adjustment	-	-	-	-	-
Share-based payment	-	-	-	62	62
Net loss for the year	-	-	-	(41,311)	(41,311)
On business combinations and discontinued operations	-	(2,977)	-	-	(2,977)
At 31 December 2018	557,261	(5,505)	293	(298,755)	253,294

The £1.9m adjustment to opening retained earnings is a result of the adoption of IFRS 9 and IFRS 15 from 1 January 2018. The Company adopted these standards applying the modified retrospective approach without restatement.

*The Company subsumed its share-based payment reserve, which was previously presented separately as a capital contribution reserve, within retained losses. The amount subsumed was £0.06m at 31 December 2018.

1 General information

The Company is a private company limited by share capital incorporated, domiciled and registered in England, United Kingdom. The details of the registered office address can be found on page 1, and its principal activity on page 2.

These financial statements for the Year Ended 31 December 2019 were authorised for issue by the Board on 19 May 2020 and the Statement of Financial Position was signed on the board's behalf by R L Worrell.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101").

The financial statements are presented in GBP sterling (£), which is also the Company's functional currency. These financial statements have been prepared under the historical cost convention, as modified to use a different measurement basis where necessary to comply with FRS 101.

The directors have considered the guidance of the UK Financial Reporting Council and events relating to the spread of coronavirus (COVID-19) and have treated this as a non-adjusting subsequent event in these financial statements.

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 IFRS"), but makes amendments where necessary in order to comply with the 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 taken advantage of the following disclosure exemptions under FRS 101 where relevant:

- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64 (q)(ii), B66 and B67 of IFRS 3 Business Combinations which includes among other exemptions the requirement to include a comparative period reconciliation for goodwill;
- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment concerning details of the number and weighted average exercise price of share options and how the fair value of goods or services received was determined;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64 (q)(ii), B66 and B67 of IFRS 3 Business Combinations, which includes among other exemptions the requirement to include a comparative period reconciliation for goodwill;
- the requirements of paragraph 33(c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the cash flows of discontinued operations;

2 Accounting policies (continued)

- the requirements of IFRS 7 Financial Instruments: Disclosures and of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to provide comparative period reconciliations in respect of outstanding shares, property, plant and equipment and intangible assets;
- 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;
- the requirements of paragraphs 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- 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;
- the requirements in paragraphs 17 and 18A of IAS 24 Related Party Disclosures and the requirements in IAS 24 to disclose related party transactions entered into between two or more members of the Group, provided that any subsidiary which is party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 130(f)(ii) -(iii), 134(d) - 134(f) and 135(c) - 135(e) of IAS 36 Impairment of Assets in respect of disclosure of valuation techniques, assumptions on which projections used in the impairment review are based and sensitivity analysis.

Going concern

As stated in the Strategic Report, the Company is a member of a group ("the Group") of which The Ardonagh Group Limited ("TAGL") is the ultimate parent company and the highest level at which results are consolidated.

The financial statements of the Company have been prepared on a going concern basis. At 31 December 2019 the Company had net assets of £251.8m (2018: £253.3m) and net current assets of £39.6m (2018: £15.4m). The net current assets include amounts receivable from related parties of £109.4m (2018: £103.6m), and amounts due to related parties of £115.0m (2018: £122.3m). The Company reported an operating profit before tax of £1.5m (2018: Loss of £46.4m). The Company was one of a number of Group companies who at 31 December 2019, guaranteed bank and bond debt owed by Ardonagh Midco 3 Plc, an intermediate holding company in the Group.

2 Accounting policies (continued)

The directors believe the going concern basis to be appropriate following their assessment of the Company's financial position and its ability to meet its obligations as and when they fall due. In reaching their view on the preparation of the Company's financial statements on a going concern basis, the directors have considered the following:

- The current capital structure and liquidity of the Company and the Group, as well as the assessment that the Group continues to be a going concern.
- The Group manages its cash and funding requirements on a Group-wide basis.
- The source of funding of the Group includes £1.1 billion of debt in the form of Senior Secured Notes with a maturity date of July 2023 to which the Company is a guarantor along with the other significant subsidiaries in the Group. The guarantor obligations are joint and several obligations of all of the guarantors and this means that when there is a requirement to repay the borrowed funds, the lender may also call upon the guarantors as a whole, as well as each of them severally, to do so.
- The principal risks facing the Company and the Group, including the potential financial and operational impacts of covid-19, and its systems of risk management and internal control.
- The Group has assessed that it has sufficient liquidity to withstand a period of potential poor trading resulting from a sustained impact of COVID-19. The Group had available liquidity of £181.7m at 31 December 2019 and closely monitors available liquidity on an ongoing basis.
- The Group is largely insulated from currency FX volatility.
- The Group has access to a Revolving Credit Facility ("the Group's RCF"). The Group's RCF facility capacity is £170m, of which £70m was drawn at 22 April 2020 (the date of TAGL's financial statements for the year ended 31 December 2019). Permissible RCF drawings are limited by the Group's credit facility basket.

Key stress scenarios that TAGL considered as part of its 2019 Going Concern assessment include cumulative stresses to the Group's base plan of a net reduction in cashflow of over £100m in 2020 and further reductions in 2021. TAGL's 2019 Going Concern stress testing indicated that revenues would need to decline by up to 30% compared to base case in the 7 quarters from Q2 2020, offset by certain discretionary cost cuts and headcount reductions but assuming that the cost base does not reduce at the same speed as revenue to reach the Group's liquidity limits. The directors of TAGL considered these stress conditions to be a remote scenario.

Further details can be found in the 2019 Annual Report and Financial Statements of The Ardonagh Group Ltd, which is published on its website.

The directors have also considered the wider operational consequences and ramifications of the COVID-19 pandemic.

- Business Continuity Plans are in place across each of the Group's operating segments, with measures to manage employee absences, access to the wider network of over 80 offices, the efficiency and stability of the Group's infrastructure and the ability for home working for a significant portion of our employee base. Leadership teams and working groups led by senior managers are in place to support operational resilience and taking common-sense precautions with a view to ensuring the wellbeing of colleagues. We continue to review this approach on a daily basis in line with latest global developments and government guidance.
- Insurance broking is a resilient and defensive market, which has historically had limited impact from past economic or capital market downturns. Ardonagh is highly diversified and not materially exposed to a single carrier, customer or market sector.

Following the assessment of the Company's ability to meet its obligations as and when they fall due and the Group's financial position and liquidity, including the potential financial implications of the COVID-19 pandemic included in Group stress tests, and the wider operational consequences and ramifications of the pandemic, the directors are not aware of any material uncertainties that cast significant doubt on the Company's ability to continue as a going concern.

2 Accounting policies (continued)

Application of new and revised International Financial Reporting Standards ("IFRS")

The Company adopted IFRS 16 on 1 January 2019. The impact of the adoption on the Company's equity at 1 January 2019 was a decrease of £0.2m. Further detail of the transition balances and amendments to accounting policies can be found in the respective sections below.

Nature of the change
IFRS 16 'Leases' sets out the principles for the recognition, measurement and presentation of leases, for both lessees and lessors. IFRS 16 superseded IAS 17 'Leases' and several related interpretations when it became effective on 1 January 2019. The date of initial application for the Company was 1 January 2019 and so IFRS 16 applies for accounting periods beginning on or after that date.

Impact

The definition of a lease
IFRS 16 Leases became mandatorily effective on 1 January 2019. The company has applied this for the first time in this accounting period which resulted in changes to the accounting policies.

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to the direct use of that asset.

The Company applies the practical expedient in IFRS 16 not to separate non-lease components from lease components and instead, accounts for each lease component and any associated non-lease components as a single lease component.

Lessee accounting
The company transitioned to IFRS 16 using the modified retrospective approach and as a result the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. The prior period figures were not adjusted.

On adoption of IFRS 16, the company elected to apply the relief provisions available and has not reviewed contacts under the definition of a lease per IFRS 16, which had previously not been classified as leases under the principles of IAS 17. Therefore, only contracts entered into or modified on or after 1 January 2019 have the definition of a lease per IFRS 16 applied.

In addition, the company decided to apply recognition exemptions to leases with a term not exceeding 12 months and leases where the underlying assets are of low value.

For leases classified as operating leases under IAS 17, these lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The company has used the following practical expedients permitted by IFRS 16 when applying this for the first time to leases previously classified as operating leases:

- Applied a single discount rate to a portfolio of leases with similar characteristics
- Applied the exemption not to recognise liabilities for leases with less than 12 months of lease term remaining
- Excluded initial direct costs for the measurement of right-to-use assets at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extent or terminate the lease

2 Accounting policies (continued)

Right-of-use assets are measured at either:

- Their carrying amount as if IFRS 16 had been applied since commenced, discounted using the lessee's incremental borrowing rate at the date of initial application
- An amount equal to the lease liability, adjusted for any prepaid or accrued lease payments

No adjustments are required on transition to IFRS 16 for leases where the company acts as a lessor, except for a sub-lease. A reassessment of the classification of a sub-lease is required under IFRS 16.

Lessor accounting

Lessor accounting as required by IFRS 16 is substantively unchanged from that required by IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles to those in IAS 17.

Also, the Company does not undertake arrangements as a lessor other than as a sublessor, but sublessor arrangements are not material to the Company. IFRS 16 did not therefore impact lessor accounting by the Company.

Transition

The Company adopted IFRS 16 by applying the modified retrospective approach, which requires the cumulative effect of initial application of IFRS 16 to be recognised as an adjustment to the opening balance of retained earnings on the 1 January 2019 date of initial application, without restating prior years. There is no impact on retained earnings on 1 January 2019 as the Company recognised the right-of-use asset at an amount equal to the lease liability subject to other adjustments (see below), as permitted by IFRS 16 when initially applying this new accounting standard. The Company applied the following practical expedients on the 1 January 2019 date of initial application of IFRS 16:

- The right-of-use asset was recognised at an amount equal to the lease liability at the date of initial application, adjusted by the amount in the statement of financial position immediately before the date of initial application for any prepaid or accrued lease payments and provisions for onerous leases;
- A single discount rate was used for a portfolio of leases with reasonably similar characteristics, in particular for property leases in the same lease term grouping;
- The right-of-use asset corresponding to existing operating leases was, as an alternative to performing an impairment review, reduced by the amount of the related onerous lease provisions immediately before the date of initial application;
- Initial direct costs were excluded from the measurement of the right-of-use asset; and
- Hindsight was used, in particular in determining the lease term for arrangements with options to extend or terminate the lease.

The effect of adopting IFRS 16 as at 1 January 2019 was as follows:

	£000
Assets	
Right of use assets	16,084
Trade and other receivables	8,949
Deferred tax assets	(11)
	25,022

2 Accounting policies (continued)

	£000
Liabilities	
Lease liabilities	(26,067)
Trade and other payables (accruals)	801
Provisions	66
	(25,200)
Adjustment to opening equity	178
	(25,022)

The weighted average incremental borrowing rate applied to lease liabilities recognised in the Statement of Financial Position at the date of initial application is 13.4%.

The lease liabilities at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018, as follows:

	2019 £ 000
Operating lease commitments at 31 December 2018	(27,010)
Effect of discounting future lease payments	11,954
	(15,056)
Differences in lease terms[1]	(14,794)
Differences in lease payments[2]	4,369
Other differences	(586)
	(11,011)
	(26,067)

[1] Mainly relates to termination options not reasonably certain to be exercised.
[2] Mainly relates to service charges being excluded from the measurement of the lease liability.

Accounting policies following adoption of IFRS 16
Below is a summary of the new accounting policies of the Company following the adoption of IFRS 16, which have been applied from the date of initial application.

2 Accounting policies (continued)

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and are adjusted for certain remeasurements of the lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date of the lease less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable, which is generally the case. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of an option to purchase the underlying asset.

Leases of low value assets

The Company elects on a lease-by-lease basis whether to apply the lease of low-value assets exemption to leases of office equipment that are considered to be of low value (i.e. below £5,000). Lease payments on leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

There are no other amendments to accounting standards, or IFRIC interpretations, that are effective for the year ended 31 December 2019 and that have had a material impact on the Company.

Intangible assets

Goodwill

Goodwill is initially measured as the excess of the fair value of the consideration transferred and of the non-controlling interest over the fair value of the net of the identifiable assets acquired and liabilities assumed. If goodwill is negative (i.e. a shortfall instead of an excess), it is recognised in profit or loss.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash generating units for the purposes of impairment testing.

Customer relationships

Customer relationship intangible assets are recognised on a business combination because the acquirer is able to benefit from selling future new business through existing relationships. Their fair value has been calculated as the sum of the present value of projected cash flows, in excess of returns on contributory assets over the life of the relationship with the customers. These assets are amortised on a straight-line basis over their estimated useful lives of 10 years, which is estimated by reference to the history of the relationships and levels of attrition.

2 Accounting policies (continued)

Distribution network
Distribution network intangible assets are recognised on a business combination because the acquirer is able to benefit from already established distribution channels, mainly within underwriting. Their fair value has been calculated as the sum of the present value of projected future cash flows generated by existing distribution channels. These assets are amortised on a straight-line basis over their estimated useful lives of 10 years, which is estimated by reference to the history of the relationships and levels of attrition.

Trademarks, patents and licences
Brand intangible assets are recognised on a business combination because they are separable or arise from contractual or other legal rights. Their fair value has been calculated as the sum of the present value of projected royalty payments that would be paid to licence the right to use the brand. These assets are amortised on a straight-line basis over their estimated useful lives of between 5 and 15 years, which considers the Group's track record of retaining brands for a period and experience of the insurance broker market.

Computer software
Acquired computer software licences are recognised when they are purchased separately or are recognised on a business combination. Their fair value is calculated by reference to the net book value acquired. These costs are amortised on a straight-line basis over their estimated useful lives of between 3 and 5 years.

Internally-generated computer software and assets under construction
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development of computer software is recognised if and only if all the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above and is classified as an asset under construction. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period when it is incurred.

The fair value of internally-generated computer software acquired on a business combination is calculated by reference to the current cost to recreate the software.

Internally-generated intangible assets are not amortised in the period subsequent to initial recognition but before they are ready for use. Amortisation commences when they are ready for use as intended by management. They are then reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Internally-generated intangible assets are amortised on a straight-line basis over their estimated useful lives of 4 years.

Derecognition of intangible assets
An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in the Statement of Comprehensive Income when the asset is derecognised.

2 Accounting policies (continued)

Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment at each Statement of Financial Position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 of disposal and its value in use. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the 'cash generating unit' to which the asset belongs is determined, being the lowest level for which there are separately identifiable cash flows.

Any impairment charges arising from the review of the carrying value of goodwill and intangible assets are, where material, presented separately on the face of the Statement of Comprehensive Income.

Property, plant and equipment

Assets are stated at their net book value (historical cost less accumulated depreciation). Depreciation is calculated to write off the cost of such assets on a straight-line basis over their estimated useful lives. At the reporting date, the Group's principal rates of depreciation were as follows:

Asset class	Depreciation method and rate
Leasehold Improvements	Over the remaining life of the lease
Fixture and fittings	15% per annum or over 6 years
Furniture and office equipment	20% per annum
Computer equipment	20% per annum
Motor vehicles	25% per annum

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Property, plant and equipment is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of property, plant and equipment, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

Financial instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

2 Accounting policies (continued)

Derecognition
Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or the Company transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of an investment in an equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a current legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Classification and subsequent measurement of financial assets
The Company classifies its financial assets in the following measurement categories:
- Amortised cost;
- Fair value through other comprehensive income ("FVTOCI").

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Financial assets classified as amortised cost
Financial assets that meet the following conditions are subsequently measured at amortised cost:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

2 Accounting policies (continued)

Classification and subsequent measurement of financial assets
The Company's financial assets measured at amortised cost include trade and other receivables, cash and cash equivalents and other financial assets.

These assets are held within a business model whose objective is to collect the contractual cash flows, and have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Thus, such assets are subsequently measured and carried at amortised cost in the Statement of Financial Position. The Company's trade receivables do not have a significant financing component and as such their transaction (invoiced) price is considered to be their amortised cost.

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 transaction 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 consolidated Statement of Financial Position as part of trade receivables.

Equity instruments designated as FVTOCI
The Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met. Gains and losses on these equity instruments are never recycled to profit or loss. Dividend income from equity instruments measured at FVTOCI is recognised in profit or loss as part of investment income when the right to payment has been established (provided that it is probable that the economic benefits will flow to the Company and that the amount of income can be measured reliably), except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities. Equity instruments at FVTOCI are not subject to an impairment assessment.

The Company has designated all of its unlisted equity investments as at FVTOCI, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term.

Foreign exchange gains and losses
The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the operating costs line item;

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition. They would only be reclassified if the Company were to change its business model for managing its financial assets, in which case the affected financial assets would be reclassified in the period following that change.

2 Accounting policies (continued)

Impairment of financial assets

The Company assesses, on a forward-looking basis, the expected credit losses ("ECL") associated with its debt instrument assets carried at amortised cost and FVTOCI. The Company recognises a loss allowance for such losses at each reporting date.

The Company recognises lifetime ECL for loans and trade and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors and by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables, including the time value of money where appropriate. Scalar factors are typically based on GDP and unemployment rate forecasts.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12 months ECL.

The Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if; i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

All cash and cash equivalents are assessed to have low credit risk at each reporting date as they are held with reputable banks and financial institution counterparties with, wherever possible, a minimum single A credit rating from both Moody's and S&P. The Company measures the loss allowance for such assets at an amount equal to 12 months ECL.

ECL is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. 12 months ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available.

Default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full.

2 Accounting policies (continued)

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:
- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy
The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. The Company writes off all receivables over 120 days past due because historical experience has indicated that these receivables are generally not recoverable. A write-off constitutes a derecognition event. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Classification and subsequent measurement of financial liabilities
All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities are classified and measured at FVTPL when the financial liability is:
- contingent consideration relating to a business combination to which IFRS 3 applies;
- held for trading; or
- it is designated as at FVTPL.

Financial liabilities are otherwise classified and measured at amortised cost.

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities.

The Company has no debt instruments that are measured at FVTPL.

For financial liabilities that are denominated in a foreign currency, that are measured at amortised cost or at fair value through profit or loss, and that are not part of a designated hedging relationship, the foreign exchange gains and losses are recognised in profit or loss.

The Company's financial liabilities include trade and other payables.

Trade payables
Trade payables are initially recognised at fair value and are subsequently measured at amortised cost except for deferred and contingent consideration which is measured at fair value based on the underlying criteria of each transaction.

2 Accounting policies (continued)

Provisions

A provision is recognised where there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

The amount recognised as a provision is management's best estimate of the consideration required to settle the present obligation at the Statement of Financial Position date, taking into account the risks and uncertainties surrounding the obligation.

Where appropriate the Company discounts provisions to their present value. The unwinding of the provision discounting is included as an interest charge within finance costs in the income statement. In the year the Company discount rate used to calculate the present value of provisions was amended to reflect the risk-free rate.

Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the Group receives services from employees as consideration for the award of MIP shares. MIP shares have no dividend or voting rights and cannot be sold, they are convertible to ordinary shares of the Ardonagh Group on occurrence of a crystallisation event, this being defined as the earlier of a liquidity event an IPO or a winding-up.

The Group has the option to repurchase MIP shares if employees leave the Group prior to the occurrence of a crystallisation event. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense, measured based on the fair value of the options granted and recognised on a straight-line basis over the vesting period. At the end of each reporting period the Group assesses the length of the vesting period based on the most likely date of crystallisation, where a crystallisation event is not deemed probable no expense is recognised.

Share capital

Ordinary shares are classified as equity. Incremental cost directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 Accounting policies (continued)

Revenue

The Company applied IFRS 15 from 1 January 2018 using the modified retrospective approach without restatement.

Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer (net of refunds) and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of a service to a customer.

Commission and fees

Revenue includes commission and fees receivable by the Company. Commission and fees relate mainly to placement or underwriting of policies on behalf of insurers or policyholders and are recognised at the later of policy inception date or when the policy placement has been completed and confirmed.

The Company retains a portion of the policy premiums as commission. Premiums are typically collected on an annual basis at or near contract inception (which could be up to 60 days from contract inception). In some cases, customers are offered to pay in instalments or are directed to a third-party premium credit provider. Some of the Company's contracts are rolling on a monthly basis, in which case payment is made on a monthly basis (see below). The Company utilises the practical expedient in IFRS 15 not to adjust the amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between when the Company transfers a service to a customer and when the customer pays for that service will be one year or less.

Post-placement performance obligations

The Company may also have post-placement obligations in contracts with customers, which mainly consist of claims handling services associated with the claims life cycle for example first notification, claims investigation, decision and settlement, supply chain management, fraud investigation, field/loss adjusting services and management information), but may also include other performance obligations such as the provision of mid-term adjustments.

To the extent that commission and fees received (or receivable) relate to both placement and post-placement performance obligations, a suitable proportion of income related to post-placement obligations is deferred based on the estimated standalone selling prices of the performance obligations in the contract and presented as a contract liability. Revenue for post-placement obligations is recognised over the period of providing the services. Under IAS 18, the Company recognised the commission and fees on placement of policies and recognised a provision for the costs to satisfy these performance obligations.

2 Accounting policies (continued)

Employee benefits

Pension costs

The Company operates a number of defined contribution pension schemes. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity.

The Company 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.

The costs of the Company's defined contribution pension schemes are charged to the income statement in the period in which they fall due.

Long-Term Incentive Plans

The Company operates a number of Long Term Incentive Plans ("LTIP"), 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 a 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.

2 Accounting policies (continued)

Taxation

Current tax

Current tax is recognised for the amount of tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated. Deferred tax assets are only recognised to the extent that it is probable they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, deferred tax is reversed. Deferred tax assets and deferred tax liabilities are only offset if there is a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax asset and the deferred tax liability can only be offset when they relate to income taxes levied by the same taxation authority. Where deferred tax is offset on different taxable entities this is allowed when it is intending either to settle current tax assets or liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously.

The tax expense for the period comprises current and deferred tax. Income 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. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity.

Discontinued operations

A disposal group qualifies as a discontinued operation if it is a component of an entity (which will have been a cash-generating unit or group of cash-generating units) that either has been disposed of, or it is classified as held for sale, and:

- it represents a separate major line of business or geographical area of operations; or
- it is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or,
- it is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented separately as 'discontinued operations' in the Statement of Comprehensive Income. All other notes to the financial statements include amounts for continuing operations, unless otherwise stated.

Accounting for business combinations under common control

Business combinations under common control are outside the scope of IFRS 3. The consideration for a transfer of business and net assets is determined by calculating the fair market value of the business and net assets, so as to ensure that the transfer does not constitute a distribution. The transferee derecognises the existing assets and liabilities. The transferor recognises the existing assets and liabilities at the 'predecessor' carrying amounts at which they were recognised by the transferor immediately prior to the transfer. The transferee and the transferor recognise the difference between the consideration paid and sum of the carrying amounts of the assets and liabilities in a merger reserve (no goodwill is recognised).

3 Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates will, by definition, seldom equal the related actual results.

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

Critical judgements in applying accounting policies

Deferred tax assets
Significant judgement is required in determining the asset recognised in respect of deferred tax. A deferred tax asset is recognised for temporary timing differences, and management's best estimate is used to determine the extent that it is probable that taxable profit will be available in the future, against which the temporary differences can be utilised, and the amount of this taxable profit. Deferred tax assets are measured at the tax rates in accordance with the tax laws that have been enacted or substantively enacted by the end of the reporting year. The deferred tax asset as at 31 December 2019 is £15.3m (31 December 2018: £10.1m), see note 11.

Key sources of estimation uncertainty:

Revenue recognition
The Company is a party to profit sharing and loss corridor arrangements. These arrangements adjust the consideration that the Company is entitled to for satisfying its performance obligations and the amount and timing of revenue subject to profit sharing or loss corridor arrangements is inherently uncertain.

The Company applies judgement in estimating the related variable consideration which is measured on a best estimate basis, using either the 'expected value' method or the 'most likely amount' method, to the extent that a significant reversal will not occur (a constraint).

In making the estimate, the Company uses historical, current and forecast information that is reasonably available to it. A higher constraint (in some cases, fully constrained) is applied when the results underlying these arrangements are highly susceptible to factors outside the Company's influence or when the Company's experience has limited predictive value. When the results underlying these arrangements are highly susceptible to factors outside the Company's influence and the Company's experience has limited predictive value, then a higher constraint is applied (in some cases - fully constrained).

Estimates of the variable consideration are assessed at the end of each reporting period to determine whether they need to be revised. The underwriting results are being reviewed by the Company and the insurer on a regular basis and information provided by the insurer is used to refine the estimated amount of consideration. As the underwriting results become more certain, the constraint is relaxed.

4 Turnover

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

	2019 £ 000	2018 £ 000
Commission and fees	198,810	192,609
Profit commission arrangements	(49)	9
Trading deals	7,878	5,660
Other revenue	52	158
	206,691	198,436

The analysis of the Company's turnover for the year by market is as follows:

	2019 £ 000	2018 £ 000
UK	204,795	197,714
Europe	1,713	324
Rest of world	183	398
	206,691	198,436

5 Operating profit/(loss)

Arrived at after charging/(crediting):

	2019 £ 000	2018 £ 000
Auditor's remuneration: audit of these financial statements	374	350
Depreciation expense	2,058	2,763
Depreciation on right of use assets	4,162	-
Amortisation and other amounts written off intangibles	5,065	5,728
Impairment of goodwill	23,418	4,091
Loss on disposal of property, plant and equipment	3,603	1,249
Loss on disposal of intangible assets	673	-
Loss on disposal of goodwill	145	31,205
Management charges paid to parent	21,425	17,079
Impairment of financial assets	147	932
Intercompany bad debt provision	(27)	118

5 Operating profit/(loss) (continued)

Management fees of £21.4m (2018: £17.1m) relate to central recharges. Centralised IT, staff, property and other costs are recharged across cost centres within the rest of the Group.

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, The Ardonagh Group Limited.

6 Finance income and finance cost

	2019 £ 000	2018 £ 000
Finance income		
Interest income on bank deposits	5	-
Other finance income	25	-
Total finance income	30	-
Finance costs		
Unwinding of discount on financial liabilities	(2,075)	-
Unwinding of discount on provisions	(11)	(58)
Interest on overdue tax	-	(9)
Total finance costs	(2,086)	(67)
Net finance cost	(2,056)	(67)

Other finance costs in 2019 represents the unwinding of discount calculated on provisions (note 20) and the unwinding of discount on financial liabilities following the adoption of IFRS 16 (note 14).

7 Staff costs

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

	2019 £ 000	2018 £ 000
Wages and salaries	88,450	88,318
Social security costs	10,005	9,639
Pension costs, defined contribution scheme	3,007	2,060
Redundancy costs	1,669	525
	103,131	100,542

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

	2019 No.	2018 No.
Administration	656	795
Sales	1,365	1,337
Management	142	161
	2,163	2,293

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. Their total emoluments are included in the consolidated financial statements of The Ardonagh Group Limited.

9 Discontinued operations

As part of the Group's strategy to align the legal entity structure with its operating segments. the Company has disposed of several operations via business and asset transfer transactions under common control.

Being common control transactions these are outside the scope of IFRS 3. Assets and liabilities are transferred at book value using the predecessor accounting model in line with Group policy. The difference between consideration received and the sum of the carrying amounts of the assets and liabilities transferred is recognised in a merger reserve. With the exception of the Caravan portfolio and the transfer to Health and Protection Solutions Limited, all business disposals have been transferred based on a valuation of the fair value of the economic right to future renewals with no accompanying assets transferring.

The Company has been the transferor in disposing of the following net assets:

	Caravan Portfolio transferred to URIS Group Ltd	Military portfolio transferred to URIS Group Ltd	Property portfolio transferred to URIS Group Ltd	Private Car transferred to URIS Group Ltd	Health portfolio transferred to Health & Protection Solutions Ltd	Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Intangibles	126	-	-	-	-	126
Property, plant and equipment	-	-	-	-	8	8
Financial assets	-	-	-	-	289	289
Financial liabilities	-	-	-	-	(52)	(52)
Provisions	-	-	-	-	(24)	(24)
Net assets disposed	(126)	-	-	-	(221)	(347)
Consideration	7,731	629	5,116	229	3,570	17,275
Merger reserves	(7,605)	(629)	(5,116)	(229)	(3,349)	(16,928)

10 Business combinations

As part of the Group's strategy to align the legal entity structure with its operating segments. the Company has acquired several operations via business and asset transfer transactions under common control. Being common control transactions these are outside the scope of IFRS 3. No goodwill is recognised on such transfers and instead, any consideration in excess of the carrying value of transferring assets and liabilities is taken to merger reserves.

The trade and assets acquired were in relation to Minton House Group Limited, Four Counties Insurance Brokers Limited, Towergate Taxis portfolio and the Swinton commercial area network renewal rights. As a result of these acquisitions, the Company recognised the following assets and liabilities:

	Minton House Group Ltd	Four Counties Insurance Brokers Ltd	Swinton Renewal Rights	Towergate Taxis portfolio	Total
	£ 000	£ 000	£ 000	£ 000	£ 000
Intangibles	185	-	-	-	185
Property, plant and equipment	151	-	-	-	151
Right-of-use assets and liabilities	(3)				(3)
Financial assets	5,189	124	-	-	5,313
Financial liabilities	(1,086)	(91)	-	-	(1,177)
Provisions	-	(22)	-	-	(22)
Current and deferred tax	(388)	-	-	-	(388)
Net assets acquired	4,048	11	-	-	4,059
Consideration	(12,126)	(2,891)	(6,000)	(524)	(21,541)
Merger reserves	8,078	2,880	6,000	524	17,482

11 Income tax

Tax (charged)/credited in the Statement of Comprehensive Income

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax	(5,514)	410
UK corporation tax adjustment to prior periods	(131)	-
	(5,645)	410
Deferred taxation		
Arising from origination and reversal of temporary differences	4,959	4,750
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	129	-
Total deferred taxation	5,088	4,750
Tax (charge)/credit in the Statement of Comprehensive Income	(557)	5,160

Income taxes of £11k were charged directly to equity on transition to IFRS 16 on 1 January 2019.

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Loss before tax	(555)	(46,471)
Corporation tax at standard rate of 19% (2018: 19%)	105	8,829
Expenses not deductible for tax purposes	(4,789)	(752)
Tax losses for which no deferred tax asset was recognised	4,549	4,445
Deferred tax credit relating to changes in tax rates or laws	(47)	(36)
Tax adjustment in respect of prior years	(131)	-
Deferred tax adjustment in respect of prior years	129	-
Other tax adjustments, reliefs and transfers	-	42
Deferred tax included directly in equity	11	-
Fixed assets differences	(851)	(7,368)
Deferred tax - intangibles	467	-
Total tax (charge)/credit	(557)	5,160

11 Income tax (continued)

Finance Bill 2016 enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the reduction in the UK rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 December 2019 continue to be measured at a rate of 17%. If the amended tax rate had been used, the deferred tax asset would have been £1.8m higher.

Deferred tax
Deferred tax assets

2019	**Asset £ 000**
Accelerated tax depreciation	9,075
Provisions	38
Tax losses carry-forwards	7,067
Other items	(930)
	15,250

2018	**Asset £ 000**
Accelerated tax depreciation	3,185
Provisions	499
Tax losses carry-forwards	7,836
Other items	(1,411)
	10,109

Other items comprise the deferred tax liability on intangible assets recognised on a business combination.

11 Income tax (continued)

Deferred tax movement during the year:

	At 1 January 2019 £ 000	Recognised in income £ 000	Recognised in business combinations £ 000	Other movements £ 000	At 31 December 2019 £ 000
Accelerated tax depreciation	3,185	5,890	-	-	9,075
Provisions	499	(450)	-	(11)	38
Tax losses carry-forwards	7,836	(769)	-	-	7,067
Other items	(1,411)	417	64	-	(930)
Net tax assets	10,109	5,088	64	(11)	15,250

Deferred tax movement during the prior year:

	At 1 January 2018 £ 000	Recognised in income £ 000	Recognised in business combinations £ 000	At 31 December 2018 £ 000
Accelerated tax depreciation	910	2,275	-	3,185
Provisions	811	(312)	-	499
Tax losses carry-forwards	5,349	2,487	-	7,836
Other items	(1,668)	300	(43)	(1,411)
Net tax assets/(liabilities)	5,402	4,750	(43)	10,109

Deferred tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable based on the profit forecasts for the Group.

In addition to the amount disclosed above, the Company has potential deferred tax assets at 31 December 2019 of £5.3m (2018: £9.8m) in relation to capital expenditure not yet claimed totalling £30.9m (2018: £57.7m). This deferred tax asset has not been recognised in these accounts as it is not expected that the Company's future profitability will be sufficient to utilise it.

12 Intangible assets

	Goodwill £ 000	Trademarks, patents and licenses £ 000	Contractual customer relationships £ 000	Internally generated software development costs £ 000	Software under construction £ 000	Computer software £ 000	Total £ 000
Cost or valuation							
At 1 January 2019	517,476	1,366	20,884	14,388	11,124	30,049	595,287
Additions	2	-	170	-	1,764	10,162	12,098
Disposals	(130,249)	-	-	(12,025)	(145)	(21,882)	(164,301)
On discontinued operations	-	-	-	-	(473)	-	(473)
Transfers between asset classes	-	-	-	-	(10,094)	-	(10,094)
On business combinations	-	-	4,124	-	-	1,005	5,129
Intercompany ad-hoc transfers	-	-	-	(2,201)	(1,568)	(4,684)	(8,453)
At 31 December 2019	387,229	1,366	25,178	162	608	14,650	429,193
Amortisation							
At 1 January 2019	317,109	1,341	13,128	13,811	-	28,512	373,901
Amortisation charge	-	21	2,268	301	-	2,475	5,065
Impairment	23,418	-	-	-	-	-	23,418
Amortisation eliminated on disposals	(130,249)	-	-	(12,025)	-	(21,208)	(163,482)
On business combinations	-	-	3,937	-	-	1,007	4,944
Intercompany ad-hoc transfers	-	-	-	(1,965)	-	(4,106)	(6,071)
At 31 December 2019	210,278	1,362	19,333	122	-	6,680	237,775
Carrying amount							
At 31 December 2019	176,951	4	5,845	40	608	7,970	191,418
At 31 December 2018	200,367	25	7,756	577	11,124	1,537	221,386

12 Intangible assets (continued)

Management reviews business performance based on lines of business. Goodwill is allocated to, and subsequently tested for impairment at segmental level.

The recoverable amount of the Company is determined as the higher of fair value less costs of disposal (FVLCD) and value in use (VIU), in accordance with the Company's accounting policy. For the year ended 31 December 2019, the recoverable amount of the Company was determined to be VIU.

The key assumption to which the VIU and thus the recoverable amount is most sensitive is the five-year forecast (2018: three-year forecast) for Adjusted EBITDA. If the five-year forecast for Adjusted EBITDA was to decrease by 63.1% (2018: 33.2%), there would be an impairment in the insurance broking segment, which would then be apportioned to the Comapny's CGUs.

FVLCD is considered to be a level 3 valuation in the fair value hierarchy, as it is not based on observable market data. It is derived based on Company's net assets and its future economic rights which is an average of a multiple of Revenue and a multiple of forecast 2020 Adjusted EBITDA. The estimated costs of disposal, which are assumed based on market experience to be 1.5% (2018: 1.5%) of the fair value, are then deducted.

The carrying value of goodwill and intangible assets allocated to each CGU are as follows:

	Goodwill		Trademarks		Customer relationships	
	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m
Advisory	144.00	116.6	-	-	4.80	5.8
Retail	32.90	82.6	-	-	1.00	1.90
Underwriting	-	1.1	-	-	-	-
	177.00	200.3	-	-	5.80	7.7

In the current period, an impairment charge of £0.9m was recognised in the Advisory CGU following valuation of the Health business prior to its transfer to Health and Protection Solutions Limited, a company under common control. In addition, the Retail CGU recognised an impairment to goodwill of £22.5m prior to the disposal of several operations to URIS Group Limited, also a company under common control. For further details, see note 9.

13 Property, plant and equipment

	Leasehold improvements £ 000	Fixtures and fittings £ 000	Motor vehicles £ 000	Assets under construction £ 000	Computer equipment £ 000	Furniture and office equipment £ 000	Total £ 000
Cost or valuation							
At 1 January 2019	10,997	8,567	144	250	11,910	3,860	35,728
Additions	1,787	959	-	98	42	102	2,988
Disposals	(7,099)	(4,699)	-	-	(3,601)	(1,630)	(17,029)
Transfers between classes	7	-	-	(120)	202	-	89
On business combinations	40	(8)	-	-	149	-	181
Intercompany transfers	(759)	(1,084)	-	(131)	(5,629)	(706)	(8,309)
At 31 December 2019	4,973	3,735	144	97	3,073	1,626	13,648
Depreciation							
At 1 January 2019	5,519	7,173	108	-	10,996	3,093	26,889
Charge for the year	1,072	384	15	-	367	220	2,058
Disposals	(3,546)	(4,651)	(1)	-	(3,618)	(1,621)	(13,437)
Intercompany transfers	(454)	(605)	-	-	(5,027)	(343)	(6,429)
On business combinations	7	-	-	-	31	-	38
At 31 December 2019	2,598	2,301	122	-	2,749	1,349	9,119
Carrying amount							
At 31 December 2019	2,375	1,434	22	97	324	277	4,529
At 31 December 2018	5,478	1,394	36	250	914	767	8,839

14 Leases

The Company applied IFRS 16 from 1 January 2019. The majority of the Company's leases are for UK properties and these leases typically run for a period of 5-10 years. Rent is normally fixed but may be subject to review every few years. Service charges and other contractual payments to the lessor are excluded from the measurement of the lease liability. VAT (including where it is irrecoverable) and business rates are also excluded from the measurement of the lease liability as they do not constitute a lease payment under IFRS 16.

The table below provides a schedule of the movements in the carrying amount of the right-of-use assets and corresponding lease liabilities held on the Statement of Financial Position during the year ended 31 December 2019.

	Property £ 000	Non-property £ 000	Total £ 000	Lease liabilities £ 000
At 1 January 2019	16,069	15	16,084	(26,067)
Additions	3,124	-	3,124	(3,131)
Terminations/modifications	(47)	-	(47)	8,247
Depreciation	(4,152)	(10)	(4,162)	-
Impairment	(180)	-	(180)	-
Interest expense	-	-	-	(2,686)
Lease payments	-	-	-	7,280
At 31 December 2019	14,814	5	14,819	(16,357)
Current lease liabilities	-	-	-	(4,400)
Non-current lease liabilities	-	-	-	(11,957)
Total lease liabilities	-	-	-	(16,357)

In addition to the above, the Company recognised the following in the Statement of Comprehensive Income for the year:

	2019 £ 000
Expense relating to variable lease payments not included in the measurement of the lease liability (recognised within other operating expenses)	
- Service charges	1,069
- Insurance rent	101
- Other	1,657
Irrecoverable VAT and other levies expensed	1,330
	4,157

During the year ended 31 December 2019, the total cash outflows for leases was £5.0m.

14 Leases (continued)

Maturity analysis

The total future values of undiscounted lease liabilities are as follow:

	2019 £ 000
Within one year	4,618
In one to five years	13,561
In over five years	5,528
Total undiscounted value	23,707

15 Cash and cash equivalents

	2019 £ 000	2018 £ 000
Own funds	15,449	13,937
Own funds - restricted	12,201	12,201
Fiduciary funds	73,336	68,343
	100,986	94,481

Restricted own funds comprise:

	2019 £ 000	2018 £ 000
Threshold conditions 2.4 segregated funds (FCA)	12,201	12,201

Fiduciary funds represent client money used to pay premiums to underwriters, to settle claims to policyholders and to defray commission and other income. Fiduciary funds are not available for general corporate purposes.

16 Trade and other receivables

	2019 £ 000	2018 £ 000
Other assets*	348	375
Total non-current trade and other receivables	348	375

16 Trade and other receivables (continued)

	2019 £ 000	2018 £ 000
Trade receivables in relation to insurance transactions	20,615	14,568
Less: expected credit loss allowance	(958)	(1,195)
Net trade receivables	19,657	13,373
Receivables from other group companies	109,359	103,586
Accrued income	4,188	4,032
Prepayments	4,465	745
Other receivables	222	1,844
Other assets*	2,990	2,784
Total current trade and other receivables	140,881	126,364

*Cost to obtain of £0.3m (2018: £0.4m) and cost to fulfil of £3.0m (2018: £2.8m) and are included in other assets, which is presented within and included in trade and other receivables in the Statement of Financial Position.

Costs to fulfil include salary and other costs of customer-facing employees who undertake activities necessary to satisfy anticipated contracts with the customer. The net impact on profit or loss for the year ended 31 December 2019 was £0.2m (2018: £0.4m).

Costs to obtain include incremental fees paid to distributors (usually aggregator websites) for obtaining new business and are amortised, on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates, over the average life of the relationship with the customer. During the year ended 31 December 2019, amortisation recognised in the Statement of Comprehensive Income in relation to these assets was £0.1m (2018: £0.6m).

The directors believe that the remaining intercompany receivables are recoverable. The balances are unsecured, interest free and repayable on demand.

17 Other financial assets

	2019 £ 000	2018 £ 000
Non-current financial assets		
Financial assets at fair value through other comprehensive income	77	77

The fair value through other comprehensive income financial assets are comprised of unlisted investments. Unlisted investments are categorised within level 3 of the fair value hierarchy. The valuation technique applied is cost less any provision for impairment.

18 Trade and other payables

	2019 £ 000	2018 £ 000
Non-current trade and other payables		
Contingent consideration	5	70
Contract liabilities	417	139
	422	209
Current trade and other payables		
Trade payables in relation to insurance transactions	60,975	58,173
Accrued expenses	11,195	16,677
Amounts due to other Group companies	114,986	122,284
Social security and other taxes	546	77
Other payables	1,589	251
Contingent consideration	43	111
Contract liabilities	4,304	4,148
	193,638	201,721

Amounts due to other Group companies are unsecured, interest free and payable on demand.

Contract liabilities of £4.7m (2018: £4.3m) represent the Company's obligation to transfer services to a customer for which the Company has received the consideration (or the amount is due) from the customer. This includes deferred revenue related to post-placement performance obligations and other deferred income. During the year ended 31 December 2019, the Company recognised revenue amounting to £4.1m (2018: £3.9m) that was included in the opening balance of contract liabilities.

19 Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charged to the Statement of Comprehensive Income of £3.0m (2018: £2.1m) represents contributions payable to the scheme by the Company at rates specified in the rules of the plan.

20 Provisions

	E & O £ 000	Onerous lease £ 000	Long term incentive plan £ 000	Dilapidations £ 000	Other provisions £ 000	Total £ 000
At 1 January 2019	-	997	1,943	3,397	5	6,342
IFRS 16 transition adjustment	-	(66)	-	-	-	(66)
Additional provisions made in the period	91	267	498	1,629	1	2,486
Transferred in/(out) on business combinations	4,433	(800)	22	(1,183)	-	2,472
Utilised during the period	(2,343)	(266)	(2,463)	(249)	(5)	(5,326)
Unused amounts reversed during the period	(15)	-	-	(310)	-	(325)
Unwind of discounted amount	-	-	-	11	-	11
At 31 December 2019	2,166	132	-	3,295	1	5,594
Non-current liabilities	-	-	-	2,189	-	2,189
Current liabilities	2,166	132	-	1,106	1	3,405

Litigation matters

In the normal course of business, the Company may receive claims in respect of alleged errors and omissions and other matters. Provisions are made in respect of such litigation matters, representing the best estimate of the liability based on legal advice where appropriate. The outcome of the currently pending and future proceedings, in relation to errors and omissions and other matters, cannot be predicted with certainty. Thus, an adverse decision in a current or future lawsuit could result in additional costs that are not covered, either wholly or partially, under insurance policies and that are in excess of the presently established provisions.

Onerous lease provision

The Company provides for costs incurred on vacant properties, excluding rent costs (which are subject to lease accounting.)

Long-term incentive provision

The long-term incentive provision schemes were established in 2016. The amounts that 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. An interim payment was made in 2017, the amount of which was deducted from the final payments made in 2019.

20 Provisions (continued)

Dilapidations provision
The Company provides for the estimated amounts payable for dilapidation on each property at the end of the lease term.

Other provisions
Other provisions relate to a potential liability of the Company in relation to certain legacy costs.

21 Commitments

Guarantees
On 25 May 2017, Ardonagh Midco 3 plc, a newly incorporated intermediate holding company, entered into a £90.0m super senior RCF.

On 20 June 2017, Ardonagh Midco 3 plc issued £400.0m of 8.375% Senior Secured Notes and USD520.0m of 8.625% Senior Secured Notes (together, the Notes). On 22 June 2018, the £425.0m Senior Secured Notes and £75.0m floating rate super Senior Secured Notes issued by Ardonagh Finco plc in April 2015 were redeemed.

On 20 December 2017, Ardonagh Midco 3 plc issued an additional £55.0m of 8.375% Senior Secured Notes which are fungible with the existing GBP Senior Secured Notes issued on 20 June 2018. On the same date the commitments under the RCF were increased to £105.0m.

On 18 June 2018, Ardonagh Midco 3 plc issued an additional £98.3m of 8.375% Senior Secured Notes which are fungible with the existing GBP Senior Secured Notes issued on 20 June 2017 and 20 December 2017.

On 26 September 2018, the Group's RCF was amended and restated to include an additional £50.0m facility made available solely to provide a Letter of Credit ancillary facility for the same amount. On 5 October 2018, a letter of credit of £50.0m was issued for the benefit of specified entities within the Group solely to provide credit support in respect of potential redress liabilities relating to the sale of certain enhanced transfer value products (ETV). With effect from 1 December 2019, the contractual limitation on the amount that may be utilised of the Group's RCF was removed. As at 31 December 2019, the RCF facility capacity was £120m and undrawn. At the date of this report, the Group's RCF committed facility had been extended to £170m, of which £70m was drawn. Permissible RCF drawings are limited by the Group's credit facility basket.

On 19 November 2018 USD235m additional 8.625% Senior Secured Notes were issued.

The obligations of Ardonagh Midco 3 plc under the Notes, RCF, and the subsequently issued 8.375% and 8.625% notes, are guaranteed and secured by Ardonagh Midco 2 plc, the immediate parent company of Ardonagh Midco 3 plc, and all its material and certain other subsidiaries. These subsidiaries are listed below:

Ardonagh Midco 3 plc (RCF Guarantor only)	Ardonagh Midco 2 plc
Nevada Investment Holdings 5 Limited	Morgan Law Limited
Nevada Investment Holdings 6 Limited	Paymentshield Group Holdings Limited
Nevada Investment Holdings 7 Limited	Paymentshield Holdings Limited
Nevada Investments TopCo Limited	Paymentshield Limited
Nevada Investments Holdings Limited	Paymentshield Services Limited
Nevada InvestorCo Limited	Ardonagh Services Limited

21 Commitments (continued)

Nevada Investments 1 Limited	Ardonagh Finco Plc
Nevada Investments 2 Limited	Towergate Risk Solutions Limited
Nevada Investments 3 Limited	Towergate Underwriting Group Limited
Nevada Investments 4 Limited	PFIH Limited
Nevada Investments 5 Limited	Price Forbes & Partners Limited
Nevada Investments 6 Limited	Price Forbes Holdings Limited
Nevada Investments 7 Limited	URIS Group Limited
Arista Insurance Limited	Millennium Insurance Brokers Limited
Broker Network Holdings Limited	URIS Central Administration Limited
CCV Risk Solutions Limited	URIS Topco Limited
Cullum Capital Ventures Limited	Chase Templeton Group Limited
Four Counties Insurance Brokers Limited	Chase Templeton Holdings Limited
Geo Specialty Group Holdings Limited	Chase Templeton Limited
Geo Underwriting Services Limited	Ardonagh Advisory Holdings Limited
Lunar 101 Limited	Ardonagh Specialty Holdings Limited
Bishopsgate Insurance Brokers Limited	Atlanta Investment Holdings Limited
Swinton Group Limited	Atlanta Investment Holdings A Limited
Swinton (Holdings) Limited	Atlanta 1 Insurance Services Limited
Swinton Properties Limited	Carole Nash Insurance Consultants Limited
KDB Medicals Limited	Health and Protection Solutions Limited

22 Share capital

As at 31 December 2019, the Company has authorised ordinary share capital of £650.0m (2018: £650.0m).

Allotted, called up and fully paid shares

	2019		2018	
	No. 000	**£ 000**	**No. 000**	**£ 000**
Ordinary shares of £1 each	557,261	557,261	557,261	557,261

23 Related party transactions

Business was conducted, on an arm's length basis, within The Ardonagh Group Limited group of companies. The Company has taken the exemption under FRS 101 not to disclose transactions with fellow wholly owned subsidiaries or key management personnel.

During the year the Company entered into transactions, in the ordinary course of business, with a number of related parties. The Company has provided services and/or incurred expenses on behalf of the related parties and recharged costs to them. The table below shows the transactions and balances with entities that form part of the Group but are not wholly owned by The Ardonagh Group Limited.

	2019	2019	2019	2018	2018	2018
	Paid to	Received from	(Due to) /receivable from at year end	Paid to	Received from	(Due to) / receivable from at year end
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Towergate Financial (Group) Limited*	-	-	2,040	-	-	2,040
Towergate Financial (North) Limited*	-	-	146	-	-	146
Towergate Financial (East) Limited*	-	-	209	-	-	209
Towergate Financial (Scotland) Limited*	-	-	222	-	-	222
Towergate Financial (West) Limited*	-	-	560	110	-	560
Towergate Financial (London) Limited*	-	-	94	-	-	94
Oyster Risk Solutions Limited	-	3,198	(15,139)	-	4,122	(11,941)
Oyster Property Insurance Specialists Limited	-	-	122	-	(4)	122

*The balances due from Towergate Financial companies are deemed not recoverable and have been fully provided against in prior periods.

24 Parent and ultimate parent undertaking

The Group's majority shareholder and ultimate controlling party at 31 December 2019 is HPS Investment Partners LLC. The ultimate parent company and parent company of the largest group that prepares group financial statements at 31 December 2019 that consolidate the Company is The Ardonagh Group Limited (incorporated in Jersey, registered office address 3rd Floor, 44 Esplanade, St Helier, Jersey JE4 9WG). The parent company of the smallest group that prepares group financial statements at 31 December 2019 that consolidate the Company is Ardonagh Midco 3 plc (incorporated in Great Britain, registered office address 1 Minster Court, London, EC3R 7AA). Financial statements for The Ardonagh Group Limited and Ardonagh Midco 3 plc are available on request from:

1 Minster Court
Mincing Lane
London
EC3R 7AA

25 Subsequent events

The directors have considered the guidance of the UK Financial Reporting Council and events relating to the spread of coronavirus (COVID-19) and have treated this as a non-adjusting subsequent event in these financial statements. The COVID-19 pandemic is an evolving situation and as such, the local and global economic impact is currently unknown. The going concern assessment in note 2 addresses the risk of COVID-19 to the Group's trading and liquidity.