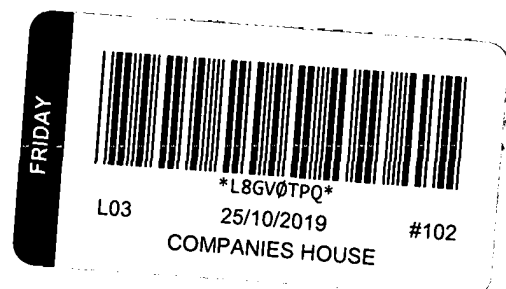


Registration number: 06144421

# Oyster Risk Solutions Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018



## **Oyster Risk Solutions Limited**

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## **Oyster Risk Solutions Limited**

### **Company Information**

<b>Directors</b>	K R Donaldson D Cougill
<b>Company secretary</b>	D Clarke
<b>Registered office</b>	1 Minster Court Mincing Lane London EC3R 7AA
<b>Auditor</b>	Deloitte LLP 1 New Street Square London EC4A 3HQ United Kingdom

## **Oyster Risk Solutions Limited**

### **Strategic Report for the Year Ended 31 December 2018**

The directors present their Strategic Report for the year ended 31 December 2018 for Oyster Risk Solutions Limited ("the Company"). The Strategic Report provides a review of the business for the financial year and describes how the directors manage risks. The report outlines the developments and performance of the Company during the financial year, the position at the end of the year and discusses the main trends and factors that could affect the future. The Company is part of The 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 £3,137,917 (2017: £2,828,410) and profit before tax of £765,160 (2017: £719,919) for the year. At 31 December 2018 the Company had net liabilities of £2,830,428 (2017: £3,481,860). To ensure the Company continues trading Ardonagh Midco 3 Plc, an indirect parent company, has indicated that it is its current intention that, for at least twelve months from the date of approval of these financial statements, it will continue to make available sufficient funds as needed by the Company. The going concern note (part of accounting policies) on page 16 sets out the reasons why the directors continue to believe that the preparation of the financial statements on the going concern basis is appropriate.

#### **Business strategy and objectives**

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

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

#### **Outlook**

The directors do not expect there to be any changes in the nature of the business in 2019.

## Oyster Risk Solutions Limited

### Strategic Report for the Year Ended 31 December 2018

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

	Unit	2018	2017
Gross written premium (GWP)	£m	10.0	9.0
Turnover	£m	3.1	2.8
Administration expenses	£m	2.3	2.1
Turnover/GWP ratio	%	31.0	31.1
Administrative expenses/turnover ratio	%	74.2	75.0

The Turnover/GWP ratio has decreased slightly from 31.1% in 2017 to 31.0% in 2018. This is due to decrease in commission rate with the carriers. Administrative expenses have increased from £2.1m in 2017 to £2.3m in 2018. This is mainly due to an increase in staff costs.

Non-financial key performance indicators include staffing levels which have increased by 1.1% throughout the year. The Company actively encourages all employees to become involved in Group affairs and is also keen to encourage two way communications on relevant business issues. This is achieved through regular employee meetings and presentations by senior management and is supported by a Group wide communication plan. Further discussions on employee matters can be found in the Directors' Report.

#### Principal risks and uncertainties

##### Risk management

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

The principal risks and their mitigation are as follows:

##### *Strategic and commercial risk*

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

##### *Financial risk*

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

## **Oyster Risk Solutions Limited**

### **Strategic Report for the Year Ended 31 December 2018**

#### *Operational risk*

There is the risk of losses arising from inadequate or failed internal processes or systems, from personnel and/or from external events. The Company is committed to undertaking a series of activities that are linked to the Group's transformation strategy. These activities are targeted at driving operational effectiveness, cost synergies, and better management of operational risks and have involved substantial investment in systems and technology. In addition, the Company continues to follow the Group's stated strategy of continued development in our people and corporate culture.

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

#### *Regulatory and legal risk*

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

#### *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 computer & internet related 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 we maintain in our databases and protect it from theft or inadvertent loss.

#### *Volatility in premiums and insurance market cycle*

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.

## Oyster Risk Solutions Limited

### Strategic Report for the Year Ended 31 December 2018

#### *Future impact of Brexit*

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

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

Approved by the board on 22-10-19 and signed on its behalf by:

.....  1/1

Director

DIANE COUGILL

## **Oyster Risk Solutions Limited**

### **Directors' Report for the Year Ended 31 December 2018**

The directors present their annual report and the audited financial statements for the year ended 31 December 2018.

#### **Directors' of the company**

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

K R Donaldson

A Erotocritou (resigned 1 August 2019)

M S Mugge (resigned 2 March 2018)

The following director was appointed after the year end:

D Cougill (appointed 1 August 2019)

#### **Dividends**

The directors do not recommend a final dividend payment to be made in respect of the financial year ended 31 December 2018 (2017: £Nil).

#### **Financial risk management objectives and policies**

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

#### **Future developments**

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

#### **Political donations**

The Company has not made any political donations during the year (2017: £Nil).

#### **Employment of disabled persons**

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

#### **Employee involvement**

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

#### **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 12 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.



## Oyster Risk Solutions Limited

### Directors' Report for the Year Ended 31 December 2018

#### 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.

#### 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

During the year ended 31 December 2017, a formal tender process took place, led by The Ardonagh Group Limited Audit Committee. As a result of this tender process the Audit Committee recommended, and The Ardonagh Group Limited board approved on behalf of the Company, the proposed appointment of Deloitte LLP as an external auditor for the financial year ended 31 December 2018. The auditor, Deloitte LLP, is deemed to be reappointed under section 487 (2) of the Companies Act 2006.

Approved by the board on 22-10-19..... and signed on its behalf by:

.....

Director

DIANE COUGILL

## **Oyster Risk Solutions 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 they 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 Standard 101 Reduced Disclosure Framework ("FRS 1012).

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

- select suitable accounting policies and apply them consistently;
- make judgements and 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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

## **Oyster Risk Solutions Limited**

### **Independent Auditor's Report to the Members of Oyster Risk Solutions Limited**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion the financial statements of Oyster Risk Solutions Limited ("the Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit 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 17.

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".

##### **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.

## **Oyster Risk Solutions Limited**

### **Independent Auditor's Report to the Members of Oyster Risk Solutions Limited**

#### **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](http://www.frc.org.uk/auditorsresponsibilities).

## **Oyster Risk Solutions Limited**

### **Independent Auditor's Report to the Members of Oyster Risk Solutions Limited**

#### **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 the 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.

  
.....  
**Jamie Weisfeld (Senior Statutory Auditor)**  
**For and on behalf of Deloitte LLP**  
**Statutory Auditor**  
**London**  
**United Kingdom**

Date: 22nd October 2019,

## Oyster Risk Solutions Limited

### Statement of Comprehensive Income for the Year Ended 31 December 2018

	Note	2018 £	2017 £
<b>Turnover</b>	4	3,137,917	2,828,410
Administrative expenses		(2,330,764)	(2,118,542)
Impairment of financial assets		<u>(41,993)</u>	<u>10,051</u>
<b>Operating profit</b>	5	<u>765,160</u>	<u>719,919</u>
<b>Profit before tax</b>		765,160	719,919
Income tax expense	8	<u>(145,746)</u>	<u>(135,060)</u>
<b>Net profit for the year</b>		<u><u>619,414</u></u>	<u><u>584,859</u></u>

The above results were derived from continuing operations.

The notes on pages 15 to 41 form an integral part of these financial statements.


# Oyster Risk Solutions Limited

(Registration number: 06144421)

## Statement of Financial Position as at 31 December 2018

	Note	2018 £	2017 £
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	1,045	2,477
Intangible assets	10	2,180,014	2,180,013
Deferred tax assets	8	11,724	14,089
		<u>2,192,783</u>	<u>2,196,579</u>
<b>Current assets</b>			
Trade and other receivables	11	2,652,117	8,689,097
Cash and cash equivalents	12	1,138,288	1,064,995
		<u>3,790,405</u>	<u>9,754,092</u>
<b>Total assets</b>		<u>5,983,188</u>	<u>11,950,671</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Called up share capital	13	240,000	240,000
Retained losses		<u>(3,070,428)</u>	<u>(3,721,860)</u>
		<u>(2,830,428)</u>	<u>(3,481,860)</u>
<b>Current liabilities</b>			
Trade and other payables	15	8,662,382	15,292,675
Income tax liability		151,234	139,855
		<u>8,813,616</u>	<u>15,432,530</u>
<b>Total liabilities</b>		<u>8,813,616</u>	<u>15,432,531</u>
<b>Total equity and liabilities</b>		<u>5,983,188</u>	<u>11,950,671</u>

Approved by the board on 22-10-19 and signed on its behalf by:



Director DIANE COGILL

The notes on pages 15 to 41 form an integral part of these financial statements.

## Oyster Risk Solutions Limited

### Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £	Retained losses £	Total £
At 1 January 2018	240,000	(3,721,860)	(3,481,860)
Adjustment to opening balance	-	32,018	32,018
Net profit for the year	-	619,414	619,414
At 31 December 2018	<u>240,000</u>	<u>(3,070,428)</u>	<u>(2,830,428)</u>

The £32,018 credit (net of £7,871 tax debit to equity) 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. Of the adjustment above £1,565 debit relates to IFRS 9 and £33,583 credit relates to IFRS 15.

	Share capital £	Retained losses £	Total £
At 1 January 2017	240,000	(4,306,719)	(4,066,719)
Net profit for the year	-	584,859	584,859
At 31 December 2017	<u>240,000</u>	<u>(3,721,860)</u>	<u>(3,481,860)</u>

The notes on pages 15 to 41 form an integral part of these financial statements.



## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 1 Authorisation of financial statements

The Company is a private company limited by share capital incorporated and registered in England, United Kingdom. The address of the Company's registered office is 1 Minster Court, Mincing Lane, London, EC3R 7AA. The principal activity of the Company is disclosed within the 'Strategic Report' section on page 2.

These financial statements for the year ended 31 December 2018 were authorised for issue by the board on 22-10-19 and the Statement of Financial Position was signed on the board's behalf by *DIANE COUSILL*

#### 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 FRS101 'Reduced Disclosure Framework'.

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

##### Summary of disclosure exemptions

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

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

- the requirements of IFRS 7 Financial Instruments: Disclosures and of paragraphs 91-99 of IFRS 13 Fair Value Measurement apart from those which are relevant for the financial statements which are held at fair value not held as part of a trading portfolio;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to provide comparative period reconciliations in respect of outstanding shares, property, plant & equipment and intangible assets;
- 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 in paragraph 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements, which includes the need to provide details on capital management;
- 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;

## **Oyster Risk Solutions Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **2 Accounting policies (continued)**

- the requirements in paragraphs 17 and 18A of IAS 24 Related Party Disclosures around the need to disclose information on key management personnel and details on related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 134(d) - 134(f) and 135(c) - 135(e) of IAS 36 Impairment of Assets in respect of disclosure of assumptions on which projections used in the impairment review are based and sensitivity analysis.

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the Critical accounting policies and estimates disclosure on page 32.

#### **Going Concern**

The financial statements of the Company have been prepared on a going concern basis. At 31 December 2018 the Company had net liabilities of £2,830,428 (2017: £3,481,860) and net current liabilities of £5,023,211 (2017: £5,678,438). The net current assets include amounts receivable from related parties of £2,458,998 (2017: £8,463,077), and amounts due to related parties of £7,526,467 (2017: £14,136,176).

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 going concern position of the Company and the Group and its ability to meet its obligations as and when they fall due. This assessment of the Group's position included:

- The current capital structure and liquidity of the Group and its base case and stressed cash flow forecasts over the calendar years 2019 and 2020;
- The principal risks facing the Group and its systems of risk management and internal control; and
- 2019 liquidity to date is tracking favourably to plan.

Key assumptions that the directors have made in preparing the base case cash flow forecasts are that the Group:

- Invests to complete the major business transformation projects involving the finance function and broker system consolidation and achieves the projected synergies;
- Continues to benefit from a Revolving Credit Facility ("RCF") of £120m, which is limited to £90m whilst the Letter of Credit ancillary facility of £50m remain in place. None of the available £90m RCF was utilised at 31 December 2018; and
- Commences the main settlement of the Enhanced Transfer value ("ETV") liabilities from the second half of 2019 and completes over a 24 month period.

## **Oyster Risk Solutions Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **2 Accounting policies (continued)**

Key stress scenarios considered in the base case are:

- A shortfall in base case projected operating cash flows due to adverse economic conditions, project over-spend and project delays;
- Deterioration in the quantum and acceleration of the settlement of the ETV liabilities compared to the base case;
- Mitigating actions within Management's control such as:
  - Delayed capital expenditure and reduction in discretionary spend. This action could be utilised if trading performance and cash flows are not in line with the reforecast and can be managed by temporary spending deferrals.
  - Raising additional debt, additional shareholder support, and the potential sale of non-core assets.
- Impact of Brexit.

Following their assessment of the Company's and Group's financial position and ability to continue and its ability to meet its obligations as and when they fall due, the Directors have a reasonable expectation that the Company will be able to continue to operate for at least the next twelve months from the date of approval of the financial statements. Therefore, the annual financial statements have been prepared on a going concern basis.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards as set out below.

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

The Company adopted IFRS 9 and IFRS 15 on 1 January 2018. The impact of the adoption on the Company's equity at 1 January 2018 was credit of £32,018 (net of £7,878 tax). Further detail of the transition adjustments and amendments to accounting policies can be found in the respective sections below.

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 2 Accounting policies (continued)

##### IFRS 9 Financial Instruments

The Company's adoption date is 1 January 2018.

IFRS 9, the new Standard for financial instruments, replaces IAS 39 Financial Instruments: Recognition and Measurement. It makes changes to the previous guidance on the classification and measurement of financial assets and introduces an expected credit loss ("ECL") model for the impairment of financial assets.

As a result of the adoption of IFRS 9, the Company adopted the consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the Statement of Comprehensive Income. Previously, the Company's approach was to include the impairment of trade receivables in operating costs.

Additionally, the Company adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures, that are applied to disclosures relating to 2018 but have not generally been applied to comparative information (as permitted under IFRS 9). The comparative period notes disclosures repeat the disclosures made in the prior year and are presented in accordance with IFRS 7 (pre-amendment by IFRS 9). Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The impact on the Company's equity at 1 January 2018 is as follows:

	Note	Retained losses £
Closing balance - 31 December 2017 - IAS 39		(3,721,860)
Decrease in allowances for trade receivables	(a)	(1,565)
Opening balance 1 January 2018 -IFRS 9		<u>(3,723,425)</u>

The application of IFRS 9 has had no impact on the cash flows of the Company.

##### *Classification and measurement*

On 1 January 2018 (the date of initial application of IFRS 9), the Company's management assessed which business models apply to the financial assets held by the Company and classified its financial instruments into the appropriate IFRS 9 categories. The assessment of the business model within which a financial asset is held was made based on the facts and circumstances that existed at the date of initial application.

The table below shows the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018:

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 2 Accounting policies (continued)

	Note	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39 £	Additional loss allowance and remeasurement recognised under IFRS 9 £	New carrying amount under IFRS 9 £
Trade & other receivables	(a)	Loans and receivables	Amortised cost	8,689,096	(1,565)	8,687,531
Cash and cash equivalents	(a)	Loans and receivables	Amortised cost	1,064,995	-	1,064,995
Trade payables in relation to insurance transactions	(b)	Amortised cost	Amortised cost	(15,292,675)	-	(15,292,675)

#### (a) Cash and cash equivalents and trade receivables

The Company's cash and cash equivalents and trade receivables continue to be accounted for at amortised cost. The business model in which these assets are held is 'hold to collect' as the Company does not sell cash balances and trade receivables to other parties and the "solely payments of principal and interest" test is met as only interest is earned. These assets do not have a significant financing component. The application of IFRS 9's impairment requirements at 1 January 2018 resulted in an additional impairment loss on trade and other receivables, over the impairment recognised under IAS 39 of £1,565.

#### (b) Financial liabilities

There was no impact on the Company's accounting for financial liabilities.

#### (c) Financial assets and liabilities designated as Fair Value Through Profit and Loss ("FVTPL")

The Company has not designated any financial assets and financial liabilities at FVTPL and it has no current intention to do so. There were no financial assets or financial liabilities which the Company had previously designated as at FVTPL under IAS 39 that were subject to reclassification, or which the Company has elected to reclassify upon the application of IFRS 9.

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 2 Accounting policies (continued)

##### *Impairment*

IFRS 9 introduces a new expected credit loss ("ECL") model that replaces the incurred loss impairment model used in IAS 39. Under IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. The Company has three main types of assets which are subject to IFRS 9's ECL model:

- trade and other receivables;
- contract assets; and
- cash and cash equivalents.

The Company was required to revise its impairment methodology under IFRS 9 for each of these classes of assets.

The new impairment model mainly impacts the Company's trade receivables. The application of IFRS 9's impairment requirements at 1 January 2018 resulted in additional impairment losses on trade and other receivables, over the impairment recognised under IAS 39 of £1,565.

##### *Trade and other receivables*

The Company has applied the simplified approach to recognise lifetime ECL for its trade receivables as these items do not have a significant financing component. This approach allows the use of a provision-matrix and is similar to the Group's existing bad debt policy. However, under IFRS 9 this incorporates more forward-looking information, such as the Company's outlook on the economy, and is applied also to non-impaired assets.

ECL was calculated based on actual credit loss experience over two years. Actual credit loss experience was adjusted 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. Scalar factors were based on GDP and unemployment rate forecasts and resulted in the following adjustments:

On 1 January 2018 (opening reserves adjustment), increase historical credit loss experience by 11% because GDP growth was predicted to be 11% lower in 2018 relative to 2017, and increase it by a further 5% because the unemployment rate was predicted to be 5% higher in 2018 relative to 2017 (source: ICAEW Economic Forecast); and

On 31 December 2018, do not increase historical credit loss experience because GDP growth and the unemployment rate predicted for 2019 indicate that an increase to 2018 data is not required (source: HM Treasury 'Forecasts for the UK economy').

##### *Cash and cash equivalents and contract assets*

The cash and cash equivalents are held with bank and financial institution counterparties with, wherever possible, a minimum single A credit rating from both Moody's and S&P. Contract assets represent the Company's right to consideration in exchange for services rendered or work completed when that right is conditional on something other than the passage of time (for example, profit commission or other variable commission). The contract assets are transferred to receivables when the rights become unconditional or are billed.

The Company considers that its cash and cash equivalents and contract assets have low credit risk based on the external credit ratings of the counterparties.

The application of IFRS 9's impairment requirements at 1 January 2018 did not impact cash and cash equivalents and contract assets.

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 2 Accounting policies (continued)

##### *Derecognition*

The derecognition rules have been transferred from IAS 39 and remain largely unchanged.

##### **IFRS 15 Revenue from Contracts with Customers**

The Company's adoption date is 1 January 2018.

IFRS 15 replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts'.

The core principle of IFRS 15 is that the entity should recognise revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Specifically, IFRS 15 introduces the following 5-step approach to revenue recognition:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Company adopted IFRS 15 by applying the modified retrospective approach without restatement, with the cumulative effect on initial application recognised as an adjustment to the opening equity balances at 1 January 2018. In accordance with the transition requirements, the standard has only been applied to contracts that were incomplete as at 1 January 2018. The Company also utilised the practical expedient in IFRS 15 not to account retrospectively for contract modifications prior to the date of initial application. The disclosure requirements of IFRS 15 have not been applied to comparative information, nor to contracts that were considered complete at the date of initial application.

##### *Impact of adoption*

The following tables and related narratives summarise the impact of adopting IFRS 15 to the Company's financial statements. There was no material impact on the Company's statement of cash flows for the year ended 31 December 2018. Further information about the Company's accounting policy under IFRS 15 compared to IAS 18 is provided under the Revenue accounting policy on page 24.

##### *Impact on the opening balance of equity at 1 January 2018*

The table below shows the impact of initially applying IFRS 15 on the opening balance of equity at 1 January 2018:

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 2 Accounting policies (continued)

	Note	Cost to fulfil £
<i>Assets</i>		
<i>Other assets</i>	(a)	41,461
<i>Liability</i>		
<i>Income tax liability</i>		(7,878)
<i>Net assets</i>		<u>33,583</u>
<i>Equity</i>		<u>(33,583)</u>

#### Equity

The total IFRS 15 impact on equity on transition is a £33,583 credit (net of £7,878 tax), which comprises a £33,583 credit to retained losses. The opening reserves adjustments do not impact the Statement of Comprehensive Income.

#### Impact on the Statement of Comprehensive Income for the year ended 31 December 2018

The table below illustrates the impact of IFRS 15 on the Statement of Comprehensive Income for the year ended 31 December 2018:

	Note	Amount which would be presented under IAS 18	IFRS 15 impact / adjustment	As presented for the year ended 31 December 2018 £
Administrative expenses	(a)	(2,333,433)	2,669	(2,330,764)
<i>Net impact</i>		<u>(2,333,433)</u>	<u>2,669</u>	<u>(2,330,764)</u>



## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 2 Accounting policies (continued)

##### *Impact on the Statement of Financial Position at 31 December 2018*

The following table illustrates the impact of IFRS 15 on the financial position at 31 December 2018. Line items that were not affected by IFRS 15 have not been included.

	Note	Amounts which would be presented under IAS 18 £	IFRS 15 amounts recognised on transition £	IFRS 15 impact / adjustment £	As presented in the Financial statements at 31 December 2018 £
<b>Current assets</b>					
Other assets*	(a)	-	41,461	2,669	44,130
<b>Current liabilities</b>					
Income tax liabilities		(143,356)	(7,878)	-	(151,234)
		<u>143,356</u>	<u>33,583</u>	<u>2,669</u>	<u>(107,104)</u>

\* Other assets are included in the trade and other receivables in the Statement of Financial Position.

##### *(a) Costs to fulfil*

Salaries and other costs associated with customer-facing employees are, when applying IFRS 15, deferred and matched with the related revenue, resulting in the later recognition of these costs. The impact of IFRS 15, on transition, is a £33,583 credit to equity (net of £7,878 tax) and during the year ended 31 December 2018 is £2,669.

##### *Presentation of assets and liabilities*

The Company changed the presentation of certain amounts in the Statement of Financial Position to reflect the terminology of IFRS 15:

- Other assets include contract costs capitalised under IFRS 15, specifically costs to obtain and costs to fulfil assets.

##### *Summary of disclosure exceptions*

FRS 101 provides certain disclosure exemptions in relation to IFRS15 and the Company has taken advantage of the following disclosure exemptions:

- The requirement of paragraph 114-115 to disclose disaggregated revenue;
- The requirements of paragraph 118 of IFRS 15 to disclose on explanation of significant changes in the contract asset balances during the reporting year;
- The requirement of paragraph 120 to 125 to disclose information about the remaining performance obligation and judgements or changes in judgements; and
- The requirement of paragraph 126 and 127 to disclose method, inputs and assumptions used to determine the contract price.

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 2 Accounting policies (continued)

##### Revenue

The Company applied IFRS 15 from 1 January 2018 using the modified retrospective approach without restatement (see 'IFRS 15 Revenue from Contracts with Customers' accounting policy on page 34).

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 policies are rolling until the customer cancels the policy.

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.

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 2 Accounting policies (continued)

##### *Variable consideration*

The Company is a party to the following arrangements where the consideration receivable by the Company is variable:

- **Profit share arrangements** - are trading deals with insurers which include incentives and penalties based on performance of the book of business for an accident year. Revenue related to these arrangements is recognised on a best estimate basis, only to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur (a constraint).

Under the profit share arrangements, an additional commission is earned from the insurer based on the profit from the underlying book of business or the number of policies placed. The estimated profit share is recognised as a contract asset and is reclassified to trade and other receivables when the final results are determined. Some profit commissions may be provided in advance, in which case they can be subject to a clawback. Advanced profit share is recognised as a contract liability until the Company performs the underlying obligations.

Under the loss corridor arrangements, the commission received by the Company is subject to a clawback if a set loss ratio exceeds a particular threshold for an accident year. When the threshold is exceeded, a payment calculated as a percentage of the loss is due to the insurer up to a maximum (between 1.0% and 4.0% of the loss). Expected clawbacks under loss corridor arrangements are recognised in trade and other payables.

Payment terms of profit share and loss corridor arrangements vary and depend on the specific agreement with the insurer. Because of the time required for policies to earn out and for claims to mature, final settlement may take up to a few years (2-3 years) from the point at which the Group places a policy (i.e. satisfies its performance obligation).

Under IAS 18, profit commission was recognised at a point when it can be measured with reasonable certainty, which was in some cases later than under IFRS 15. Commission expected to be clawed-back under a loss corridor arrangement was reduced against a provision when a loss to the Company was probable and the amount could be measured reliably.

Some contracts with customers include cancellation rights, whereby the commission receivable by the Company is subject to a clawback. Some policies placed by the Group are rolling until the customer cancels the policy. If no claims are made under the policy, then cancellations usually entitle the policyholder to a proportional refund of the consideration.

When the effect is material, the Company adjusts the estimated consideration for the expected clawback based on historical experience of average cancellations and recognises revenue only on the amount that is not expected to be refunded. The Company reassess at the end of the reporting period whether the estimated clawback needs to be revisited. Amounts that are expected to be refunded are recognised in trade and other payables. Revenue recognised on rolling contracts (based on the expected consideration net of cancellations) is presented in contract assets until the consideration is invoiced.

## **Oyster Risk Solutions Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **2 Accounting policies (continued)**

##### **Contract costs (Other assets)**

Contract costs are assets recognised in accordance with IFRS 15 which consist of:

##### **Costs to fulfil**

Salary and other costs of customer-facing employees who undertake activities necessary to satisfy contracts with the customer. The Company estimates the proportion of costs that are eligible to be capitalised based on the time spent by customer-facing employees on relevant inception/renewal activities. Capitalised costs are released to profit or loss on inception or renewal of the contract with the customer, which normally takes place within 1-3 months of the reporting period.

Contract costs are presented within 'other assets' when recognised in the Statement of Financial Position. Under IAS 18, contract costs were expensed as incurred.

##### **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 Statement of Comprehensive Income, 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.

##### **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. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting year. 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 Statement of Comprehensive Income when the asset is derecognised.

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 2 Accounting policies (continued)

##### Depreciation

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

Asset class	Depreciation method and rate
Computer hardware	25% per annum straight line

##### Intangible assets

###### *Goodwill*

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in Statement of Comprehensive Income.

Goodwill is tested annually for impairment and 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 purpose of impairment testing.

##### 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 Statement of Comprehensive Income.

###### *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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income, 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 Statement of Comprehensive Income.

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 2 Accounting policies (continued)

##### *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 currently has a 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"); and
- Fair value through profit and loss ("FVTPL").

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.

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.

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 2 Accounting policies (continued)

##### *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.

##### *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.

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 2 Accounting policies (continued)

##### *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.

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 Group 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.



## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 2 Accounting policies (continued)

##### *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 Statement of Comprehensive Income to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in Statement of Comprehensive Income 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 Statement of Comprehensive Income.

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

##### **Insurance transactions**

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

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

## **Oyster Risk Solutions Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **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 capital**

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

##### **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.

##### **Financial guarantees**

Contracts meeting the definition of a financial guarantee are recognised at fair value under IFRS 9, or under IFRS 4 'Insurance Contracts' where the conditions required in order for it to be regarded as an insurance contract are satisfied. This is determined on a contract by contract basis, depending on whether the risk transferred represents a financial risk or an insurance risk.

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

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.

## **Oyster Risk Solutions Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **3 Critical accounting judgements and key sources of estimation uncertainty (continued)**

##### **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 2018 is £11,724 (31 December 2017: £14,089), see note 8.

##### **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. 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.

###### **Impairment of assets**

Investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may exceed its recoverable amount.

An impairment test is performed by comparing the investment's carrying amount with its recoverable amount. The recoverable amount is the higher of its fair value less costs of disposal and its value in use, where its VIU is the present value of its future cash flows. An impairment test requires the application of significant judgement because it relies on key assumptions, including forecast cash flows, a discount rate, a terminal growth rate and an EBITDA multiple.

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 4 Turnover

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

	2018	2017
	£	£
Commission and fees	3,037,816	2,738,118
Trading deals	100,101	90,292
	<u>3,137,917</u>	<u>2,828,410</u>

Turnover consists entirely of sales made in the United Kingdom.

#### 5 Operating profit

Arrived at after charging

	2018	2017
	£	£
Depreciation expense	1,431	9,192
Auditor's remuneration: audit of these financial statements	11,016	18,000
Operating lease expense - other	7,760	4,145
Management charge paid to parent	<u>116,162</u>	<u>210,035</u>

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

Management fees £116,162 (2017: £210,035) relate to the central recharges. Centralised IT and property costs are recharged across cost centres with the rest of the Group.

#### 6 Staff costs

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

	2018	2017
	£	£
Wages and salaries	1,711,898	1,516,849
Social security costs	197,205	164,148
Pension costs, defined contribution scheme	52,047	88,302
	<u>1,961,150</u>	<u>1,769,299</u>

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 6 Staff costs (continued)

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

	2018 No.	2017 No.
Administration	13	7
Sales	20	24
Management	3	1
	<u>36</u>	<u>32</u>

#### 7 Directors' remuneration

In respect of the highest paid directors:

	2018 £	2017 £
Aggregate emoluments	130,659	-
Company contributions to money purchase pension scheme	14,281	-
	<u>144,940</u>	<u>-</u>

The aggregate emoluments of the highest paid director were £130,659 and company pension contributions of £14,281 were made to a money purchase scheme on their behalf.

In 2017 directors emoluments of £50,000 for services provided to the Company were paid by other Group companies. No allocation of emoluments has been performed in the current year.

	2018 No.	2017 No.
--	-------------	-------------

Retirement benefits are accruing to the following number of Directors under:

Money purchase schemes	<u>1</u>	<u>-</u>
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All directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 8 Income tax

Tax charged in the Statement of Comprehensive Income

	2018 £	2017 £
<b>Current taxation</b>		
UK corporation tax	(143,356)	(139,855)
UK corporation tax adjustment to prior periods	(25)	4,279
	<u>(143,381)</u>	<u>(135,576)</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	(2,365)	520
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	-	(4)
	<u>(2,365)</u>	<u>516</u>
Total deferred taxation	<u>(2,365)</u>	<u>516</u>
Tax charge in the statement of comprehensive income	<u>(145,746)</u>	<u>(135,060)</u>

The differences are reconciled below:

	2018 £	2017 £
Profit before tax	<u>765,160</u>	<u>719,919</u>
Corporation tax at standard rate	(145,380)	(138,560)
Corporation tax adjustment for prior periods	(29)	4,279
Effect of expenses not deductible in determining taxable profit/(tax loss)	(624)	(706)
Deferred tax expense/(credit) from unrecognised temporary difference from a prior period	8	(4)
Tax expense/(credit) relating to changes in tax rates or laws	<u>279</u>	<u>(69)</u>
Total tax charge	<u>(145,746)</u>	<u>(135,060)</u>

A reduction in the UK corporation tax rate to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This reduction, from the existing rate of 19%, will reduce the Company's future current tax charge/credit accordingly. The deferred tax assets and liabilities below have been calculated using these rates.

# Oyster Risk Solutions Limited

## Notes to the Financial Statements for the Year Ended 31 December 2018

### 8 Income tax (continued)

#### Deferred tax

#### Deferred tax asset

	Asset £
<b>2018</b>	
Accelerated tax depreciation	11,724
Provisions	-
	<u>11,724</u>
<b>2017</b>	
Accelerated tax depreciation	14,089
Provisions	-
	<u>14,089</u>

#### Deferred tax movement during the year:

	At 1 January 2018 £	Recognised in income £	At 31 December 2018 £
Accelerated tax depreciation	14,089	(2,365)	11,724
Provisions	-	-	-
Net tax assets	<u>14,089</u>	<u>(2,365)</u>	<u>11,724</u>

#### Deferred tax movement during the prior year:

	At 1 January 2017 £	Recognised in income £	At 31 December 2017 £
Accelerated tax depreciation	12,530	1,559	14,089
Provisions	1,043	(1,043)	-
Net tax assets	<u>13,573</u>	<u>516</u>	<u>14,089</u>

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

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 9 Property, plant and equipment

	<b>Computer hardware £</b>
<b>Cost or valuation</b>	
At 1 January 2018	<u>52,757</u>
At 31 December 2018	<u>52,757</u>
<b>Depreciation</b>	
At 1 January 2018	50,280
Charge for the year	<u>1,432</u>
At 31 December 2018	<u>51,712</u>
<b>Carrying amount</b>	
At 31 December 2018	<u>1,045</u>
At 31 December 2017	<u>2,477</u>

#### 10 Intangible assets

	<b>Goodwill £</b>
<b>Cost or valuation</b>	
At 1 January 2018	<u>2,922,451</u>
At 31 December 2018	<u>2,922,451</u>
<b>Accumulated impairment</b>	
At 1 January 2018	<u>742,437</u>
At 31 December 2018	<u>742,437</u>
<b>Carrying amount</b>	
At 31 December 2018	<u>2,180,014</u>
At 31 December 2017	<u>2,180,013</u>



## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 10 Intangible assets (continued)

##### Impairment testing

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

The recoverable amount of the Company is determined as the higher of fair value less costs to sell (FVLCS) and value in use (VIU), in accordance with the Company's accounting policy. For the year ended 31 December 2018, the recoverable amount of the Company was determined to be FVLCS.

FVLCS 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 EBITDA.

#### 11 Trade and other receivables

	2018 £	2017 £
Trade receivables in relation to insurance transactions	190,122	241,659
Provision for impairment of trade receivables	<u>(41,133)</u>	<u>(25,478)</u>
Net trade receivables	148,989	216,181
Receivables from other Group companies	2,458,998	8,463,077
Accrued income	-	9,821
Other receivables	-	18
Other assets	<u>44,130</u>	<u>-</u>
Total current trade and other receivables	<u>2,652,117</u>	<u>8,689,097</u>

\*Other assets are included in trade and other receivables in the Statement of Financial Position. Cost to to fulfill the contracts are included in other assets.

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

#### 12 Cash and cash equivalents

	2018 £	2017 £
Cash at bank	<u>1,138,288</u>	<u>1,064,995</u>

Cash at bank includes £1,138,288 (2017: £1,064,995) which constitutes restricted client money and insurer money and £1,056,138 (2017: £1,064,995) in office accounts which are considered restricted and not available to pay the general debts of the Company.

## Oyster Risk Solutions Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 13 Share capital

##### Allotted, called up and fully paid shares

	2018		2017	
	No.	£	No.	£
Ordinary Shares of £1 each	240,000	240,000	240,000	240,000

#### 14 Pension and other schemes

##### Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £52,047 (2017: £88,302).

#### 15 Trade and other payables

	2018 £	2017 £
<b>Current trade and other payables</b>		
Trade payables in relation to insurance transactions	1,009,442	1,095,433
Accrued expenses	123,934	55,846
Amounts due to other Group companies	7,526,467	14,136,176
Deferred income	-	5,220
Contract liabilities*	2,539	-
	<u>8,662,382</u>	<u>15,292,675</u>

\*Contract liabilities (current and non current) are included in trade and other payables in the Statement of Financial Position.

Following the adoption of IFRS 15 on 1 January 2018, deferred income of £2,539 has been reclassified as a contract liability. For further details please refer to note 2.

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

## **Oyster Risk Solutions Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **16 Related party transactions**

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

#### **17 Parent and ultimate parent undertaking**

The Group's majority shareholder and controlling party is HPS Investment Partners LLC. At 31 December 2018, the ultimate parent company was The Ardonagh Group Limited (incorporated in Jersey, registered office address 44 Esplanade, St Helier, Jersey JE4 9WG). The Ardonagh Group Limited is the largest group in which the results are consolidated. The parent company of the smallest group, which includes the Company and for which group financial statements are prepared, is Ardonagh Midco 3 plc, a company incorporated in Great Britain. 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