

STRATEGIC REPORT, DIRECTORS' REPORT AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019
FOR
ALESCO RISK MANAGEMENT SERVICES LIMITED

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ALESCO RISK MANAGEMENT SERVICES LIMITED

**CONTENTS OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Page
Company Information	1
Strategic Report	2
Directors' Report	5
Independent Auditor's Report	7
Statement of Comprehensive Income	9
Statement of Financial Position	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12

ALESCO RISK MANAGEMENT SERVICES LIMITED

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2019**

DIRECTORS:

M Belton
J Turner
N Williams-Walker

SECRETARY:

A Peel

REGISTERED OFFICE:

The Walbrook Building
25 Walbrook
London
EC4N 8AW

REGISTERED NUMBER:

06518638 (England and Wales)

INDEPENDENT AUDITOR:

Ernst & Young LLP
Statutory Auditor
25 Churchill Place
Canary Wharf
London
E14 5EY

ALESCO RISK MANAGEMENT SERVICES LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their Strategic Report for the year ended 31 December 2019.

REVIEW OF BUSINESS

The Company's principal business is that of insurance broking, primarily in the energy and construction sector. The Company aims to be a market leader in its chosen specialist markets. It is expected that there will be no significant change to the nature of the Company's activity in the foreseeable future.

The Company is a wholly owned subsidiary of Arthur J. Gallagher & Co., a company incorporated in the United States of America and is included in the publicly available consolidated financial statements of Arthur J. Gallagher & Co. ("the Group"). The Group's strategic focus continues to be on the organic growth of existing core business and the acquisition of businesses to enhance future turnover and profitability.

The results of the Company for the year ended 31 December 2019 are set out in the financial statements on pages 9 to 19.

For the year ended 31 December 2019 the Company's turnover was £39,380k (2018: £36,936k), an increase of 7% over prior year. Profit before tax was £9,210k (2018: £9,261k).

Turnover increased due to strong performance from the Company's Energy segment as well as sales production from new UK Construction hires. Profitability declined despite increased turnover due to investments in new hires not breaking even in their initial period as well as increased legal costs for 2019.

Investments made in the attracting and hiring of new individuals is consistent with the Company's strategy of building and developing specialisms in the broking industry.

Looking ahead, the Company will continue with its strategy of delivering innovative services and products to its clients. The Company aims to drive organic growth through expansion into other speciality lines and geographies and to maintain its strong relationships with insurers and clients. The Company will continue to invest in its systems and processes to provide industry leading levels of service.

Given recent external developments and geopolitical disruption in relation to the ongoing COVID-19 pandemic, future forecasts and projections have been re-performed as at the time of signing. This exercise concluded that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the signing of the Financial Statements.

SECTION 172 STATEMENT

The Directors of Alesco Risk Management Services Limited have regard to the interests of the Company's stakeholders in accordance with S172(1) of the Companies Act 2006.

The Directors recognise their responsibility to act in good faith to promote the success of the Company for the benefit of its shareholder, the Gallagher Group, while also considering the impact of their decisions on other stakeholders. These stakeholders include clients, strategic partners (for example, insurance companies), employees, suppliers, our regulator and the wider community including any impact on the environment. Engagement with these stakeholders, to understand the issues and factors which are most important to them, is an important aspect of our decision-making process. In making key decisions, the Directors consider the outcomes of engagement with the relevant stakeholders. Set out below are two key decisions taken by the Directors during 2019, with details of the stakeholder engagement process undertaken in arriving at them, and how it influenced the decisions taken.

Employee Engagement Survey (Nov 2019)

Context:

Employees are a key stakeholder group for the Company, being the key producers of revenue for the Company.

How the Directors engaged with stakeholders:

One of the key tools used by the Board in understanding employee sentiment is the annual Employee Engagement Survey, conducted in September 2019, led by the HR function and facilitated by an external provider, Ixia. Areas covered by the survey included Manager Effectiveness, Communication, and Diversity. The response rate to the survey was high, and the responses were overwhelmingly positive across the employee population. The Directors actively challenged management on the findings of the survey.

Outcomes:

It was agreed that, based on employee feedback, an action plan for employee engagement would be created and brought back to the Board for review.

ALESCO RISK MANAGEMENT SERVICES LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 172 STATEMENT- Continued

COVID-19 (Postyear-end)

Context:

Although after the year of account, Gallagher's robust response to the COVID-19 pandemic of 2020 demonstrated that actions taken in 2019 and earlier years to invest in resilient technology, business continuity planning and in its workforce were appropriate and thorough.

How the directors engaged with stakeholders:

The COVID-19 pandemic affected all of our stakeholders, from employees, who were obliged to adapt quickly to home-working, to clients, who needed our support throughout the crisis, and our regulator, who relied on Gallagher to respond quickly to requests for information. The Board of our UK parent company, Arthur J Gallagher Holdings (UK) Limited, held a series of extraordinary conference calls, to monitor the Company's financial and operational status throughout this period, and reviewed data provided by management on employee well-being, customer feedback, the position of key suppliers, and interaction with the FCA. The board was briefed on claims made by customers and on any complaints received from them. All of this was done in close consultation with our shareholder, the Gallagher group. Throughout the COVID-19 lockdown in the UK in 2020 the Board and management understood that clear and regular communication with employees was vital, and a range of regular briefings and updates kept the Board and management in contact with the workforce throughout this difficult period.

Outcomes:

All of our key stakeholders were impacted in some way by COVID-19, and our sound continuity planning and high degree of preparedness served these stakeholders well during the period of the Government-imposed lockdown.

These decisions underline the importance of consideration of a range of stakeholder interests to the Company's decision-making.

The Company, its Directors and its management remain fully committed to engaging effectively with the Company's key stakeholders as part of their decision-making process, and will continue to do so in future.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's international operations and debt profile expose it to a variety of financial and operational risks including the effects of change in foreign currency exchange rates, counterparty credit risks, compliance risk, liquidity and interest rates. The UK Group's Board of Directors are responsible for setting the UK Group's risk appetite and ensuring that it has an appropriate and effective risk management framework and monitors the ongoing process for identifying, evaluating, managing, and reporting significant risks faced. To facilitate this, the UK Group maintains a risk framework, through which the key risks affecting the UK Group are identified, assessed and monitored. Oversight is provided by the Risk Committee which is chaired and attended by independent non-executive members, and reports to the Board of Directors. In addition, each business division has a Risk Forum that oversees the specific risks faced by each business division. Across the Central Services functions similar activities are undertaken in respect of managing the risks within each function.

The UK Group has in place a risk management programme and policies in the context of the wider Group risk framework. This risk management programme seeks to manage any adverse impact upon the Group caused by the nature of its principal activity. The approach to the significant risks is noted below:

Borrowing facilities and liquidity risk

Operations for the Group are financed by a mixture of shareholders' funds, external borrowing facilities, inter-group borrowings and cash reserves. The objective is to ensure a mix of funding methods offering flexibility and cost effectiveness to match the needs of the Group. Forward looking cash flow projections are prepared on a regular basis to assess funding requirements.

Foreign currency risk

The Group's major currency transaction exposure arises in respect of transactions with fellow group undertakings and foreign currency revenue earned in the UK. As a consequence, the Group's results are sensitive to changes in foreign currency exchange rates.

In the management of its exchange rate exposures the Group utilises currency derivatives on a non-speculative basis to hedge future transactions and cash flows and is therefore party to a number of forward foreign currency contracts.

Interest rate risk

Interest rates on the Group's formal intra-group loans are fixed in nature and set in accordance with the wider Group treasury and transfer pricing policies.

ALESCO RISK MANAGEMENT SERVICES LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Counterparty credit risk

The Group is exposed to credit related losses in the event of non-performance by counterparties to financial assets but mitigates such risk through its policy of selecting only counterparties with high credit ratings or arranging beneficial credit terms in accordance with the Group's investment and counterparty policy.

Compliance risk

The Group is exposed to regulatory risk from the potential failure to comply with the relevant laws and regulations for insurance intermediaries. To mitigate this, the Group has a risk and compliance function, comprising members with experience of working at regulators, insurers, brokers and other financial institutions and has a control framework that has been rolled out and embedded within the culture throughout the Group to reduce the risk of non-compliance. This includes regular assessments within the business to gain assurance on compliance and monitoring of the compliance and regulatory requirements, with regular reporting to the Risk Committee and Board of Directors, and the Group has a proactive, open relationship with the regulator.

Operational Risk

The Group has identified the key operational risks to which it is exposed, principal among which are, the protection of client information, managing change, the prevention of cyber and financial crime, suppliers, facilities and IT resilience, M&A and compliance with regulations. An appropriate control framework has been deployed to manage and mitigate these key operational risks.

BY ORDER OF THE BOARD:



Alistair Peel (Aug 5, 2020 11:30 GMT+1)

A Peel - Secretary

Date: 5 August 2020

ALESCO RISK MANAGEMENT SERVICES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their report with the audited financial statements of the Company for the year ended 31 December 2019. The results for the Company for the year ended 31 December 2019 and future developments are discussed in the Strategic Report.

DIRECTORS OF THE COMPANY

Changes in Directors holding office are as follows:

M Belton - appointed 4 May 2020
P Hanson - resigned 9 September 2019
J Thompson - resigned 1 March 2020
J Turner - appointed 25 March 2020
J Wallers - resigned 1 April 2019
N Williams-Walker - appointed 24 February 2020

DIVIDENDS

No dividends will be distributed for the year ended 31 December 2019 (2018: £nil).

EVENTS AFTER THE REPORTING PERIOD

Information relating to events after the reporting period is given in note 19 to the financial statements.

EMPLOYEES

The Company is an equal opportunities employer and bases all decisions on individual ability regardless of race, religion, gender, age or disability. The s172 statement on page 2 in the Strategic Report provides further details on employee engagement.

DIRECTORS' INDEMNITY PROVISIONS

The Directors have benefited from qualifying third party indemnity provisions in place during the financial year and to the date of this report.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations. The s172 statement on page 2 of the Strategic Report provides further details of Directors responsibilities.

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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each Director has taken all the 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.

ALESCO RISK MANAGEMENT SERVICES LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

AUDITOR

The auditor, Ernst & Young LLP, will be proposed for re-appointment in accordance with section 487(2) of the Companies Act 2006.

BY ORDER OF THE BOARD:

Alistair Peel

.....
Alistair Peel (Aug 5, 2020 11:30 GMT+1)

A Peel - Secretary

Date: **5 August 2020**
.....

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALESKO RISK MANAGEMENT SERVICES LIMITED

Opinion

We have audited the financial statements of Alesko Risk Management Services Limited for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2019 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Effects of COVID-19

We draw attention to note 1 and note 19 in the accounts which describe the economic and social consequences the company is facing as a result of COVID-19. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the Directors' Report and the Strategic Report. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
ALESKO RISK MANAGEMENT SERVICES LIMITED - continued**

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 Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 material misstatements in the Strategic Report or Directors' Report.

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

- adequate accounting records have not been kept 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.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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 Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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.

Ernst & Young LLP

John Headley (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London

Date: *10 August 2020*

ALESCO RISK MANAGEMENT SERVICES LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	2019 £'000	2018 £'000
TURNOVER	2	39,380	36,936
Administrative expenses		<u>(30,632)</u>	<u>(27,998)</u>
OPERATING PROFIT	5	8,748	8,938
Interest receivable and similar income	6	<u>462</u>	<u>323</u>
PROFIT BEFORE TAXATION		9,210	9,261
Tax on profit	7	<u>557</u>	<u>(2,176)</u>
PROFIT FOR THE FINANCIAL YEAR		<u><u>9,767</u></u>	<u><u>7,085</u></u>

The notes form part of these financial statements

ALESCO RISK MANAGEMENT SERVICES LIMITED (REGISTERED NUMBER: 06518638)

**STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2019**

	Notes	£'000	2019 £'000	£'000	2018 £'000
FIXED ASSETS					
Intangible assets	8		143		251
Tangible assets	9		<u>10</u>		<u>5</u>
			153		256
CURRENT ASSETS					
Debtors	10	31,164		31,665	
Cash at bank		<u>-</u>		<u>1,301</u>	
		31,164		32,966	
CREDITORS					
Amounts falling due within one year	11	<u>2,623</u>		<u>14,176</u>	
NET CURRENT ASSETS			<u>28,541</u>		<u>18,790</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			28,694		19,046
CREDITORS					
Amounts falling due after more than one year	12		915		1,058
PROVISIONS FOR LIABILITIES	14		<u>24</u>		<u>-</u>
NET ASSETS			<u>27,755</u>		<u>17,988</u>
CAPITAL AND RESERVES					
Called up share capital	15		1		1
Share premium	16		297		297
Retained earnings	16		<u>27,457</u>		<u>17,690</u>
SHAREHOLDERS' FUNDS			<u>27,755</u>		<u>17,988</u>

The financial statements were approved and authorised for issue by the Board of Directors on
and were signed on its behalf by:

Jonathan R Turner

Jonathan R Turner (Aug 5, 2020 12:09 GMT+1)

J Turner - Director

The notes form part of these financial statements

ALESCO RISK MANAGEMENT SERVICES LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2018	1	297	10,605	10,903
Changes in equity				
Profit for the financial year	-	-	7,085	7,085
Balance at 31 December 2018	<u>1</u>	<u>297</u>	<u>17,690</u>	<u>17,988</u>
Changes in equity				
Profit for the financial year	-	-	9,767	9,767
Balance at 31 December 2019	<u>1</u>	<u>297</u>	<u>27,457</u>	<u>27,755</u>

The notes form part of these financial statements

ALESCO RISK MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. ACCOUNTING POLICIES

Accounting convention

These financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland", and with the Companies Act 2006.

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

The Company has also taken advantage of the exemptions, under FRS 102 paragraph 1.12(b), (c), & (e) respectively, from preparing a Statement of Cash Flows, extended disclosure relating to derivatives and disclosure of key management compensation, on the basis that it is a qualifying entity and its ultimate parent company, Arthur J. Gallagher & Co., includes such disclosures in its own consolidated financial statements.

The financial statements have been prepared on a going concern basis, under the historical cost basis. Given recent external developments and geopolitical disruption in relation to the ongoing COVID-19 pandemic, future forecasts and projections have been re-performed by the Company as at the time of signing. The potential stress on future profitability of the Company was also considered by Management as described in Note 19. This exercise concluded that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the signing of the Financial Statements. The Company is fully operational, has deployed continuity protocols and based on information available at the date of approval of the Financial Statements, the Company is not expected to be materially impacted by the COVID-19 pandemic. The Directors therefore continue to prepare the accounts on a going concern basis.

Significant judgements and estimates

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements include:

i. Goodwill and intangible fixed assets

The Group establishes a reliable estimate of the useful lives of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

ii. Impairment of debtors

The Group makes an estimate of the recoverable value of trade debtors. When assessing impairment of trade debtors, management have considered an appropriate formula for calculating the bad debt provision based on the ageing of the trade debtors.

iii. Supplemental commission accrual

The Group calculates an estimate at the year end to ascertain the accrued supplemental commission income not yet billed. Supplemental commission is recognised when an agreement is in place with a panel of insurance carriers. Management have considered appropriate formulae for calculating the year end accrual based on analysis of transactions subject to the insurance service agreements, which are amended when necessary to reflect previous experience with the estimate.

iv. Provisions

Where a provision is required the Group will perform calculations based on a policy regarding each individual category of provision. Each of these policies will be based on a degree of estimate and judgements. These policies are included within note 14.

Turnover

Turnover represents brokerage and fees associated with placing insurance and reinsurance contracts. It is recognised net of commission payable and allowable discounts. It is recognised at the later of inception date and the date the placement is completed and confirmed. Where there is an expectation of future servicing requirements, a proportion of income relating to the policy is deferred to cover the associated obligations under the policy contract.

Interest receivable/payable

Interest receivable/payable is recognised in the Statement of Comprehensive Income on an accruals basis based on the terms of the underlying contracts or agreements.

ALESCO RISK MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

1. ACCOUNTING POLICIES - continued

Taxation

Provision is made at current enacted rates for taxation. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Statement of Financial Position date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax in future periods.

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Deferred tax assets and liabilities are not discounted.

Goodwill and intangible fixed assets

Intangible fixed assets arising on the acquisition of teams, other business and software have been capitalised, classified as assets in the Statement of Financial Position and amortised over their useful economic lives. They are reviewed for impairment if events or changes in circumstances indicate that the carrying values may not be recoverable.

Amortisation is provided on all intangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

Expiration lists - over a maximum of 5 years

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated using the straight-line method based on the assets' useful lives.

The useful lives of the following tangible fixed assets are:

Computer equipment - over 3 years

Short term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income in other operating expenses.

Loans to/from group undertakings

Loans to/from other group undertakings are initially recognised at transaction price, less any transactional costs unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future payments discounted at a market rate of interest. In subsequent years the loans are carried at amortised cost, using the effective interest rate method.

Where loans are repayable on demand they are classified as short term debtors/creditors and recognised at the full amount payable. The loans are derecognised when the liability is extinguished, that is when the contractual obligation is discharged or cancelled.

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 that the economic benefit can be reliably measured.

Financial derivatives

The Group uses forward foreign currency contracts to reduce exposure to foreign exchange rates. Derivative financial instruments are initially measured at fair value on the date at which a derivative contract is entered into and are subsequently measured at fair value through the Statement of Comprehensive Income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the date of the Statement of Financial Position. All exchange rate differences are taken to the Statement of Comprehensive Income.

ALESCO RISK MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

2. TURNOVER

The turnover and profit before taxation are attributable to the one principal activity of the Company.

	2019 £'000	2018 £'000
An analysis of turnover by class of business is given below:		
Net brokerage	31,774	31,803
Fees	4,510	2,212
Commissions	3,096	2,921
	<u>39,380</u>	<u>36,936</u>
An analysis of turnover by geographical market is given below:		
UK	12,838	5,286
Europe	767	1,170
United States of America	13,228	10,792
Rest of World	12,547	19,688
	<u>39,380</u>	<u>36,936</u>

3. STAFF COSTS

The amounts relating to staff costs were incurred by Arthur J. Gallagher Services (UK) Limited. An amount of £20,622k (2018: £18,993k) was recharged back to the Company, and is accounted for in administrative expenses.

4. DIRECTORS' REMUNERATION

	2019 £'000	2018 £'000
Directors' remuneration	208	942
Directors' pension contributions to money purchase schemes	1	2
	<u>209</u>	<u>944</u>

The number of Directors to whom retirement benefits were accruing was as follows:

Money purchase schemes	<u>1</u>	<u>1</u>
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Information regarding the highest paid Director is as follows:

	2019 £'000	2018 £'000
Director's remuneration	<u>92</u>	<u>907</u>

The above amounts represent remuneration allocated to the Directors based on their directorships of entities within the Group. This is on a different basis to which Directors remunerations are recharged to the Company and accounted for in administrative expenses.

ALESCO RISK MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

5. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

	2019 £'000	2018 £'000
Expiration lists amortisation	108	108
Depreciation - owned assets	5	2
Auditors' remuneration		
- statutory audit	38	46
- audit related assurance services	28	33
Land and building operating leases	1,151	1,022
Foreign exchange differences	(243)	(397)
Unrealised (gain)/loss on derivatives	(904)	1,636

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £'000	2018 £'000
Bank interest	462	323

7. TAXATION

Analysis of the tax charge

The tax (credit)/charge on the profit for the year was as follows:

	2019 £'000	2018 £'000
Current tax:		
UK corporation tax	-	2,171
Adjustment in respect of prior years	(556)	5
Total current tax	(556)	2,176
Deferred tax:		
Origination and reversal of timing differences	(1)	-
Total deferred tax	(1)	-
Total tax (credit)/charge on profit	(557)	2,176

The tax (credit)/charge for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows:

	2019 £'000	2018 £'000
Profit before tax	9,210	9,261
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2018 - 19%)	1,750	1,760
Effects of:		
Expenses not deductible for tax purposes	144	141
Effects of group relief/other reliefs	(2,106)	-
Transfer pricing adjustments	211	270
Adjustment from previous periods	(556)	5
Total tax (credit)/charge	(557)	2,176

The Company profits are taxable in the UK under the standard rate of corporation tax being 19% (2018: 19%). The Company is expected to continue to attract the standard rate of UK corporation tax. The UK government had previously legislated to reduce the main rate of corporation tax to 17% to apply from 1 April 2020. These reductions have been reflected in the closing deferred tax asset, as they were enacted at the balance sheet date. Subsequent to the balance sheet date, the government have substantively enacted legislation to reverse the rate change. Accordingly the rate will remain at 19%.

ALESCO RISK MANAGEMENT SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2019**

8. INTANGIBLE FIXED ASSETS

	Expiration lists £'000
COST	
At 1 January 2019	
and 31 December 2019	<u>541</u>
AMORTISATION	
At 1 January 2019	290
Amortisation for year	<u>108</u>
At 31 December 2019	<u>398</u>
NET BOOK VALUE	
At 31 December 2019	<u>143</u>
At 31 December 2018	<u>251</u>

9. TANGIBLE FIXED ASSETS

	Computer equipment £'000
COST	
At 1 January 2019	8
Additions	<u>10</u>
At 31 December 2019	<u>18</u>
DEPRECIATION	
At 1 January 2019	3
Charge for year	<u>5</u>
At 31 December 2019	<u>8</u>
NET BOOK VALUE	
At 31 December 2019	<u>10</u>
At 31 December 2018	<u>5</u>

10. DEBTORS

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Amounts owed by group undertakings	27,964	29,938
Other debtors	620	-
Corporation tax	249	-
Deferred tax asset	4	3
Prepayments and accrued income	<u>2,327</u>	<u>1,724</u>
	<u>31,164</u>	<u>31,665</u>

Amounts owed by group undertakings are unsecured and repayable on demand. All loans are interest free with the exception of:

Aggregate loan value	Interest Rate	Interest Terms	Repayment Period	Aggregate carrying value
£10,000k	0%	Compounded annually. Interest charge up to 31 Dec 2017. Thereafter from 1 Jan 2018 interest at 0%.	10 years from commencement (2027) but the Company can recall on demand.	£10,173k

ALESCO RISK MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

10. DEBTORS - continued

	Deferred tax £'000
Balance at 1 January 2019	3
Deferred tax utilised during the year	<u>1</u>
Balance at 31 December 2019	<u><u>4</u></u>

Deferred tax

The deferred tax asset represents fixed asset timing differences of £4k (2018: £3k). The amount of deferred tax that will unwind in the following accounting period is uncertain at this stage and therefore not quantifiable.

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	2018 £'000
Amounts owed to group undertakings	1,862	1,992
Corporation tax	-	2,172
Other creditors	-	811
Accruals and deferred income	<u>761</u>	<u>9,201</u>
	<u><u>2,623</u></u>	<u><u>14,176</u></u>

Amounts owed to group undertakings are unsecured, repayable on demand and are on an interest free basis.

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2019 £'000	2018 £'000
Accruals and deferred income	<u>915</u>	<u>1,058</u>

13. FINANCIAL INSTRUMENTS

The Company has the following financial instruments:

Financial liabilities measured at fair value through the Statement of Comprehensive Income:

	2019 £'000	2018 £'000
Derivative financial instruments	<u>548</u>	<u>(603)</u>

Fair value through the Statement of Comprehensive Income has been calculated by comparing the USD:GBP equivalent option rate at the period end to the rate as set out in the option contract.

The Company entered into forward foreign currency options to mitigate the exchange rate risk for certain foreign currency revenues. The Group is committed to and has the option to buy Pound Sterling and pay a fixed US Dollar amount. As at 31 December 2019 the outstanding contracts all mature within 30 months of the period end.

The forward foreign currency options are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are the option exchange rates for USD:GBP. The fair value of the forward foreign currency options is £548k (2018: (£603k)), which are contained in other debtors within note 10 in 2019 and other creditors within note 11 in 2018.

ALESCO RISK MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

14. PROVISIONS FOR LIABILITIES

	2019 £'000	2018 £'000
Provisions	<u>24</u>	<u>-</u>
		Errors and omissions provision £'000
At 1 January 2019		-
Incurred during year		24
Released during year		-
Utilised during year		<u>-</u>
At 31 December 2019		<u>24</u>

Errors and omissions provision

The Company faces a number of litigation and other claims, the resolution of which is uncertain, which have arisen in the ordinary course of business. Having taken appropriate legal advice and having regards to the Group's errors and omissions insurance arrangements, the Directors have provided amounts which they consider to be a realistic appraisal of the ultimate likely cost of these various claims against the Company. The provision is subject to regular review by the Group's legal department, external legal advisers and the Directors. The timing of outflows relating to these liabilities is uncertain as at the end of the reporting period.

15. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2019 £	2018 £
6,500	A Ordinary	£0.10	650	650
3,500	B Ordinary	£0.10	<u>350</u>	<u>350</u>
			<u>1,000</u>	<u>1,000</u>

The 'A' Ordinary Shares and 'B' Ordinary Shares shall rank pari passu in all respect save voting rights. 'A' Ordinary Shares shall confer on each holder thereof the right to receive notice of and to attend, speak and vote on all matters at all general meetings of the Company. 'B' Ordinary Shares shall not confer on each holder thereof any right to receive notice of or attend, speak at or vote at general meetings of the Company.

16. RESERVES

Called Up Share Capital - represents the nominal value of shares that have been issued.

Share Premium - this reserve records the amount above the nominal value received for shares issued, less transaction costs.

Retained Earnings - includes all current and prior period profits and losses.

17. PARENT COMPANY AND ULTIMATE HOLDING COMPANY

The immediate parent company is Arthur J. Gallagher (UK) Limited, a company registered in England and Wales. The largest group of undertakings of which the Company is a member and for which financial statements are prepared, is headed up by Arthur J. Gallagher & Co., a company incorporated in the United States of America, which is the ultimate holding company. The registered address of Arthur J. Gallagher & Co. is 2850 W. Golf Rd., Rolling Meadows, IL 60008. A copy of these consolidated financial statements is available from the registered office of the Company.

ALESCO RISK MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2019

18. RELATED PARTY DISCLOSURES

During the year the following transactions took place within the Group on behalf of the Company.

	Amounts paid on behalf of related party £'000	Amounts received on behalf of related party £'000	Balance at 31 December 2019 £'000
Other related parties	2,743	(5,257)	817*

*The individual balances within this net balance are included within amounts owed by group undertakings and amounts owed to group undertakings in notes 10 and 11 respectively.

19. EVENTS AFTER THE REPORTING PERIOD

Given recent external developments and geopolitical disruption in relation to the ongoing COVID-19 pandemic, future cash flow and profit forecasts and projections have been re-performed and sensitised by the Company as at the time of signing.

The Company is fully operational and has deployed continuity protocols from early March 2020 following the global outbreak of COVID-19. The Company has considered the potential impact of COVID-19 on its brokerage operations, risk management and financial forecasts for the period of one year from the date of signing of the Financial Statements.

As a result of this assessment, the directors consider that the Company has adequate resources to continue in operational existence for a period of twelve months from the signing of the Financial Statements.

COVID-19 is a non adjusting post balance sheet event. As the external environment is continually evolving, the scale and duration of the disruption is not fully possible to quantify or estimate. As a result of the assessment of the events and conditions summarised above and based on information available at the date of approval of the Financial Statements, the Company has concluded there to be no material impact on amounts shown in the balance sheet at 31 December 2019 in relation to the COVID-19 pandemic.

The Directors confirm that there are no other events after the reporting period that are required to be disclosed.