

ANNUAL REPORT AND FINANCIAL STATEMENTS

2019

FOR THE YEAR ENDED 31 DECEMBER 2019



AZUR UNDERWRITING LIMITED

Registered number: 09903413

AZUR UNDERWRITING LIMITED

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AZUR UNDERWRITING LIMITED

COMPANY INFORMATION

Directors

Mr CJ Blackburn
Mr IB Davies
Mr GA Elliott
Mr I Pettifor
Ms KV Wells

Company Secretary

Vistra Company Secretaries Limited

Company Number

09903413

Business Address

Linen Court
10 East Road
London
N1 6AD

Registered Address

First Floor
Templeback
10 Temple Back
Bristol
BS1 6FL

Bankers

Lloyds Bank Plc
25 Gresham Street
London
EC2V 7HN

Independent Auditor

PKF Littlejohn LLP
Statutory Auditor
15 Westferry Circus
Canary Wharf
London
E14 4HD

AZUR UNDERWRITING LIMITED

STRATEGIC REPORT

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

Report of the business

Review of the business

The Company, authorised by the Financial Conduct Authority, is an insurance intermediary operating as a Managing General Agent ("MGA") in the distribution and creation of product for insurers. As an MGA the Company distributes, through retail and wholesale brokers servicing insured clients in the United Kingdom and overseas, insurance products on behalf of insurers who have delegated underwriting authority to the Company. The Company also provides these services to insurers under negotiated Transitional Services Agreements. On 18 December 2019 the Company was approved as a Coverholder by Lloyd's of London expanding the network of brokers and insurers to whom it has access.

The Directors continue to closely monitor BREXIT developments as the Company relies on current EU freedom of service provisions to distribute insurance products and provide claims handling services to insured customers across Europe. The Azur Group incorporated an Irish subsidiary, Azur UW Finance (Ireland) Limited in January 2019 and submitted an application to the Central Bank of Ireland ("CBI") on 13 February 2019 for approval as a Retail Intermediary under the European Union (Insurance Distribution) Regulations 2018. On 18 October 2019 the Retail Intermediary application of Azur UW Finance (Ireland) Limited was granted "minded to approve" status by the CBI subject to certain conditions being met. Following the extension of the BREXIT deadline to 31 December 2020, the Azur Group agreed with the CBI on 21 January 2020 to withdraw its Retail Intermediary application and resubmit it in the second half of 2020.

In 2019 the Company continued to actively grow its insurance intermediation platform through the expansion of its distribution and the launch of new insurance products utilising the digital broker hub and policy administration platform developed by the Azur Group's technology services company, Aztech Advantage Limited ("Aztech").

On the back of this, revenue increased by 19% to £4.7 million (2018: £3.9 million) on gross written premium of £39.248 million (2018: £31.75 million). That this increase in revenue did not result in increased profitability for the Company reflects a 50% (£1.8 million) increase in Administrative Expenses attributable to 200% higher corporate and central services recharges from fellow subsidiary companies and £0.5 million of exceptional non-cash expense associated with the cancellation and replacement of EMI Share Option awards following a Disqualifying Event, the unintended consequence of the Azur Group's capital reorganisation and fund raise in September 2018 (see Note 26).

Capital structure

It is the Company's policy to maintain a strong capital base, expanding it as appropriate to support projected growth, and to utilise capital efficiently.

In determining appropriate levels of capital, the Directors are conscious of the need to maintain a prudent relationship between the underlying risks of the business and ultimate Parent Company return, whilst at the same time satisfying minimum capital resource requirements set by regulators and financial covenants in bank credit facilities, as and when the Company wishes to source such finance.

AZUR UNDERWRITING LIMITED

STRATEGIC REPORT

Capital structure (continued)

The Company currently finances its operations from the following sources:

- a) Equity; and
- b) Cash generated from operations.

The following tables show the capitalisation and indebtedness of the Company at the year end:

	31 December 2019 £'000
<i>Capitalisation and indebtedness</i>	
Secured	-
Unguaranteed/unsecured	159
Total current and non-current debt	159
Share capital and share premium	125
Other reserves	633
Retained earnings	832
Shareholder's equity	1,590
<i>Net indebtedness / resources</i>	
Cash	121
Total liquidity	121
Current bank debt	-
Other current financial debt	(159)
Current financial indebtedness	(159)
Net current financial liquidity	(38)
Non-current financial indebtedness	-
Net financial indebtedness	(38)

Notes

(1) The Company has no indirect or contingent indebtedness as at 31 December 2019.

AZUR UNDERWRITING LIMITED

STRATEGIC REPORT

Key performance indicators

Although a profitable company, having sufficient cash resources to satisfy the Company's financial obligations as and when they fall due remains of paramount importance. Thereafter, the Directors are focused on building a sustainable business i.e. one that deploys a conduct-rich operating framework to fulfil the stated strategy of delivering an enhanced User Experience for insured customers, brokers and insurers whilst satisfying the needs of the shareholder, employees and supplier partners.

Commensurate with the Company's objective to provide its shareholder with sustainable relatively low-risk capital growth, whilst maintaining or enhancing customer outcomes, the Directors target the realisation of long-term efficiencies through the deployment of technology. The Directors believe that average headcount and revenue per employee provide insight into the operating efficiency of the Company.

The Directors believe that the number and nature of complaints, both from brokers and insured customers, is a basic indicator of the adequacy of customer outcomes.

The Company employs an array of other key performance indicators. However, in the opinion of the Directors the disclosure of competitor-sensitive information regarding, for example policy retention rates, average commissions, gross loss ratios, claims declined ratios etc is likely to be prejudicial to the interests of the Company. Accordingly, the Directors limit disclosure of key performance indicators to the following:

	2019	2018
Revenue (£'000's)	4,695	3,942
(Loss)/Profit before tax (£'000's)	(218)	816
Revenue per employee (£'000's)	223.6	207.5
Number of complaints ¹ :		
- Sales & service	12	7
- Claims handling	13	6
Average headcount	21	19
Cash and cash equivalents (£'000's)	121	816

Note 1 - The 25 complaints received, of which 11 were upheld, equate to 0.29% of written policies at the reporting date, 4 of the complaints, accounting for 33% of the year-on-year increase, were submitted by a serial complainant, none of which were upheld.

Principal risks and uncertainties

Risk management objectives and policies

The principal risks and uncertainties for the Company follow from the willingness of the insurance sector to distribute and underwrite the classes of risk in which the Company specialises and the competitiveness of the insurance brokers and insurers used compared with other products and markets available to insured customers.

The Board sets the overall risk appetite and philosophy of the Company. The Board, through its executives, establishes the parameters for risk appetite through setting strategic direction, contributing to and ultimately approving annual business plans for the Company, and regularly reviewing and monitoring performance in relation to risk through ad hoc reports.

Risk appetite is defined in both qualitative and quantitative terms and is an expression of the maximum level of residual risk that the Company is prepared to accept in order to deliver its business objectives and is regularly assessed.

Through its activities the Company is exposed to a number of financial and non-financial risks. The Company does not use derivative financial instruments and has nominal exposure to such risks.

AZUR UNDERWRITING LIMITED

STRATEGIC REPORT

Principal risks and uncertainties (continued)

Financial risks

The principal financial risks that the Company seeks to manage are as follows:

Credit risk

Credit risk is the risk that the Company will incur losses as a result of the failure of insured customers, brokers, insurers and other counterparties to meet their obligations and the holdings of cash and cash equivalents.

Such losses are further minimised by performing a credit assessment on new brokers at take-on as well as by actively monitoring aged receivables. In extremis, and with the insurer's agreement, policies of insurance can be cancelled ab initio.

The Company limits the amount of deposits and cash and cash equivalents it holds at any one bank or financial institution to 15% of its aggregate deposits and cash and cash equivalents. In addition to performing a credit assessment on the opening of new bank accounts, cash management platforms are used to diversify cash holdings to ensure that as large a percentage as practicable of aggregate cash balances enjoy full Financial Services Compensation Scheme protection.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its cash obligations as they fall due.

The Company manages its liquidity risk by monitoring short-term and long-term cash flow forecasts which identify significant future cash flow requirements and inflows. The Company aims to mitigate liquidity risk by maintaining a mixture of short-term and long-term facilities to ensure that it has sufficient available funds to satisfy daily requirements.

Foreign exchange risk

Foreign exchange risk is the risk of adverse changes in currency exchange rates.

The Company, which has as its functional currency Pounds Sterling, is generally exposed to manageable levels of operational foreign exchange risk in that the Company's revenues, recharges and material expenditure are predominantly denominated in Pounds Sterling and Euros.

Interest rate risk

Interest rate risk is the risk of adverse changes (effectively increases) in market interest rates and could potentially arise from the use of bank overdrafts.

The Company manages its exposure to this risk by regularly monitoring interest rates and avoiding the use of bank overdrafts.

AZUR UNDERWRITING LIMITED

STRATEGIC REPORT

Principal risks and uncertainties (continued)

Non-financial risks

The principal non-financial risks that the Company seeks to manage are as follows:

Reputational risk

Reputational risk is the risk that the Company's ability to conduct business will be damaged as a result of its reputation being tarnished, including as a result of regulatory censure. The Company has policies and procedures in place to manage this risk to the extent possible which include, inter alia, procedures for the hiring and screening of employees, the taking-on of new business, the countering of fraud and corruption and the conducting of business in a client-centric and ethical manner.

The Directors recognise that the success of the Company within the niche sectors it serves is heavily dependent upon demonstrating and maintaining consistently high ethical standards in all business dealings and delivering a high-quality service to clients and insured customers. For this reason, the Directors have sought to embed conduct at the heart of the business.

Operational risk

Operational risk is the risk of loss of earnings and/or value resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent within all of the financial risk categories above. Operational risks encompass customer treatment, product development risk, processes and systems risk, change risk, people risk, theft, fraud, legal and regulatory risks and corporate governance risk.

The Company has a business continuity plan in place which is tested and enhanced on an ad hoc basis, together with policies to cover the risks of financial crime, money laundering and whistle-blowing.

Future developments

The Directors expect the general level of activity to increase in the forthcoming year as the Company looks to expand its insurance intermediation platform to include a broader array of products and markets.

The Company adopted a remote-first working policy a week before the UK government mandated COVID-19 lock down on 23 March 2020. As a digitally-enabled business, the Company benefited from the investment made in its systems architecture and working practices and was fortunate to be able to move relatively seamlessly to remote working, ensuring the smooth continuation of services to end-insured customers, brokers and insurers alike.

Whilst an initial decline in new business submissions was experienced, as brokers adjusted to remote working, this reversed quicker than anticipated at the time such that business was back to pre-COVID-19 forecast levels within approximately 6 weeks of lockdown.

With the depth and duration of the COVID 19 economic disruption unknown, consistent with the philosophy of "hope for the best, plan for the worst", the Directors implemented a series of cost-cutting initiatives in April 2020 to increase the business's resilience including the elimination of all discretionary expenditure, 12-month pay cuts for Executive Committee members and downsizing the office. The Directors have developed a suite of financial and non-financial triggers, monitored

AZUR UNDERWRITING LIMITED

STRATEGIC REPORT

Future developments (continued)

and reassessed on a daily basis, which they believe enable them to closely monitor the economic situation and respond quickly to changed circumstances.

The Directors continue to closely monitor BREXIT developments as the Company relies on current EU freedom of service provisions to distribute insurance products and provide claims handling services to insured customers across Europe. Following the extension of the BREXIT deadline to 31 December 2020, the Azur Group agreed with the Central Bank of Ireland on 21 January 2020 to withdraw its application for approval as a Retail Intermediary under the European Union (Insurance Distribution) Regulations 2018 and to resubmit it in the second half of 2020.

Details of significant events since the balance sheet date are contained in Note 27 to the financial statements.

Going concern

Based on the assessment that COVID-19 will not have a significant adverse impact on the business and the additional operating resilience established, having made appropriate enquiries, the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the summary of significant accounting policies in Note 2 to the financial statements.

By Order of the Board



Graham Elliott
Director
28 July 2020

AZUR UNDERWRITING LIMITED

DIRECTORS' REPORT

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

General Information

Azur Underwriting Limited is a private company limited by shares, incorporated and domiciled in England. Its registered address is First Floor, Templeback, 10 Temple Back, Bristol, BS1 6FL and its principal place of business is Linen Court, 10 East Road, London, N1 6AD.

The ultimate parent company is Azur Group Holdings Limited (the "Parent Company").

Future developments and events after the balance sheet date

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on page 7 and form part of this report by cross-reference.

Dividends

The Directors do not propose the payment of a dividend for the year (2018: £500,000).

Political and charitable donations

During the year no political donations were made by the Company. Charitable donations amounted to £327 (2018: £786).

Disabled persons

It is the Company's policy to give full consideration to suitable applications for employment of disabled persons. Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees of the Company who become disabled to continue in their employment or to be retrained for other positions in the Company.

Employee involvement

It is an integral part of the Azur culture that employees adopt a shareholder mentality and an innovative mind-set and feel empowered to challenge existing preconceptions and practices.

The Company is, therefore, committed to involving all employees in the performance and development of the Company and its products and services. Its approach to employee development offers continual challenges in the job, learning opportunities and personal development.

The Company encourages all its employees to participate fully in the business through open dialogue. Employees receive news of the Company through senior management presentations, frequent email notices and postings on the Company's intranet. The Company maintains a strong communications network and employees are encouraged, through the AzOne staff and welfare committee and an open-door policy, to discuss with management matters of interest to the employee and subjects affecting the day-to-day operations and the sustainability of the Company.

AZUR UNDERWRITING LIMITED

DIRECTORS' REPORT

Directors

The Directors of the Company during the year ended 31 December 2019, together with their dates of appointment and/or resignation as applicable, were:

	<u>Date of appointment</u>	<u>Date of resignation</u>
Mr GA Elliott	4 December 2015	-
Mr CJ Blackburn	1 April 2016	-
Mr I Pettifor	1 April 2016	-
Ms KV Wells	21 February 2017	-
Mr IB Davies	4 December 2018	-

The Directors have no interests in the shares of the Company nor in any shares of any other Group company other than in the ultimate holding company. The interests of those Directors, who are also Directors of the ultimate holding company, in the ultimate holding company are shown in the consolidated financial statements of Azur Group Holdings Limited.

Directors' indemnity

The Company has provided qualifying third-party indemnities for the benefit of its Directors. These were provided during the period and remain in force at the date of this report.

Provision of information to auditor

So far as each of the Directors is aware at the time this report is approved:

- there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

PKF Littlejohn LLP has signified its willingness to continue in office as auditor.

This report was approved by the Board on 28 July 2020 and signed on its behalf.



Kate Wells
Director
28 July 2020

AZUR UNDERWRITING LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report and 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 period. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

AZUR UNDERWRITING LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER

We have audited the financial statements of Azur Underwriting Limited (the "Company") 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, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standard ("IFRS") as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; 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 ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 2 "Going Concern" section of the financial statements, which describes the Directors' assessment of the impact of COVID-19 on the Company's ability to continue as a going concern.

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 annual report, other than the financial statements and our auditor's report thereon. 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 our report, we do not express any form of

AZUR UNDERWRITING LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In 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 the Directors' Report.

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

- adequate accounting records have not been kept, 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 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

AZUR UNDERWRITING LIMITED


INDEPENDENT AUDITOR'S REPORT TO THE MEMBER

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: <http://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 member, 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 member those matters we are required to state to it 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 member as a body, for our audit work, for this report, or for the opinions we have formed.



Ian Cowan (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

15 Westferry Circus
Canary Wharf
London E14 4HD

31 July 2020

AZUR UNDERWRITING LIMITED

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Note	2019 £	2018 £
(Loss)/Profit from Operations			
Revenue	5	4,694,956	3,942,422
Gross Profit		4,694,956	3,942,422
Other income	6	365,526	396,723
Administrative expenses		(5,278,170)	(3,522,649)
Operating (Loss)/Profit on Ordinary Activities Before Income Tax		(217,688)	816,496
Income tax charge	10	-	(69,910)
(Loss)/Profit on Ordinary Activities for the Period		(217,688)	746,586
Other Comprehensive Income for the Period, Net of Tax		-	-
Total Comprehensive (Loss)/Profit for the Period		£ (217,688)	£ 746,586

The accounting policies and notes on pages 19 to 38 form part of these financial statements.

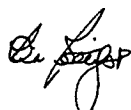
AZUR UNDERWRITING LIMITED

STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2019

	Note	2019 £	2018 £
Assets			
Non-current Assets			
Intangible assets	12	737,000	-
Current Assets			
Trade and other receivables	15	1,349,176	1,105,569
Cash and cash equivalents	16	120,948	816,100
		1,470,124	1,921,669
Total Assets		£ 2,207,124	£ 1,921,669
Equity and Liabilities			
Equity Attributable to Shareholder			
Share capital	17	125,000	125,000
Other reserves	18	632,942	71,855
Retained earnings	19	832,020	1,049,708
Total Equity		1,589,962	1,246,563
Liabilities			
Current Liabilities			
Corporation Tax	10	-	68,734
Trade and other payables	20	517,162	534,972
Provisions for other liabilities and charges	21	100,000	71,400
Total Liabilities		617,162	675,106
Total Equity and Liabilities		£ 2,207,124	£ 1,921,669

The accounting policies and notes on pages 19 to 38 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 28 July 2020 and were signed on its behalf by:



Ian Pettifor
Director
Company number 09903413

AZUR UNDERWRITING LIMITED

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

Attributable to Equity Shareholder				
Note	Share capital £	Other reserves £	Retained earnings £	Total £
Balance as at 1 January 2019	125,000	71,855	1,049,708	1,246,563
Loss for the year	-	-	(217,688)	(217,688)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	(217,688)	(217,688)
Transactions with Owner				
Dividends	11	-	-	-
Employee share option scheme: - Capital contribution	18	- 561,087	-	561,087
Total Transactions with Owner Recognised Directly in Equity		- 561,087	-	561,087
Balance as at 31 December 2019	£ 125,000	£ 632,942	£ 832,020	£ 1,589,962
Balance as at 1 January 2018	125,000	21,005	803,122	949,127
Profit for the year	-	-	746,586	746,586
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	746,586	746,586
Transactions with Owner				
Dividends	11	-	(500,000)	(500,000)
Employee share option scheme: - Capital contribution		- 50,850	-	50,850
Total Transactions with Owner Recognised Directly in Equity		- 50,850	(500,000)	(449,150)
Balance as at 31 December 2018	£ 125,000	£ 71,855	£ 1,049,708	£ 1,246,563

The accounting policies and notes on pages 19 to 38 form part of these financial statements.

AZUR UNDERWRITING LIMITED

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Note	2019	2018
		£	£
Cash Flows from Operating Activities			
Cash generated from operations	22	<u>108,848</u>	<u>1,031,384</u>
Net Cash Generated from Operating Activities		<u>108,848</u>	<u>1,031,384</u>
Cash Flows from Investing Activities			
Purchase of intangible assets	12	<u>(804,000)</u>	<u>-</u>
Net Cash Used in Investing Activities		<u>(804,000)</u>	<u>-</u>
Cash Flows from Financing Activities			
Dividends paid		<u>-</u>	<u>(500,000)</u>
Net Cash Used in Financing Activities		<u>-</u>	<u>(500,000)</u>
Net (Decrease)/Increase in Cash, Cash Equivalents and Bank Overdrafts		(695,152)	531,384
Cash, cash equivalents at beginning of period		<u>816,100</u>	<u>284,716</u>
Cash and Cash Equivalents at End of Year	16	<u>£ 120,948</u>	<u>£ 816,100</u>

The accounting policies and notes on pages 19 to 38 form part of these financial statements.

AZUR UNDERWRITING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

1. General information

Azur Underwriting Limited (the "Company") is a private company limited by shares, which is incorporated and domiciled in the UK.

2. Summary of significant accounting policies

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 periods presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations ("IFRS IC") as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS 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 in the financial statements, are disclosed in Note 4.

Going concern

Although the business returned to pre-COVID-19 operating levels within a 6-week period of the government-mandated lockdown on 23 March 2020, with the depth and duration of the COVID 19 economic disruption unknown, consistent with the philosophy of "hope for the best, plan for the worst", the Directors have implemented a series of cost-cutting initiatives to increase the business's resilience including the elimination of all discretionary expenditure, 12-month pay cuts for Executive Committee members and downsizing the office.

The Directors have developed a suite of financial and non-financial triggers, monitored and reassessed on a daily basis, which they believe enable them to closely monitor the economic environment and respond quickly to changed circumstances.

Based on the assessment that COVID-19 will not have a significant adverse impact on the results of the business and the additional operating resilience established, after making appropriate enquiries, the Directors are satisfied that the Company has adequate resources available to it to continue in operational existence for the foreseeable future. The Company, therefore, continues to adopt the going concern basis in preparing its financial statements.

Changes in accounting policies and disclosures

(a) New standards, amendments and interpretations adopted by the Company

A new standard became effective for the first time for the financial year beginning 1 January 2019:

- International Reporting Standard ("IFRS") 16 'Leases'

The details of the changes in accounting policies are disclosed below.

AZUR UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Changes in accounting policies and disclosures (continued)

Previously, the Company determined at contract inception whether an arrangement was, or contained, a lease under IFRIC 4 'Determining whether an Arrangement contains a lease.' The Company now assesses whether a contract is, or contains, a lease based on the definition of a lease, as explained later in this note.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

No lease contracts have been entered into during the period.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Pounds Sterling ("£"), which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation, where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in Other Comprehensive Income as qualifying cash flow hedges and qualifying net investment hedges. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevalent at the date of the transactions.

Foreign currency gains and losses are reported on a net basis.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within Administrative Expenses. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in Other Comprehensive Income.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss.

AZUR UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

Translation differences on non-monetary financial assets measured at fair value are included in Other Comprehensive Income.

Intangible Assets

Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Purchased computer software expenditures which exceed the Company's £2,500 de minimis capitalisation limit, are recognised as assets with finite useful lives, measured at cost less accumulated amortisation and amortised over their estimated useful lives, which do not exceed 4 years. Computer software is assumed not to have a residual value. Amortisation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

Financial Assets

The Company classifies its financial assets into the following categories:

- Amortised Cost;
- Fair Value through Other Comprehensive Income ("FVTOCI"); and
- Fair Value through Profit or Loss ("FVTPL")

The classification depends on the Company's objective for holding and managing the financial asset, together with the cash flow characteristics of the financial asset.

At initial recognition, the Company measures its financial assets at their fair value, inclusive of transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition, the Company measures its financial assets at amortised cost if both the following conditions are met:

- a) the objective of holding the financial asset is to collect contractual cash flows, and
- b) 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.

Otherwise the Company measures its financial assets at Fair Value through Other Comprehensive Income or Fair Value through Profit or Loss.

Impairment of financial assets

Assets carried at amortised cost

For trade receivables and contractual assets of one year or less, or ones that do not contain a significant financing component, the Company adopts the simplified model for impairing financial assets whereby it is not required to determine whether there has been a significant increase in credit risk ("SICR") since initial recognition; rather the Company recognises a loss allowance at an amount equal to lifetime expected credit losses ("ECL").

AZUR UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Financial Assets (continued)

The Company employs a provision matrix using a combination of days - past - due and historically observed credit loss experience over the life of trade receivables, adjusted for forward-looking estimates to determine lifetime ECL's. The Company segregates its trade receivables if its historical credit loss experience indicates significantly different loss patterns for different customer segments.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Cash and cash equivalents

In the Statement of Cash Flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

Insurance intermediation debtors and creditors

As a Managing General Agent, the Company acts as an agent in the placement of insurable risks on a risk-transfer basis on behalf of insurers and is not liable, as principal, for amounts arising from such transactions.

In recognition of this relationship, debtors from insurance intermediation transactions are not included as an asset of the Company. Other than the receivable for brokerage, commissions or fees earned on placement of an insurable risk, no recognition of the insurance transactions occurs until the Company receives cash in respect of the premiums or claims, at which time a corresponding liability is established in favour of the insurer or cedant, unless the cash is held in trust for the benefit of the insurer or cedant, in which case neither the cash nor the corresponding liability is reflected in the Company's financial statements.

Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value, and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

AZUR UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Financial Liabilities

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value, and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services, and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Share capital

Ordinary shares are classified as equity.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised directly in Other Comprehensive Income or directly in equity, as appropriate.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted, by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

AZUR UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Current and deferred income tax (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the taxable company or different taxable companies within the Group where there is an intention to settle the balances on a net basis.

Employee benefits

Pension obligations

The Company operates defined contribution pension plans.

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 where the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Bonus plans

The Company recognises a liability and an expense for bonuses where contractually obliged, or where there is a past practice that has created a constructive obligation.

Share-based payments

Share options in the ultimate parent undertaking are granted to Directors and selected employees. Options are conditional on the employee completing 3 years' service (the vesting period). One third of the options are exercisable on a cliff-edge basis at the end of each year of the vesting period, subject to a 2-year service underpin. The Parent Company has no legal or constructive obligation to repurchase or settle the options in cash. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense and the corresponding entry treated as a capital contribution in other reserves. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability or sales growth targets, or remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

AZUR UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Employee benefits (continued)

Share-based payments (continued)

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Detailed disclosures regarding the valuation basis are made in the financial statements of the ultimate parent undertaking, Azur Group Holdings Limited.

Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts, returns and Value-Added Taxes.

Revenue represents brokerage and fees, net of commissions payable, arising from the provision of insurance intermediation services to specialised sectors within the United Kingdom and overseas.

Brokerage is recognised when the Company's contractual right to such income is established, and to the extent that the Company's relevant obligations under the contracts concerned have been performed. For most of the Company's insurance intermediation activities, this means that brokerage is recognised at the inception of the underlying contract of insurance concerned, subject to a deferral of brokerage in respect of post-placement services that constitute obligations of the Company under those contracts.

Fees, recharges and other income receivable are recognised in the period to which they relate.

Other income

Profit commission arising from the placement of insurance contracts or the exercise of an underwriting agency by the Company is recognised when the right to such profit commission is established through a contract, but only to the extent that a reliable estimate of the amount due can be made. Such estimates are made on a basis that reflects the level of uncertainty involved.

AZUR UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of its useful life or the end of the lease term. The estimated useful lives of right-to-use assets are determined on the same basis as those of property and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Short term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of twelve months or less and leases of low-value assets, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

Financial risk factors

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, foreign exchange risk and interest rate risk. The Company's overall risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is performed by the Board of Directors through its sub-committee the Group Risk Committee, which is responsible for the identification, evaluation and hedging of financial risks. The Committee provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and the investment of surplus liquidity.

AZUR UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

3. Financial risk management (continued)

Financial risk factors (continued)

Credit risk

Credit risk arises from cash and cash equivalents and deposits maintained with banks and financial institutions, as well as credit exposures to insurance intermediaries and insured customers, including outstanding receivables and committed transactions. If insurance intermediaries are independently rated, these ratings are used. If there is no independent rating, the Finance Department assesses the credit quality of the intermediary, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored.

Management does not expect any losses from non-performance by these counterparties.

Liquidity risk

Cash flow forecasting is performed at both a Company and a Group level and aggregated by the Finance Department. The Department monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration debt financing plans, covenant compliance, compliance with internal Statement of Financial Position ratio targets, and external regulatory or legal requirements.

The table below analyses the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings, based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2019				
Trade and other payables	£ 517,162	£ -	£ -	£ -
At 31 December 2018				
Trade and other payables	£ 534,972	£ -	£ -	£ -

Foreign exchange risk

Foreign exchange risk arises from adverse movements in currency exchange rates.

The Company, which has as its functional currency Pounds Sterling, was exposed to minimal levels of foreign exchange risk during the period as its revenues, recharges and material expenditure were predominantly denominated in Pounds Sterling and Euros.

Interest rate risk

Interest rate risk arises from increases in market interest rates and could potentially arise from the use of bank overdrafts.

The Company manages its exposure to interest rate risk by regularly monitoring interest rates and avoiding the use of bank overdrafts.

AZUR UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019

4. Critical accounting estimates and judgements

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Profit commission

Profit commission, arising from the placement of insurance contracts or the exercise of an underwriting agency by the Company, is recognised when the right to such profit commission is established through a contract, but only to the extent that a reliable estimate of the amount due can be made. Such estimates are made on a prudent basis that reflects the level of uncertainty involved.

Post-placement services provision

The Company has an obligation to provide services following the placement of insurance policies under certain contracts to facilitate the claims handling process between the insurer and insured. In order to recognise the post-placement obligation an amount of income is deferred. The amount of income to defer is estimated by management after taking into account factors such as the number, size and complexity of claims received and their anticipated cost base. The assumptions reflect historical experience, current trends and management's best estimate.

5. Revenue

The Company derives its revenue from the provision of insurance intermediation services to specialised sectors within the United Kingdom and overseas. An analysis of revenue derived by the Company is as follows:

	2019 £	2018 £
Income from insurance intermediation:		
- Brokerage	4,765,336	3,958,888
- Written premium volume contributions paid to brokers	(70,380)	(16,466)
	<u>£ 4,694,956</u>	<u>£ 3,942,422</u>

AZUR UNDERWRITING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

6. Other income

	2019	2018
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Profit commission	<u>£ 365,526</u>	<u>£ 396,723</u>
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On 19 March 2020 profit commission of £430,247 (2018: £396,723) for the period 1 December 2018 to 30 November 2019 was received, of which £365,526 has been recognised in the Statement of Comprehensive Income in the year.

The insurer calculated profit commission for the period December 2018 to 30 November 2019 was £494,968. In performing the calculation for the current year, the insurer noted an error in the previous 2 years' calculations in the aggregate amount of £129,442 which it decided to recover in equal instalments from the current year and the next year's payments.

7. Operating profit on ordinary activities before income tax

The following items have been included in arriving at the operating profit for the year:

	2019	2018
Auditor remuneration (Note 8)	<u>£ 7,900</u>	<u>£ 7,500</u>

8. Auditor remuneration

During the year, the Company obtained the following services from the Company's auditor and its associates:

	2019	2018
Fees payable to the Company's auditor and its associates for the audit of the financial statements	<u>£ 7,900</u>	<u>£ 7,500</u>

9. Information regarding employees

<i>Employee expense</i>	2019 £	2018 £
Wages and salaries	1,401,009	1,219,930
Share options granted to Directors and employees (Note 26)	561,087	50,850
Social security costs	179,712	149,107
Pension costs	113,109	100,842
Other staff costs	50,851	57,114
	<u>£ 2,305,768</u>	<u>£ 1,577,843</u>

The Company operates defined contribution pension plans. The total expense relating to these plans in the current financial year was £113,109 (2018: £100,842).

AZUR UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

9. Information regarding employees (continued)

Average number of people employed	2019	2018
Average number of people (including executive Directors) employed:		
- Underwriting and Operations	<u>21</u>	<u>19</u>

On 1 October 2019 two employees responsible for providing insurance policy administrative support were transferred to the Company in order that they might perform a broader role in support of the Company's regulated business. A further eight employees providing claims handling, compliance, premium collection and accounting services were transferred on 1 January 2020. All employees were transferred from the fellow subsidiary company Azuru Services Limited.

10. Income tax charge

	2019	2018
	£	£
Current tax:		
Current tax on profit for the year	-	36,335
Adjustments in respect of prior years	-	32,399
Total current tax	-	68,734
Deferred tax (Note 14):		
Origination and reversal of temporary differences	-	1,176
Total deferred tax	-	1,176
Income tax charge	<u>£ -</u>	<u>£ 69,910</u>

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

	2019	2018
	£	£
Operating (loss)/profit before tax	<u>(217,688)</u>	<u>816,496</u>
Tax calculated at standard rate of corporation tax in the UK for the year of 19% (2018: 19%)	(41,361)	155,134
Tax effects of:		
- Expenses not deductible for tax purposes	130,192	17,280
- Group relief claimed for no charge	(88,831)	(134,764)
- Adjustments to tax charge in respect of prior periods	-	32,399
- Re-measurement of deferred tax due to change in the UK tax rate	-	(139)
Income tax charge	<u>£ -</u>	<u>£ 69,910</u>

From 1 April 2020 the main rate of corporation tax in the United Kingdom is expected to remain at 19% compared to the previously announced reduction to 17%.

AZUR UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

11. Dividends

	2019	2018
Amount recognised as distributions to the shareholder in the period	£ -	£ 500,000

No dividend is payable in respect of the current year (2018: £4.00 per ordinary share).

12. Intangible assets

	Computer software £
Cost or valuation	
At 1 January 2019	-
Additions	804,000
At 31 December 2019	804,000
Amortisation and impairment	
At 1 January 2019	-
Amortisation charge for the year	(67,000)
At 31 December 2019	(67,000)
Net book value	
At 1 January 2019	£ -
At 31 December 2019	£ 737,000

Additions during the year represent the price charged by the Azur Group's technology services company, Aztech Advantage Limited, for the development, enhancement and addition of new insurance products to the Company's digital broker hub and policy administration platform.

AZUR UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

13. Financial instruments by category	31 December 2019 Loans and receivables £	31 December 2018 Loans and receivables £
Assets per Statement of Financial Position		
Trade and other receivables, excluding prepayments and accrued income	844,372	637,767
Cash and cash equivalents	120,948	816,100
	<hr/>	<hr/>
Total	£ 965,320	£ 1,453,867
	<hr/>	<hr/>
	31 December 2019 Other financial liabilities at amortised cost	31 December 2018 Other financial liabilities at amortised cost
Liabilities per Statement of Financial Position		
Trade and other payables, excluding statutory liabilities	£ 517,162	£ 534,972
	<hr/>	<hr/>

14. Deferred tax

The analysis of deferred tax assets and liabilities is as follows:

	2019 £	2018 £
Current tax asset	<hr/> £ -	<hr/> £ -

The gross movement on the deferred income tax account is as follows:

	2019 £	2018 £
At 1 January 2019	-	1,176
Charge to profit or loss (Note 10)	-	(1,176)
	<hr/>	<hr/>
At 31 December 2019	£ -	£ -

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

AZUR UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

15. Trade and other receivables	2019	2018
	£	£
Trade debtors	830,730	622,637
Prepayments and accrued income	504,804	467,802
Other debtors	13,642	15,130
	<u>£ 1,349,176</u>	<u>£ 1,105,569</u>

16. Cash and cash equivalents	2019	2018
	£	£
Cash at bank and in hand	<u>£ 120,948</u>	<u>£ 816,100</u>

Cash and cash equivalents include the following for the purposes of the Statement of Cash Flows:

	2019	2018
	£	£
Cash and cash equivalents	<u>£ 120,948</u>	<u>£ 816,100</u>

17. Share capital	Number of shares	Ordinary shares £
At 1 January 2019	125,000	125,000
At 31 December 2019	<u>125,000</u>	<u>£ 125,000</u>

The total number of ordinary shares is 125,000 with a par value of £1 per share. All issued shares are fully paid. Each ordinary share has full rights in the Company with respect to voting, dividends and distributions.

18. Other reserves	Shares to be issued £
At 1 January 2019	71,855
Capital contribution in respect of share options granted in the Parent Company (Note 26)	<u>561,087</u>
At 31 December 2019	<u>£ 632,942</u>

AZUR UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

19. Retained earnings		2019
		£
At 1 January 2019		1,049,708
Loss for the year		(217,688)
At 31 December 2019		£ 832,020
20. Trade and other payables		
	2019	2018
	£	£
Trade payables	76,085	19,664
Amounts due to related parties (Note 25)	158,698	226,769
Accrued expenses	282,379	288,539
	£ 517,162	£ 534,972
21. Provisions for other liabilities and charges		
		2019
		£
Post placement claims handling services:		
At 1 January 2019		71,400
Charged to income statement:		28,600
At 31 December 2019		£ 100,000
22. Cash generated from operations		
	2019	2018
	£	£
(Loss)/Profit before income tax	(217,688)	816,496
Adjustments for:		
- Share-based payments	561,087	50,850
- Amortisation	67,000	-
- (Increase)/Decrease in trade and other receivables	(243,607)	58,044
- (Decrease)/Increase in trade and other payables	(86,544)	100,794
- Increase in provisions	28,600	5,200
Cash generated from operations	£ 108,848	£ 1,031,384
23. Ultimate Parent Company		

The Company's immediate parent company is Azur Insurance Holdings Limited. The Company's ultimate parent company, into the financial statements of which its results are consolidated, is Azur Group Holdings Limited, a company owned by a number of private and corporate shareholders which has no ultimate controlling party. Both Azur Group Holdings Limited and Azur Insurance Holdings Limited are incorporated in England and Wales and have a registered address of First Floor Templeback, 10 Temple Back, Bristol, England, BS1 6FL

AZUR UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

24. Commitments

Operating lease commitments – Company as lessee

All company car leases were cancelled in January 2019, following termination of the company car scheme. There are no lease payments outstanding under non-cancellable operating leases.

25. Related parties

The following transactions were carried out with related parties.

Trading with related parties

Under the terms of a Managing General Agency Agreement ("MGAA") dated 28th June 2016, the Company was appointed by AIG Europe Ltd to act as its agent to administer its UK private client business, to effect renewals of that business, and to make arrangements for the provision and administration of certain new insurance business. Following a Part VII transfer as part of AIG's Brexit preparedness, the business of AIG Europe Ltd was transferred to American International Group UK Ltd (which underwrites UK risks) and AIG Europe SA (which underwrites EEA risks) and AIG Europe Ltd ceased trading. AIG American International Group UK Ltd and AIG Europe SA are subsidiaries of a significant shareholder in the Parent Company.

In order to support the services that the Company has agreed to undertake under the MGAA, American International Group UK Ltd provides certain IT and insurance operations services to the Company under the terms of a Transitional Services Agreement ("TSA") dated 1 September 2016. The fee payable under the TSA for the provision of services by American International Group UK Ltd is £1.

The Company earned £4,793,936 (2018: £3,942,422) of commissions and £365,526 (2018: £396,723) of profit commission on related party transactions of which £830,730 (2018: £622,637) of commissions and all the profit commission were outstanding at the year end.

Transactions with related parties

£804,000 was paid in the year to the fellow subsidiary company Aztech Advantage Limited for the development of the SMARTHome broker hub, underwriting and policy administration platform.

During the period the Company was charged £946,432 (2018: £943,798) for the provision of insurance accounting & settlement, financial and management accounting, HR, Compliance and claims handling services by the affiliated company, Azuru Services Limited. The Company was also charged £976,632 (2018: £240,549) by the affiliated company, Aztech Advantage Limited, during the period for provision of technology development support, technology licenses and data analysis services.

£158,697 was outstanding as at 31 December 2019 (2018: £226,769) in respect of these intercompany recharges.

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25. Related parties (continued)

Key management compensation

Key management includes Directors only. The compensation paid or payable to key management for employee services to the Group is as follows:

	2019 £	2018 £
Salaries and other short-term employee benefits	1,307,207	713,658
Post-employment benefits	48,250	44,866
	<u>£ 1,355,457</u>	<u>£ 758,524</u>

The highest-paid Director received emoluments of £240,275 (2018: £183,674) and pension contributions of £9,400 (2018: £8,313).

26. Share-based payments

A number of the Company's employees participate in share-based awards which will be satisfied by the delivery of the equity of the Company's Parent Company, Azur Group Holdings Limited. These awards are granted by the Parent Company and, therefore, in accordance with *IFRS 2 Share-based Payment*, are accounted for as equity-settled awards in the financial statements of the Company.

The outstanding awards by scheme are as follows:

Scheme	Number of recipients	Optioned shares	Grant date	Expiry date	Exercise price £	Fair value at grant date £
Azur Group EMI Option Plan:						
- 2019 grants	17	207,500	16/09/19	15/09/29	0.258	4.48

Details of the movement in the Azur Group EMI Option Plan awards during the period are as follows:

	Number of recipients	Optioned shares	Weighted average exercise price £
Outstanding at 1 January 2019	12	109,000	0.084
Surrendered during the period	(12)	(109,000)	0.084
Granted during the period	17	207,500	0.258
Outstanding at the end of the year	<u>17</u>	<u>207,500</u>	<u>£ 0.258</u>
Exercisable at the end of the year	<u>17</u>	<u>122,690</u>	<u>£ 0.258</u>

No options were exercised during the year (2018: nil).

Of the 207,500 options outstanding, 122,690 (2018: 56,333) were exercisable at the reporting date.

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26. Share-based payments (continued)

On 16 March 2020, 1,708 options were exercised and 1,292 forfeited by a leaver.

	2019	2018
Total share-based payment expense recognised	<u>£ 561,087</u>	<u>£ 50,850</u>

Following the occurrence of a "disqualifying event", which was as an unintended consequence of the Parent Company's capital reorganisation in September 2018, whereby the existing classes of A Ordinary Shares of £0.001 each and B Ordinary Shares of £0.001 each were simultaneously converted into a single class of ordinary shares of £0.001 each, recipients of grants under the Azur Group EMI Option Plan 2016 ("EMI Plan 2016") were invited to surrender their options in whole for no consideration, consistent with the loss of the EMI tax advantaged status of the options.

All employees elected to surrender their options and duly did so on 9 August 2019.

On 10 September 2019 an employee benefit trust, the Azur Group Employee Benefit Trust (the "Trust"), was established and Estera Trust (Jersey) Limited was appointed as the corporate trustee.

On 12 September 2019 a new Enterprise Management Incentive Plan ("EMI Plan 2019") and set of associated rules was adopted by the Parent Company for the purpose of granting options to acquire shares in the Parent Company to qualifying employees of the Company as determined by the Group Remuneration Committee from time to time.

On 16 September 2019 a Deed of Grant was executed by the Parent Company granting options under the EMI Plan 2019 to 17 employees of the Company over 207,500 ordinary shares of £0.001 each in the Parent Company at an option price of 25.8 pence.

In addition to having a substantially higher market value at the time of grant, a significant element of the EMI Plan 2019 option grants had accelerated vesting conditions mirroring the vested status of the EMI Plan 2016 option grants they replaced.

On surrender of the EMI Plan 2016 options in August 2019, an amount representing the vested portion of the share options surrendered was credited to the Statement of Comprehensive Income. Following the grant of the replacement options in September 2019, the amount expensed to the Statement of Comprehensive Income in respect of the 329,000 new EMI Plan 2019 options reflected both their accelerated vesting and the new fair value at grant date. The net expense recognised in 2019 of £561,087 (2018: £50,850) reflects both the increase in fair value of the replacement EMI Plan 2019 options and the granting of additional option awards.

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27. Contingencies

Under the terms of the Managing General Agency Agreement ("MGAA") entered into with American International Group Limited ("AIG UK") the Company is entitled to a share of AIG UK's annual underwriting profit ("Profit Share"). The terms of the MGAA are such that (i) it may be terminated only by AIG UK, except in the event of default or regulatory infraction and (ii) where an underwriting loss is determined for an underwriting year it shall be carried forward to the calculation of the underwriting profit for the subsequent underwriting year. In the event of termination of the MGAA, should the Profit Share calculation for the final year produce a loss, the Company shall repay to AIG UK an amount equal to the loss, capped at a maximum of an amount equivalent to the two most recent Profit Share payments. The maximum potential liability as at the 31 December 2019 was £891,691 (2018: £721,694).

28. Events after the reporting period

On 1 January 2020, eight employees providing claims handling, compliance, premium collection and accounting services, were transferred to the Company from the fellow subsidiary company Azuru Services Limited.

On 21 January 2020, in light of the extension of the BREXIT deadline to 31 December 2020, the Azur Group agreed with the Central Bank of Ireland ("CBI") to withdraw the application of the Company's fellow subsidiary, Azur UW Finance (Ireland) Limited, for approval as a Retail Intermediary under the European Union (Insurance Distribution) Regulations 2018, notwithstanding the fact that "minded to approve" status, subject to certain conditions, had been issued by the CBI in October 2019.

On 19 March 2020, the Company received profit commission in the amount of £430,247 for the period 1 December 2018 to 30 November 2019, net of the recovery of 50% of an overpayment in respect of the previous 2 years.

In the week before the UK government mandated COVID-19 lock down on 23 March 2020, the Company adopted a remote-first working policy. With the depth and duration of the COVID 19 economic disruption unknown, consistent with the philosophy of "hope for the best, plan for the worst", the Directors implemented a series of cost-cutting initiatives in April 2020 to increase the business's resilience including the elimination of all discretionary expenditure, 12-month pay cuts for Executive Committee members and downsizing the office.

On 1 June 2020, recognising the potentially profound impact in the short, medium and long-term that COVID-19 will have on how, and how much, office space is used, the Company downsized its office moving to new premises, in the same vicinity as its previous office, at Linen Court, 10 East Road, London, N1 6AD.