# ANNUAL REPORT AND FINANCIAL STATEMENTS

# 2021

**FOR THE YEAR ENDED 31 DECEMBER 2021**

# AZUR UNDERWRITING LIMITED

**Registered number: 09903413**

AZUR UNDERWRITING LIMITED

CONTENTS

# AZUR UNDERWRITING LIMITED

## COMPANY INFORMATION

---

| | |
|---|---|
| **Directors** | Mr CJ Blackburn<br>Mr IB Davies<br>Mr GA Elliott<br>Ms KV Wells |
| **Company Secretary** | Vistra Company Secretaries Limited |
| **Company Number** | 09903413 |
| **Business Address** | Linen Court<br>10 East Road<br>London<br>N1 6AD |
| **Registered Address** | First Floor<br>Templeback<br>10 Temple Back<br>Bristol<br>BS1 6FL |
| **Bankers** | Lloyds Bank Plc<br>25 Gresham Street<br>London<br>EC2V 7HN |
| **Independent Auditor** | PKF Littlejohn LLP<br>Statutory Auditor<br>15 Westferry Circus<br>Canary Wharf<br>London<br>E14 4HD |

STRATEGIC REPORT

The Directors present their Strategic Report for the Company for the year ended 31 December 2021.

**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 and Lloyd's of London Coverholder 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.

In 2021 the Company continued to actively grow its insurance intermediation platform through the expansion of its distribution and the launch of new insurance products utilising its digital broker hub and policy administration platform.

On 2 August 2022, the Company signed an Asset Purchase Agreement (the 'agreement') with Azur Underwriting Ireland Limited, Aviva Insurance Limited and Aviva Insurance Ireland DAC for the sale of its UK and Irish insurance business, inclusive of the policyholder renewal rights, goodwill, intellectual property rights and IT systems.

As per the Asset Purchase Agreement completion will take place on the 31 March 2023 at which time the Company will receive proceeds relating to the transaction. Between exchange and completion the Company will be subject to certain per-completion undertakings.

***Key performance indicators***

Although a profitable company at the operating level, before non-recurring exceptional items, 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:

***Key performance indicators (continued)***

| | **2021** | **2020** |
|---|---|---|
| Revenue (£'000's) | 6,257 | 5,031 |
| Loss before tax (£'000's) | (262) | (733) |
| Revenue per employee (£'000's) | 145.52 | 139.8 |
| Number of complaints[1]: | | |
| - Sales & service | 8 | 5 |
| - Claims handling | 33 | 18 |
| Average headcount | 43 | 36 |
| Cash and cash equivalents (£'000's) | 590 | 983 |

*Note 1 - The 41 complaints received, of which 20 were upheld, equate to 0.29% of written policies at the reporting date.*

***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.

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 aims to limit 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

***Principal risks and uncertainties (continued)***

as practicable of aggregate cash balances enjoy full Financial Services Compensation Scheme protection or equivalent EU Deposit Guarantee 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 as well as by borrowing monies from the parent company on a fixed-rate basis.

*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.

***Principal risks and uncertainties (continued)***

*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***

On 2 August 2022, the Company signed an Asset Purchase Agreement (the 'agreement') with Azur Underwriting Ireland Limited, Aviva Insurance Limited and Aviva Insurance Ireland DAC for the sale of its UK and Irish insurance business, inclusive of the policyholder renewal rights, goodwill, intellectual property rights and IT systems.

As per the Asset Purchase Agreement completion will take place on the 31 March 2023 at which time the Company will receive proceeds relating to the transaction. Between exchange and completion the Company will be subject to certain per-completion undertakings.

The Company agreed with American International Group UK Limited that from 1 March 2023 it will assist with the orderly wind down of its UK insurance business at the commencement of a Run-Off period.

Details of other significant events since the balance sheet date are contained in Note 24 to the financial statements.

**Going concern**

The board of directors have considered the financial position of the Company as at 31 December 2021 and the projected cash flows and financial performance of the Company for at least twelve months from the date of approval of these financial statements including the proceeds from arising from the Asset Purchase Agreement disclosed in Note 24. After making appropriate enquiries, the Directors believe that the Company will remain cash generative for the foreseeable future. The board of directors, therefore, believe that appropriate long-term cash resources are in place at the date of signing the accounts to fund the Company's operations.

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**
16 December 2022

The Directors present their report and the audited financial statements for the year ended 31 December 2021.

**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 Limited (formerly 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 6 and form part of this report by cross-reference.

**Dividends**

The Directors do not propose the payment of a dividend for the year (2020: £nil).

**Political and charitable donations**

During the year, political donations were made by the Company amounting to £150 (2020 £nil). No charitable donations made by the Company.

**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 2021, together with their dates of appointment and/or resignation as applicable, were:

| | Date of appointment | Date of resignation |
|---|---|---|
| Mr GA Elliott | 4 December 2015 | - |
| Mr CJ Blackburn | 1 April 2016 | - |
| Mr I Pettifor | 1 April 2016 | 1 May 2022 |
| 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 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 16 December 2022 and signed on its behalf.

CJ Blackburn

Charles Blackburn
**Director**
16 December 2022

# STATEMENT OF DIRECTORS'S 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 year. Under that law the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework – Disclosure exemptions from EU-adopted IFRS for qualifying entities (FRS 101).

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that 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.

## INDEPENDENT AUDITORS'S REPORT TO MEMBER

**Opinion**

We have audited the financial statements of Azur Underwriting Limited (the 'company') for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss 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. 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.

**Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**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 contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 directors' responsibilities statement, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the company and the sector in which it operates to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussion with management and through our own audit experience

- We determined the principal laws and regulations relevant to the Company in this regard to be those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, FCA rules and UK tax legislation.

- We designed our audit procedures to ensure that the audit team considered whether there were any indications of non-compliance by the Company with those laws and regulations. These procedures included but were not limited to;
  - review of board meeting minutes and subsequent discussions with management on any pertinent matters noted;
  - review of compliance reports;
  - review of legal and professional fees; and
  - enquiries of management.
- We also identified the risk of material misstatement of the financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, the risk of material misstatement arising from revenue recognition.
- We addressed the risk of material misstatement arising from revenue recognition by performing walkthroughs on significant income streams to assess the design and implementation of key controls, performing substantive transactional testing of material revenue line items, reviewing revenue transactions recorded shortly before and after 31 December 2021 to ensure revenue has allocated to the correct accounting period.
- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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.

Ian Cowan

Ian Cowan (Senior Statutory Auditor)
For and on behalf of
**PKF Littlejohn LLP**
19 December 2022

AZUR UNDERWRITING LIMITED

GROUP STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2021

| | Note | 2021<br>£ | 2020<br>£ |
|---|---|---|---|
| **Loss from Operations** | | | |
| Revenue | 4 | 6,257,332 | 5,031,495 |
| **Gross Profit** | | **6,257,332** | 5,031,495 |
| Administrative expenses | | (6,493,495) | (5,763,393) |
| **Operating Loss** | | **(236,163)** | (731,898) |
| Finance income | 5 | 421 | 552 |
| Finance costs | 6 | (26,351) | (1,579) |
| **Loss on Ordinary Activities Before Income Tax** | | **(262,093)** | (732,925) |
| Income tax credit | 10 | 45,677 | 88,375 |
| **Loss on Ordinary Activities for the Period** | | **(216,426)** | (644,550) |
| **Other Comprehensive Income for the Period, Net of Tax** | | - | - |
| **Total Comprehensive Loss for the Period** | | **£ (216,426)** | £ (644,550) |

The accounting policies and notes on pages 16 to 34 form part of these financial statements.

AZUR UNDERWRITING LIMITED

## STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2021

| | Note | 2021 | 2020 |
|---|---|---|---|
| | | £ | £ |
| **Assets** | | | |
| **Non-current Assets** | | | |
| Intangible assets | 11 | 770,855 | 1,070,125 |
| Deferred tax | 12 | 134,042 | 88,375 |
| | | **904,897** | 1,158,500 |
| **Current Assets** | | | |
| Trade and other receivables | 14 | 1,976,328 | 1,154,321 |
| Cash and cash equivalents | 15 | 590,087 | 983,493 |
| | | **2,566,415** | 2,137,814 |
| **Total Assets** | | **£ 3,471,312** | £ 3,296,314 |
| **Equity and Liabilities** | | | |
| **Equity Attributable to Shareholder** | | | |
| Share capital | 16 | 125,000 | 125,000 |
| Other reserves | 17 | 1,072,385 | 896,709 |
| Retained earnings | 18 | (28,956) | 187,470 |
| **Total Equity** | | **1,168,429** | 1,209,179 |
| **Liabilities** | | | |
| **Non-current Liabilities** | | | |
| Borrowings | 13 | 750,000 | 750,000 |
| | | **750,000** | 750,000 |
| **Current Liabilities** | | | |
| Trade and other payables | 19 | 1,434,192 | 1,237,135 |
| Provisions for other liabilities and charges | 20 | 118,691 | 100,000 |
| **Total Liabilities** | | **1,552,883** | 1,337,135 |
| **Total Equity and Liabilities** | | **£ 3,471,312** | £ 3,296,314 |

The accounting policies and notes on pages 16 to 34 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 16 December 2022 and were signed on its behalf by:

Charles Blackburn
**Director**
Company number 09903413

AZUR UNDERWRITING LIMITED

# STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2021

| | Note | Share capital £ | Other reserves £ | Retained earnings £ | Total £ |
|---|---|---|---|---|---|
| | | **Attributable to Equity Shareholder** | | | |
| **Balance as at 1 January 2021** | | **£ 125,000** | **£ 896,709** | **£ 187,470** | **£ 1,209,179** |
| Loss for the year | | - | - | (216,426) | (216,426) |
| Other Comprehensive Income | | - | - | - | - |
| **Total Comprehensive Income** | | **-** | **-** | **£ (216,426)** | **£ (216,426)** |
| **Transactions with Owner** | | | | | |
| Dividends | | - | - | - | - |
| Employee share option scheme: | | | | | |
| - Capital contribution | 19 | - | 175,676 | - | 175,676 |
| **Total Transactions with Owner Recognised Directly in Equity** | | **-** | **175,676** | **-** | **175,676** |
| **Balance as at 31 December 2021** | | **£ 125,000** | **£ 1072,385** | **£ (28,956)** | **£ 1,168,429** |

| | | | | | |
|---|---|---|---|---|---|
| **Balance as at 1 January 2020** | | 125,000 | 632,942 | 832,020 | 1,589,962 |
| Loss for the year | | - | - | (644,550) | (644,550) |
| Other Comprehensive Income | | - | - | - | - |
| **Total Comprehensive Income** | | - | - | (644,550) | (644,550) |
| **Transactions with Owner** | | | | | |
| Dividends | | - | - | - | - |
| Employee share option scheme: | | | | | |
| - Capital contribution | | - | 263,767 | - | 263,767 |
| **Total Transactions with Owner Recognised Directly in Equity** | | - | 263,767 | - | 263,767 |
| **Balance as at 31 December 2020** | | £ 125,000 | £ 896,709 | £ 187,470 | £ 1,209,179 |

## 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 Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).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 and accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 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 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial instruments: Disclosures'
- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share Based Payment' (Refer to note 23)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1
  - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d) (statement of cash flows)
  - 16 (statement of compliance with all IFRS)
  - 111(statement of cash flow information)
  - 134-136 (Capital management disclosure)
- IAS 7 – Statement of cash flows
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).

## 2. Summary of significant accounting policies (continued)

***Going concern***

The board of directors have considered the financial position of the Company as at 31 December, 2021 and the projected cash flows and financial performance of the Company for at least twelve months from the date of approval of these financial statements including the proceeds from arising from the Asset Purchase Agreement disclosed in Note 24. After making appropriate enquiries, the Directors believe that the Company will remain cash generative for the foreseeable future. The board of directors, therefore, believe that appropriate long-term cash resources are in place at the date of signing the accounts to fund the Company's operations. Accordingly, these financial statements have been prepared on a Going Concern Basis

***Changes in accounting policies and disclosures***

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

*Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- To require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- To permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- To provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

*Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16*

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.

The amendment applies to annual reporting periods beginning on or after 1 April 2021.

**2. Summary of significant accounting policies (continued)**

However, the Company has not received Covid-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

***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.

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.

## 2. Summary of significant accounting policies (continued)

### *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:

1. the objective of holding the financial asset is to collect contractual cash flows, and
2. 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").

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.

The Company has not impaired any of its trade receivables. In coming to this conclusion the Directors determined that the historically observed credit loss experience over the life of the trade receivables was nil having adjusted for current economic conditions.

*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.

## 2. Summary of significant accounting policies (continued)

### *Financial assets (continued)*

*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.

### *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.

*Contract liabilities*

A contract liability is an obligation to transfer goods or services to a customer for which payment has already been received, or is due, from the customer, and is recognised at the earlier of the time when the cash payment is received or falls due.

Contract liabilities are differentiated from trade payables which represent an unconditional obligation with no conditions (other than the passage of time) that need to be satisfied before the amount is due to be paid.

## 2. Summary of significant accounting policies (continued)

***Financial liabilities (continued)***

<u>Borrowings</u>

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.

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.

## 2. Summary of significant accounting policies (continued)

### *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).

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 Limited (formerly Azur Group Holdings Limited).

**2. Summary of significant accounting policies (continued)**

***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. Specific provisions are referred to in Note 3.

***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, subject to a deferral of brokerage in respect of post-placement services that constitute obligations of the Company under those contracts.

Profit commission arising from the placement of insurance contracts or the exercise of an underwriting agency by a Group insurance intermediary is recognised when the right to such profit commission is established through a contract, but only to the extent that (i) a reliable estimate of the amount due can be made and (ii) it is highly probable that the amount recognised will not be subject to a significant reversal in the amount of the cumulative revenue recognised. Where it is no longer highly probable that the cumulative amount of the profit commission recognised will not be subject to significant reversal, the potential reversal (or "clawback") is recognised as a reduction in revenue and a contract liability is established,

Insurance accounting & settlement and claims handling fees are deferred and recognised throughout the life of the negotiated Transitional Service Agreement.

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

***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.

## 2. Summary of significant accounting policies (continued)

***Leases (continued)***

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. 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 (i) a reliable estimate of the amount due can be made and (ii) it is highly probable that the amount recognised will not be subject to a significant reversal in the amount of the cumulative revenue recognised

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.

**3. Critical accounting estimates and judgements (continued)**

In light of the underwriting loss experienced in the underwriting year 2020, management believed that it was no longer highly probable that the cumulative amount of the profit commission then recognised would not be subject to significant reversal at some point in the future. Cumulative profit commissions previously recognised in the amount of £762,249 were, therefore, reversed in that financial year and a contract liability established. The underwriting loss experienced for the current underwriting year does not cause management to review this decision. In determining the amount of revenue to be reversed, management (i) have assumed that it is more probable than not that the MGAA may be terminated by AIG UK at some stage in the future, and (ii) have not taken into consideration future underwriting profits or losses on basis that such profits or losses cannot be reliably estimated and (iii) have recognised the maximum amount payable under the clawback arrangements in the event that the MGAA with AIG UK was to be terminated.

***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.

## 4. 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:

| | 2021<br>£ | 2020<br>£ |
|---|---|---|
| Income from insurance intermediation: | | |
| - Brokerage & fees | 6,366,242 | 5,939,994 |
| - Written premium volume contributions paid to brokers | (171,849) | (191,250) |
| - Profit commission | 17,939 | (762,249) |
| | 6,212,332 | 4,986,495 |
| Insurance accounting & settlement and claims handling fees | 45,000 | 45,000 |
| | **£ 6,257,332** | £ 5,031,495 |

An underwriting loss was recorded for the underwriting year 1 December 2019 to 30 November 2020 and cumulative profit commissions previously recognised in the amount of £762,249 were reversed (see Note 3).

## 5. Finance income

| | 2021 | 2020 |
|---|---|---|
| Interest on bank deposits | **£ 421** | £ 552 |

## 6. Finance costs

| | 2021<br>£ | 2020<br>£ |
|---|---|---|
| Interest on borrowings from related parties (Note 22) | 26,322 | 1,007 |
| Other finance costs | 29 | 572 |
| | **£ 26,351** | £ 1,579 |

## 7. Other expenses

### Operating profit on ordinary activities before income tax

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

| | 2021 | 2020 |
|---|---|---|
| Auditor remuneration (Note 8) | £ 11,050 | £ 11,115 |
| Amortisation & impairment (Note 11) | £ 341,000 | £ 317,875 |
| FX (gain)/ losses | £ (2,440) | £ 4,475 |

## 8. Auditor remuneration

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

| | 2021 | 2020 |
|---|---|---|
| Fees payable to the Company's auditor and its associates for the audit of the financial statements | **£ 11,050** | £ 11,115 |

## 9. Information regarding employees

| ***Employee expense*** | **2021** **£** | **2020** **£** |
|---|---|---|
| Wages and salaries | 2,422,149 | 2,060,699 |
| Share options granted to Directors and employees (Note 23) | 175,676 | 263,767 |
| Social security costs | 298,932 | 254,889 |
| Pension costs | 176,329 | 156,531 |
| Other staff costs | 124,697 | 91,674 |
| | **£ 3,197,783** | £ 2,827,560 |

The Company operates defined contribution pension plans. The total expense relating to these plans in the current financial year was £ 176,329 (2020 £156,531).

| ***Average number of people employed*** | **2021** | **2020** |
|---|---|---|
| Average number of people (including executive Directors) employed: | | |
| - Underwriting, Operations and Support | **43** | 36 |

## 10. Income tax credit

| | 2021<br>£ | 2020<br>£ |
|---|---|---|
| **Current tax:** | | |
| Current tax on profit for the year | - | - |
| Adjustments in respect of prior years | - | - |
| **Total current tax** | - | - |
| **Deferred tax** (Note 12): | | |
| Origination and reversal of temporary differences | 17,759 | 88,375 |
| Effect of tax rate change in opening balance | 27,908 | - |
| **Total deferred tax** | **45,677** | 88,375 |
| **Income tax credit** | **£ 45,677** | £ 88,375 |

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:

| | 2021<br>£ | 2020<br>£ |
|---|---|---|
| Operating loss before tax | (262,093) | (732,925) |
| Tax calculated at standard rate of corporation tax in the UK for the year of 19% (2020: 19%) | (49,798) | (139,256) |
| Tax effects of: | | |
| - Expenses not deductible for tax purposes | 37,053 | 52,377 |
| - Remeasurement of deferred tax for changes in tax rates | (32,170) | - |
| - Other permanent differences | (752) | (1,496) |
| **Income tax credit** | £ (45,667) | £ (88,375) |

***Factors affecting future tax changes***

On 3 March 2021, the UK government announced that it intended to increase the main rate of corporation tax to 25% for financial years beginning on or after 1 April 2023. This rate was enacted on 10 June 2021.

## 11. Intangible assets

| | Computer software £ |
|---|---|
| **Cost or valuation** | |
| At 1 January 2021 | 1,455,000 |
| Additions | 41,730 |
| **At 31 December 2021** | 1,496,730 |
| **Amortisation and impairment** | |
| At 1 January 2021 | (384,875) |
| Amortisation charge for the year | (341,000) |
| **At 31 December 2021** | (725,875) |
| **Net book value** | |
| At 1 January 2021 | £ 770,855 |
| **At 31 December 2021** | **£ 1,070,125** |

Additions during the year represent the price charged by the Azur Group's technology services company, Aztech Advantage Limited, for the continued digitalisation of the Company's legacy policy administration platform.

## 12. Deferred tax

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

| | **2021** | **2020** |
|---|---|---|
| Deferred tax asset to be recovered after more than 12 months | **£ 134,042** | £ 88,375 |

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

| | **2021 £** | **2020 £** |
|---|---|---|
| At 1 January 2021 | 88,375 | - |
| Income statement credit (Note 10) | 45,677 | 88,375 |
| **At 31 December 2021** | **£ 134,042** | £ 88,375 |

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.

## 13. Borrowings

| | 2021 | 2020 |
|---|---|---|
| **Non-current** | | |
| Parent company loan (Note 22) | **£ 750,000** | £ 750,000 |

## 14. Trade and other receivables

| | 2021<br>£ | 2020<br>£ |
|---|---|---|
| Trade debtors | 1,016,364 | 936,878 |
| Prepayments and accrued income | 429,995 | 216,380 |
| Other debtors | 529,969 | 1,063 |
| | **£ 1,976,328** | £ 1,154,321 |

## 15. Cash and cash equivalents

| | 2021 | 2020 |
|---|---|---|
| Cash at bank and in hand | **£ 590,087** | £ 983,493 |

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

| | 2021 | 2020 |
|---|---|---|
| Cash and cash equivalents | **£ 590,087** | £ 983,493 |

## 16. Share capital

| | Number of shares | Ordinary shares<br>£ |
|---|---|---|
| At 1 January 2021 | 125,000 | 125,000 |
| **At 31 December 2021** | **125,000** | **£ 125,000** |

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.

## 17. Other reserves

| | Shares to be issued<br>£ |
|---|---|
| At 1 January 2021 | 896,709 |
| Capital contribution in respect of share options granted in the Parent Company (Note 22) | 175,676 |
| **At 31 December 2021** | **£ 1,072,385** |

## 18. Retained earnings

| | 2020 £ |
|---|---|
| At 1 January 2021 | 187,470 |
| Loss for the year | (216,426) |
| **At 31 December 2021** | **£ (28,956)** |

## 19. Trade and other payables

| | 2021 £ | 2020 £ |
|---|---|---|
| Trade payables | 322,347 | 222,221 |
| Contract liabilities | 762,249 | 762,249 |
| Amounts due to related parties (Note 22) | - | 71,996 |
| Accrued expenses | 310,351 | 149,169 |
| Deferred Income | 30,000 | 30,000 |
| VAT and sales tax | 9,245 | 1,500 |
| | **£ 1,434,192** | £ 1,237,135 |

Contract liabilities represent profit commissions received from insurers that are potentially repayable as it is no longer highly probable that the cumulative amount of profit commissions recognised will not be subject to significant reversal at some point in the future.

The movement in contract liabilities during the year is as follows:

| | Profit commissions £ |
|---|---|
| At 1 January 2021 | 762,249 |
| Revenue reversed | - |
| **31 December 2021** | **£ 762,249** |

In light of underwriting losses experienced, cumulative profit commissions previously recognised in the amount of £ 762,249 have been reversed.

## 20. Provisions for other liabilities and charges

| | 2020 £ |
|---|---|
| Post placement claims handling services: | |
| At 1 January 2021 | 100,000 |
| Arising during the year | 18,691 |
| **At 31 December 2021** | **£ 118,691** |

## 21. Ultimate Parent Company

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

## 22. 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 28 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. American International Group UK Ltd is a subsidiary 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 £6,280,954 (2020: £5,864,688) of commissions on related party transactions of which £ 992,912 (2020 £923,609) was outstanding at the year end.

The Company also provided claims handling, insurance accounting & settlement and business introduction services to American International Group UK Ltd during the year for which it earned £45,000 (2020: £45,000) none of which amount was outstanding at the reporting date (2020: £nil).

***Transactions with related parties***

£41,750 (2020: £651,000) was paid in the year to the affiliated company Aztech Advantage Limited for the development and enhancement of a digital broker hub, underwriting and policy administration platform.

During the period the Company was charged £711,211 (2020: £675,514) for the provision of accounting, HR, IT infrastructure and corporate governance services by the affiliated company, Azuru Services Limited. Effective 1 June 2021 the business of Azuru Services Limited was transferred to Azur Group Limited and thereafter these backoffice services have been provided and charged by the parent company. The Company was also charged £470,905 (2020: £488,587) by the affiliated company, Aztech Advantage Limited, during the period for provision of technology development support, technology licenses and data analysis services.

As at 31 December 2021 nothing (2020: £71,996) was outstanding in respect of these intercompany recharges.

## 22. Related parties (Continued)

***Loan provided by parent company***

On 16 December 2020 Azur Insurance Holdings Limited extended an unsecured non-amortising Sterling 5-year term loan facility for a total principal amount not exceeding £3,000,000. Amounts drawn down are repayable on or before 15 December 2025 and accrue interest at 3.5% p.a. This loan was novated on 1 October 2021 as part of the transfer of the assets and business of Azur Insurance Holdings Limited to its parent company, Azur Group Limited.

As at 31 December 2021 £750,000 (2020: £750,000) remained outstanding to the parent company together with £6,616 (2020: £1,007) of accrued interest. Accrued interest of £20,712 (2020: £nil), covering the period from drawdown on 16 December 2020 to 30 September 2021 was cash settled to Azur Insurance Holdings Limited on 30 September 2021.

***Short-term loans provided to parent company***

Consistent with recognised group treasury management practices, the Company lends uninvested surplus liquidity on a short-term, unsecured basis, to the parent company, Azur Group Limited, for lending to other group undertakings.

As at 31 December 2021, (£518,970 (2020: £nil) was outstanding.

## 23. 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 Ultimate Parent Company, Azur Group 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.

Of the 285,292 options outstanding, 209,756 (2020: 163,992) were exercisable at the reporting date. Further detail regarding the Azur Group EMI Option Plan and outstanding awards can be found in the annual financial statement of Azur Group Limited which are available from the company's registered address.

| | **2021** | **2020** |
|---|---|---|
| Total share-based payment expense recognised | **£ 175,676** | £ 263,767 |

## 24. Events after the reporting period

On 2 August 2022, Azur Underwriting Limited signed an Asset Purchase Agreement (the 'agreement') with Azur Underwriting Ireland Limited, Aviva Insurance Limited and Aviva Insurance Ireland DAC for the sale of its UK and Irish insurance business, inclusive of the policyholder renewal rights, goodwill, intellectual property rights and IT systems.

The transfer of the UK insurance business will constitute a Transfer of Going Concern ('TOGC') for VAT purposes and will also constitute a relevant transfer for the purposes of the Transfer of Undertakings (Protection of Employment) Regulations 2006 (as amended) (TUPE) and the European Communities (Protection of Employees on Transfer of Undertakings) Regulations 2003 and the Company will therefore need to comply with its obligations under TUPE.

**24. Events after the reporting period (continued)**

It is anticipated that certain members of staff will TUPE transfer across to Aviva on 31 December and concurrently be seconded back to Azur Underwriting Limited until 28 February 2023 when a Run-Off period will commence. Between exchange and completion the Company will be subject to certain per-completion undertakings.

As per the agreement completion will take place on the 31 March 2023 at which time Azur Underwriting Limited will receive proceeds relating to the transaction. On 27 October 2021, American International Group UK Limited provided notice to Azur Underwriting Limited that it wished to terminate its MGA Agreement with the Company on 27 October 2022.

Following subsequent agreement, American International Group UK Limited provided further notice that the MGA Agreement will now terminate on 28 February 2023 provided that with effect from 27 October 2022, the Company will cease underwriting both Niche Home and Underwriting Home products.

As per the MGA Agreement, American International Group UK Limited is required to conduct an orderly wind down of the UK insurance business following termination of the MGA Agreement on 28 February. The Company agreed with American International Group UK Limited that from 1 March 2023 it will assist with the orderly wind down of its UK insurance business over the Run-Off period.

Certain Employees will be seconded back to the Company from Aviva Insurance Limited following the TUPE transfer during the Run-Off Period.