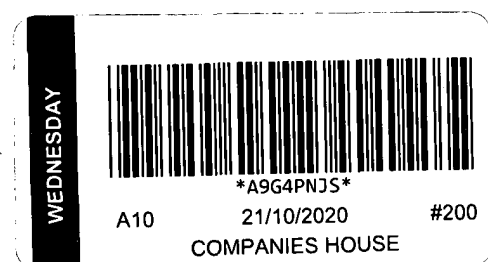


# Somerset Bridge Limited

## Directors' Report and Financial Statements

For the year ended 31 December 2019

Company Registration No. 10427946



**Somerset Bridge Limited**  
**Report and financial statements**  
For the period ended 31 December 2019

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**Company information**

Company registration number: 10427946

Registered office: Lysander House  
Catbrain Lane  
Cribbs Causeway  
Bristol  
BS10 7TQ

Directors: E Bilney  
A Marshall  
C J Gillighan  
T McGiffen  
M F Robinson (appointed 14 January 2020)

Auditors: BDO LLP  
Registered Auditors and Chartered Accountants  
55 Baker Street  
London  
W1U 7EU

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

Somerset Bridge Limited ("the Company") is a limited company incorporated in England and Wales on 14 October 2016 (registered number 10427946) and is a member of the Somerset Bridge Group Limited group.

The Company is a part of the UK registered insurance services group, Somerset Bridge Group Limited ("SBG") together with sister companies Somerset Bridge Insurance Services Ltd ("SBISL") providing brokerage services under the Go Skippy, Vavista and Debenhams trading styles and Somerset Bridge Shared Services Ltd (SBSS) providing group wide support functions. Together these Companies are referred to the Somerset Bridge Group ("SBG" or "the Group").

#### **Principal activity**

The Company's principal activity is that of a managing general agent for the provision of insurance, mainly motor insurance, on behalf of a panel of insurers and reinsurers together with a claims handling business on behalf of those same insurers. The claims handling business was transferred to the Company from sister company, SBISL, in December 2019 to better align the operations with the SBG group strategy, placing underwriting and claims handling together given the direct links between the Company and the insurance panel.

The Group's mission is to build a sustainable and innovative business that offers transparent insurance products and an efficient and fair service to policy holders. The Group places customers at the core of everything it does and is focused on continuous improvement; we are committed to developing products and services that best meet policyholder needs at affordable prices. The Group provides an exceptional customer experience by optimising technology and customer interaction, recognising the need to provide flexible and quick customer contact solutions in today's fast pace environment.

#### **Business review**

The loss for the period after taxation was £14,258,000 (2018: loss of £8,823,000). No dividends have been paid for the period (2018: nil).

The loss includes a provision against movements in ultimate loss ratio against each underwriting year and the impact of those movements on sliding scale commissions income from the insurance panel. The loss ratios are based on external actuarial reviews as at the balance sheet date and are revised annually. The Directors are of the view that the provisions will be partially released as each underwriting year develops and the loss ratios become more certain; in particular the effect of Covid 19 on accident numbers is expected to have a substantial positive impact on the 2019 underwriting year loss ratio leading to significant releases on that year which will be reflected in the 2020 financial statements.

#### **Future outlook**

The directors intend for the Company to continue its current operations and build on its foundations by expanding underwriting capacity provided by its panel of highly rated insurers and reinsurers producing favourable loss ratios and increasing profit margin. The Company's objective is to maintain controlled and profitable growth supported by actuarial-led pricing and customer selection techniques, using cutting edge technology with a strong focus on keeping our operating costs low, to support consistently attractive prices for our customers. Pricing changes have been implemented in 2020 which provide positive indications for the 2020 loss ratio projection and the associated sliding scale commission. Furthermore, the effect of Covid 19 on accident numbers has extended to both the 2019 and 2020 underwriting years and is expected to have a substantial positive impact on commissions income leading to a reduction in provisions for movements in sliding scale commissions in the 2020 financial statements. The anticipated claims reforms in 2021 are expected to benefit loss ratios further in 2021. In addition, capacity has increased with projected GWP for 2020 at £250m compared to £216m in 2019 and £150m in 2018. From 1st July 2020 the Company has expanded its capacity to cover a number of external brokers, expanding its distribution channels from Group broking brands only (Go Skippy, Debenhams, Vavista) to a further 15 broking brands across the UK, as well as expanding the lines of business written to include short term car and van, courier car and van, and private hire car offerings.

Furthermore, the Company intends to focus on its market leading claims handling division and to develop and improve the efficiency of its processes, including on-going strategic improvements to its claims processing systems.

Together with the relatively fixed operating cost base, the increase in capacity and improved loss ratios are expected to improve profitability in 2020 and beyond. Therefore, as the business grows and expands its capacity, it is fully anticipated that the Company will begin to generate profits and move into a net assets position.

#### **Future outlook (continued)**

The Company continues to closely monitor the impacts and uncertainties arising out of the Covid-19 pandemic. The Company remains focused on its mission and objectives, targeting profitable and sustainable controlled growth and the business remains robust despite the current challenges. Since March 2020, the Company, together with its insurers and its sister company, has retained a focus on supporting customers and protecting staff, whilst maintaining efficient processes during a Disaster Recovery scenario. Together with its partners, the Company recognises that customers individual circumstances have changed, so is offering greater flexibility to provide additional value during this period. In terms of staff, the Company quickly moved to home working where at all possible, including front line colleagues, guaranteeing colleagues their usual pay whilst working from home or on furlough. This ensured that service levels remained in place to handle claims and meet claimant needs throughout the UK lockdown.

Following the implementation of the Covid-19 restrictions, Motor trading has seen fewer new business customers in the market following a slow down in car transactions, although the Company has not been significantly impacted by this to date. Retention has remained strong. Covid-19 restrictions have led to a reduction in claims notifications, with average severity expected to increase as average repair durations lengthen and credit hire costs increase. The Company will continue to track these trends closely as the UK starts to exit from the most severe lockdown restrictions. Overall, the Company does not anticipate a sustained negative financial impact on its ability to meet its objectives, although this continues to be monitored closely. It is anticipated that loss ratios for 2020 will improve as a result of the reduction in claims notifications during lockdown, which will in turn improve commissions earned from reinsurance partners on the 2020 and 2019 underwriting years.

#### **Directors**

The directors who served during the period and to the date of signing the accounts were:

E Bilney  
A Marshall  
C J Gillighan  
T McGiffen  
M F Robinson (appointed 14 January 2020)

The directors have taken advantage of the small companies' exemption as defined under the Companies Act 2006 from the requirement to prepare a Strategic report.

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

The Company uses financial instruments such as cash, loans, debtors and creditors in order to raise finance for the Company's operations. The existence of these instruments exposes the Company to financial risks which are detailed below.

##### ***Liquidity / cash flow risk***

The Company seeks to manage financial risk by ensuring sufficient liquidity is available to meet its foreseeable needs and to invest cash assets safely and profitably. The Company monitors cash flow using sophisticated forecasting techniques to ensure that all liabilities are met when due.

##### ***Interest risk***

The Company monitors its banking facilities and compliance with related covenants as required. Company monies are also monitored to minimise interest charges on overdrafts and to ensure cash balances are used to offset overdrafts.

##### ***Credit risk***

The principal credit risk for the Company arises from its trade debtors. In order to manage credit risk the directors have incorporated a range of credit control procedures to monitor debt levels and to ensure that any debts are collected as soon as reasonably possible.

#### Directors' indemnities

Directors' and officers' insurance cover has been established for all Directors to provide appropriate cover for their reasonable actions on behalf of the Company. This constitutes a qualifying third-party indemnity provision as defined by section 234 of the Companies Act 2006, were in force during the 2019 financial year and remain in force for all current and past Directors of the Company.

#### Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 financial statements may differ from legislation in other jurisdictions.

This report was approved by the Board and signed on its behalf by:



A Marshall  
Director

Date: 30/09/2020

## **Opinion**

We have audited the financial statements of Somerset Bridge Limited ("the Company") for the year ended 31 December 2019 which comprise Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and the 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 United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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**

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 Directors are responsible for the other information. The other information comprises the information included in the Directors Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in 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 Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

#### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and 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; or
- the Directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

#### **Responsibilities of Directors**

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

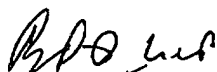
<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**Somerset Bridge Limited**  
**Independent Auditor's report to the member of Somerset Bridge Ltd**  
For the year ended 31 December 2019

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**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.



**David Roberts (Senior Statutory Auditor)**  
For and on behalf of BDO LLP, Statutory Auditor  
London, United Kingdom  
Date **1 October 2020**

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

**Somerset Bridge Limited**  
**Statement of comprehensive income**  
For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Turnover	2	4,525	5,421
<b>Gross profit</b>		<b>4,525</b>	<b>5,421</b>
Administrative expenses		(18,822)	(14,166)
<b>Operating loss</b>	3	<b>(14,297)</b>	<b>(8,745)</b>
Interest payable		39	(78)
<b>Loss on ordinary activities before tax</b>		<b>(14,258)</b>	<b>(8,823)</b>
Tax on loss on ordinary activities	6	-	-
<b>Loss for the financial period, being total comprehensive income</b>		<b>(14,258)</b>	<b>(8,823)</b>

The notes on pages 11 to 16 are an integral part of these financial statements.

**Somerset Bridge Limited**  
**Statement of financial position**  
As at 31 December 2019

		2019		2018	
	Note	£'000	£'000	£'000	£'000
<b>Current assets</b>					
Debtors	7	55,823		31,466	
Cash at bank		13,018		7,485	
		<u>68,841</u>		<u>38,951</u>	
<b>Creditors</b>					
Amounts falling due within one year	8	(52,526)		(26,738)	
Variable Commission Provision		(39,089)		(21,131)	
		<u>(91,615)</u>		<u>(47,869)</u>	
<b>Net current assets</b>			(22,774)		(8,918)
<b>Total assets less net current (liabilities)/assets</b>			(22,774)		(8,918)
<b>Creditors:</b>					
Amounts falling due after one year	9		(402)		-
			<u>(402)</u>		<u>-</u>
<b>Net liabilities</b>			(23,176)		(8,918)
<b>Capital and reserves</b>					
Share capital	10		-		-
Profit and loss account			(23,176)		(8,918)
			<u>(23,176)</u>		<u>(8,918)</u>
<b>Shareholders' deficit</b>			(23,176)		(8,918)

The notes on pages 11 to 16 are an integral part of these financial statements.

The financial statements were approved by the board of directors and were signed on its behalf by:



**A Marshall**  
Director  
Date: 30/09/2020

Company registration number: 10427946

**Somerset Bridge Limited**  
**Statement of changes in equity**  
For the year ended 31 December 2019

	Share capital £'000	Profit & loss account £'000	Total equity £'000
<b>At 1st January 2019</b>	-	(8,918)	(8,918)
<b>Comprehensive income for the year</b>			
Loss for the year	-	(14,258)	(14,258)
<b>Total comprehensive income</b>	-	(14,258)	(14,258)
<b>As at 31 December 2019</b>	-	(23,176)	(23,176)
	Share capital £'000	Profit & loss account £'000	Total equity £'000
<b>At 1st January 2018</b>	-	(95)	(95)
<b>Comprehensive income for the year</b>			
Loss for the year	-	(8,823)	(8,823)
<b>Total comprehensive income</b>	-	(8,823)	(8,823)
<b>As at 31 December 2018</b>	-	(8,918)	(8,918)

The notes on pages 11 to 16 are an integral part of these financial statements.

**Somerset Bridge Limited**  
**Statement of cash flows**  
For the year ended 31 December 2019

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Cash flow from operating activities</b>		
Profit before tax	<b>(14,258)</b>	<b>(8,823)</b>
<b>Adjustments for:</b>		
Interest paid	<b>39</b>	<b>(78)</b>
Decrease/(increase) in debtors	<b>(24,357)</b>	<b>(25,311)</b>
Increase/(decrease) in creditors	<b>26,190</b>	<b>18,779</b>
Increase/(decrease) in Provision	<b>17,958</b>	<b>21,131</b>
Tax paid	<b>-</b>	<b>-</b>
<b>Cash generated from / (used in) operating activities</b>	<b>5,572</b>	<b>5,698</b>
<b>Cash flows from financing activities</b>		
Interest paid	<b>(39)</b>	<b>78</b>
<b>Net cash used in financing activities</b>	<b>(39)</b>	<b>78</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>5,533</b>	<b>5,776</b>
Cash and cash equivalents at the beginning of the year	<b>7,485</b>	<b>1,709</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>13,018</b>	<b>7,485</b>

The notes on pages 11 to 16 are an integral part of these financial statements.

## **1. Accounting policies**

### **1.1 General information**

Somerset Bridge Limited ("the Company") is a limited company incorporated in England and Wales under the Companies Act. The Company Registration no. is 10427946 and the address of the registered office is Lysander House Catbrain Lane, Cribbs Causeway, Bristol, BS10 7TQ.

### **1.2 Basis of preparation**

The financial statements have been prepared under the historical cost convention and in accordance with Section 1A of the Financial Reporting Standard 102 ("FRS 102 1A"), the Financial Reporting Standard applicable to smaller entities in the United Kingdom and the Republic of Ireland, and the Companies Act 2006.

### **1.3 Going concern basis**

The Company reports a net liabilities position at the end of the reporting period of £23m (2018: £9m), which reflects both the initial set up costs associated with launching the business in 2017 together with the impact of provisions against commissions income from reinsurers, which will develop and adjust as each underwriting year develops. The commission income is received based on an initial target and adjusted at agreed milestones, the earliest being 15 months from the end of each underwriting period and the latest being at the expiration of an underwriting agreement. The net commission provision stands at £25m at the end of 2019 (2018: £10m) based on external best estimates of loss ratio development for the 2017 to 2019 underwriting years. The loss ratio estimates do not take into account the improved internal loss ratio projections for 2019 as a result of the reduction in accidents for the 2019 underwriting year, which is expected to yield a substantial release in the 2020 financial statements. The reduction in accidents is the result of fewer cars on the roads due to the Covid-19 pandemic in 2020. The Company does not expect a sustained negative financial impact from the pandemic (see Note 13).

As the business grows and expands its panel, it is fully anticipated that the Company will begin to generate profits and move into a net assets position. Pricing changes have been implemented in 2020 which provide positive indications for the 2020 loss ratio projection and the associated sliding scale commission. Furthermore, capacity has increased with projected GWP for 2020 at £250m compared to £216m in 2019 and £150m in 2018. Together with the relatively fixed operating cost base, the increase in capacity and improved loss ratios are expected to improve profitability in 2020 and beyond. Therefore, as the business grows and expands its capacity, it is fully anticipated that the Company will begin to generate profits and move into a net assets position.

Furthermore, the transfer of the claims operation into the Company in December 2019 is expected to produce additional profits for 2020 and beyond.

Finally, the Company is part of the Somerset Bridge Group Limited group of companies, providing a full direct insurance suite of products and services and is fully supported by its immediate and ultimate parent company. Somerset Bridge Group Limited has net assets of £85m as at 31st December 2019 and has committed to the full financial backing of the Company whilst it moves into a net asset position.

Therefore the directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future. Accordingly, the going concern basis is used in preparing the financial statements.

### **1.4 Critical accounting estimates and judgements in applying accounting policies**

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies; the directors consider the critical accounting estimate associated with variable commission income to have a significant level of uncertainty, as described below.

#### Variable commission provision

The commission income earned is based on a variable commission rate determined by reference to the loss ratio for the underwriting period agreed between the Company and the insurer. Prior to final calculation of the loss ratio, management uses techniques to evaluate the best estimate at the year end.

Estimation techniques are used in the calculation of the loss ratio, which represents a projection of the ultimate cost of settling claims that have occurred prior to the balance sheet date and remain unsettled at the balance sheet date. These estimations are revised periodically as underwriting years develop.

In addition to the above, management is required to exercise judgement in the recognition of its income related to claims handling income. The recognition of commission received for the handling of claims is deferred over the amount of time that the claims are expected to settle. The deferral period is an estimate of the length of future claims settlement process based on historical experience.

### **1.5 Income recognition**

Turnover arises in the UK and comprises commission income and underwriting fee income. Commission income is included based on agreed initial commission rates less a provision for changes in commission rate, based on management's best estimate at the reporting date and corroborated against external actuarial review. Income is recognised by the Company in respect of services supplied, exclusive of value added tax, insurance premium tax and trade discounts. Recognition of commission received for the handling of claims is deferred over the amount of time that the claims are expected to settle. The deferral period is based on estimated length of the claims settlement process based on historical experience.

### **1.6 Taxation, including deferred income taxes**

Current tax which is payable or receivable on taxable profits or losses is recognised as an expense or credit in the period in which the profits or losses arise. The current income tax charge is calculated on the basis of the tax rates enacted or substantially enacted at the reporting date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised.

Deferred tax income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

### **1.7 Financial instruments**

The Company enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities.

Financial assets are initially recognised at transaction price, unless the arrangement constitutes a financing transaction; therefore the transaction is measured at the present value of the future receipts discounted at market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period, financial assets that are measured at cost and amortised cost are assessed for objective evidence of impairment. If evidence is found, an impairment loss is recognised in the income statement.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount the Company would receive for the asset if it were to be sold at the reporting date.

#### Financial instruments (continued)

Financial liabilities are initially recognised at transaction price, unless the arrangement constitutes a financing transaction; therefore the liability is measured at the present value of the future payments discounted at a market rate of interest.

Financial liabilities are derecognised when the contractual obligation is discharged, cancelled or expires.

In certain cases, financial asset and liabilities are offset and the net amount reported in the Statement of financial position where there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### 1.8 Equity

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable net of the direct cost of issuing the equity instrument. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

#### 2. Turnover

All income arises in the UK from motor insurance managing general agent activities and claims handling income.

	2019 £'000	2018 £'000
Insurance MGA income	3,896	5,421
Claims related income	629	-
	<u>4,525</u>	<u>5,421</u>

#### 3. Operating loss

Operating loss is stated after charging:

	2019 £'000	2018 £'000
Fees paid to auditors	<u>23</u>	<u>20</u>

#### 4. Staff costs

	2019 £'000	2018 £'000
Wages and salaries	3,799	1,168
Social security costs	416	50
Other pension costs	8	6
	<u>4,223</u>	<u>1,224</u>

The Company has an average number of 26 employees in 2019 (2018: nil). Until December 2019 the company had nil employees and the salaries were paid by a related party, the payroll costs being recharged to the Company. In December 2019 a number of 309 employees were transferred to the Company from Somerset Bridge Insurance Services Limites, a sister company.

#### 5. Directors' emoluments

	2019 £'000	2018 £'000
Directors' emoluments	<u>207</u>	<u>124</u>

## 6. Taxation

There is no tax charge for the year (2018: nil). The Company has tax losses available for the offset against future taxable profits. The tax losses are not recognised as deferred tax asset.

	2019 £'000	2018 £'000
<b>Factors affecting the tax charge for the period:</b>		
Profit before tax	(14,258)	(8,823)
Profit before tax multiplied by the UK corporation tax rate of 19%	(2,709)	(1,676)
Effects of:		
- Expenses not deductible for tax purposes	7	-
- Group relief surrendered/(claimed)	229	-
- Adjust opening deferred tax to average rate of 19.00%	(178)	(2)
- Adjust closing deferred tax to average rate of 19.00%	-	178
- Adjustments in respect of previous periods	-	(16)
- Deferred tax not recognised	2,651	1,516
	<u>0</u>	<u>0</u>

## 7. Debtors

	2019 £'000	2018 £'000
Trade debtors	17,109	10,571
Amounts owed by related parties	36,699	20,696
Prepayments and accrued income	765	199
Other debtors	1,250	-
	<u>55,823</u>	<u>31,466</u>

Amounts owed by related parties are unsecured, interest free and repayable on demand, except for a loan of £2.4m to Somerset Bridge Group Limited which is unsecured, repayable no later than 2038, on which interest is charged at 3% per annum.

## 8. Creditors: Amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	48,686	26,294
Amounts owed to related parties	-	154
Accruals and deferred income	3,840	290
	<u>52,526</u>	<u>26,738</u>

Amounts owed to related parties are unsecured, interest free and repayable on demand.

Trade creditors includes amounts due to insurers including amounts held on behalf of reinsurers with funds withheld arrangements where the Company holds premium on behalf of the reinsurer and pays claims out of those funds.

**Creditors: Amounts falling due within one year (continued)**

In addition, a separate provision has been made for movements in sliding scale commission income based on loss ratio projections at the year end date net of amounts held in escrow by the lead insurers. This is included as a separate line on the balance sheet at £39.1m at 31st December 2019 (2018: £21.1m). Sliding scale commissions are received based on an initial loss ratio target and recalculated based on final loss ratios once the underwriting year has fully developed. As laid out in note 13, it is expected that the final loss ratio for 2019 will show an improved position compared to the estimates as at the year end, which will reduce the level of provision required for the 2019 year end.

**9. Creditors: Amounts falling due after one year**

	2019 £'000	2019 £'000
Accruals and deferred income	402	-

**10. Share capital**

	2019 £'000	2018 £'000
Allotted, called up and unpaid 100 ordinary share of £1 each	-	-

**11. Financial instruments**

	2019 £'000	2018 £'000
<b>Financial assets</b>		
Financial assets measured at amortised cost	47,681	38,944
<b>Financial liabilities</b>		
Liabilities measured at amortised cost	38,955	26,448

**12. Related party transactions**

	2019 Income £'000	2019 Expense £'000	2018 Income £'000	2018 Expense £'000
<b>Transactions with Group undertakings</b>				
Somerset Bridge Insurance Services Ltd	-	(7,371)	-	(6,715)
Rock Services Limited	17,846	-	12,958	(5,150)
	17,846	(7,371)	12,958	(11,865)
<b>Transactions with companies sharing key management</b>				
Southern Rock Insurance Company Limited	-	(48,535)	-	(1,905)
	-	(48,535)	-	(1,905)

**Related party (continued)**

	2019 Receivable £'000	2019 Payable £'000	2019 Net £'000	2018 Net £'000
<b>Year end balances arising with Group undertakings</b>				
Somerset Bridge Shared Services Ltd	23,568	-	23,568	-
Somerset Bridge Group Ltd	2,378	-	2,378	-
Somerset Bridge Insurance Services Ltd	10,754	-	10,754	-
Rock Services Limited	-	-	-	11,216
	<u>36,700</u>	<u>-</u>	<u>36,700</u>	<u>11,216</u>
<b>Year end balances arising with companies sharing key management</b>				
Southern Rock Insurance Company Limited	-	-	-	(154)
Somerset Bridge Bermuda Limited	-	-	-	(25)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(179)</u>

**13. Post balance sheet events**

The Company continues to closely monitor the impacts and uncertainties arising out of the Covid-19 pandemic. The Company remains focused on its mission and objectives, targeting profitable and sustainable controlled growth and the business remains robust despite the current challenges. Since March 2020, the Company, together with its insurers and its sister company, has retained a focus on supporting customers and protecting staff, whilst maintaining efficient processes during a Disaster Recovery scenario. Together with its partners, the Company recognises that customers individual circumstances have changed so is offering greater flexibility to provide additional value during this period. In terms of staff, the Company quickly moved to home working where at all possible, including front line colleagues, guaranteeing colleagues their usual pay whilst working from home or on furlough. This ensured that service levels remained in place to handle claims and meet claimant needs throughout the UK lockdown.

Following the implementation of the Covid-19 restrictions, Motor trading has seen fewer new business customers in the market following a slow-down in car transactions, although the Company has not been significantly impacted by this to date. Retention has remained strong. Covid-19 restrictions have led to a reduction in claims notifications, with average severity expected to increase as average repair durations lengthen and credit hire costs increase. The Company will continue to track these trends closely as the UK starts to exit from the most severe lockdown restrictions.

Overall, the Company does not anticipate a sustained negative financial impact on its ability to meet its objectives, although this continues to be monitored closely. It is anticipated that loss ratios for 2020 will improve as a result of the reduction in claims notifications during lockdown, which will in turn improve commissions earned from reinsurance partners on the 2020 and 2019 underwriting years.

**14. Ultimate parent undertaking and controlling party**

The immediate and ultimate parent undertaking is Somerset Bridge Group Limited. The registered address of Somerset Bridge Group Limited is Lysander House Catbrain Lane, Cribbs Causeway, Bristol, BS10 7TQ and the company number is 11737836.

The ultimate controlling party of Somerset Bridge Group Limited is A Banks by virtue of his majority shareholding.