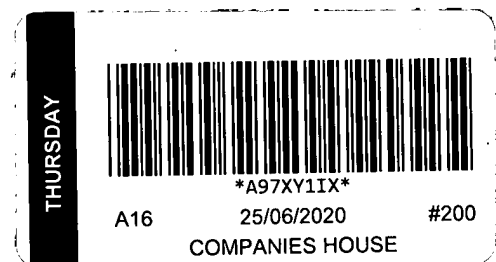


**THE
ARDONAGH
GROUP**

ARDONAGH MIDCO 3 plc

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**



DISCLAIMER

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Midco cautions that this document may contain forward looking statements in relation to certain of Ardonagh's business, plans and current goals and expectations, including, but not limited to, its future financial condition, performance and results. These forward-looking statements can be identified by the use of forward looking terminology, including the words "aims", "believes", "estimates", "anticipates", "expects", "intends", "may", "will", "plans", "predicts", "assumes", "shall", "continue" or "should" or, in each case, their negative or other variations or comparable terminology or by discussions of strategies, plans, objectives, targets, goals, future events or intentions. By their very nature, all forward looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Ardonagh's control, including but not limited to insurance pricing, interest and exchange rates, inflation, competition and market structure, acquisitions and disposals, and regulation, tax and other legislative changes in those jurisdictions in which Ardonagh, its subsidiaries and affiliates operate. As a result, Ardonagh's actual future financial condition, performance and results of operations may differ materially from the plans, goals and expectations set out in any forward-looking statement made by Ardonagh. All subsequent written or oral forward-looking statements attributable to Ardonagh or to persons acting on its behalf should be interpreted as being qualified by the cautionary statements included herein. As a result, undue reliance on these forward-looking statements should not be placed.

Other than the information contained in Section 2 (Audited Consolidated Financial Statements), the information and opinions contained in this document have not been audited or necessarily prepared in accordance with international financial reporting standards and are subject to change without notice. The financial results in other sections of this document include certain financial measures and ratios, including EBITDA, Adjusted EBITDA, Adjusted EBITDA Pro Forma for Completed Transactions and certain other related measures that are not presented in accordance with IFRS and are unaudited. These measures may not be comparable to those of other companies. Reference to these non-IFRS financial measures should be considered in addition to IFRS financial measures but should not be considered a substitute for results that are presented in accordance with IFRS.

The information contained in this document, including but not limited to any forward-looking statements, is provided as of the date hereof and is not intended to give any assurance as to future results. No person is under the obligation to update, complete, revise or keep current the information contained in this document, whether as a result of new information, future events or results or otherwise. The information contained in this document may be subject to change without notice and will not be relied on for any purpose.

Certain data contained in these financial results, including financial information, may be subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables may not conform exactly to the total figure given for that column or row.

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BACKGROUND

We are the leading independent insurance distribution platform, connecting clients and premium to global capital. We work with insurers to design, price and administer insurance-related products and services that meet a wide variety of market demands, without assuming any underwriting or principal risk in relation to any of the services or products that we provide.

We offer a highly diversified range of insurance-related products and services across the full insurance value chain to customers ranging from complex multinational corporations, to individuals purchasing personal insurance policies to meet specialist needs.

The Ardonagh Group was created on 22 June 2017 by assembling our highly experienced senior management team and through bringing together five market leading insurance service providers: Autonet, Chase Templeton, Direct Group, Price Forbes and Towergate, each of which occupy leading positions in their respective markets. Since our creation in 2017, we have built a highly diversified, scalable platform through a combination of both a sustained focus on driving organic growth and a highly selective and disciplined acquisition programme. We have built three industry-leading platforms, with best-in-class capabilities, IT and operating systems. The Advisory platform is an established SME broking and advisory platform, driving growth through trusted relationships to meet client needs. Our Multi-brand personal lines digital platform is driving growth through leveraging advanced consumer data and pricing analytics. Our Specialty platform has Global distribution and leverages our heritage Price Forbes brand and expertise at Lloyd's, combined with leading specialist MGAs.

Our strong portfolio of over 50 leading and niche insurance brands underpins our organic growth plans. The UK general insurance market is worth circa £90 billion¹ and has grown at an average of circa 2% per year for the last 10 years.

We have invested over the last three years to restructure and integrate acquired businesses, and to build scalable, efficient market-leading capabilities and platforms, leveraging the disposal of non-core assets to further invest in the business.

We leverage our scale, client base, decades of industry knowledge, well-invested front and back-office digital and operating platforms, and diverse routes to market, to take advantage of cost and revenue synergy opportunities across the Group and to capitalise on opportunities to capture more earnings by providing customers with additional products and services at each stage of the insurance-distribution value chain. Furthermore, the development of our Portfolio Solutions team in 2019 has enabled us to utilise Ardonagh's data assets to drive cohesion and enhanced income through a centralised placement strategy.

Our highly experienced senior management team have on average over 25 years of experience and are supported by a deep bench of revenue-producing talent, specifically targeted for their entrepreneurial spirit and ability to drive sustainable growth. We have highly talented and committed staff across all of our support functions.

Our major shareholders are funds managed, advised or controlled by HPS Investment Partners, LLC (HPS) and Madison Dearborn Partners, LLC (MDP), who together hold a combined equity stake of more than 96% and have significant investment experience in the insurance broking and underwriting market.

HPS is a global investment firm with approximately \$61 billion of assets under management as of 1 February 2020. HPS was founded in 2007 and manages various strategies that invest across the capital structure, from syndicated leveraged loans and high yield bonds to privately negotiated senior secured debt and mezzanine investments, asset-based leasing and private equity. The scale and breadth of the HPS platform offers the flexibility to invest in companies both large and small, through standard or customised solutions. HPS is headquartered in New York with ten additional offices worldwide and has 145 investment professionals and over 370 employees globally as of 29 February 2020.

MDP, based in Chicago, is a leading private equity investment firm. Since MDP's formation in 1992, the firm has raised eight funds with aggregate capital commitments of over \$26 billion and has completed investments in over 140 companies. MDP has five dedicated teams that have long and successful track records of investing in their respective sectors: Basic Industries; Business & Government Software and Services; Financial & Transaction Services; Healthcare; and Telecom, Media & Technology. Funds managed by MDP are a lead investor in NFP Corp., The Amynta Group, a leading provider of warranty and specialty insurance solutions in North America, and Navacord Inc., a growing Canadian property & casualty and group benefits insurance broker.

¹ Association of British Insurers research, Gross Written Premiums written in 2018 of £90 billion.

STRUCTURE

Our business is organised into operating segments that focus on distinct but complementary aspects of the insurance brokerage and services value chain, and we group these segments into three platforms: Ardonagh Advisory, Ardonagh Retail and Ardonagh Specialty which are detailed below.

ARDONAGH ADVISORY

The Ardonagh Advisory distribution platform is a single operating segment comprised of four businesses: Towergate Insurance Brokers (TIB), Riskline, Health and Protection and Footman James, who collectively provide a broad array of broking products and risk management services to commercial clients and connected individuals from our network of local offices across the United Kingdom. As a trusted advisor we offer face-to-face, over the telephone or an online relationship to our clients to provide them with a tailored insurance broking service with a wide choice and access to specialist products and solutions designed to meet their individual needs across the full spectrum of commercial, corporate and personal classes.

TIB and Health and Protection are sold mainly through face to face relationships via the Towergate brand. Riskline is a centre of excellence selling to micro SME and SME clients over the telephone and online. Footman James is a well-respected brand within the classic car insurance sector selling direct to consumers and, as such, aligns to our broader high net worth proposition across Advisory as a whole. As a member of the Worldwide Broker Network, Ardonagh Advisory works with likeminded brokers around the world to deliver cross-border collaboration on behalf of its clients, giving us a global reach.

ARDONAGH RETAIL

The Ardonagh Retail distribution platform consists of three operating segments:

Retail includes three businesses: Autonet, a leading van insurance broker in the UK, distributing insurance products online through price comparison websites as well as directly through the Autonet website and call centres; Carole Nash, a leading motorcycle and classic car insurance broker in the UK and Ireland, and a specialist brand renowned for quality and service; and Swinton, one of the largest personal lines insurance brokers in the UK, with a well-recognised, heritage consumer brand.

Paymentshield is a leading provider and administrator of general insurance solutions distributed through independent financial advisors, mortgage networks and other intermediaries. It is focused on the supply of household related products, such as buildings and contents insurance, mortgage payment protection insurance, income protection and landlord insurance products.

Schemes & Programmes includes a broad range of specialist products including non-standard property, marine, caravan, military, travel and pet insurance, primarily selling direct to consumer.

ARDONAGH SPECIALTY

The Ardonagh Specialty distribution platform consists of two operating segments:

Specialty & International includes two businesses that are both Lloyd's of London brokers which together provide UK and international corporate clients with access to specialist sector insurance products covering a wide range of markets, including Energy, North American Property, Marine, Power, Aviation, Specie, Cargo, Mining and Terrorism: Price Forbes, a leading international wholesale insurance broker with a globally recognised brand that trades in major international insurance and reinsurance markets, including London, Bermuda and South Africa; and Bishopsgate, a primarily UK and North American binding authority wholesale broking business.

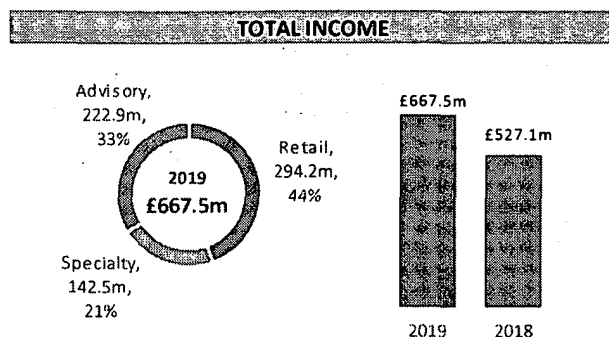
MGA primarily focuses on providing bespoke specialist insurance products and services for and on behalf of our strategic insurer partners. MGA is a full service managing general agency, with delegated underwriting authority from insurers while assuming no underwriting liability. MGA focuses on niche and specialty business, including agriculture, non-standard home and political violence, selling through brokers.

CORPORATE

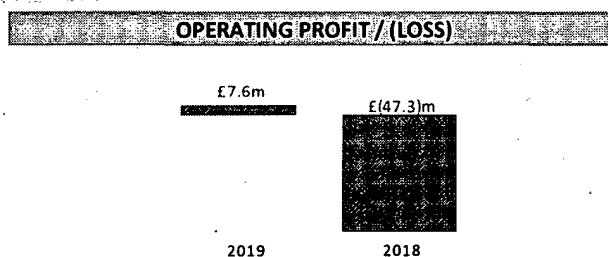
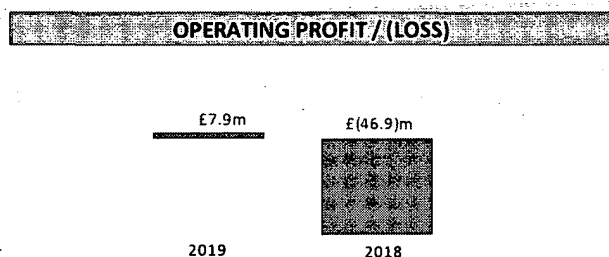
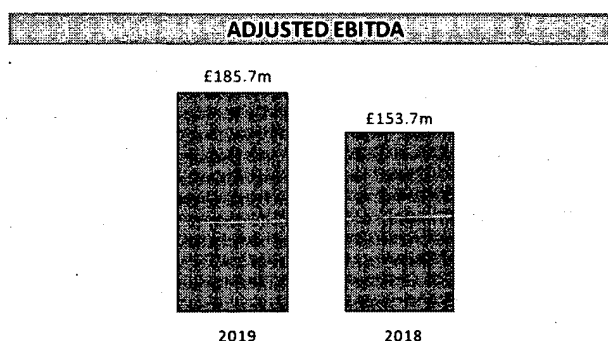
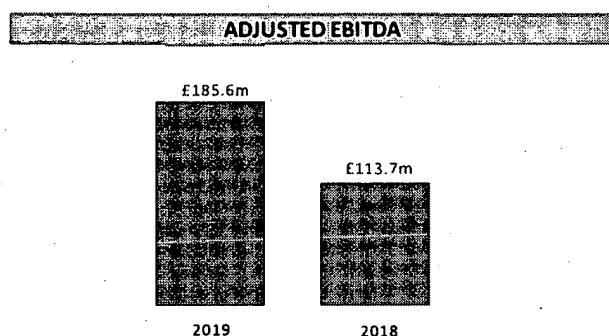
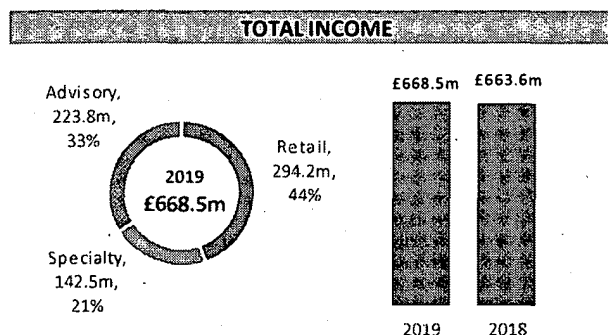
The Group maintains a non-operating segment comprising central costs and income not allocated to the operating segments. These costs include Group board costs and Group function costs, including certain legal and regulatory expenses. Income in this segment primarily relates to interest income and rental income on sublet properties.

HIGHLIGHTS AND KEY PERFORMANCE INDICATORS FOR THE YEAR ENDED 31 DECEMBER 2019

REPORTED



PRO FORMA FOR COMPLETED TRANSACTIONS



Available liquidity

31 December 2019: £181.7m

31 December 2018: £215.6m

Pro Forma measures are used in addition to IFRS measures to improve comparability. Pro Forma for Completed Transactions as set out here includes Swinton acquisition (completed 31 December 2018), and the acquisition of the Nevada 2 businesses: MHG, HIG and PFP (completed 31 January 2019) and adjusts for both the Claims disposal (completed 16 October 2018) and disposal of the Commercial MGA business, (completed 1 January 2019).

Adjusted EBITDA is used by the business as an indication of the underlying profitability of the business. Certain costs have been excluded from Adjusted EBITDA, as set out in the reconciliations in Section 3, to better reflect expected ongoing performance.

IFRS 16 has been applied from 1 January 2019 without restating comparative periods. Therefore, it is not reflected in the 2018 results.

Definitions of KPIs and other alternative performance measures (APMs) are set out in the glossary of terms in Section 3.

STRENGTHS

Largest independent insurance broker in the UK

Our scale and leading position in the UK insurance market provides us with significant competitive advantages, including leveraging the knowledge and depth of understanding of customer needs from our over 6,200 professionals, the broad brand recognition for our portfolio of over 50 leading and niche insurance brands, and the scale of premium we place in the market to enhance and improve our product offerings for customers, to capture incremental earnings across the insurance value chain, and to reduce costs.

We have made significant investments into our business over the last three and a half years to build our scaleable efficient operating platforms, capable of on-boarding new business at low cost and with low integration risk. We have replaced parts of our core finance process and consolidated a large number of front-end broking systems, upgrading to systems that will not require large maintenance capital expenditures going forward and that provide considerable competitive advantages both in terms of increased efficiency within our own back-office functions as well as making us a uniquely attractive partner to third-parties operating in our industry. We believe that our scale combined with our scalable operating platform provides us with a base from which to drive growth on a cost-efficient basis.

Diversified, resilient earnings base

Our highly diversified range of products, distributed through a range of distribution channels, to a broad spectrum of customers, across an extensive range of markets, throughout the UK and internationally, ensures a diversified and resilient earnings base and low reliance on any particular product, distribution channel, customer or market, limiting our exposure to any adverse industry developments and mitigating volatility in our overall financial performance.

Additionally, we have relationships with a diverse range of insurance carriers in each of the markets that we serve. Our large number of carrier relationships mitigates risks related to over reliance on a single relationship and enables us to enhance and improve our product offerings for clients as well as pricing and our own commercial terms. For the year ended 31 December 2019, no single carrier accounted for more than 10% of our total GWP, with the top five carriers in aggregate representing less than 30% of total GWP.

Market leader in numerous specialist niches

We have a depth of expertise in numerous insurance product niche specialties that has been built over decades of management experience. Niche specialty products are highly bespoke and entering the niche specialty insurance brokerage and MGA markets requires high levels of product expertise and strong insurance carrier relationships to develop and market these products. We believe that the expertise we have developed over many years provides us with a strong competitive advantage both in terms of protecting our market share in existing specialties and in identifying, developing and capitalising upon new specialty products to bring to market. Additionally, we believe the bespoke nature of our niche specialty products supports the development of deep customer relationships, enhanced customer loyalty and customer retention. Specialist products also provide the opportunity for higher profit margins due to the highly bespoke nature of the products and the higher barriers to entry for brokers and MGAs trying to enter the niche specialty market.

Growing, cash generative business model

The UK general insurance market is worth circa £90 billion and has grown at an average of circa 2% per year for the last 10 years. We have invested significantly in new producers and expect to realise cross-selling opportunities to drive incremental growth. Our business model is designed to generate free cash flow due to low working capital and maintenance capital expenditure requirements. We target Operating Cash Conversion of above 80% (actual operating cash conversion for Ardonagh for full year 2019 was 90%) and our business model aims to drive growth and organic de-leveraging in the future.

Market-leading, highly experienced management team supported by a deep bench of talent

Our executive team is highly experienced in leading and growing successful insurance intermediary organisations. Our Chief Executive Officer, David Ross, has over 25 years of industry experience building and leading brokerage businesses, including leading transformative mergers and acquisitions in the insurance intermediary field. He is supported by a highly experienced senior management team with over 20 years, on average, of experience across the entire insurance value chain. Our senior management team leads a deep bench of revenue producing talent specifically targeted for their entrepreneurial spirit and ability to drive sustainable revenue, as well as our committed operational support staff.

STRENGTHS

Ardonagh Advisory



Ardonagh Retail



CAROLE NASH
The cure it deserves



Ardonagh Specialty

Bishopsgate



PRICE FORBES



PIUA



FINANCIAL PERFORMANCE

Year ended 31 December (£ million)	Reported			Pro Forma for Completed Transactions		
	2019	*Restated 2018	Change	2019	*Restated 2018	Change
Total Income	667.5	527.1	140.4	668.5	663.6	4.9
Adjusted EBITDA	185.6	113.7	71.9	185.7	153.7	32.0
EBITDA	119.7	34.0	85.7	115.8	36.9	78.9
Operating Profit/(Loss)	7.9	(46.9)	54.8	7.6	(47.3)	54.9
Loss for the Year	(69.8)	(100.5)	30.7	(74.0)	(123.4)	49.4

* 2018 restatement is only in respect of the Group recognising a deferred tax asset in relation to interest that is subject to interest restriction tax regulations and certain other tax attributes as explained in note 30. The adjustment increases the tax credit in the income statement at 31 December 2018 by £8.9m.

Reported results

Reported Total Income increased by £140.4m to £667.5m (2018: £527.1m), and **Adjusted EBITDA** increased by £71.9m to £185.6m (2018: £113.7m). The income growth is predominantly a result of the successful integration of Swinton following its acquisition on 31 December 2018 by The Ardonagh Group. Subsequent acquisition of the Minton House Group Limited, Health and Protection Solutions Limited and Professional Fee Protection Limited have underpinned acquisitive growth in the 12 month period, which also demonstrated improved organic growth and client retention rates. Delivering organic growth has been a strategic focus for the Group, achieved in part through new producer hires in the Specialty & International operating segment, augmented by improved performance across the business. Adjusted EBITDA has increased by 63%, as both acquisitions and cost saving initiatives convert into reported earnings. The adoption of IFRS 16, with effect from 1 January 2019, has also contributed to the uplift in EBITDA with lease expenses now flowing through the profit or loss statement as a depreciation and finance charge. Further information on the adoption of IFRS 16 and the impact on the Group's financial statements can be found in note 3 Accounting Policies – 'Application of new and revised International Financial Reporting Standards'. The observed growth has been partially offset by the disposal of the Commercial MGA business, which completed on 1 January 2019, and the disposal of the Claims business, which completed on 16 October 2018.

Ardonagh has continued to deliver significant synergies from the integration of acquisitions and cost savings from leveraging combined scale and best practices across the businesses. Some of these savings have been invested in the business, primarily in Ardonagh Specialty to support new hires that are rapidly approaching revenue maturity.

Acquisitions completed by the Group are included in the result from the date they were acquired. On 31 January 2019, the Group completed the acquisition of Nevada Investment Holdings 2 Limited (Nevada 2). On acquisition, Nevada 2 was the holding company of Minton House Group Limited, Health and Protection Solutions Limited and Professional Fee Protection Limited.

EBITDA includes three main areas of spend considered by management to be material and specific to the Group's significant transformation initiatives: transformational hires, business transformation and legacy and other costs. Transformational Hires represent investment in teams and individuals to drive future transformational growth, primarily in the Specialty channel. This includes recruitment costs, sign-on fees, retention and other costs. Business Transformation represents costs to deliver benefits from ongoing transformation projects including the finalisation of the Towergate transformation programmes, and is primarily restructuring and redundancy costs, plus integration costs to realise synergy benefits from recent acquisitions. Legacy and Other Costs include costs associated with commercial disputes, write downs of legacy balances, adjustments to historic retention schemes, and the provision for obligations to make redress payments in respect of historical pension transfer advice (enhanced transfer values (ETV)).

Reported EBITDA has increased by £85.7m to £119.7m (2018: £34.0m) driven by £71.9m improvement in Reported Adjusted EBITDA. Cost savings are expected to continue to deliver into underlying EBITDA as programmes complete including the Towergate transformation plan, restructuring of central support services and MGA, and delivery of other process efficiencies.

FINANCIAL PERFORMANCE

Reported results *(continued)*

Reported Operating result improved by £54.8m to report a profit of £7.9m (2018: loss of £(46.9)m), primarily due to Reported Total Income growth in conjunction with the delivery of cost savings. Whilst income has increased by 27% in the 12 month period, the multiple cost saving initiatives are being realised such that operating expenditure (and other gains and losses) has only increased by 15%.

Reported Loss for the Year improved by £30.7m to £(69.8)m (2018 Restated: £(100.5)m). Whilst the operating result improved by £54.8m, this has been offset by £19.0m additional financing costs and a £3.0m decrease in the tax credit in the year.

Pro Forma for Completed Transactions results

The Pro Forma results reflect any material acquisitions or disposals as if they had occurred on 1 January of the immediately preceding comparative period. These transactions include the acquisition of the Nevada 2 businesses (completed 31 January 2019), which have been integrated into the Ardonagh Advisory platform and the MGA operating segment from this date, and the disposals of the Commercial MGA business (completed 1 January 2019) and the Claims business (completed on 16 October 2018). Subsequent to the year ending 31 December 2019, we have also completed the acquisition of certain trade and assets of Rural Insurance Group Limited (2 March 2020). This acquisition has not been included within the Pro Forma results.

Total Income increased by £4.9m to £668.5m (2018: £663.6m) after adjusting for completed acquisitions and disposals. Strong organic growth in Ardonagh Specialty, particularly in Aviation and Marine, and Ardonagh Advisory, has been partially offset by a small expected year on year decline in Swinton.

Adjusted EBITDA increased by £32.0m to £185.7m (2018: £153.7m) after adjusting for completed acquisitions and disposals. This reflects the growth in Total Income and strong delivery of the cost and synergy programmes across all segments, offset by reinvestment in the business.

EBITDA increased by £78.9m to £115.8m (2018: £36.9m) after adjusting for completed acquisitions and disposals. This reflects the improvement in Adjusted EBITDA and a £58.7m reduction in transformational hires, business transformation and legacy and other costs.

Operating Result improved by £54.9m to £7.6m (2018: £(47.3)m) after adjusting for completed acquisitions and disposals. This reflects Total Income growth, delivery of cost savings, and reduced one-time costs.

Loss for the Year improved by £49.4m to £(74.0)m (2018 Restated: £(123.4)m) after adjusting for completed acquisitions and disposals. This primarily reflects the £54.9m improvement in Operating Loss Pro Forma for Completed Transactions, partially offset by a £2.9m decrease in the tax credit in the year.

A detailed reconciliation between Reported and Pro Forma for Completed Transactions results can be found in Section 3 of this report.

FINANCIAL CONDITION

Statement of financial position

The Group's Statement of Financial Position as at 31 December 2019 is presented below. Over the year the Group has reported a decline in net current assets largely due to the reported loss for the year, but an increase in net assets primarily due to the recognition of a deferred tax asset (see note 30), an increase in Intangible assets due to the acquisition of Nevada 2 and the recognition of a right of use asset following the adoption of IFRS16 (see note 3).

	Year ended 31 December 2019	Restated* Year ended 31 December 2018
Extracts from the statement of consolidated financial position	£ million	£ million
Intangible assets	1,112.2	1,095.2
Property, plant and equipment	26.2	37.0
Other non-current assets	94.8	28.7
Non-current assets	1,233.2	1,160.9
Cash and cash equivalents	410.9	505.0
Current assets - excluding cash and cash equivalents	236.1	343.0
Current liabilities	(611.3)	(741.5)
Net current assets	35.7	106.5
Non-current liabilities	(1,171.5)	(1,170.7)
Net assets	97.4	96.7

* 2018 statement of financial position is restated only in respect of the Group recognising a deferred tax asset in relation to interest that is subject to interest restriction tax regulations as explained in note 30.

On 1 January 2019, the Group sold its Commercial MGA business. On 2 January 2019 £31.5m was received from the purchaser of the business of which £30.0m represented the initial consideration for the sale (note 11). The assets and liabilities related to the sale were classified as held for sale in the Group's Statement of Financial Position as at 31 December 2018, £26.8m in current assets and £2.0m in current liabilities.

Intangible assets increased by £17.0m during the year. The acquisition of Nevada 2, the indirect holding company of Nevada 3, on 31 January 2019 resulted in an increase of £79.3m in the Group's intangible balances which has been offset by amortisation of £74.8m. There were also further additions to Assets under construction £4.7m and Computer Software £7.9m during the year.

Property, plant and equipment decreased by £10.8m during the year, mainly reflecting the depreciation charge for the period of £9.9m and an increase in assets classified as held for sale of £1.2m amongst other movements.

Other non-current assets have increased by £66.1m during the year. This increase is primarily due to the adoption of IFRS 16 by the Group on 1 January 2019 which has resulted in a right-of-use asset of £36.2m at year end. Further information on the adoption of IFRS 16 and the impact on the Group's financial statements can be found in note 3 Accounting Policies – 'Application of new and revised International Financial Reporting Standards'. Additionally, the revised assessment of the Group's deferred tax asset recognition in relation to interest that is subject to interest restriction tax regulations explained in note 30 results in the recognition of a deferred tax asset of £22.7m and there is a £4.1m increase in investments in associates and joint ventures.

The £106.8m decrease in current assets during the year, excluding cash and cash equivalents, is driven by a reduction in trade and other receivables and the disposal of the Commercial MGA business in January 2019, £26.8m of assets relating to this business were classified in current assets as held for sale at 31 December 2018.

Current liabilities have decreased by £130.2m during the year, driven by a reduction in trade and other payables of £91.8m and a decrease in premium financing liabilities of £67.7m, offset by the introduction of a lease liabilities balance of £10.1m as part of the adoption of IFRS 16 (note 3), an increase in the IFRS 15 contract liabilities balance of £11.4m and an increase in the Group's provisions balance of £5.3m.

The increase in non-current liabilities of £0.8m during the year is driven by a reduction in the Group's provision balance of £17.3m, a reduction in Borrowings of £12.8m driven by exchange rate movements, and a reduction in trade and other payables of £10.3m offset by the introduction of a lease liabilities balance of £33.0m following the adoption of IFRS 16 and a £10.1m increase in derivatives.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and capital resources

Proactive and careful management of our liquidity continues to be a key priority for the Group, utilising both medium (12 months rolling) and short-term (13 weeks rolling) forecasts. This enhanced forecasting gives the Group much greater visibility around any potential liquidity constraints, and management is confident that the Group will be able to meet expected cash outflows and debt covenant requirements while maintaining a liquidity buffer to manage any volatility in terms of timing and amounts. Any short-term funding gaps will be covered by utilising the Group's revolving credit facility (RCF).

During the year the Group generated positive cash inflow from operations, despite significant investment in finalising the Transformation and Swinton site closure and integration programmes. In addition, the Group benefitted from the Commercial MGA disposal on 1 January 2019. £31.5m was received of which £30.0m represented the initial consideration for the sale with an additional £1.0m of contingent consideration received in May 2019. This is primarily offset by interest payments of £95.2m, capital expenditure as part of the Transformation programme and payment of transaction costs in relation to the \$235m USD Notes issued in 2018.

The Group's RCF was amended in September 2018 to include an additional £50.0m Letter of Credit ancillary facility. A letter of credit of £50.0m was issued in October 2018, for the benefit of specified entities within the Group, solely to provide credit support in respect of potential redress liabilities relating to the sale of certain enhanced transfer value (ETV) products. See note 31 for further information relating to ETV redress liabilities. As at 31 December 2019, the Group's RCF facility was undrawn and available capacity was £120m. On 18 March 2020 the Group's RCF facility was extended to £170m, in line with the growth of the business, of which £70m was drawn. Permissible RCF drawings are limited by the Group's credit facility basket.

The GBP (£) and USD (\$) Senior Secured Notes are reflected in these consolidated financial statements on an amortised cost basis (see note 29), and the USD Notes have been converted to GBP at the 31 December 2019 foreign exchange rate of 1.3187.

Gross secured debt

	Year ended 31 December 2019 £ million	Year ended 31 December 2018 £ million
£400.0m Notes	400.0	400.0
USD520.0m Notes	394.4	408.1
£55.0m Notes	55.0	55.0
£98.3m Notes	98.3	98.3
USD235.0m Notes	178.2	184.4
Adjustment to debt carrying	(34.2)	(43.7)
Total gross secured debt	1,091.7	1,102.1

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and capital resources *(continued)*

Cash balances and available liquidity

	Year ended 31 December 2019 £ million	Year ended 31 December 2018 £ million
Own funds	48.2	112.5
Own funds - restricted	23.1	32.9
Own funds - ETV	13.5	13.1
Fiduciary	326.1	346.4
Total cash	410.9	505.0
Less fiduciary and restricted (excluding ETV)	(349.2)	(379.3)
Available cash	61.7	125.6
RCF capacity	120.0	120.0
RCF availability	120.0	90.0
Available liquidity	181.7	215.6

Available liquidity defined as available cash plus available RCF. Definitions are set out in the glossary of terms in Section 3.

RISK MANAGEMENT

Risk Management Framework and risk appetite

In pursuing its business objectives Ardonagh is exposed to a range of risks. As part of its overall governance and control arrangements the Group operates a Risk Management Framework designed to identify, assess, manage, monitor and report on these risks.

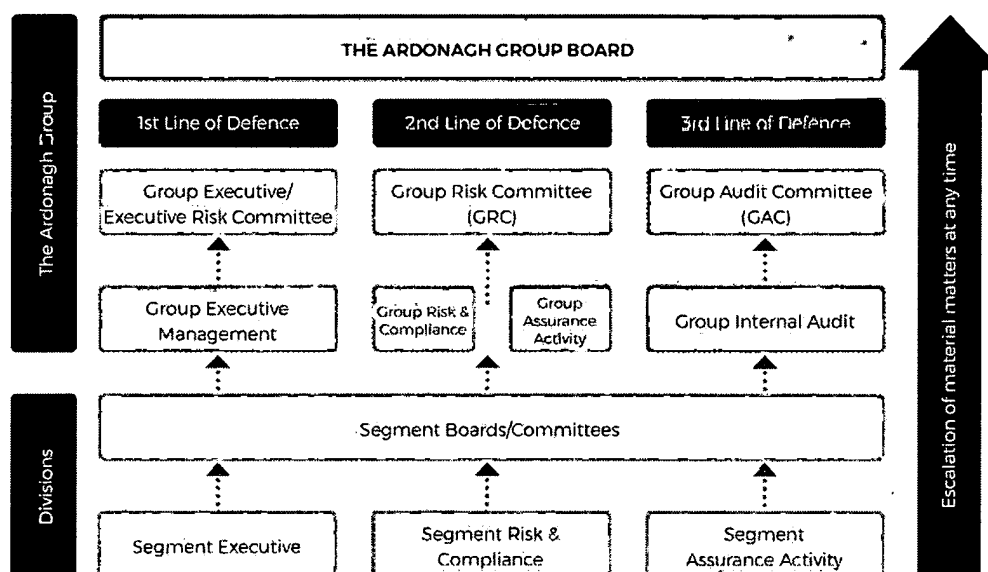
The Group's risk appetite is an expression of the amount and type of risk that it is willing to accept to achieve its strategic objectives. Risk appetite is set by the Board and is reviewed by the Group Risk Committee and the Board on at least an annual basis. Through the Risk Management Framework these governance bodies gain assurance that risks are being appropriately identified and managed within the boundaries that have been set. Each area of risk has a Group owner responsible for managing the risk within appetite and ensuring that the controls designed to keep risks within appetite are appropriate.

Three lines of defence model

Risk management across the Ardonagh Group is underpinned by the application of a three lines of defence governance model. The first line sits in the business and is responsible for identifying and managing all material risks. The second line is made up of Group Risk and Compliance and provides challenge, guidance and support to the business on the first line risk assessment. The third line is delivered by Group Internal Audit, which independently assesses the effectiveness of the internal controls, governance and risk management.

Governance

The Group Risk Committee is chaired by an independent Non-Executive Director and reports relevant matters to the Group Board. Action plans to reduce risks that are approaching or out of appetite are monitored for effectiveness and timely completion. Escalation routes exist such that any material matters can be brought to the attention of Directors of the Group without delay.



PRINCIPAL RISKS AND UNCERTAINTIES

The Group faces a broad range of risks and uncertainties that are described in more detail in this section. These are the risks that are the focus of the Group Risk Committee.

Additional risks and uncertainties not currently known to us, or that we currently consider immaterial, may also materially and adversely affect our business or operations.

<i>Risk</i>	<i>Description</i>
Decline in economic conditions	<p>The Group operates predominantly in the UK and is affected by economic conditions in the UK and the associated possibility of decline in business and customer confidence. The Board has developed a strategy that is heavily focused on the achievement of long-term sustainable growth, including a diversified business portfolio, and the Board believes that this is the most effective way of mitigating the risk of general decline in economic conditions.</p> <p>The Group has considered the consequences and ramifications of the Covid-19 pandemic. Business Continuity Plans are in place across each of the Group's operating segments, with measures to manage employee absences, access to the wider network of over 80 offices, the efficiency and stability of the Group's infrastructure and the ability for home working for a significant portion of our employee base. Leadership teams and working groups led by senior managers are in place to support operational resilience and the taking of common-sense precautions with a view to ensuring the wellbeing of colleagues. We continue to review this approach on a daily basis in line with latest global developments and government guidance.</p> <p>Insurance broking is a resilient and defensive market, which has historically had limited impact from past economic or capital market downturns. Ardonagh is highly diversified and not materially exposed to a single carrier, customer or market sector.</p> <p>The Group has sufficient liquidity to withstand a period of potential poor trading resulting from a sustained impact of Covid-19. The Group had available liquidity of £181.7m at 31 December 2019 and closely monitors available liquidity on an ongoing basis.</p> <p>The Group is largely insulated from currency FX volatility. The Group's £1.1 billion bond debt has a maturity date of July 2023 and was issued at fixed interest rates. Within the £1.1 billion of debt there is \$755m of USD-denominated debt. 100% of the USD denominated principal and interest have been swapped into GBP and hedged until July 2020; 93% (\$700m) of the principal and interest is hedged to July 2021. Most of the operating segments have negligible foreign currency revenues, with Specialty & International being the exception for which hedging is in place at Price Forbes and Bishopsgate in respect of about 90% of forecast 2020 USD revenue and about 80% of forecast 2021 USD revenue.</p> <p>The Group's going concern scenario planning stress tests for simultaneous impacts from cash conversion declines, increases in the ETV liability and its acceleration, and a UK recession that results in an average 20% fall in near planned revenue during 2020, reducing to an average 15% fall during 2021 correlating to an immediate and equivalent cash decline. Although Covid-19 developments are fluid, our scenario planning demonstrates financial resilience. Under the stressed scenarios, the Group has excess liquidity.</p>

PRINCIPAL RISKS AND UNCERTAINTIES

<i>Risk</i>	<i>Description</i>
Brexit	<p>The Brexit decision may affect the ability of businesses to passport from the UK into other EU states and likewise into the UK from the EU. Following the 2019 general election, the Prime Minister has been clear that he is driven to deliver Brexit with a transition period ending on 31st December 2020.</p> <p>We continue to believe that the direct impact on the Group will not be significant because it conducts only limited business within the EU and, importantly, because several additional mitigation strategies have been put in place during 2019 (i.e. gaining direct authorisation in certain EU member states) to reduce the risk. However, the loss of passporting rights may affect the insurance markets in which the Group operates, possibly reducing insurance capacity, competition and choice.</p> <p>Brexit could also lead to a general decline in economic conditions in the UK where the Group operates predominantly. The diversified business portfolio of the Group continues to mitigate the risk of a general decline in economic conditions.</p>
Insurance market volatility	<p>Volatility or declines in premiums, as well as declines in commission rates, may seriously undermine our business and results of operations.</p> <p>We derive most of our revenue from commissions and fees for underwriting and broking services. Our commissions are generally based on insurance premiums, which are cyclical in nature and may vary widely based on market conditions. A significant reduction in commissions, along with general volatility or declines in premiums, could have a significant adverse effect on our business.</p> <p>On a longer time horizon, the insurance markets might be disrupted by new technologies, "open finance" or new distribution structures, which may give rise to both risks and opportunities for the Group.</p>
Breach of regulatory requirements	<p>If we fail to comply with regulatory requirements, we may not be able to conduct our business or may be subject to substantial fines or other sanctions that may have an adverse effect on our results of operations and financial condition. The Group operates a robust risk and control framework (underpinned by the three line of defence governance model set out on page 11) and closely monitors changes to the regulatory environment.</p>
Changes to regulatory environment	<p>Our business is primarily regulated by the Financial Conduct Authority (FCA). The Rules also impose certain minimum capital and liquidity requirements on the Group as well as a Senior Managers and Certification Regime (SMCR) for key control owners and our Senior Management team. The regulatory requirements that apply to our business may change from time to time, which may lead to one off or additional costs to the business in order to achieve ongoing compliance.</p>
Litigation	<p>We are subject to various actual and potential claims, lawsuits and other proceedings relating principally to alleged errors, omissions or unfair provisions in connection with the placement of insurance or the provision of financial services advice in the ordinary course of business. Following a favourable litigation settlement with a competitor during 2019, the risk to the Group has reduced.</p> <p>We maintain professional indemnity insurance for errors and omissions claims. The terms of this insurance vary by policy year and our ability to obtain professional indemnity insurance in the future may be adversely impacted by general developments in the market for such insurance, or by our own claims experience. If our insurance coverage proves inadequate or unavailable, there is an increase in liabilities for which we self-insure.</p>

PRINCIPAL RISKS AND UNCERTAINTIES

<i>Risk</i>	<i>Description</i>
Cyber-security and data protection	<p>Our computer systems store information about our customers and employees, some of which is sensitive personal data. Although we have taken reasonable and appropriate security measures to prevent unauthorised access to information stored in our databases and to ensure that our processing of personal data complies with the General Data Protection Regulations (GDPR), our technology may fail to adequately secure the private information we maintain in our databases and protect it from theft or inadvertent loss. Our systems, and the wider public infrastructure they rely on, may also be subject to a non-targeted attack preventing use and disrupting business operations.</p> <p>During September 2019, the Group appointed a Chief Information Security Officer to further strengthen our cyber risk and controls framework. Additionally, the Group implemented a cyber insurance policy in late 2019, to mitigate financial risks associated with data breaches and cyberattacks.</p>
Technology – keeping pace with change	<p>If we are unable to apply technology effectively in driving value for our clients or in gaining internal efficiencies and effective internal controls, our client relationships, growth strategy, compliance programmes and operating results could be adversely affected.</p> <p>Interruption or loss of our information processing capabilities through loss of stored data, the failure of computer equipment or software systems, a telecommunications failure or other disruption, could have a material adverse effect. All parts of the Group maintain effective business continuity plans and capabilities.</p>
Loss of key staff	<p>The loss of several senior management or a significant number of our client-facing employees could have a material adverse effect on our business. The inability to attract and retain qualified personnel could also have a material adverse effect on our business. Each part of the Group maintains appropriate performance management, remuneration, succession planning and other HR policies that are proportionate for their respective businesses.</p>
Relationships with insurers and other insurance intermediaries	<p>A withdrawal by insurance companies of underwriting capacity or products in circumstances where no replacement underwriting capacity or products can be procured, or an excessive increase in the rates charged by an insurance company, would be a big risk to our business performance.</p> <p>If third-party brokers and mortgage intermediaries do not provide customers with competitive levels of service, or if a significant number of them choose not to distribute our products, the level of written premiums we place with customers may decline.</p> <p>Capacity, business performance and distribution are kept under proactive management by each of the Group's businesses, as appropriate for their respective operations and needs. In addition, the formation of Ardonagh Portfolio Solutions (APS) in 2019 looks to support the business level activity with Group wide relationships with insurers and to reduce the risk of loss or volatility of capacity.</p>
Integration of acquired businesses	<p>Our selective acquisition strategy exposes us to the risk that we may not be able to successfully integrate acquired businesses or that acquisitions may have liabilities that we are not aware of and may not be as profitable as we may have expected them to be. Due diligence in advance of an acquisition is thorough, managed by experienced teams and supported by independent third party review where appropriate. Integration is subject to robust project planning, governance and continuous oversight through to completion.</p>

PRINCIPAL RISKS AND UNCERTAINTIES

<i>Risk</i>	<i>Description</i>
Debt and liquidity risk	<p>The Group requires significant amounts of cash to service its debt, thereby limiting the availability of funds for working capital, acquisitions, business opportunities and other general corporate purposes. There is a risk that the underlying business does not generate sufficient cash to meet its financial obligations as they fall due. Proceeds from debt are used to provide financing to fund the acceleration of strategic investments. This will support future generation of cash for reinvestment.</p> <p>The Group has an active cash management process. The Group Treasury function undertakes cash flow forecasting and closely monitors and manages the Group's cash balances. Immediate liquidity is available from the revolving credit facility (£120m available at 31 December 2019 subject to credit basket restrictions) should any short-term financing be required.</p>
Counterparty risk	<p>We have a significant amount of trade accounts receivable from some of the insurance companies with which we place insurance. If those insurance companies experience liquidity problems or other financial difficulties, we could encounter delays or defaults in payments owed to us. Counterparty balances are monitored as part of the credit control process. Significant balances are actively managed through our on-going strategic insurer relationship programme.</p>
Foreign Currency risk	<p>The Group's main exposure to foreign currency risk arises from: (1) the USD denominated Notes; (2) the settlement in foreign currency, principally US Dollars, of brokerage and fees relating to insurance business originating overseas. The Group manages this exposure through active treasury management processes, including hedging operations where appropriate.</p>
ETV redress risk	<p>A provision continues to be recognised in 2019 in relation to the potential redress cost for unsuitable advice given to customers to transfer benefits from defined benefit pension schemes. 2019 saw the commencement of redress payments and, as the outstanding balance reduces, the scale of the uncertainty in this area will also reduce. Further information is detailed in account note 4.</p>

CORPORATE GOVERNANCE REPORT

CHAIRMAN'S OVERVIEW

2019 has been a standout year in positioning the Group for further long-term sustainable growth for the benefit of our shareholders and wider stakeholders whilst continuing our relentless pursuit to delivering first class service to our customers. We implemented an enhanced Corporate Governance Framework that reflects our current stage of development and supports the Group Board in maintaining a rigorous focus on execution across each of our Business Segments and oversight over the effective management of risk."

John Tiner

On behalf of the Group Board, I am pleased to introduce the Corporate Governance Report for the year ended 31st December 2019. The Ardonagh Group Board believe that effective Corporate Governance should support the Group strategy that aims to create long term and sustainable shareholder value whilst having regard to our wider stakeholders. As a Board, we set the strategic direction and risk appetite and exercise oversight and control over management's day-to-day running of the business. Over the year I have facilitated open and challenging discussions and set aside the necessary amount of time to discuss strategic issues, both in the Boardroom and in separate deep-dives with management.

In my overview last year, I reported on the enhanced Corporate Governance Framework (Governance Framework) to be implemented in 2019 and reflected on the increasing size of the Ardonagh Group. The Governance Framework established Holding Company Boards across each of our business segments (Segment Boards) to support the Group Board in exercising oversight over the execution of our strategy and effective management of risk. I am pleased to report that the Governance Framework has been fully implemented and the following corporate governance report sets out how it has been implemented and provides an overview of the findings from our recent Group and Segment Boards effectiveness review.

In 2019 the Group Board considered the regulatory change introduced by the Companies (Miscellaneous Reporting) Regulations 2018 which came into force from 1 January 2019. This new legislation includes new disclosure requirements for large private companies, including an explanation of how the Board has considered their section 172 duty under the Companies Act 2006 and including disclosure of which governance code has been adopted by the Board (or an explanation if no code has been adopted). Whilst some of our larger UK subsidiaries trigger the section 172 duty disclosure, no one single UK entity within the Group is large enough to trigger the requirement to disclose which code has been adopted, but as a consolidated Group we would trigger this disclosure requirement and in January 2019 the Group Board agreed it would be the right thing to do to voluntarily adopt a governance code. Having considered all the relevant governance codes the Group Board agreed to adopt the Wates Corporate Governance Principles for Large Private Companies (Wates Principles).

During 2019, the size of the Group Board was reduced as the Group Board transitions into a more portfolio management and oversight role following the implementation of the Governance Framework. I want to thank Christine Dandridge, Feilim Mackle, Matthieu Boulanger, Matt Raino and Aurelio Cusaro for their contributions to the success of the Ardonagh Group during their tenure on the Group Board. They each stepped down from the Group Board in June 2019, although Matt Raino and Aurelio Cusaro act as alternate directors for Vahe Dombalagian and Scot French respectively. The Group Board continues to review its composition to ensure it continues to have a good balance of skills, backgrounds and relevant sector experience.

Talent development, diversity and succession planning are ongoing processes and are vital components of a well governed organisation. We reviewed and challenged management succession planning during 2019 and we will undertake a further review in 2020 to ensure management continues to develop a strong talent pipeline for the future. The talent within our organisation is our most prized asset and it was pleasing to see a high 73% response rate to our first Ardonagh-wide employee pulse survey. In Q1 2020 the Group Board undertook a deep-dive on the results of the survey and the management actions being taken. During 2020 we will also be reviewing our diversity strategy.

CORPORATE GOVERNANCE REPORT

CHAIRMAN' S OVERVIEW

2019 was a pivotal year in the development of the Group, with considerable progress made resolving legacy issues, executing on our growth strategy, increasing the clarity and transparency of our financial reporting, and implementing Governance and Risk frameworks that reflect the size and complexity of the Group.

The next pages detail how the Group Board implemented the Wates Principles, including how we take into account the interests of stakeholders in our decision making.

John Tiner
Chairman

CORPORATE GOVERNANCE REPORT

The following section provides further information on the Group's governance and how we apply the Wates Governance Principles.

Principle 1 – *An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.*

We are a dynamic business whose purpose is to maintain and grow our position as a leading multi-channel, diversified platform delivering world class insurance products and services to our customers. Our purpose is supported by our strategy, values and culture. Our strategic ambition and purpose is captured in our 5-year strategic plan that evidences sustainable growth and quality of earnings. Our values are set out in the Ardonagh code of conduct that was rolled-out in February 2019, with implementation facilitated by effective communication and all-employee mandatory training. The code of conduct promotes our expectations regarding the treatment of our customers and colleagues, our standards of professional integrity and personal performance.

Our Group and Segment Boards and their Committees receive information that helps them consider the culture and conduct within each business. These include reviews by our second and third lines of defence functions, compliance monitoring reports, conduct risk reporting, compliance with Group Policies and Business Standards, and HR reports. Reporting will continue to evolve in 2020. The activities of The Ardonagh Community Trust (see page 26) provides an indirect example of how our values and culture are aligned. In addition, to reinforce embedding of our values, strategy and culture, our remuneration schemes include compliance behaviours and customer outcomes as part of individual and Group-wide scorecards. The scoring across customer, staff and conduct metrics is considered by the Group Risk Committee and the Remuneration Committees.

Our culture is an essential factor in our success and more detail is provided in the explanation below of how we apply Principle 6 covering stakeholder relations.

To support effective decision making the Group Board, its committees and Segment Boards evolve over time and presently are organised as follows:

The Group Board

The Group Board is responsible to shareholders for creating and delivering sustainable shareholder value through the management of the Group's businesses. It sets the overall strategic direction within the Group's risk appetite and framework of controls. Day-to-day management of the business is delegated to the CEO who, through his Executive Committee, ensures that the collective vision, policies, culture and behaviour set by the Group Board are effectively communicated and embedded across the Ardonagh Group. This is further supported by proactive employee engagement through line management and a variety of channels including email, the intranet (including our weekly magazine Connect), town hall style meetings, engagement surveys, team meetings, online training and effective policies and business standards that have appropriate management owners across the Ardonagh Group.

The core activities of the Group Board and its Committees are planned and approved on an annual basis. Meeting agendas are set well in advance and take into account the activities and issues that fall within the scope and responsibilities of the Group Board, including matters reserved for the Group Board and the terms of reference of its Committees and the Segment Boards. The Chairman sets the agenda and ensures appropriate time is spent by the Group Board to consider and discuss strategic issues, deep dives to focus on specific areas of our business, performance and oversight and risk and regulatory matters. The Group Board and its Committees are supplied with regular, comprehensive and timely information that enables them to discharge their duties effectively. This includes regular reporting on Group and Segment performance against plan, strategic issues (including new business initiatives and acquisition and disposal strategy), financial reporting, management of key risks, people developments, corporate governance, legal and regulatory matters, liquidity and other operational matters. All directors are encouraged to, and do, make further enquiries of the Executive Directors and Ardonagh Group senior management team members whenever necessary, and have access to the services of the Group Company Secretary. There is a procedure in place for Directors to take independent professional advice in the course of their duties, if they judge this to be necessary, at the Ardonagh Group's expense.

The Board met six times during 2019 and participated in two update calls. A number of sub-committee meetings were also held to discuss specific matters authorised by the Board. In addition, The Group Board passed three Written Resolutions during the reporting period.

When a Director is unable to participate in a meeting either in person or remotely, the Chairman will solicit their views on key items of business prior to the meeting, in order that these can be presented at the meeting and be taken into account. Periodically, the Chairman holds discussion sessions with the Non-Executive Directors without the Executive Directors being present.

CORPORATE GOVERNANCE REPORT

Segment Boards

During 2019 we proactively evolved the Group's governance structure in line with our strategic ambitions, reflecting the diversification of our businesses and presence as a leading insurance intermediary operating in a highly regulated environment. This involved establishing holding company boards (Segment Boards) for each of our operating segments (Segments), namely Insurance Broking, Retail, MGA, Schemes & Programmes, Specialty & International and Paymentsshield. The Composition of each Segment Board includes at least one independent director, a Group Board representative director and the Segment CEO and CFO as members. The Segment Boards exercise oversight and challenge over the execution of their respective annual plans and the effective management of risk. Segment Boards have each established a Risk & Audit Committee. Segment specific remuneration matters are either dealt with through the Segment Board or delegated to a Segment Remuneration Committee. The Segment Boards and Committees have all adopted appropriate terms of references tailored from a common standard and operate within clearly defined delegated authorities as set out in the Group's Delegated Authority Framework. A clear escalation policy ensures material matters are escalated to the Group Executive Committee and Group Board on a timely basis. Each Segment Board and Committee has an annual agenda plan which is reviewed and approved each year.

The Segment Boards and their Risk & Audit Committees meet quarterly, with ad-hoc meetings when required. The Segment Remuneration Committees will meet at least twice a year and as and when required to consider matters within their remits and to make recommendations as appropriate to the Segment Boards and Group Remuneration Committee.

Group Board Committees

The Group Board has delegated specific responsibilities to five standing Committees. These are the Audit Committee, Group Risk Committee, Remuneration Committee, Nomination Committee and Investment Committee. The Group Board retains ultimate responsibility for the matters within the scope of the Committees, which are set out in their terms of reference. The terms of reference for each Committee are subject to annual review and any amendments are approved by the Group Board. Each Committee has an annual agenda plan which is reviewed and approved each year.

Audit Committee

The members of the Audit Committee are Clive Bouch (Chair), Patrick Butler and Scot French. The Group Board is satisfied that the Committee has adequate recent and relevant financial and business experience to fulfil its responsibilities. The purpose of the Committee is set out in the report from the Chair of the Audit Committee on page 28. The Audit Committee met seven times in 2019, including one joint session with the Group Risk Committee.

Group Risk Committee

The members of the Group Risk Committee are Patrick Butler (Chair), John Tiner, Clive Bouch and Scot French. The Group Board is satisfied that the Committee has relevant risk and compliance experience to fulfil its responsibilities. Its principle purpose is to:

- consider and recommend to the Group Board, for its approval, the Ardonagh Group's Risk Appetite;
- monitor and assess the key risks and emerging risks identified by management;
- review, on behalf of the Group Board, the Ardonagh Group's Risk Profile against Risk Appetite;
- oversee the management of risk and progress regarding the completion of risk mitigation plans;
- review the appropriateness and effectiveness of the Ardonagh Group's Risk Management Framework of governance, systems and controls; and
- monitor compliance, relevant regulatory issues, the conduct of the Ardonagh Group business and the maintenance of a prudent culture.

The Group Risk Committee met six times in 2019, including one joint session with the Audit Committee. Each year, the Committee holds an individual meeting with the Chief Risk Officer, who has the right of access at any time to the Chair of the Committee.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Remuneration Committee members in 2019 are John Tiner (Chair), Scot French and Vahe Dombalagian. Clive Bouch was appointed to the Committee on 19th March 2020. The Chief Executive, Chief Financial Officer and the Head of Reward attend Committee meetings, however, they do not attend where their individual remuneration is discussed, and no Director is involved in deciding their own remuneration. The principal purpose of the Committee is to:

- set the over-arching principles and parameters of remuneration policy across the Ardonagh Group;
- consider and approve the remuneration and performance targets for senior management and Executive Officers and those discharging key functions;
- consider and approve the remuneration of the Chairman and Executive Directors on the Group Board and to determine the remuneration of the Independent Non-Executive Directors of the Group Board and Segment Boards;
- approve the award of rights under long term incentive plans and new bonus and incentivisation schemes, including The Ardonagh Group Limited's Management Incentive Plan;
- approve the terms of and hiring packages for any new hire above limits determined by the Group Board from time to time; and
- approve the leaver status and the fair market value for management equity schemes.

The Remuneration Committee met six times during 2019.

Nomination Committee

The Nomination Committee members are John Tiner (Chair) and Scot French. Its principal purpose is to:

- ensure that the Group Board retains an appropriate balance of skills to support the strategic objectives of the Group and has a formal, rigorous and transparent approach to the recruitment of Directors and senior management;
- ensure there is an effective framework for succession planning for the Group Board and senior management;
- review the structure, balance, size, composition, working arrangements and capability (including the skills, knowledge, experience and diversity) required of the Group and Segment Boards and make recommendations to the Group Board and Segment Boards regarding any changes to their composition; and
- keep the Group and Segment Board governance arrangements under review and make recommendations to the Group and Segment Boards, as appropriate.

The Nomination Committee met twice during 2019.

Investment Committee

The Investment Committee members are John Tiner (Chair), Scot French, Patrick Butler, Vahe Dombalagian, David Ross (CEO) and Diane Cougill (CFO). Its principal purpose is to formulate, monitor, review and execute the Group's strategy regarding acquisitions and disposals.

There was no corporate M&A activity during 2019 that required consideration by the Investment Committee and therefore there were no Investment Committee meetings held during 2019. The Investment Committee has since met three times in 2020.

CORPORATE GOVERNANCE REPORT

Group and Segment Board Effectiveness Review

To evidence that the enhanced governance framework and board processes and procedures are fit for purpose, the Group Company Secretary, with input from an independent third-party, led an effectiveness review of the Group and Segment Boards and their Committees in Q4 2019.

The review demonstrated that the Group and Segment Boards and their Committees are effective and that there were no material concerns raised regarding its operation and design of the governance framework. The Board approved a recommended list of actions that focus on enhancing meeting administration, Board reporting and the interaction between the Group and Segment Boards. In summary, the recommendations are:

- to further enhance the communication by Committees on their activities to the Group Board, it was agreed that a memo from the Chair of the Remuneration and Nomination Committees should be circulated promptly after each meeting. This is in addition to the oral reports already provided at each Board meeting. The need to produce a memo from the Group Risk and Audit Committee chairs was considered to be less relevant as the majority of the Board also attend these Committee meetings.
- enhancements to existing Board reporting and additional reports recommended.
- actions to further develop the level of two-way interaction between the Group and Segment Boards.
- enhancements to the interaction between the Group Risk and Remuneration Committees.
- clarification of the role of the Group and Segment Boards regarding the approval of investments.

The evaluation also considered diversity. During 2020 management will report to the Board on the strategy and actions to enhance diversity across the Group.

Principle 2 – *Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.*

In line with best practice, the roles of Chair and CEO on the Group Board are separate, and the Chairman is independent. The size of the Board was reduced in 2019 to reflect the greater oversight undertaken by the Segment Boards and the transition of the Group Board to one aligned with overseeing and managing a portfolio of businesses. The Board changes during the year are set out in the Directors' Report. The Board effectiveness review noted above highlighted that the Board considered itself to have the right balance of skills, experience and knowledge and that the Board and Committee Chairs are effective.

The Group Board and its Committees regularly receive deep-dive reports on areas of the business, specific risks and other areas requested by the Board. In addition, independent directors meet with management on a regular basis between scheduled meetings to discuss corporate issues and progress against agreed actions. Directors are also subject to mandatory online training on legal and compliance topics and are encouraged to make site visits across the Group to enhance their understanding of the Business Segments. All Board Directors are expected to commit the time required to adequately fulfil their responsibilities.

All newly appointed Directors to the Group and Segment Boards are provided with a comprehensive and bespoke induction programme, which includes sessions with Executive Directors and members of the senior management team. These sessions are aimed at familiarisation with the Ardonagh Group and focus on the challenges, opportunities and risks faced by the business. The induction also includes Directors' duties and Board procedures, strategic priorities, business planning, the three lines of defence model, internal control processes and key risks.

The Wates Principles highlight the need for Boards to promote diversity and demonstrate that there has been a considered effort to establish an appropriate balance of expertise, diversity and objectivity. The Board has considered its own composition as part of its effectiveness review and diversity was a factor in the recruitment of independent non-executive directors to Segment Boards during 2019. The Group has in place an Equality and Diversity Policy and the Board believe that equality and diversity strengthens the Group, contributes to long-term business performance and to maintaining the Group as a destination of choice for key talent. This is an industry-wide challenge and management will report to the Board during 2020 on how the business complies with the Group Equality and Diversity policy, our diversity strategy and the actions being taken to address equality and diversity issues, including consideration on whether to adopt externally set targets and aspirations. Diversity will also be considered by the Group and Segment Boards as they review management succession plans during 2020.

CORPORATE GOVERNANCE REPORT

Principle 3 – *The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.*

The Group Board has delegated the day-to-day management of the Group to the CEO. The CEO has delegated authority to approve specific issues subject to financial limits. In turn, the CEO has delegated authority to his direct reports and these are set out in the Ardonagh Accountability Framework, which evidences individual accountability under the FCA's Senior Managers and Certification Regime that came into force on 9th December 2019.

A delegated authority matrix ("DAM") is in place which sets out the matters reserved to the Group Board and the delegated authorities from the Board to management and Segment Boards. The DAM was reviewed and updated by the Board during 2019 and it forms part of the terms of reference for each Segment Board. The matters reserved for Group Board approval covers a wide range of matters which include changes to capital structure, M&A, Group policies, risk appetite and material contracts and financial matters over certain limits.

The Board and Committee effectiveness review highlighted that each director understood their collective and individual accountability and responsibilities. The review also highlighted that the Board consider there to be a good quality of debate in the Boardroom. The effectiveness review also highlighted a high level of understanding by Segment Boards of their collective and individual accountability and responsibilities and the authorities delegated to them from the Group Board.

The Wates Principles highlight the importance of directors maintaining objectivity in complex situations. Directors have a duty to avoid conflicts of interest and disclose any interests and outside appointments. The Group Board has put in place procedures to resolve situations where a Director has a conflict of interest (which may include the need for conflicted Directors to recuse themselves from relevant Board discussions) and Directors have continuing obligations to update the Group Board on any changes to these conflicts. A record of actual and potential conflicts of interest is maintained by the Company Secretary and is subject to an annual review and attestation by each Director. No individual Director had a material interest at any time in any contract of significance with the Company or the Ardonagh Group other than their service contract or by virtue of their Investor Director status.

The terms of references for Board standing committees are regularly reviewed. A review of the terms of reference for the Group Risk and Audit Committees was undertaken during 2019 (the terms of reference for the Remuneration and Nomination Committees were undertaken in late 2018). The Group Risk and Audit Committees approved the recommended administrative changes highlighted by the reviews.

Principle 4 – *A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.*

In November 2019 the Group Board held an all-day strategy session to consider, and subsequently approve, the Group's strategy and 5-year plan that set out the opportunities to create and achieve sustainable organic and inorganic growth over the long-term. The Group Board has delegated authority to the Group CEO to approve investments up to £1m. Investments above £1m must be approved by the Investment Committee and the Board must approve all investments over £10m and all related party transactions irrespective of amount. Under the Amended and Restated Shareholders' Deed dated 22nd December 2018, shareholders must approve all investments above £50m and all related party transactions.

The risk management framework and how the Group Board exercises oversight over the identification and mitigation of risks is set out in the risk management section on page 11. The Group Board approved an enhanced risk appetite on 30th April 2019. The Group Risk Committee reviews performance against Group risk appetite and exercises oversight and challenge over performance against risk appetite and progress on risk mitigation action plans. In addition to the Group risk appetite, Segment Boards have approved their own risk appetites that incorporate the relevant sections of the Group risk appetite and include additional risk appetite statements that go into more detail over areas relevant to each business. Over the year, Segment Boards will exercise oversight and challenge over performance against risk appetite and progress on completion of risk mitigation action plans. There is a clear Escalation policy which articulates the type and severity of risk events that require escalation to Segment and Group executive management and Boards.

CORPORATE GOVERNANCE REPORT

Principle 5 – *A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.*

The Group Board seeks to ensure that remuneration is competitive, transparent and linked to individual, team, Business Segment and Group performance. The Group Remuneration Policy ensures that our remuneration structures support our strategy by:

- promoting sound and effective risk management through clear objective setting (that are monitored and measured).
- balanced scorecards for senior managers that include a range of financial and non-financial measures and are aligned with the Group's long-term strategic plans.
- non-financial measures include compliance behaviours and good customer outcomes.
- sales schemes are designed to incentivise the right compliance and customer outcome behaviours.
- role benchmarking, Business Standards and oversight exercised by the Group and Segment Remuneration Committees mitigates risk of inappropriate incentives and excessive rewards.

Employee salaries are reviewed annually. The Remuneration Committee considers and sets director fee levels for the Group and Segment Boards (relevant directors recuse themselves as appropriate and are not involved in the setting of their own salary and fees). Salary reviews take into account individual performance, Group performance and the underlying business environment. Remuneration is periodically and consistently benchmarked against relevant roles.

Remuneration strategies are expected to be devised with reference to issues identified in the Group gender pay gap report. Gender pay gap reporting is recorded and reported as a Group and management have taken a series of measures to encourage the promotion of diversity throughout the workforce and in senior leadership roles. This includes:

- Group-wide pilot of executive coaching and peer support programme for women leaders to encourage career progress, focus and accountability.
- a pilot Women in Leadership programme was delivered in September 2018 and attended by women from across the Ardonagh Group. Management are continuing to develop and grow our programmes to support the development of women leaders.
- flexible and remote working encouraged where appropriate including new focus on employees using their local office where possible instead of the central London office. A Group home working policy will be introduced across the Ardonagh Group in 2020 to further encourage and promote home working.
- maternity pay practices across the Group will be reviewed in 2020.

CORPORATE GOVERNANCE REPORT

Principle 6 – *Directors should foster effective stakeholder relationships aligned to the company's purpose. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.*

The Directors take seriously their responsibility to act in a way they consider, in good faith, promotes the success of the company for the benefit of its members as a whole and in doing so have regard to the likely consequences of any decision in the long-term, the interests of the company's employees, the need to foster the company's business relationships with suppliers, customers and others, the impact of the company's operations on the community and the environment, the desirability of the company maintaining a reputation for high standards of business conduct and the need to act fairly as between members of the company.

As explained under Principle 4 above, the Board considers the long-term consequences of its decisions and these are guided by a 5-year business plan, risk appetite and risk framework, which seek to ensure that the business plan is executed with due regard to our stakeholders and maintaining our high standards of business conduct. Having our two major shareholders represented on the Board means that shareholder engagement is strong and having three independent directors on the Board ensures the interests of minority shareholders and other stakeholders are considered in the Board decision making process. Ongoing engagement with our shareholders and bondholders is primarily exercised through the use of investor presentations and quarterly bondholder calls.

Key stakeholders also include our employees, customers, insurers and non-insurer suppliers, the communities in which we operate and our regulators. We engage with these stakeholders as follows:

Employees

The Board recognises that our talented employees are our biggest asset. Our recruitment, development and remuneration structures are designed to support our culture, our people, and reward good conduct and performance at the individual and business level. Our businesses focus on providing excellent working conditions and long-term development opportunities for staff through training and study support. An example of the approach our businesses take is the RESPECT programme within Carole Nash that focusses on Recruitment, Environment, Shifts, Pay, Engagement, Career and Training for call centre staff. Our commitment to treating people fairly and with respect is also evident when we undertake reorganisations and an example is given in the case study below in connection with the acquisition of Swinton.

As set out above under Principle 1, our culture is further supported by our Ardonagh values that are set out in our code of conduct that is also subject to all-staff mandatory training and readily available to all employees. We have a positive commitment and approach to whistleblowing, underpinning our pro-active actions to ensure safety at work and the fair treatment of all stakeholders. The whistleblowing arrangements include a confidential phone line, email and interactive website managed run by an independent third party.

Through the focus on our people we seek to foster an open and honest culture where our employees feel valued and trusted to do the right thing. Key to this is effective communication and engagement with our employees. Our Businesses all undertake regular communication and other engagement activities, including the annual AtlantaFest where all Retail staff come together to celebrate the business, listen to live bands and raise money for charity. Our first Group-wide employee pulse survey was undertaken in Q4 2019, which achieved an excellent 73% response rate. The results are promising and provides a baseline to help us continually improve. In January 2020 we considered the pulse survey scores across the businesses and the actions to be taken as a result of the survey to achieve further improvement in eight key priorities to drive positive employee experiences across the Group and in turn ensure the successful delivery of our business strategy and continued focus on providing good customer experiences and outcomes.

CORPORATE GOVERNANCE REPORT

Our People Commitments:

- attract and retain the best people by providing a high-performing, collaborative and flexible working environment, where people feel engaged with the Group and valued for their contribution.
- recruit people using fair and professional selection methods.
- provide a good onboarding experience and ongoing career support to give people the best possible start and return to work following periods of extended leave.
- develop the personal and professional skills and knowledge of all employees throughout their careers, helping them achieve their full potential within the Group.
- recognise achievements at all levels and provide opportunities for all our people to progress their career.
- reward people fairly within transparent and appropriate remuneration frameworks; remaining competitive and allowing for changing external factors.
- build a supportive culture which is inclusive, positive and fair; where opportunities are open to all, people can lead and are led effectively, and change is well managed.
- provide an environment where health, wellbeing and the importance of community are actively promoted, where people can bring their whole self to work.

The survey has highlighted a number of areas that evidence a strong baseline culture and an indication of the calibre of our people, which is increasingly becoming recognised by the industry, with Ardonagh being voted “Best of the Best Broker” by 3,000 leading insurance professionals at the British Insurance Awards in July 2019. Over 300 employees attended our 2019 annual employee “Spotlight” award event in March 2019 that celebrates and rewards excellent individual and team performances in delivering excellent service to our clients. A record-breaking 720 nominations have been received for the 2020 event.

Customers

Seeking good customer outcomes is central to the success of the business. Put simply, it’s what we always seek to achieve. Business Segments keep track of how our customers perceive our products and services and review our products and services to ensure they continue to meet the needs of our customers. Each Business Segment also undertakes root cause analysis on complaints to ensure that when things do go wrong, we are able to learn from them and improve our service and achieve good customer outcomes. During 2020 our businesses will be implementing and embedding an enhanced conduct risk framework and risk appetite that will further support the Group and Segment Boards in discharging effective oversight over how well we perform against key customer related metrics and ensure the customer remains at the heart of our decision making.

Case Study in considering stakeholders in decision making

The integration of Swinton was an area of key corporate activity in 2019. As part of the integration of Swinton, the Board decided to accelerate the Swinton branch closure programme. Branches were being closed due to the dramatic rise in on-line business and the fall in demand for a ‘bricks and mortar’ presence on the high street by customers. The costs of maintaining a high street presence was no longer sustainable.

The Board considered the branch closure programme and how it impacted key stakeholders. The programme focussed on colleagues, customers and landlords as the key stakeholders most impacted by branch closures.

Regarding colleagues, management ensured our people were managed with professionalism, empathy and respect throughout the closure programme. As part of a larger Group, a number of branch staff were offered and accepted positions within our businesses. For those who left the business, there was an extensive outplacement programme that supported them in finding alternative employment, including an outreach to other employers in the local area and regular open and honest communication and consultation. Overall, over 80% of colleagues affected secured a new role prior to leaving the business.

For customers, we ensured that we understood how each customer preferred to be contacted and tailored our communications accordingly. We also identified the customers that had a higher propensity to use our branches and contacted them proactively to ensure they knew how to contact us and also to help them through their first renewal process following the closure of their nearest branch. We also ensured that our call centres were adequately resourced to meet the higher demand following each branch closure.

Regarding landlords, we ensured that they were treated fairly when exiting leases with a clear communications programme and a dedicated option to contact us through our call-centre to ensure we could deal with any queries in a timely manner.

CORPORATE GOVERNANCE REPORT

Insurers

Insurers are fundamental to the success of the business. We regularly meet with our key insurance partners to discuss performance and ways in which we can enhance cover for customers. We also work together with our insurers to ensure our customers experience the best possible claims experience and identify and act on areas of improvement. By regularly engaging with insurers we seek to ensure continuity of capacity in order to service the needs of our customers. Feedback on insurer relationships are reported to our Segment Boards that provide oversight over how we actively manage potential conflicts of interest in our dealings with both insurers and customers. The Ardonagh Portfolio Solutions business established in 2019 will further support our businesses by helping them foster deeper and more long-term relationships across a diversified number of insurers to further drive innovation and enhance the products and services offered to our customers.

Our Suppliers

Our key non-insurer suppliers are also defined by the Group Outsourcing and Procurement Policy, which ensures that all key suppliers are identified and subject to appropriate monitoring and engagement – the level of which is dependent on the size and critical nature of the services supplied to the Group. We also have minimum due diligence standards to be performed before suppliers are engaged, which includes a requirement that suppliers have Corporate Social Responsibility and modern slavery policies that are at least as stringent as our own.

Regulatory relationships

The FCA is our principal regulator. The Board prioritises and supports a positive, open and transparent engagement with the FCA and all our regulatory relationships around the world. Ensuring the right ‘tone from the top’, and effective lines of communication and escalation, embeds this approach throughout the organisation. The Group and Segment Boards receive regular updates on regulatory engagements. We regularly participate in the FCA’s thematic reviews. We believe that a strong and open relationship with our regulators is a competitive advantage.

Community and sustainability

The Group’s UK registered charity, Ardonagh Community Trust (ACT) celebrated its second anniversary in October 2019. Over the last two years, ACT has allowed us to harness the collective power of The Ardonagh Group to help local communities become stronger, better and brighter. Through our match funding programme, which supports personal fundraising activity such as marathons and bake sales, over 167 employees had their chosen charity supported by ACT benefitting 72 charities as at 31 December 2019. Alongside match funding, ACT’s community grant programme awarded a total of 25 grants in 2019 which benefitted initiatives and organisations within communities closely linked to our employees. The grants covered a breadth of areas such as arts & culture, community development, education, healthcare, mental health, people in need and sport, and applications are submitted by teams and individuals across the Group.

In order to further support the communities our employees live and work in, the Group announced the introduction of one paid day per year from 2020 for all employees to encourage our people to give back through skilled or un-skilled volunteering to causes they care about.

ACT is in the second year of a two-year national partnership with Mind, the mental health charity. During 2019 ACT has achieved its target of raising £125,000 for Mind and it is anticipated that a total of £200,000 will be raised by the end of 2020. In addition to the money raised for Mind, the Group completed the following in 2019 to further support Mind and remove the stigma around mental health:

- we trained 250 people on our Mental Health Awareness course and 40 Mental Health First Aiders.
- launched a Teams site to enable our Mental Health First Aiders to network and support each other.
- supported Mental Health Awareness Week and World Mental Health Day.
- launched a dedicated page to mental health on our intranet.

Our commitment to minimising the impact of our activities on the environment is evidenced through:

- minimising waste by evaluating operations and ensuring they are as efficient as possible;
- actively promoting the importance of recycling both internally, where possible, and amongst our suppliers;
- encouraging alternative ways of travelling to work, e.g. car sharing, cycle to work, to reduce carbon emissions;
- using motion sensitive lighting in offices, where possible, to reduce wasted energy;
- apply technological developments to reduce staff travel thereby reducing emissions; and
- meeting or exceeding all the environmental legislation that relates to the Group.

CORPORATE GOVERNANCE REPORT

In 2019, we changed our travel booking supplier, which will enable us to collect data on the purpose of business travel and the CO2 impact. This will enable us to review our business travel and assist the development of a strategy to reduce our carbon emissions in 2020. The Group will be in scope for the Streamlined Energy and Carbon Reporting (SECR) environmental reporting requirements and the Directors look forward to being able to report on our UK (and UK offshore) energy use and related Scope 1 & 2 Greenhouse Gas (GHG) emissions in the 2020 Annual Report.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE REPORT

The Committee has remained focussed throughout 2019 on the integrity of external financial reporting, rigour of external and internal audit processes, and strengthening of internal control systems during another period of continued business transformation."

Clive Bouch

I am pleased to report on the Audit Committee's (the Committee) responsibilities and activities during the year.

The Committee's role

The Committee assists the Group Board in its oversight of the quality and integrity of the Group's external financial reporting. This includes reviewing the accounting policies and practices adopted, and the framework of internal controls and risk management systems in relation to financial reporting and the protection of client assets. We oversee the independence, objectivity and effectiveness of our external auditor and the audit process, including reviewing the nature and level of non-audit services. The Group Board has delegated authority to the Committee to approve the quarterly financial reporting on its behalf. The Committee also monitors the independence, effectiveness, resourcing, audit plans and work of the internal audit function.

The external auditor and the Head of Internal Audit have direct access to the Committee to report on the results of their work and raise any matters of concern. The Head of Internal Audit has a formal reporting line to me. The Committee also meets with the external audit engagement partner and the Group Head of Internal Audit without management being present, and I meet the external auditor and Head of Internal Audit regularly between Committee meetings. I work closely with the Group Chief Financial Officer and members of her team outside of formal meetings to ensure challenge and oversight of systems of internal financial control. I provide regular updates to the Group Board on the key issues discussed at Audit Committee meetings.

Composition

The Committee members during the year are set out on page 19. Christine Dandridge stepped down from the Committee during the year and I would like to thank her for her significant contribution during her tenure.

In addition to the Committee members, meetings are attended by the Group Board Chairman, Chief Executive Officer, Chief Financial Officer, Group Head of Internal Audit and senior representatives of the Company's external auditors. Other members of the Group and Segment leadership teams attend meetings when invited by the Committee.

Activities during 2019

The Committee's principal activities included review of:

- the annual and quarterly reports and financial statements
- significant financial reporting judgements and estimates, including a review of the accounting provision relating to ETV liabilities
- projections and analysis supporting the going concern basis of accounts preparation
- the effectiveness of the external audit and the auditor's independence
- internal and external reports on the Group's regulated entities' controls and reporting in respect of client assets
- matters raised in the external auditor's management letter and management's responses thereto
- the internal audit work-plan, findings and management's responses thereto

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE REPORT

Significant financial reporting matters

In conjunction with Ardonagh Group management and the external auditors, the Committee reviewed the annual and quarterly reports and accounts, the appropriateness of the accounting policies adopted and the going concern basis of preparation prior to their approval by the Group Board. The Committee challenged the judgements made by management and the assumptions and estimates on which they were based. This included receiving a report from management on the economic and business consequences of Covid-19 outbreak and related disclosures.

Risk management and internal control

The Audit Committee and Group Risk Committee together provide an important contribution in overseeing the effectiveness of the Group's system of risk management and internal control. The Committees receive regular reports from management, external audit, internal audit, compliance and risk management functions. The Committees provide constructive challenge and encourage and support continuous improvement.

Internal audit

Internal Audit's 2019 annual plan and resourcing was reviewed and approved in December 2018 and kept under review during the year. The Committee has received reports on progress against the plan regularly throughout the year and the Committee has approved revisions considered appropriate.

The Internal Audit plan is based on a risk assessment of the business and its strategy, top risks, core systems and control assessments. During the year internal audit's work included reviews in respect of the new risk management framework, conduct risk, cyber response planning, preparations for the senior managers and certification regime, and controls in relation to joiners, movers and leavers, together with other focussed audits of particular business areas.

The Committee approved the 2020 annual Internal Audit plan and resourcing in December 2019 alongside the annual Compliance Assurance Plan to ensure both plans are aligned and effective.

External audit

The audit engagement partner and senior members of the engagement team attended meetings during the year, providing detailed reports on the audit plan, audit quality, resourcing, auditor independence, key audit risks, work performed and results thereof. In line with good practice, the Committee conducted a formal effectiveness review of the external auditor, led by the Group Company Secretary, and including responses from Committee members, the Group finance function, Business segment CFOs and the chairs of Segment Board Risk & Audit Committees. The scope of the review included considerations of the auditor's expertise, independence and objectivity, level of engagement, service delivery, significant audit risks and audit approach, quality and timeliness of reports, and cost effectiveness. The final report concluded that the external auditor was effective and highlighted a number of areas of improvement, mostly around timeliness of reporting and opportunities for greater efficiency.

During 2019 the level of non-audit services amounted to £2.08m, compared to Group audit fees of £1.41m. The non-audit services break down as follows: audit related assurance services 20%, other assurance services 36% and services relating to future potential M&A transactions 44%. The Committee satisfied itself that for all non-audit services, robust controls (including appropriate levels of review) were in place to ensure that Deloitte's audit objectivity and independence were safeguarded. Deloitte have confirmed that the level and nature of non-audit fees and services provided have not affected their independence.

Clive Bouch
Chair of the Audit Committee

DIRECTORS' REPORT

The Directors have pleasure in presenting their Strategic Report, Directors' Report and the audited financial statements for the year ended 31 December 2019. The Corporate Governance Report on pages 16 to 29 forms part of this report.

General information and principal activities

Ardonagh Midco 3 plc (the Company) is a public company limited by shares with registered number 10735116. It is incorporated and domiciled in the United Kingdom. The address of its registered office is 55 Bishopsgate, London, England, EC2N 3AS.

Ardonagh Midco 3 plc is an intermediate company which issues debt on behalf of The Ardonagh Group Limited, and through its subsidiaries, and, through its subsidiaries, operates primarily to distribute insurance products, to act as an underwriting agent and to provide third party policy administration and claims services for insurers, corporations, affinity partners and brokers. The Group does not take on any insurance risk.

Information regarding the ultimate parent company can be found in note 35 of the consolidated financial statements.

Share capital and dividends

The issued share capital of the Company, together with details of shares issued during the year is shown in note 32 to the consolidated financial statements.

The Directors do not propose a dividend to equity shareholders (2018: £nil).

Directors

The Directors who held office during the year were as follows:

John Tiner *

Scot French

David Ross *

Pat Butler *

Christine Dandridge (resigned 11 June 2019)

Feilim Mackle (resigned 11 June 2019)

Vahe Dombalagian

Matthew Raino (resigned 11 June 2019 and appointed an alternate director for Vahe Dombalagian)

Aurelio Cusaro (resigned 11 June 2019 and appointed an alternate director for Scot French)

Matthieu Boulanger (resigned 11 June 2019)

Clive Bouch *

Diane Cougill *

* These directors will retire at the next annual general meeting and, being eligible, offer themselves for re-election

All Directors benefit from qualifying third-party indemnity provisions in place during the financial year and at the date of this report.

DIRECTORS' REPORT

Employees

Details of how we engage with our employees is set out on page 24.

Employment of disabled persons

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

Political contributions

The Group made no political contributions during the year.

Subsequent events

On 28 February 2020, the Group completed the purchase of certain business and assets held by Rural Insurance Group Limited. The consideration paid was £23.5m cash.

During the first quarter of 2020, the Group has also exchanged contracts (but not yet completed) in relation to its intention to purchase, subject to regulatory conditions including change of control approvals, the following:

- The entire issued share capital of Bennetts Motorcycling Services Limited for £26m.
- The entire issued share capital of a target company registered in Ireland for EUR 25.2m.

Disclosure of information to auditors

The Directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Appointment of Auditors

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board



D Cougill
Director
22 April 2020

STATEMENT OF DIRECTORS RESPONSIBILITIES

The Directors are responsible for preparing the Group and parent company financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the EU and have elected to prepare the parent company financial statements in accordance with UK accounting standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Company law requires the Directors to prepare Group financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently.
- make judgements and estimates that are reasonable, relevant and reliable.
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- assess the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- use the going concern basis of accounting unless they either intend to liquidate the Group or Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

SECTION 2

ARDONAGH MIDCO 3 plc

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARDONAGH MIDCO 3 PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Ardonagh Midco 3 plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of profit and loss and other comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows; and
- the related notes, including the accounting policies presented in note 3.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, 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.

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Enhanced Transfer Values ('ETV') provision;
- Going concern and impact of Covid-19;
- Goodwill impairment;
- Revenue recognition – Estimation of Variable Consideration reported in Commissions and fees and revaluation of the trail commission asset acquired with Swinton ("Swinton Monthly Products asset") reported in Other income;
- Assets under construction;

	<ul style="list-style-type: none"> • Presentation of Alternative Performance Measures ('APMs'); • Broker Network – Valuation of deferred proceeds financial liability; and • Deferred Tax Assets ('DTAs').
Materiality	The materiality that we used for the group financial statements was £5.1m which was determined on the basis of reported Total Income.
Scoping	Scoping coverage included 9 entities subject to full scope audits and a further 7 subject to the audit of specified account balances. These scoped in entities represent 94% of group commission and fee revenue and 93% of group total assets.
Significant changes in our approach	<p>There have been no significant changes to our audit approach compared to the prior year except for changes in key audit matters as described below.</p> <p>In the current year new key audit matters were identified for Assets under construction and Deferred Tax Assets. A key audit matter identified in the prior year for provisions for credit exposures in Insurance Broking Accounts ('IBA') balances has not been identified as a key audit matter in the current year.</p>

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In the current year new key audit matters were identified for Assets under construction and Deferred Tax Assets. The key audit matter, scope of our audit work and conclusion for these are presented below.

The focus of the revenue recognition key audit matter in the current year was changed to the estimation of variable consideration and revaluation of the Swinton Monthly Products asset, from IFRS 15 transition in the prior year.

A key audit matter identified in the prior year for provisions for credit exposures in Insurance Broking Accounts ('IBA') balances has not been identified as a key audit matter in the current year. Through 2019 management has continued to make progress in monitoring and resolving

legacy credit exposures in IBA balances. As such it is no longer considered a key audit matter in the current year.

The other key audit matters are consistent with the prior year.

Enhanced Transfer Values ('ETV') provision	
Key audit matter description	<p>Following the 2014 Financial Conduct Authority (FCA) review of the suitability of bulk pension transfer advice by financial advisors where employers offered an enhancement on the value of their defined benefit fund to transfer out, the Group has an obligation to provide customer redress in respect of the ETV pension advice given to customers of the Towergate Financial business. At 31 December 2019 management estimated the total cost of the ETV settlements as £63.5m with a provision remaining of £47.6m (2018: £51m).</p> <p>Management continue to review a significant population within the overall active population of cases to identify a "causal link" between the advice given when the product was sold and the actions of the customer under guidelines provided by the FCA.</p> <p>Key assumptions within the provision estimate are:</p> <ul style="list-style-type: none"> • the assumed rate of redress across the population based on management's sample of reviews carried out to date; and • the estimate of average redress per customer where it is concluded a case is due redress. <p>In determining the average redress per customer, management engaged an actuarial expert.</p> <p>The related ETV disclosures provide the key assumptions that underpin the provision estimate and the sensitivity of the provision to these key assumptions.</p> <p>Refer to Note 4 to the financial statements (Key sources of estimation uncertainty) and Note 31 to the financial statements (Provisions).</p>
How the scope of our audit responded to the key audit matter	<p>We have gained an understanding of the end to end ETV provision calculation process and obtained an understanding of relevant controls.</p> <p>In addition we performed the following audit procedures:</p> <ul style="list-style-type: none"> • we made enquiries of management to understand how they determined the various components and key assumptions included within the provision estimate, including: <ul style="list-style-type: none"> ◦ the total redress case population and disaggregation into populations of similar attributes; ◦ the identification of cases concluded as requiring redress for each population; and ◦ the estimate of average customer redress based on assumptions applied to each population. • We reviewed the output of the Reasonable Assurance engagement over management's causal link assessment of requirement to redress; • We inspected correspondence with the FCA to identify regulatory

	<p>observations in relation to the ETV redress process and progress of management's work to date;</p> <ul style="list-style-type: none"> • We performed subsequent events testing to evaluate the causal link assumption applied to the applicable active population based on the additional case file reviews carried out after year end; • We tested the completeness and accuracy of data inputs into the provision calculation through agreeing customer file conclusions to calculation inputs; and • We reviewed management's financial statement disclosure for appropriate presentation of key assumptions and the uncertainties in the determination of the ETV provision. <p>With the involvement of our pension actuarial specialists:</p> <ul style="list-style-type: none"> • We reviewed the reasonableness of the estimate of average customer redress assumption used in calculating the ETV provision; and • We evaluated the competence, capabilities and objectivity of management's expert.
Key observations	<p>We concluded that the ETV provision recorded by management is reasonable and the key assumptions used in the underlying valuation are also reasonable.</p> <p>We considered that the disclosures in relation to the ETV provision in Notes 4 and 31 to the financial statements are appropriate.</p>
Going concern and impact of Covid-19	
Key audit matter description	<p>Management makes an assessment of the Group's ability to continue as a going concern, taking into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue.</p> <p>As at 31 December 2019 the Group has debt (current and non-current) amounting to £1.14bn (2018: £1.14bn) following the issuance of £400m and \$520m senior secured notes to refinance debt and to finance a number of acquisitions in June 2017, and a further issue of \$235m of senior secured notes in November 2018, with the proceeds used to acquire the Swinton Group.</p> <p>The Group also continues to benefit from the availability of the Revolving Credit Facility (RCF), and also the Letter of Credit (LOC) issued in October 2018 to support the Group's ETV pension redress.</p> <p>The Group's senior secured notes and other sources of debt require significant annual finance costs of £113.6m (2018: £94.7m), which are considered within year end forecast cash flows.</p> <p>As part of their going concern assessment, the Directors have considered the principal risks facing the Group, including the potential financial and operational impacts of Covid-19, and its systems of risk management and internal control. In the light of the economic uncertainty caused by Covid-19 the Directors have considered cumulative stresses to their 2020 base case budget of a net reduction in cashflows of over £100m in 2020 and further reductions in 2021. These result from:</p> <ul style="list-style-type: none"> • A sustained 20% shortfall in base case projected income in 2020 and 15% in 2021.

	<ul style="list-style-type: none"> • A 10% deterioration in base case cash conversion rates over and above the fall in income. • A 15% deterioration in the quantum and acceleration of the settlement of the ETV liabilities compared to the base case. • Mitigating actions within management control including delayed capital expenditure, a reduction in discretionary spend and some reduction in employee headcount and remuneration. <p>The Directors' reverse stress testing further indicates that revenues would need to decline by up to 30% compared to base case in each of the next 7 quarters, offset by slightly higher discretionary cost cuts and headcount reductions (but still assuming that the cost base does not reduce at the same speed as income) to reach the Group's liquidity limits.</p> <p>Auditing the going concern assessment involved subjective judgement and an increased extent of effort, including the need to make additional enquiries of management outside of the finance function.</p> <p>Refer to Note 2 to the financial statements for the basis of preparation.</p>
How the scope of our audit responded to the key audit matter	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> • We reviewed and challenged key assumptions underpinning cash flow forecasts, the stresses applied and the reverse stress test. In particular we compared market assumptions with other insurance brokers and consulted with our insurance industry specialists. We challenged stresses applied to revenues; mitigating cost actions within management's control and tested the availability of the Revolving Credit Facility (RCF); • We made enquiries of senior management in relation to their assessment of the operational impacts of Covid-19 on the Group, including enquiries in relation to business resilience; • We performed an analysis of the Group's prior year and year to date actual cash flows against management's forecasts; • We inspected correspondence between the Group and its regulators related to the Group's responses to the emergence of Covid-19; and • We reviewed financial statement disclosures in respect of going concern for transparency and inclusion of all facts and circumstances of which we are aware through the performance of the audit work.
Key observations	<p>We agree with the Directors' conclusion in respect of the going concern basis (as set out in Note 2 to the financial statements) and we consider the disclosure of the potential impact of Covid-19 in the financial statements to be appropriate.</p>
Goodwill impairment	
Key audit matter description	<p>Goodwill arising on business combinations is a significant asset on the balance sheet of the Group £732.5m (2018: £678.8m). As required by IAS 36 <i>Impairment of Assets</i>, goodwill is tested for impairment at least annually.</p> <p>During 2019 management continued to monitor goodwill at the operating segment level. Determining whether goodwill is impaired requires an estimation of the recoverable amount of each operating segment, using</p>

	<p>the higher of value in use (VIU) and fair value less costs to sell (FVLCS).</p> <p>The estimated recoverable amount is subjective and calculated using a valuation model underpinned by key assumptions including forecast cash flows, discount rates and long term growth rates.</p> <p>Both a VIU and FVLCS approach was used to assess the recoverable amount of all operating segments.</p> <p>We focused our testing on the operating segments where performance was below plan through 2019 and where limited headroom exists such that on calculating the recoverable amount there is increased risk of impairment.</p> <p>Refer to Note 4 to the financial statements (Key sources of estimation uncertainty) and Note 13 to the financial statements (Intangible assets).</p>
How the scope of our audit responded to the key audit matter	<p>We have gained an understanding of management's process for performing the annual impairment test and obtained an understanding of relevant controls.</p> <p>In addition we performed the following audit procedures:</p> <ul style="list-style-type: none"> • We performed a sensitivity analysis on forecast growth rates applied to segments with limited headroom and where a higher risk of impairment exists; • We challenged the assumptions used in the annual impairment review, in particular forecast growth rates applied to each operating segment within the five year business plan through assessing segment strategies and planned business development. We focused our testing on operating segments where performance was below plan in 2019 and where limited headroom exists such that on calculating the recoverable amount there is increased risk of impairment; • We tested the accuracy of management's impairment model; • We performed an assessment of actual current period cash flows against prior period forecasts to assess the accuracy of managements forecasting; and • With the involvement of our valuation specialists we reviewed and challenged key assumptions within the valuation model, including discount rates and price-earnings multiples including benchmarking these against external peer group data.
Key observations	<p>We considered that management's conclusion that no impairment is required as of 31 December 2019 is reasonable.</p> <p>The forecasts used in the annual impairment exercise were consistent with the most recent financial forecasts approved by the Board. Key assumptions including discount rates and growth rates used within business forecasts are reasonable.</p>
Revenue recognition – Estimation of variable consideration and revaluation of the trail commission asset acquired with Swinton ("Swinton Monthly Products asset")	
Key audit matter description	<p>In accordance with ISA 240, during the year ended 31 December 2019 we identified a risk of fraud in revenue recognition, Commissions and fees £640.7m (2018: £521.9m) and Other Income £22.2m (2018: £2.6m), in relation to two sources of material revenue within the Group being:</p>

Estimation of variable consideration – Components of the Group recognise income from profit share arrangements and trading deals. Revenue recognised under these arrangements is dependent on satisfying its performance obligations per underlying agreements and the amount and timing of revenue recognition is inherently uncertain. Management apply judgement in estimating the related variable consideration, which is measured on a best estimate basis through applying assumptions including loss ratios and claims handling costs; and

Revaluation of Swinton monthly products asset – The Swinton business acquired on 31 December 2018 has significant trail commissions arising from certain products that renew monthly. Under acquisition accounting the amounts receivable were estimated and fair valued using a discounted cashflow model over the expected life of each type of product. At the year end, this receivable is revalued and any revaluation gains are recorded as Other income. Management applies judgement in calculating the present value of future cash flows, including past experience, a best estimate of any associated risks, product lifetime restrictions, expected customer cancellation profiles and potential persistency of products. We focus our testing on the most judgemental assumptions being the customer cancellation profiles and product lifetime restrictions.

Refer to Note 3 to the financial statements (Accounting policies), Note 4 to the financial statements (Key sources of estimation uncertainty) and Note 5 to the financial statements (Segmental analysis).

How the scope of our audit responded to the key audit matter

We have gained an understanding of management's process for recording revenue across the Group's components and obtained an understanding of relevant controls.

In addition we performed the following audit procedures:

Estimation of variable consideration:

- Reviewed corroborating and contradictory third party evidence;
- Tested the appropriateness of input data such as Loss Ratios and Earned Premium amounts;
- Reviewed evidence after the balance sheet date to confirm the reliability of the year end estimate; and
- Challenged the appropriateness of management's assumptions in calculating the estimate.

Revaluation of Swinton monthly products asset:

- With the involvement of our modelling specialists we "built" a model in accordance with management's accounting policy to recalculate the fair value of the Swinton monthly products asset;
- We tested the completeness and accuracy of data inputs into the model through agreement of a sample to policy documentation; and
- We challenged management on key assumptions included within the model being the product lifetime restrictions and customer cancellation profiles. We tested the accuracy of the 2019 customer cancellation forecast made at the end of 2018 with a hindsight analysis.

Key observations	<p>We concluded estimated variable consideration balances recorded by management are appropriate.</p> <p>We concluded that the cancellation profiles, supported by retrospective analysis of the cancellation profiles forecast for 2019 are reasonable.</p> <p>We concluded that the expected product lifetime restrictions used in the valuation are reasonable.</p>
Assets under construction	
Key audit matter description	<p>The Group has invested significantly in improving IT infrastructure and software. This has resulted in capitalisation of costs and creation of internally generated intangible assets on the balance sheet recognised as "assets under construction" of £7.7m (2018: £26.5m).</p> <p>Under IAS 38 <i>Intangible Assets</i> research costs are expensed whilst development costs can be capitalised. Management are required to assess the difference between research costs and development costs, which is an area of judgement.</p> <p>We focused our testing on costs which have been capitalised in the year as development costs and whether assets under construction remain at year end or whether assets are in use and should therefore be recognised as a completed asset and be amortised.</p> <p>Refer to Note 13 to the financial statements (Intangible assets).</p>
How the scope of our audit responded to the key audit matter	<p>We have gained an understanding of management's process for developing internally generated intangible assets and obtained an understanding of relevant controls.</p> <p>In addition we performed the following audit procedures:</p> <ul style="list-style-type: none"> • We challenged management on the rationale for assets that have been recognised as under construction for an extended period of time; • We reviewed management's assessment of research costs versus development costs to assess compliance with IAS 38 and its application to a sample of projects; • We performed substantive testing on a sample of projects and costs agreeing to supporting documentation; and • We assessed the appropriateness of disclosures within the annual report.
Key observations	<p>We concluded the assets under construction balance recorded by management is appropriate.</p>
Presentation of Alternative Performance Measures ('APMs')	
Key audit matter description	<p>Adjusted EBITDA is a key metric that management use to assess the quality of the Group's earnings. It removes adjusting items ("Items excluded from Adjusted EBITDA"), being significant acquisition and disposal related items and other costs associated with the ongoing transformation of the Group. Pro formas are presented as if the significant acquisition and disposal related transactions occurred on the first day of</p>

	<p>the comparative period.</p> <p>The Group reports Items excluded from Reported Adjusted EBITDA of £65.9m (2018: £79.6m), and Adjusted EBITDA pro forma for completed transactions of £69.8m (2018: £116.8m) in the Annual Report.</p> <p>This measure and other such non-GAAP measures used are Alternative performance measures ("APMs"). An APM is defined by European Securities and Markets Authority ("ESMA") as "a financial measure of historical or future performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework (e.g. EU-adopted IFRS) applied by the entity".</p> <p>The Group has in place adjusting items definitions (see Glossary in Section 3 of the Annual Report) and a risk exists that this is not consistently applied across the Group. In addition, there is a risk that these adjusting items are not clearly disclosed and undue prominence is given to APMs compared to the statutory results of the Group within the financial statements.</p> <p>Refer to section 1 of the annual report (Summary of Group Financial Performance) and section 3 of the annual report (Other unaudited financial information).</p>
How the scope of our audit responded to the key audit matter	<p>We have gained an understanding of management's process for identifying adjusting items across the Group and obtained an understanding of relevant controls.</p> <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> • We tested management's calculation and reporting for a sample of Items excluded from Adjusted EBITDA to assess consistency with the Group's published definitions and policies for these items set out in the Glossary in Section 3 of the Annual Report; • We considered and assessed whether the use of APMs in the Group's Annual Report is consistent with the guidelines produced by regulators such as the European Securities and Markets Authority ("ESMA") guidelines on the use of APMs, and the FRC Alternative Performance Measures Thematic Review published in November 2017; • We considered whether there is an appropriate balance between the use of statutory metrics, Pro Forma Adjusted EBITDA and other APMs, together with clear definitions and reconciliations within the Annual Report; • We considered the prominence given to Pro Forma Adjusted EBITDA and other APMs relative to the Group's statutory results; and • We considered whether Pro Forma Adjusted EBITDA and other APMs were consistently applied in the current year Annual Report and as presented in the prior year annual report.
Key observations	<p>Our sample of items presented as adjusting were concluded as being in accordance with the Group's definitions.</p> <p>We considered that the Group's use and presentation of Alternative Performance Measures was acceptable and consistently applied.</p>

Broker Network - Valuation of deferred proceeds financial liability

Key audit matter description

In January 2018 the Group disposed of its shareholding in Broker Network to a related party investment vehicle, backed by funds managed by the Group's two largest shareholders.

Cash consideration of £30m was received for the shareholding which included a fair value component at the point of sale of £10m, and a future expected value component of £20m. The original transaction agreement included a clawback mechanism, based on the future equity value generated by Broker Network, where if an anticipated return is not reached over a two year time horizon to 19 January 2020 (the "adjustment date"), the Group would have been required to compensate the purchaser up to a maximum of £31.2m.

In July 2019 an amendment to the original transaction agreement was made which altered the adjustment date to be the earlier of a majority sale or a date falling between 19 January 2020 and 30 September 2020. The clawback mechanism, based on the same terms as the original transaction agreement, could require the Group to compensate the purchaser up to a maximum £36.4m. A further amendment gives the Group the option to equity settle the liability.

In accounting for this transaction, management exercised significant judgement in determining:

- The achieved Internal Rate of Return ('IRR') at a date falling between 19 January 2020 and 30 September 2020 and hence the value of the clawback liability at that future adjustment date.

Refer to Note 4 to the financial statements (Key judgements and sources of estimation uncertainty) and Note 18 to the financial statements (Investment in associate and joint ventures).

How the scope of our audit responded to the key audit matter

We have gained an understanding of management's process for assessing the equity value of Broker Network and obtained an understanding of relevant controls.

We performed the following audit procedures:

- We reviewed Broker Network transactions throughout 2019 and obtained evidence for which aggregating deals had completed;
- We reviewed signed letters of intent (LOIs) for deals expected to be completed in 2020;
- We agreed data inputs into the valuation model to the budgets provided by Broker Network;
- We tested management's methodology and valuation approach in respect of the revaluation of the clawback liability at the balance sheet date 31 December 2019, and across a range of forecast valuation dates between 19 January 2020 and 30 September 2020 (it is noted management's intended settlement date is June 2020); and
- We reviewed financial statement disclosures for transparency and completeness of information.

Key observations	We concluded that the valuation of deferred proceeds financial liability recorded by management is reasonable.
Deferred Tax Assets	
Key audit matter description	<p>The 2018 financial statements disclosed an unrecognised deferred tax asset of £21m in respect of a corporate interest deduction disallowance arising from excess interest deductions.</p> <p>During the year management concluded that it was appropriate to amend the recognition of such deferred tax assets through a prior year restatement. A deferred tax asset of £22.5m is now recognised in the balance sheet at 31 December 2019 and £21.9m at 31 December 2018 in respect of excess interest deductions.</p> <p>Where suitable reversing taxable temporary differences exist, an entity is required to recognise a deferred tax asset up to the maximum level of interest deductibility that the reversal of the taxable temporary timing difference will create. A deferred tax asset in respect of interest deductions carried forward should be recognised even if the Group expects to generate further excess interest deductions. This approach had not been applied by the Group in the prior years.</p> <p>At 31 December 2018 and 2017 the Group recognised a deferred tax liability for intangibles arising on consolidation in respect of business combinations. The recovery of the intangible asset for its carrying value will produce taxable profits (being the same future cash flows supporting the carrying value, but for tax purposes no deductions are given for the amortisation); there is therefore a temporary difference on which a deferred tax liability is recognised.</p> <p>Under IAS 12 <i>Income Taxes</i>, to the extent that certain criteria are satisfied, the deferred tax liability for intangibles should be regarded as a source of future taxable profits in assessing deferred tax recoverability.</p> <p>In order to comply with this reassessment of the recognition of the deferred tax assets, management had to produce a detailed reassessment of deferred tax assets and objective sources of taxable income at 31 December 2017, 2018 and 2019.</p> <p>Refer to Note 30 of the financial statements (Current and Deferred Tax).</p>
How the scope of our audit responded to the key audit matter	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> • We assessed management's revised current and prior year approach to recognising DTAs; • We involved tax accounting specialists with the proposed prior year restatement assessment; • We tested management's approach to calculating the prior period restatement in accordance with the assessment criteria; and • We reviewed the relevant tax restatement disclosures in the financial statements for transparency.
Key observations	<p>We agree with the revised assessment of the recognition criteria applied to the deferred tax asset.</p> <p>We agree that this matter should be treated as a prior year restatement</p>

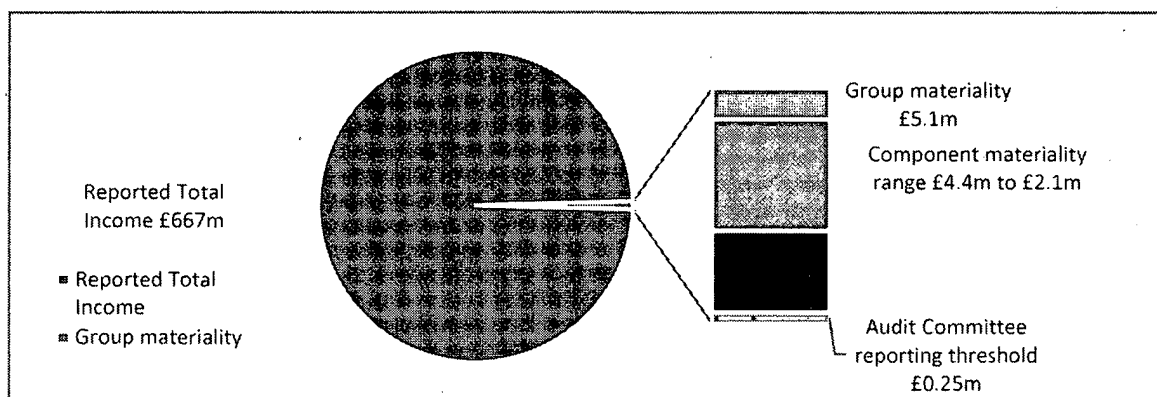
under IAS 8 *Accounting Policies, Changes in Estimates and Errors* and that the deferred tax assets recognised in the current and restated prior year financial statements are reasonable.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£5.1m (2018: £4.0m)	£4.4m (2018: £3.8m)
Basis for determining materiality	0.76% (2018: 0.76%) of Reported Total Income of the Group	1.2% (2018: 0.97%) of company Net Assets
Rationale for the benchmark applied	Reported Total Income is determined to be the key driver behind the performance of the group going forward and is therefore of key interest to the shareholders.	Net assets is determined to be the materiality benchmark given the activities of the company. A non-trading holding company with principle activities being to hold intercompany subordinated debt and investment in subsidiaries.



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 60% of group materiality for the 31 December 2019 audit (2018: 60%).

In determining performance materiality, we considered factors including: our risk assessment, including our assessment of the group's overall control environment and that we consider it is not appropriate to rely on controls over a number of business processes; and the level and nature of corrected and uncorrected misstatements in the prior year.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £255k (2018: £205k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

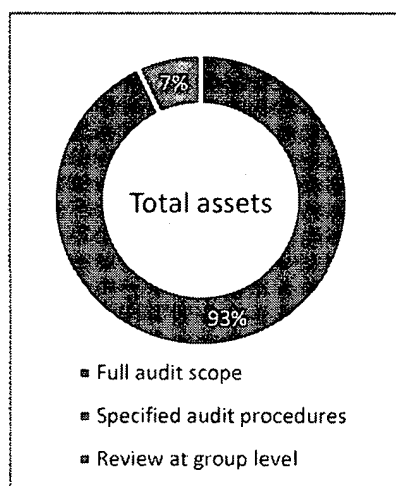
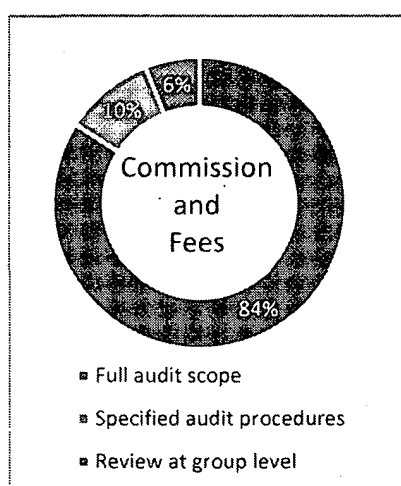
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Given the number of components and operating locations within the Group, we assessed the extent of audit work required to be performed to give appropriate coverage for the purposes of the Group financial statement audit.

Of the Group's 16 reporting components, we subjected 9 to full scope audits for Group purposes and 7 to specified risk-focused audit procedures. Those subjected to specified risk-focused audit procedures are not individually financially significant enough to require full scope audit for Group purposes, but did present specific areas of risk which needed to be addressed.

Work on 5 components was carried out by the Group audit team. Work on 11 components was carried out by component audit teams across the UK. We directed and supervised their work providing instructions setting out the scope of work to be performed for the purposes of Group sign off, and the form and content of the component auditor's communication with the group engagement team.

For residual balances, we performed an analysis at an aggregated Group level to reconfirm our assessment that there were no risks of material misstatement.



Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

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.

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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

We have nothing to report in respect of these matters.

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

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.



Andrew Downes (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
22 April 2020

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

		Year ended 31 December 2019 £000	Restated* Year ended 31 December 2018 £000
	Note		
Commission and fees	5	640,662	521,901
Other income	5	22,168	2,572
Investment income	5	2,657	2,106
Salaries and associated costs	5	(320,879)	(290,099)
Other operating costs	5	(227,863)	(208,150)
Impairment of financial assets	5	(14,465)	(5,061)
Depreciation, amortisation and impairment of non-financial assets	5	(95,713)	(71,284)
Adjustment to goodwill in respect of prior years	5	-	(3,095)
Fair value (loss)/gain on derivatives	5	(604)	2,485
Share of profit from joint venture	18	1,680	1,777
Share of profit from associate	18	217	-
Operating profit/(loss)		7,860	(46,848)
Adjustment to gain/gain on disposal of associate	5	1,750	7,482
Gain on disposal of business	11	2,244	19
Finance costs	8	(113,606)	(94,655)
Finance income	8	1,995	519
Loss before tax		(99,757)	(133,483)
Tax credit	12	29,987	33,011
Loss for the year		(69,770)	(100,472)
Attributable to:			
Owners of the parent		(73,594)	(104,529)
Non-controlling interests		3,824	4,057
Loss for the year		(69,770)	(100,472)

* The Group has recognised a deferred tax asset in its consolidated financial statements in relation to interest that is subject to interest restriction tax regulations and certain other tax attributes. A deferred tax asset is recognised on the basis that future taxable profits will arise in the consolidated financial statements as a result of the unwind of the deferred tax liability that was already included in those financial statements in relation to intangible assets recognised on a business combination. The adjustment increases deferred tax assets and decreases retained losses in the statement of financial position by £32.4m as at 31 December 2018 (1 January 2018: £23.5m), and it increases the tax credit in the income statement for the year ended 31 December 2018 by £8.9m.

The notes on pages 57 to 155 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Year ended 31 December 2019 £000	Restated* Year ended 31 December 2018 £000
Loss for the year	(69,770)	(100,472)
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations	318	-
Change in costs of hedging reserve	(2,153)	1,261
Change in cash flow hedging reserve	11,493	2,521
Income tax relating to these items	(1,588)	(1,159)
Other comprehensive income for the year	8,070	2,623
Total comprehensive loss for the year	(61,700)	(97,849)
Attributable to:		
Owners of the parent	(65,524)	(101,906)
Non-controlling interests	3,824	4,057
Total comprehensive loss for the year	(61,700)	(97,849)

* The Group has recognised a deferred tax asset in its consolidated financial statements in relation to interest that is subject to interest restriction tax regulations and certain other tax attributes. A deferred tax asset is recognised on the basis that future taxable profits will arise in the consolidated financial statements as a result of the unwind of the deferred tax liability that was already included in those financial statements in relation to intangible assets recognised on a business combination. The adjustment increases deferred tax assets and decreases retained losses in the statement of financial position by £32.4m as at 31 December 2018 (1 January 2018: £23.5m), and it increases the tax credit in the income statement for the year ended 31 December 2018 by £8.9m.

The notes on pages 57 to 155 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

		31 December 2019	Restated* 31 December 2018	Restated* 1 January 2018
	Note	£000	£000	£000
Non-current assets				
Intangible assets	13	1,112,194	1,095,203	1,102,781
Property, plant and equipment	14	26,168	37,008	31,690
Right-of-use assets	15	36,209	-	-
Investment in associates and joint ventures	18	7,420	3,340	8,119
Financial assets at fair value through other comprehensive income	25	271	271	268
Trade and other receivables	20	15,756	17,500	-
Contract assets	21	1,708	2,279	1,130
Other assets	22	9,037	3,706	9,579
Deferred tax asset	30	22,685	-	-
Derivatives	26	1,709	1,549	1,270
		1,233,157	1,160,856	1,154,837
Current assets				
Cash and cash equivalents	19	410,903	504,956	332,916
Trade and other receivables	20	198,771	286,716	134,151
Derivatives	26	4,532	2,929	-
Contract assets	21	9,801	10,315	13,938
Other assets	22	19,098	16,266	5,091
Financial assets at fair value through profit or loss	25	36	42	37
Current tax asset	30	204	-	930
Assets held for sale	11	3,735	26,753	-
		647,080	847,977	487,063
Current liabilities				
Trade and other payables	27	(461,040)	(552,883)	(369,470)
Borrowings	29	(44,149)	(39,895)	(71,286)
Lease liabilities	15	(10,084)	-	-
Premium financing liabilities	28	(4,341)	(72,072)	-
Derivatives	26	(1,970)	(3,529)	(3,743)
Contract liabilities	21	(26,829)	(15,400)	(11,973)
Provisions	31	(60,651)	(55,361)	(33,020)
Current tax liability	30	(517)	(387)	-
Liabilities held for sale	11	(1,754)	(1,976)	-
		(611,335)	(741,503)	(489,492)
Net current assets		35,745	106,474	(2,429)
Non-current liabilities				
Trade and other payables	27	(11,157)	(21,423)	(854)
Borrowings	29	(1,091,689)	(1,104,457)	(825,070)
Lease liabilities	15	(33,021)	-	-
Derivatives	26	(19,730)	(9,603)	(37,182)
Deferred tax liability	30	-	(1,018)	(36,328)
Contract liabilities	21	(1,471)	(2,425)	(3,743)
Provisions	31	(14,457)	(31,740)	(44,317)
		(1,171,525)	(1,170,666)	(947,494)
Net assets		97,377	96,664	204,914

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

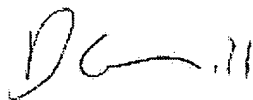
		31 December 2019 £000	Restated* 31 December 2018 £000	Restated* 1 January 2018 £000
	Note			
Capital and reserves attributable to the Group's shareholders				
Share capital	32	587,235	520,235	520,235
Capital contribution reserve	32	60,211	60,211	60,000
Retained losses**		(610,867)	(537,595)	(433,066)
Hedging reserve		1,806	(5,946)	(8,456)
Merger reserve		61,876	61,876	61,876
Non-controlling interest reserve		(7,377)	(2,495)	(6,533)
Foreign currency translation reserve		304	(14)	(14)
Shareholders' equity		93,188	96,272	194,042
Non-controlling interest		4,189	392	10,872
Total equity		97,377	96,664	204,914

* The Group has recognised a deferred tax asset in its consolidated financial statements in relation to interest that is subject to interest restriction tax regulations and certain other tax attributes. A deferred tax asset is recognised on the basis that future taxable profits will arise in the consolidated financial statements as a result of the unwind of the deferred tax liability that was already included in those financial statements in relation to intangible assets recognised on a business combination. The adjustment increases deferred tax assets and decreases retained losses in the statement of financial position by £32.4m as at 31 December 2018 (1 January 2018: £23.5m), and it increases the tax credit in the income statement for the year ended 31 December 2018 by £8.9m.

** The Group subsumed its share-based payment reserve, which was previously presented separately, within retained losses. The amount subsumed was £0.2m at 31 December 2018. The Group also reclassified amounts that relate to the purchase of own shares from retained losses to a treasury shares reserve. The amount of the reclassification is £0.1m at 31 December 2018.

The notes on pages 57 to 155 form an integral part of these consolidated financial statements.

This set of consolidated financial statements was approved by the Board of Directors on 22 April 2020 and was signed on its behalf by:



D Cougill
Director

FINANCIAL STATEMENTS

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

	Share capital £000	Capital contribution reserve £000	Retained losses* £000	Hedging reserve £000	Merger reserve £000
Restated* at 1 January 2019	520,235	60,211	(537,595)	(5,946)	61,876
Transition to IFRS 16	-	-	59	-	-
Adjusted at 1 January 2019	520,235	60,211	(537,536)	(5,946)	61,876
(Loss)/profit for the period	-	-	(73,594)	-	-
Other comprehensive income	-	-	-	7,752	-
	520,235	60,211	(611,130)	1,806	61,876
Share based payment scheme	-	-	263	-	-
Issue of convertible equity certificates	-	-	-	-	-
Issue of share capital	67,000	-	-	-	-
Transactions with non-controlling interest	-	-	-	-	-
At 31 December 2019	587,235	60,211	(610,867)	1,806	61,876
	Non- controlling interest reserve £000	Foreign currency translation reserve £000	Total share- holders' equity £000	Non- controlling interest £000	Total equity £000
Restated* at 1 January 2019	(2,495)	(14)	96,272	392	96,664
Transition to IFRS 16	-	-	59	42	101
Adjusted at 1 January 2019	(2,495)	(14)	96,331	434	96,765
(Loss)/profit for the period	-	-	(73,594)	3,824	(69,770)
Other comprehensive income	-	318	8,070	-	8,070
	(2,495)	304	30,807	4,258	35,065
Share based payment scheme	-	-	263	-	263
Issue of convertible equity certificates	-	-	-	-	-
Issue of share capital	-	-	67,000	-	67,000
Transactions with non-controlling interest	(4,882)	-	(4,882)	(69)	(4,951)
At 31 December 2019	(7,377)	304	93,188	4,189	97,377

FINANCIAL STATEMENTS

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

* The Group has recognised a deferred tax asset in its consolidated financial statements in relation to interest that is subject to interest restriction tax regulations and certain other tax attributes. A deferred tax asset is recognised on the basis that future taxable profits will arise in the consolidated financial statements as a result of the unwind of the deferred tax liability that was already included in those financial statements in relation to intangible assets recognised on a business combination. The adjustment increases deferred tax assets and decreases retained losses in the statement of financial position by £32.4m as at 31 December 2018 (1 January 2018: £23.5m), and it increases the tax credit in the income statement for the year ended 31 December 2018 by £8.9m. The Group also subsumed its share-based payment reserve, which was previously presented separately, within retained losses. The amount subsumed was £0.2m at 31 December 2018. The Group also reclassified amounts that relate to the purchase of own shares from retained losses to a treasury shares reserve. The amount of the reclassification is £0.1m at 31 December 2018.

The notes on pages 57 to 155 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital £000	Capital contribution reserve £000	Retained losses* £000	Hedging reserve £000	Merger reserve £000
Restated* at 1 January 2018	520,235	60,000	(433,066)	(7,985)	61,876
Transition to IFRS 9 and IFRS 15	-	-	-	(471)	-
Opening NCI adjustment	-	-	-	-	-
Adjusted at 1 January 2018	520,235	60,000	(433,066)	(8,456)	61,876
Loss for the period*	-	-	(104,529)	-	-
Other comprehensive income	-	-	-	2,623	-
	520,235	60,000	(537,595)	(5,833)	61,876
Distribution to non-controlling interest	-	-	-	-	-
Transactions with non-controlling interest	-	-	-	-	-
Reclassification of reserves	-	-	-	(113)	-
Capital contribution from parent	-	211	-	-	-
At 31 December 2018	520,235	60,211	(537,595)	(5,946)	61,876
	-	-	-	-	-
	£000	£000	£000	£000	£000
Restated* at 1 January 2018	(6,533)	(14)	194,513	11,212	205,725
Transition to IFRS 9 and IFRS 15	-	-	(471)	1,899	1,428
Opening NCI adjustment	-	-	-	(2,239)	(2,239)
Adjusted at 1 January 2018	(6,533)	(14)	194,042	10,872	204,914
Loss for the period*	-	-	(104,529)	4,057	(100,472)
Other comprehensive income	-	-	2,623	-	2,623
	(6,533)	(14)	92,136	14,929	107,065
Distribution to non-controlling interest	-	-	-	(192)	(192)
Transactions with non-controlling interest	3,925	-	3,925	(14,345)	(10,420)
Reclassification of reserves	113	-	-	-	-
Capital contribution from parent	-	-	211	-	211
At 31 December 2018	(2,495)	(14)	96,272	392	96,664

* The Group has recognised a deferred tax asset in its consolidated financial statements in relation to interest that is subject to interest restriction tax regulations and certain other tax attributes. A deferred tax asset is recognised on the basis that future taxable profits will arise in the consolidated financial statements as a result of the unwind of the deferred tax liability that was already included in those financial statements in relation to intangible assets recognised on a business combination. The adjustment increases deferred tax assets and decreases retained losses in the statement of financial position by £32.4m as at 31 December 2018 (1 January 2018: £23.5m), and it increases the tax credit in the income statement for the year ended 31 December 2018 by £8.9m. The Group also subsumed its share-based payment reserve, which was previously presented separately, within retained losses. The amount subsumed was £0.2m at 31 December 2018. The Group also reclassified amounts that relate to the purchase of own shares from retained losses to a treasury shares reserve. The amount of the reclassification is £0.1m at 31 December 2018.

The notes on pages 57 to 155 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Cash flows from operating activities			
Net cash inflow from operations	23	88,912	68,702
Interest paid		(2)	(40)
Interest received		1,995	516
Investment income		2,657	2,106
Income from joint venture	18	1,400	1,200
Tax received/(paid)		1,090	(528)
Settlement of forward contracts		(3,484)	(691)
Net cash inflow from operating activities		92,568	71,265
Cash flows from investing activities			
Acquisition of businesses net of cash acquired	16	8,827	(143,388)
Purchase of property, plant and equipment	14	(4,687)	(2,373)
Receipt from sale of property, plant and equipment		3,003	-
Purchase of intangible fixed assets	13	(13,284)	(19,735)
Purchase of shares in an associate		(1,483)	-
Disposal of associate		28,699	52,828
Disposal of business	11	-	(6,997)
Contingent consideration received		673	12,400
Contingent consideration paid		(1,712)	(7,310)
Lease incentives received		1,566	-
Repayment of lease receivable		519	-
Net cash inflow/(outflow) from investing activities		22,121	(114,575)
Cash flows from financing activities			
Proceeds from new loan notes		-	261,256
Proceeds from borrowings		-	15,000
Repayment of borrowings		-	(45,000)
Interest paid on borrowings		(95,242)	(79,038)
Net (repayments)/proceeds from premium financing	28	(67,730)	72,072
Debt transaction costs		(7,012)	(6,406)
Sundry loans issued		(8,347)	-
Interest paid on lease liabilities		(6,256)	-
Repayment of lease liabilities (2018: Finance lease liabilities)		(9,819)	(44)
Transactions with non-controlling interests		(4,304)	(4,518)
Settlement of shareholder loan notes		(4,589)	(4,867)
Net cash (outflow)/inflow from financing activities		(203,299)	208,455
Net (decrease)/increase in cash and cash equivalents		(88,610)	165,145
Cash and cash equivalents at the beginning of the year	19	504,956	332,916
Effect of movements in exchange rates on cash held		(5,443)	6,895
Cash and cash equivalents at the end of the year	19	410,903	504,956

Cash and cash equivalents includes restricted cash (see note 19 for details).

The notes on pages 57 to 155 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Ardonagh Midco 3 plc (the Company) was incorporated on the 21 April 2017 as a private company limited by shares with registered number 10735116. It is incorporated and domiciled in the UK. The Company became a public company on 19 May 2017. The address of its registered office is 1 Minster Court, London, EC3R 7AA. The principal business activities of the Company and its subsidiaries are described in the Directors Report.

2 Basis of preparation

The consolidated financial statements comprise the Company and its subsidiaries (the Group) and have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU-adopted IFRS) and the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements are presented in GBP sterling (£).

Amounts shown are rounded to the nearest thousand, unless stated otherwise.

The consolidated financial statements have been prepared under the historical cost convention, as modified to use a different measurement basis where necessary to comply with IFRS.

The Directors have considered the guidance of the UK Financial Reporting Council and events relating to the spread of coronavirus (Covid-19) and have treated this as a non-adjusting subsequent event in these financial statements.

Going concern

The financial statements of the Group set out on pages 49 to 56 have been prepared on a going concern basis. At 31 December 2019, the Group had net assets of £97.4m (31 December 2018 restated: £96.6m) and net current assets of £35.7m (31 December 2018 restated: £106.5m). The Group reported an operating profit of £7.9m for the year ended 31 December 2019 (31 December 2018: operating loss £46.8m), net cash inflows from operating activities of £92.6m (31 December 2018: £71.3m) and cash outflows of £88.6m (31 December 2018: £165.1m inflows). Operating cash conversion of 90% was reported (2018 80%).

The Directors consider the going concern basis to be appropriate following their assessment of the Group's financial position and its ability to meet its obligations as and when they fall due. In making the going concern assessment the Directors have taken into account the following:

- The current capital structure and liquidity of the Group (see Strategic Report: Liquidity and Capital Resources on page 9) and its base case and stressed cash flow forecasts over the calendar years 2020 and 2021.
- The principal risks facing the Group, including the potential financial and operational impacts of Covid-19, and its systems of risk management and internal control.
- Improved operating cashflow during 2019.

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

- The Group continues to benefit from the Revolving Credit Facility of £120m. With effect from 1 December 2019, the contractual limitation on the amount that may be utilized of the Group's RCF was removed. As at 31 December 2019, the RCF facility capacity was £120m and undrawn. On 18 March 2020 the Group's RCF facility was extended to £170m, of which £70m was drawn. Permissible RCF drawings are limited by the Group's credit facility basket.
- Following the commencement of the main settlement of the ETV liabilities during the third quarter of 2019, the Group completes the majority of the settlement by the end of 2020.
- Client retention and renewal rates are expected to be robust, despite the likely economic downturn.

Key stress scenarios that the Directors have considered include cumulative stresses to the base plan of a net reduction in cashflow of over £100m in 2020 and further reductions in 2021. This results from:

- A sustained 20% shortfall in base case projected income in 2020 and 15% in 2021.
- A 10% deterioration in base case cash conversion rates over and above the fall in income
- A 15% deterioration in the quantum and acceleration of the settlement of the ETV liabilities compared to the base case.
- Mitigating actions within management control including delayed capital expenditure, a reduction in discretionary spend and some reduction in employee headcount and remuneration.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation (continued)

Our stress testing further indicates that revenues would need to decline by up to 30% compared to base case in each of the next 7 quarters, offset by slightly higher discretionary cost cuts and headcount reductions (but still assuming that the cost base does not reduce at the same speed as income) to reach our liquidity limits. The Directors consider these stress conditions to be a remote scenario.

Other mitigations which may be possible but have not been included in the above analysis include seeking shareholder support and further incremental and more prolonged cost reductions.

The Directors have also considered the wider operational consequences and ramifications of the Covid-19 pandemic.

- Business Continuity Plans are in place across each of the Group's operating segments, with measures to manage employee absences, access to the wider network of over 80 offices, the efficiency and stability of the Group's infrastructure and the ability for home working for a significant portion of our employee base. Leadership teams and working groups led by senior managers are in place to support operational resilience and taking common-sense precautions with a view to ensuring the wellbeing of colleagues. We continue to review this approach on a daily basis in line with latest global developments and government guidance.
- Insurance broking is a resilient and defensive market, which has historically had limited impact from past economic or capital market downturns. Ardonagh is highly diversified and not materially exposed to a single carrier, customer or market sector.
- Although Covid-19 developments are fluid, the stress testing demonstrates the Group's financial resilience and operating flexibility.

Following the assessment of the Group's financial position and its ability to meet its obligations as and when they fall due, including the potential financial implications of the Covid-19 pandemic included in stress tests, and the wider operational consequences and ramifications of the pandemic, the Directors are not aware of any material uncertainties that cast significant doubt on the Group's ability to continue as a going concern.

3 Accounting policies

The accounting policies adopted are consistent with those of the previous financial year with the exception of new standards effective from 1 January 2019 as described in 'Application of new and revised International Financial Reporting Standards' (section (s) below). Additional accounting policies have been incorporated in 2019 as necessary as a result of transactions and acquisitions during the year.

(a) Basis of consolidation

The Group consolidates those investees that it is deemed to control, referred to as subsidiaries. The Group has control over an investee if all three of the following are met: (i) it has power over the investee, (ii) it is exposed to, or has rights to, variable returns from its involvement with the investee, and (iii) it has ability to use its power over the investee to affect the amount of its own returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group. The assets, liabilities, profits and losses of the subsidiary are added line by line to those of the Group.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

Accounting for business combinations

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, and liabilities and contingent liabilities assumed, in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related costs, except costs to issue debt or equity securities, are expensed as incurred.

If a business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Subsequent changes to the fair value of contingent consideration that is deemed to be an asset or liability are recognised in accordance with IFRS 9 'Financial Instruments' in profit or loss, unless the changes occur during the 'measurement period' of up to one year following the acquisition date and are the result of additional information that the acquirer has obtained after the acquisition date about facts and circumstances that existed at the acquisition date. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Disposal of subsidiaries

Where the Group disposes of its controlling interest in a subsidiary, the assets and liabilities are derecognised along with any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Goodwill

Goodwill is initially measured as the excess of the fair value of the consideration transferred and of the non-controlling interest over the fair value of the net of the identifiable assets acquired and liabilities assumed. If goodwill is negative (i.e. a shortfall instead of an excess), it is recognised in profit or loss.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash generating units for the purposes of impairment testing.

Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in the loss of control are accounted for as equity transactions.

(b) Investments in associates and joint ventures

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements as a single line in each of the statement of financial position and the statement of profit or loss using the equity method of accounting. The consolidated statement of financial position therefore includes investment in associates measured at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of the investment, but the carrying amount cannot fall below zero. The consolidated income statement includes a share of the profit or loss of the associate.

Joint arrangements

The Group applies IFRS 11 'Joint Arrangements' to all joint arrangements. Investments in joint arrangements are, as required by IFRS 11, classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and has determined them to be joint ventures. Joint ventures are accounted for using the equity method, in a similar manner to associates.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

(c) Intangible assets

Customer relationships

Customer relationship intangible assets are recognised on a business combination because the acquirer is able to benefit from selling future new business through existing relationships. Their fair value is calculated as the sum of the present value of projected cash flows in excess of returns on contributory assets over the life of the relationship with the customers. These assets are amortised on a straight-line basis over their estimated useful lives of between 6 and 17 years, which is estimated by reference to the history of the relationships and levels of attrition.

Distribution network

Distribution network intangible assets are recognised on a business combination because the acquirer is able to benefit from already established distribution channels. Their fair value is calculated as the sum of the present value of projected future cash flows generated by existing distribution channels. These assets are amortised on a straight-line basis over their estimated useful lives of 10 years, which is estimated by reference to the history of the relationships and levels of attrition.

Brand

Brand intangible assets are recognised on a business combination because they are separable or arise from contractual or other legal rights. Their fair value is calculated as the sum of the present value of projected royalty payments that would be paid to licence the right to use the brand. These assets are amortised on a straight-line basis over their estimated useful lives of between 2 and 15 years, which considers the Group's track record of retaining brands and experience of the insurance broking market.

Computer software

Computer software is recognised when purchased separately or is recognised on a business combination. The fair value is calculated by reference to the net book value acquired or the depreciated replacement cost. These assets are amortised on a straight-line basis over their estimated useful lives of between 3 and 10 years.

Internally-generated computer software and assets under construction

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development of computer software is recognised if, and only if, all the following conditions have been demonstrated:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the asset and to use or sell it;
- the ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset; and
- the ability to measure reliably the expenditure attributable to the asset during its development.

The amount initially recognised is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above and is classified as an asset under construction. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period when it is incurred.

The fair value of internally-generated computer software acquired on a business combination is calculated by reference to the current cost to recreate the software.

Internally-generated intangible assets are not amortised in the period subsequent to initial recognition but before they are ready for use. Amortisation commences when they are ready for use as intended by management. They are then reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Internally-generated intangible assets are amortised on a straight-line basis over their estimated useful lives of between 3 and 10 years.

Intellectual property

Intellectual property assets include a bespoke database and online platform. This asset is amortised on a straight-line basis over its estimated useful life of 4 years.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the 'cash generating unit' to which the asset belongs is determined, being the lowest level for which there are separately identifiable cash flows.

Any impairment charges arising from the review of the carrying value of goodwill and intangible assets are, where material, disclosed separately on the face of the consolidated income statement.

(d) Depreciation

Assets are stated at their net book value (historical cost less accumulated depreciation). Depreciation is calculated to write off the cost of such assets on a straight-line basis over their estimated useful lives. At the reporting date, the Group's principal rates of depreciation were as follows:

Freehold buildings	- over 50 years (except integral features which are over 20 years)
Leasehold improvements	- over the remaining life of the lease
Furniture and equipment	- over 4 years
Computer equipment	- over 4 years
Fixtures and fittings	- over 4 years
Motor vehicles	- over 4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Property, plant and equipment is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of property, plant and equipment, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(e) Leases

The Group applied IFRS 16 from 1 January 2019 using the modified retrospective approach without restating prior years (see note 3(r) for the impact of adopting IFRS 16).

The Group accounts for lease and non-lease components in a contract as a single lease component.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and are adjusted for certain remeasurements of the lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, lease payments made at or before the commencement date of the lease less any lease incentives received, and the estimated costs of restoring the underlying asset to the condition required by the terms of the lease. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable, which is generally the case. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Leases of low value assets

The Group elects on a lease-by-lease basis whether to apply the lease of low-value assets exemption to non-property leases that are considered to be of low value (i.e. below £5,000). Lease payments on leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Subleases

The Group does not undertake arrangements as a lessor other than as a sublessor. When the Group is a sublessor, it classifies leases as either operating or finance leases using similar principles to those in IAS 17 (see below), by reference to the right-of-use asset arising from the head lease, not by reference to the underlying asset.

Accounting for leases prior to 1 January 2019

Prior to 1 January 2019, the Group applied IAS 17.

A lease agreement that transferred substantially all the risks and rewards of ownership to the Group was a finance lease and resulted in the recognition of a lease asset within property, plant and equipment, which is subsequently depreciated over the shorter of the useful life of the asset and the lease term. The related lease obligation was included in liabilities, on which interest arose and charged to the income statement over the period of the lease term.

A lease that did not transfer substantially all the risks and rewards of ownership to the Group was an operating lease. Payments made under operating leases (net of any incentives received from the lessor) were charged to the income statement on a straight-line basis over the period of the lease.

(f) Financial instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument, and they are measured initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs not directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Derecognition

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or the Group transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of an investment in an equity instrument which the Group has elected on initial recognition to measure at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss but is transferred to retained earnings.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires. The difference between the carrying value of the financial liability and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

Offsetting

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Classification and subsequent measurement of financial assets

The Group classifies its financial assets in the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVTOCI); or
- Fair value through profit or loss (FVTPL).

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on their classification.

Financial assets classified as amortised cost

Financial assets that meet the following conditions are classified and subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The Group's financial assets measured at amortised cost include trade and other receivables (except for certain other receivables measured at FVTPL, see below), cash and cash equivalents and other financial assets.

The Group's trade receivables do not generally have a significant financing component, so their transaction (invoiced) price is considered to be their amortised cost.

Insurance brokers act as agents in placing the insurable risks of their clients with insurers and, as such, are not usually liable as principal for amounts arising from such transactions. In recognition of this relationship, debtors from insurance broking transactions are not, in general, included as an asset of the Group. Other than the receivable for fees and commissions earned on a transaction, recognition of the insurance transaction does not, in general, occur until the Group receives cash in respect of premiums or claims, at which time a corresponding liability is established in favour of the insurer or the client. An exception exists in relation to funded premium and claim items whereby the Group has a legal obligation to make good any shortfall to client monies in the event of default.

In certain circumstances, the Group advances premiums, refunds or claims to insurers or clients prior to collection. These advances are reflected in the consolidated statement of financial position as part of trade receivables.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

Financial assets classified as FVTOCI

Financial assets are classified and subsequently measured at FVTOCI if they meet the criteria to be classified at amortised cost except that the business model is to sell financial assets as well as to hold financial assets to collect contractual cash flows.

The Group may also irrevocably elect to classify and subsequently measure equity investments at FVTOCI. Gains and losses on these equity instruments are never recycled to profit or loss. Dividend income from equity instruments measured at FVTOCI is recognised in profit or loss as part of investment income when the right to payment has been established (provided that it is probable that the economic benefits will flow to the Group and that the amount of income can be measured reliably), except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income. The right to payment is established on the ex-dividend date for listed equity securities, and usually on the date when shareholders approve the dividend for unlisted equity securities. Equity instruments at FVTOCI are not subject to an impairment assessment.

The Group has designated all of its unlisted equity investments as at FVTOCI, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term.

Financial assets classified as FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment as at FVTOCI on initial recognition.
- Debt instruments (including receivables) that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL.

Financial assets at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss to the extent they are not part of a designated hedging relationship. Interest earned on assets mandatorily required to be measured at FVTPL is recognised using a contractual interest rate. Dividend income from equity instruments measured at FVTPL is recognised in profit or loss as part of investment income when the right to payment has been established (provided that it is probable that the economic benefits will flow to the Group and that the amount of income can be measured reliably). This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The Group's Unregulated Collective Investment Scheme (UCIS) assets are classified as FVTPL. These assets do not meet the IFRS 9 'Financial Instruments' criteria for classification as amortised cost or FVTOCI, because their cashflows do not represent solely payments of principal and interest. In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as being measured at FVTPL.

Other financial assets measured at FVTPL include receivables recognised on a business combination in relation to the Group's right to variable consideration on rolling contracts with customers for which the performance obligation was satisfied prior to the acquisition. These financial assets are not classified at amortised cost or FVTOCI because their cash flows do not represent solely payments of principal and interest.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income; and
- for all other financial assets that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the other operating costs line item.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition. They would only be reclassified if the Group were to change its business model for managing its financial assets, in which case the affected financial assets would be reclassified in the period following that change.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

Impairment of financial assets

The Group assesses, on a forward-looking basis, the expected credit losses (ECL) associated with its financial assets carried at amortised cost. The Group recognises a loss allowance for such losses at each reporting date.

The Group recognises lifetime ECL for trade and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected versus current conditions and the Group's view of economic conditions over the expected lives of the receivables, including the time value of money where appropriate. Scalar factors are typically based on GDP and unemployment rate forecasts.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months ECL.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

All cash and cash equivalents are assessed to have low credit risk at each reporting date as they are held with reputable banks and financial institution counterparties with, wherever possible, a minimum single A credit rating from both Moody's and S&P. The Group measures the loss allowance for such assets at an amount equal to 12 months ECL.

ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. 12 months ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a longer or shorter default criterion is more appropriate.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession that the lender(s) would not otherwise consider;
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of the financial difficulties.

Write-off policy

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. A write-off constitutes a derecognition event. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Classification and subsequent measurement of financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities are classified and measured at FVTPL when 1) the financial liability is contingent consideration relating to a business combination to which IFRS 3 applies, or 2) it is a derivative.

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities.

For financial liabilities that are denominated in a foreign currency that are not part of a designated hedging relationship, the foreign exchange gains and losses are recognised in profit or loss.

The Group's financial liabilities include borrowings, trade and other payables and derivatives.

Borrowings

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date. Borrowings are recognised initially at fair value, net of transaction costs incurred. They are subsequently measured at amortised cost using the effective interest rate method.

Trade payables

Trade payables are initially recognised at fair value and are subsequently measured at amortised cost.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in the hedge accounting note. Movements in the cash flow hedging reserve in shareholders' equity are included in the consolidated statement of changes in equity.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

Cash flow hedges

The Group enters into cross-currency swaps and forward contracts to manage its exposure to foreign exchange rate risks. The Group designates these derivatives as cash flow hedges, being hedges of a particular risk associated with the cash flows of recognised liabilities and highly probable forecast transactions.

At the inception of such hedging transactions the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of derivative instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in finance costs for the cross-currency swaps and in other operating costs for the forward contracts.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, included in the same line as that which the hedged item affects.

Furthermore, if the Group expects that some or all of the loss accumulated in other comprehensive income will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is reclassified to profit or loss when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Cross-currency swaps

The Group's risk management policy is to hedge its foreign currency exposure to its US dollar denominated debt.

The Group separates the foreign currency basis spread from a cross currency swap and excludes it from the designation of that financial instrument as the hedging instrument.

The fair value changes in the basis spread are separately accounted for as a cost of hedging in other comprehensive income and recognised in the costs of hedging reserve within equity. Such costs of hedging are amortised (i.e. reclassified to profit or loss) over the life of the hedged debt (or when the hedge is de-designated). The treatment for the currency basis element is optional and the option is applied on a hedge by hedge basis.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

The Group uses the hypothetical derivative method to determine the changes in fair value of the hedged item. The Group assesses hedge effectiveness by comparing the changes in fair value of a hypothetical derivative reflecting the terms of the foreign currency debt security issued due to movements in the foreign currency rate with the changes in fair value of the cross-currency swaps used to hedge the exposure.

The Group determines the hedge ratio by comparing the notional of the derivatives with the principal of the debt securities issued. The Group has identified the following possible sources of ineffectiveness in these cash flow hedge relationships:

- The use of cross currency derivatives as a protection against currency risk creates an exposure to the derivative counterparty's credit risk which is not offset by the hedged item. This risk is minimised by entering into contracts with high credit quality counterparties;
- The use of different discounting curves for the hedged item and the hedging instrument, because for cross currency swaps the discounting curve used depends on collateralisation and the type of collateral used; and
- Designation of off-market hedging instruments.

No other sources of ineffectiveness affected these hedge relationships. The Group has not designated any net positions as hedged items on cash flow hedges of foreign currency risk.

Forward contracts

The Group's risk management policy is to hedge 80%, 65% and 50% of its estimated foreign currency exposure in respect of forecast revenue over the following 12, 24 and 36 months respectively.

The Group's policy is for the critical terms of the forward contracts to align with the hedged item. The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

In these hedge relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and the Group's own credit risk on the fair value of the forward contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates;
- the use of different discounting curves for the hedged item and the hedging instrument, because for the currency forward contracts the discounting curve used depends on collateralisation and the type of collateral used; and
- changes in the timing of the hedged transactions.

For the forward contracts, the Group designates the entire hedging instrument (i.e. the currency forward inclusive of the forward element) applying the so-called "forward rate method" throughout the hedge designation. Given the size of the notional, tenure and currency pairs involved in the currency forwards, the forward points are not considered to be significant enough to warrant separation as costs of hedging and so are included in the measurement of the hedged item.

Finance income and finance costs

The Group's finance income and finance costs include:

- interest income
- interest expense
- unwind of discount on provisions
- unwind of discount on financial assets or liabilities, including on lease liabilities and lease receivables
- the net gain or loss reclassified from other comprehensive income to profit or loss in relation to hedging instruments

Interest income and expense are recognised using the effective interest method for debt instruments classified as amortised cost and as FVTOCI.

Interest earned on assets mandatorily required to be measured at FVTPL is recorded using the contractual interest rate.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies *(continued)*

(g) Provisions for liabilities and charges

A provision is recognised where there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

The amount recognised as a provision is management's best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation.

Where appropriate the Group discounts provisions to their present value. The unwinding of the provision discounting is included as an interest charge within finance costs in the income statement.

(h) Share capital

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

(i) Revenue

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer (net of refunds) and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a service to a customer.

Commission and fees

Revenue includes commission and fees receivable by the Group. Commission and fees relate mainly to placement or underwriting of policies on behalf of insurers or policyholders and are recognised at the later of policy inception date and of when the policy placement has been completed and confirmed.

The Group charges fees and retains a portion of the policy premiums as commission. Premiums are typically collected on an annual basis, at or near contract inception (which could be up to 60 days from contract inception). In some cases, customers are offered to pay in instalments or are directed to a third-party premium credit provider— for which the Group is entitled to additional consideration that is recognised at policy inception. Some of the policies are rolling until the customer cancels the policy.

Post-placement performance obligations

The Group may also have post-placement obligations in contracts with customers, which mainly consist of claims services associated with the claims life cycle, e.g. first notification, claims investigation, decision and settlement, supply chain management, fraud investigation, field/loss adjusting services and management information, but which may also include other performance obligations such as the provision of mid-term adjustments.

To the extent that commission and fees received (or receivable) relate to both placement and post-placement performance obligations, a suitable proportion of income related to post-placement obligations is deferred based on the estimated standalone selling prices of the performance obligations in the contract and is presented as a contract liability. Revenue for post-placement obligations is recognised over the period of providing the services.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

Variable consideration

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

- *Trading deals – profit share arrangement and loss corridor arrangements:*

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

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

Under loss corridor arrangements, the commission received by the Group is subject to a clawback if a set loss ratio exceeds an agreed threshold. When the threshold is exceeded, a payment calculated as a percentage of the loss (between 1% and 4% of the loss) is due to the insurer up to a maximum. Expected clawbacks under loss corridor arrangements are recognised in trade and other payables.

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

- *Cancellation rights:*

Some contracts with customers include cancellation rights, whereby the consideration receivable by the Group is subject to a clawback. If no claims are made under the policy, then cancellations usually entitle the policyholder to a proportional refund of the consideration. When the effect is material, the Group adjusts the estimated consideration for the expected clawback based on historical experience of average cancellations and recognises revenue only on the amount that is not expected to be refunded. The Group reassesses at the end of the reporting period whether the estimated clawback needs to be revisited. Amounts that are expected to be refunded for consideration that has been received or invoiced are recognised in trade and other payables.

- *Rolling contracts:*

Some policies placed by the Group are rolling until the customer cancels the policy. Revenue recognised on rolling contracts (based on the expected consideration net of cancellations) is presented in contract assets until the consideration is invoiced (except where acquired as part of a business combination, in which case it is presented in trade and other receivables as a financial asset measured at fair value).

Other income

Other income includes;

- Fair value gains and losses on financial assets at FVTPL that are recognised on a business combination in relation to the Group's right to variable consideration on rolling contracts with customers for which the performance obligation was satisfied prior to the acquisition.
- Rent receivable and service charges receivable in respect of sub-let properties.
- Profit on termination of leases after 1 January 2019.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

(j) Contract costs

Contract costs give rise to assets recognised in accordance with IFRS 15 which consist of:

- Costs to fulfil – salary and other costs of customer-facing employees who undertake activities necessary to satisfy anticipated contracts with the customer. The Group estimates the proportion of costs that are eligible to be capitalised based on the time spent by customer-facing employees on relevant inception/renewal activities. Capitalised costs are released to profit or loss on inception or renewal of the contract with the customer, which normally takes place within one to three months of the reporting period.
- Costs to obtain – incremental fees paid to distributors (usually aggregator websites) for obtaining new business. These costs are amortised, on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates, over the average life of the relationship with the customer.

The Group utilises the practical expedient to recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

Contract costs are presented within 'other assets' when recognised in the statement of financial position.

(k) Operating segments

Under IFRS 8 'Operating Segments', the Group determines and presents operating segments based on the information that is provided to the Group Executive Committee, which is the Group's chief operating decision maker. The operating segments reflect the Group's operational structure. Segments are reviewed and revised as necessary following structural changes within the Group or acquisitions of new companies.

(l) Employee benefits

Pension costs

The Group operates a number of defined contribution pension schemes. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

The Group has no legal or constructive obligations to pay further contributions.

The costs of the Group's defined contribution pension schemes are charged to the income statement in the period in which they fall due.

Long-Term Incentive Plans

The Group operates a number of Long Term Incentive Plans (LTIPs), under which the Group receives services from employees as consideration for cash settled incentives which vest over a number of years based on achievement against certain performance measures and/or service conditions. The incentives are paid to participants at the end of the relevant performance and/or service period (the performance period), in some instances interim payments are made but in all instances participants must then remain in employment for a further period (the clawback period) in order to retain the full value of their pay out.

The Group recognises an expense in respect of LTIPs over the vesting period, which is deemed to commence when the Group makes participants aware of their right to participate in the LTIP and ends on conclusion of the performance period.

Where an LTIP is payable in instalments the Group recognises an expense based on either (i) the staged vesting approach, or (ii) the plan's benefit formula, depending on the specific facts and circumstances of the relevant award. Where benefits are materially higher in later years the expense is recognised on a straight-line basis over the vesting period.

At the end of each reporting period the Group revises its estimate of the expected pay out, and it recognises the impact of the revision to the original estimate, if any, in the income statement with a corresponding adjustment to the related provision (during the performance period) or prepayment (during the clawback period) as relevant.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

Share-based payments

The Group operates equity-settled and cash-settled share-based payment schemes. For equity-settled share-based payment schemes, the fair value of the services received in exchange for the grant of the shares is recognised as an expense, measured based on the grant date fair value of the shares and recognised on a straight-line basis over the vesting period, which generally depends on service and performance conditions being met. For cash-settled share-based payment schemes, the Group recognises an expense and a corresponding liability over the vesting period based on the fair value of the shares at the reporting date.

The shares issued under the schemes generally have no dividend or voting rights and cannot be sold. Depending on the scheme, shares are normally convertible to ordinary shares of the Group on the occurrence of a crystallisation event, being the earlier of a liquidity event, an Initial Public Offering (IPO) and a winding-up. The Group has the option to repurchase the shares if an employee leaves the Group prior to the occurrence of a crystallisation event.

(m) Foreign currencies

The Group's consolidated financial statements are presented in GBP, the Group's presentation currency.

Foreign currency transactions and balances

Foreign currency transactions are converted into the functional currency of the respective Group entity, using the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are converted into sterling using the exchange rate at the reporting date, with differences recognised in profit or loss.

Non-monetary items are not retranslated at the reporting date and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Profits or losses arising from derivatives taken out to hedge foreign currency exposure are recognised in the income statement unless such contracts are designated as cash flow hedges, in which case they are accounted for as described above in (f) Cash flow hedges.

Foreign operations

On consolidation, the results and financial position of foreign subsidiaries and branches are translated into the presentation currency of the Group from their functional currencies, i.e. the currency of the primary economic environment in which the entity operates. Assets and liabilities of foreign subsidiaries and branches are translated into GBP at the exchange rate at the reporting date. Income and expenses are translated into GBP at average exchange rates. The impact of these currency translations is recorded in other comprehensive income and recognised in the foreign currency translation reserve in equity.

(n) Taxation

Current tax

Current tax is recognised for the amount of tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised in respect of taxable temporary differences at the reporting date (except in relation to goodwill or a transaction which is not a business combination and does not affect profit nor taxable profit). Deferred tax assets are only recognised to the extent that it is probable they will be recovered against the reversal of deferred tax liabilities or against future taxable profits. Deferred tax assets and deferred tax liabilities are only offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and if they relate to income taxes levied by the same taxation authority on the same taxable entity or on different taxable entities which intend to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies *(continued)*

The tax expense for the year comprises current and deferred tax. Income tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income. Similarly, income tax is recognised directly to equity if it relates to items that are recognised directly to equity.

(o) Dividend distribution

Dividends proposed or declared after the statement of financial position date are not recognised as a liability at the reporting date. Final dividends are recognised as a charge to equity once approved, and interim dividends are recognised once paid.

(p) Discontinued operations

A disposal group qualifies as a discontinued operation if it is a component of an entity (which will have been a cash-generating unit or group of cash-generating units) that either has been disposed of, or it is classified as held for sale, and:

- it represents a separate major line of business or geographical area of operations; or
- it is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- it is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount in 'total comprehensive profit or loss for the period attributable to discontinued operations' in the income statement.

Additional disclosures are provided in note 11. All other notes to the financial statements include amounts for continuing operations, unless otherwise stated.

(q) Held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held for sale, intangible assets, property, plant and equipment and right-of-use assets are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

(r) Application of new and revised International Financial Reporting Standards (IFRS)

IFRS 16 'Leases'

The Group adopted IFRS 16 on 1 January 2019.

Nature of the change

IFRS 16 'Leases' sets out the principles for the recognition, measurement and presentation of leases, for both lessees and lessors. IFRS 16 superseded IAS 17 'Leases' and several related interpretations when it became effective on 1 January 2019. The date of initial application for the Group was 1 January 2019 and so IFRS 16 applies for accounting periods beginning on or after that date.

Impact

The definition of a lease

IFRS 16 distinguishes between leases and service contracts on the basis of whether there is control of the use of an identified asset. Control is considered to exist if there is:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group applies the practical expedient in IFRS 16 not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

Lessee accounting

A right-of-use asset and lease liability are recognised in the balance sheet. The lease liability is measured at the present value of future lease payments, excluding variable lease payments that do not depend on an index or a rate. The right-of-use asset for a particular lease is usually similar in amount to the corresponding lease liability on inception of the lease, but their carrying amounts diverge through the life of the lease as the asset is depreciated on a straight-line basis whereas interest arises on the lease liability and so is higher in earlier years.

The Group elects on a lease-by-lease basis whether to recognise a right-of-use asset and a lease liability for leases of low-value assets. Where an election is made to not recognise a right-of-use asset and a lease liability for these leases, the lease payments are instead expensed on a straight-line basis over the lease term.

Depreciation of the right-of-use assets is presented within 'depreciation and amortisation charges' in profit or loss. Interest expense on the lease liabilities is presented within 'finance costs'. Lease expenses for leases of low-value assets are presented within 'other operating costs'. Variable lease payments are generally expensed as incurred and presented within 'other operating costs'.

Lease payments are classified as financing cash flows, distinguishing between the principal and interest portions of the lease liability, except in relation to lease payments of low-value assets and variable lease payments that are presented as operating cash flows.

The impact for lessees on IAS 17 lease classifications is as follows:

- **Finance leases:**

Finance leases in place at 31 December 2018 were reclassified from property, plant and equipment to right-of-use assets and from obligations under finance leases to lease liabilities.

- **Operating leases:**

A right-of-use asset and lease liability were brought on to the balance sheet (except for certain leases of low value assets). Depreciation and interest replace the IAS 17 rental charge (which was included in 'other operating costs'). Lease payments are classified as financing cash flows (except for certain leases of low value assets, and variable lease payments) instead of 'operating cash flows'.

Areas of management judgement relate to the accounting for lease extension and termination options (considered on a case by case basis), whether contracts with suppliers contain a lease, and the discount rate used to measure the lease liability.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

Lessor accounting

The Group does not undertake arrangements as a lessor other than as a sublessor. Lessor accounting as required by IFRS 16 is substantively unchanged from that required by IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles to those in IAS 17. However, a sublessor classifies the sublease by reference to the right-of-use asset arising from the head lease rather than by reference to the underlying asset, such that subleases are more likely to be classified as finance leases. Sublessor arrangements are not material to the Group.

Transition

The Group adopted IFRS 16 by applying the modified retrospective approach, which requires the cumulative effect of initial application of IFRS 16 to be recognised as an adjustment to the opening balance of retained earnings on the 1 January 2019 date of initial application, without restating prior years.

The Group applied the following practical expedients on the 1 January 2019 date of initial application of IFRS 16:

- The right-of-use asset was recognised at an amount equal to the lease liability at the date of initial application, adjusted by the amount in the statement of financial position immediately before the date of initial application for any prepaid or accrued lease payments;
- A single discount rate was used for a portfolio of leases with reasonably similar characteristics, in particular for property leases in the same lease term grouping;
- The right-of-use asset corresponding to existing operating leases was, as an alternative to performing an impairment review, reduced by the amount of the related onerous lease provisions immediately before the date of initial application;
- Initial direct costs were excluded from the measurement of the right-of-use asset; and
- Hindsight was used, in particular in determining the lease term for arrangements with options to extend or terminate the lease.

The effect of adopting IFRS 16 as at 1 January 2019 was as follows:

	£000
Assets	
Right-of-use assets	64,353
Trade and other receivables	(2,279)
Property, plant and equipment	(262)
Deferred tax assets	(21)
	<u>61,791</u>
Liabilities	
Lease liabilities	(71,145)
Trade and other payables	6,082
Borrowings	1
Provisions	3,372
	<u>(61,690)</u>
Adjustment to opening equity	<u>101</u>

The transition impact reported above is different from the impact reported in the 31 March 2019 and 30 June 2019 financial statements, mainly as a result of excluding irrecoverable VAT from the revised lease payments (recoverable VAT had already been excluded) and adjusting for transition prepayments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Accounting policies (continued)

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application is 13.5%.

The lease liabilities at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018, as follows:

	£000
Operating lease commitments at 31 December 2018	75,412
Effect of discounting future lease payments	(19,076)
	56,336
Differences in lease term ¹	8,819
Differences in lease population ²	15,030
Differences in lease payments ³	(7,768)
Other differences	(1,272)
Lease liabilities at 1 January 2019	71,145

1 - Mainly relates to termination options not reasonably certain to be exercised.

2 - Mainly relates to certain leases that, as of the date of initial application, were contractually agreed to be assigned to a third-party on 1 January 2019 (see note 15).

3 - Mainly relates to service charges and irrecoverable VAT being excluded from the measurement of the lease liability.

Other standards, amendments to standards and interpretations

Several amendments to standards and an interpretation are mandatorily effective for annual periods beginning on 1 January 2019. None of these had a material effect on the Group's financial statements.

The Group has early adopted the following amendments to standards, the effect of which was not material:

- Amendments to IAS 1 and IAS 8 'Definition of Material'; and
- Amendments to IFRS 3 'Definition of a Business'.

There are no standards, amendments to standards or interpretations which are not yet effective and that are expected to materially impact the Group's financial statements.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below.

Critical judgements in applying accounting policies

Disposal of an associate

The Group disposed of its entire shareholding in Bravo Investment Holdings Limited (Bravo) in 2018 to Nevada Investment Holdings 2 Limited, which was then a related party of the Ardonagh Group due to common shareholders (see note 18), although Nevada 2 subsequently sold its shares in Bravo and its rights and obligations under the sale and purchase agreement to Nevada 4 Midco 1 Limited. The Group applied significant judgement in determining whether the disposal constituted a sale given that the Group retained some rights and has continuing involvement in relation to Bravo, in particular a right to appoint one non-executive director to the Board of Directors of Bravo, a call option over the shares of Bravo, and involvement in that the Group provides certain services to Bravo. The Group determined that the transaction constituted a sale due to the following:

- The Group does not retain any voting or other economic rights, so it does not have any rights over the profit or net assets of Bravo;
- The call option is exercisable at the discretion of the Group at or above fair value; and
- The sale price and the price of other services provided by the Group to Bravo were determined at arm's length.

Key sources of estimation uncertainty

Leases – determination of the discount rate

Under IFRS 16 the Group is required to measure the lease liabilities at the present value of lease payments to be made over the lease term. In substantially all leases the Group uses the incremental borrowing rate at the lease commencement date because the rate implicit in the lease is not readily determinable. The determination of the incremental borrowing rate has a material impact on the amounts initially recognised as a lease liability and a corresponding right-of-use asset. It also impacts the amounts that are subsequently recognised as amortisation and interest expense in the statement of profit or loss.

The Group has determined the discount rate based on the available secondary bond market yield to maturity pricing and the discount rate used for each lease depends on the lease amount and term.

The weighted average discount rate used to calculate the lease liabilities at the date of transition to IFRS 16 was 13.5% (see note 3). An increase (decrease) in the weighted average discount rate by 1% would have reduced/increased the lease liability, as at the reporting date, by about £1m.

Deferred tax assets

Significant estimation is required in determining the asset recognised in respect of deferred tax. A deferred tax asset is recognised for temporary timing differences, but management's best estimate is used to determine the extent to which it is probable that taxable profits will be available in the future against which the temporary differences can be utilised and to determine the amount of this taxable profit. Deferred tax assets are measured at the tax rates and laws that have been enacted or substantively enacted by the end of the reporting year.

The deferred tax asset as at 31 December 2019 is £80.5m (31 December 2018 restated: £60.1m).

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Revenue recognition – variable consideration

The Group is a party to trading deals, such as profit sharing and loss corridor arrangements. These arrangements adjust the consideration that the Group is entitled to for satisfying its performance obligations, and the amount and timing of revenue subject to these arrangements is inherently uncertain.

The Group applies judgement in estimating the related variable consideration, which is measured on a best estimate basis using either the 'expected value' method or the 'most likely amount' method, and which is recognised to the extent that a significant reversal will not occur (a constraint).

In making the estimate, the Group uses historical, current and forecast information that is reasonably available to it. A higher constraint (in some cases, fully constrained) is applied when the results underlying these arrangements are highly susceptible to factors outside the Group's influence or when the Group's experience has limited predictive value.

Estimates of the variable consideration are assessed at the end of each reporting period to determine whether they need to be revised. The underwriting results are reviewed by the Group and the insurer on a regular basis, and information provided by the insurer is used to refine the estimated amount of consideration. As the underwriting results become more certain, the constraint is relaxed.

As at 31 December 2019, a loss corridor liability of £5.9m is included within trade and other payables and a variable profit commission of £5.7m is included within contract assets.

Fair value gains and losses on financial assets at FVTPL are recognised on a business combination in relation to the Group's right to variable consideration on rolling contracts with customers for which the performance obligation was satisfied prior to the acquisition. The fair value of the Swinton rolling contract (a closed book of business) is a level 3 valuation, in accordance with IFRS 13 'Fair Value Measurement', the key assumptions of which are (a) the product lifetime restrictions of 12, 24 and 36 months for the Home Emergency Cover, Swinton Breakdown Insurance, and Personal Accident products, (b) the discount rate, which is based on the Ardonagh weighted average cost of capital of 15%, and (c) the lapse rate curves, which are estimated based on historical experience. A one year increase in the product lifetime restrictions across all three products would give rise to an £8.1m increase in other income in 2019. A 1% increase in the discount rate would give rise to a £0.3m decrease in other income in 2019. The financial asset corresponding to the Swinton rolling contract is £32.4m (2018: 36.6m).

Enhanced Transfer Values (ETV) provision

Certain subsidiaries within the Group have obligations to make redress payments in respect of historical pension transfer advice. The programme of redress commenced during the third quarter of 2019 and, based on experience to date, management's estimated total redress obligation has been updated to £63.5m (£51m at 31 December 2018, adjusted to £59m at 30 September 2019, of which £15.9m was paid by 31 December 2019).

The value of the provision is sensitive to various assumptions and in particular those made for the percentage of the overall population of cases judged as requiring redress and average redress costs. The redress programme remains at a relatively early stage and accordingly there is uncertainty regarding the ultimate cost, which may differ materially from management's present estimate.

The provision will be informed and updated during the course of the redress programme based upon the experience of actual redress payments. See note 31 for further information.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Impairment of assets

The Group tests annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may exceed its recoverable amount. The last annual impairment test was performed as at 30 September 2019.

An impairment test of an asset or cash-generating unit (or group of cash-generating units) is performed by comparing its carrying amount with its recoverable amount. The recoverable amount is the higher of its fair value less costs of disposal and its value in use, where its value in use is the present value of its future cash flows. An impairment test requires the application of significant judgement because it relies on key assumptions, including forecast cash flows, a discount rate, a terminal growth rate and an EBITDA multiple.

Forecast cash flows were determined by considering historic business performance, by overlaying it with assumptions to reflect areas where growth or income improvement was expected, and by taking into account the expected results of cost management programmes to which the Group was committed. These forecasts were extrapolated to subsequent years using a steady growth rate being the CPI inflation rate, and a terminal value was calculated using the perpetual growth model. The discount rate of 9.3% that was applied to the forecasts was a market participant weighted average cost of capital calculated by reference to the Capital Asset Pricing Model.

The fair value of the Group was calculated based on multiples of forecast 2020 Adjusted EBITDA and on information provided by external advisors, where that information is based on recent transactions in the insurance broking industry. The fair value of an operating segment was estimated by apportioning the fair value of the Group between the operating segments based on the value in use of each operating segment. The estimated costs of disposal are assumed, based on market experience, to be 1.5% of the fair value of the operating segment.

Further details of the annual impairment test, and of the assumptions made, are set out in note 13.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Segmental analysis

Under IFRS 8 'Operating Segments', the Group determines and presents operating segments based on the information that is provided to the Group Executive Committee, which is the Group's chief operating decision maker. Segments are reviewed and revised as necessary following structural changes within the Group or acquisitions of new companies.

The Group Executive Committee assesses the performance of the segments based on various income statement measures. The Group Executive Committee assesses the financial position of the Group on a consolidated Group basis and therefore does not regularly receive measures of total assets or total liabilities on an operating segment basis. Accordingly, no financial position measures are reported within the Group's operating segment disclosures.

The results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Of the Total Income disclosed in the consolidated income statement, £100m is attributable to sales made outside the UK.

Commissions and fees represent the Group's revenue from contracts with customers, which is recognised in accordance with IFRS 15. The Group's operating segments reflect its disaggregation of revenue.

Descriptions of the Group's segments can be found in Section 1 – Background and Structure.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Segmental analysis (continued)

Part (a)

Year ended 31 December 2019	Ardonagh Retail £000	Ardonagh Advisory £000	Ardonagh Specialty £000	Corporate £000	Total £000
Commission and fees	274,692	222,856	139,814	3,300	640,662
Other income	19,217	(40)	172	2,819	22,168
Investment income	30	10	1,617	1,000	2,657
Salaries and associated costs	(97,558)	(110,237)	(87,211)	(25,873)	(320,879)
Other operating costs	(106,857)	(57,074)	(37,421)	(26,511)	(227,863)
Impairment of financial assets	(10,593)	(557)	(3,315)	-	(14,465)
Depreciation, amortisation and impairment of non-financial assets	(47,479)	(23,602)	(19,592)	(5,040)	(95,713)
Fair value loss on derivatives	-	-	-	(604)	(604)
Share of profit from joint venture	1,680	-	-	-	1,680
Share of profit from associate	-	-	217	-	217
Operating profit/(loss)	33,132	31,356	(5,719)	(50,909)	7,860
Adjustment to gain on disposal of associate	-	-	-	1,750	1,750
Gain on disposal of business	-	-	2,244	-	2,244
Finance costs	(4,813)	(2,050)	(1,717)	(105,026)	(113,606)
Finance income	303	39	900	753	1,995
Profit/(loss) before tax	28,622	29,345	(4,292)	(153,432)	(99,757)
Tax (charge)/credit	(4,573)	1,766	(6,131)	38,925	29,987
Profit/(loss) for the year	24,049	31,111	(10,423)	(114,507)	(69,770)

Ardonagh Retail is made up of the Retail, Schemes & Programmes and Paymentsshield operating segments (see part (b) of this note). Ardonagh Advisory consists of the Insurance Broking operating segment only. Ardonagh Specialty is made up of the Specialty & International and MGA operating segments (see part (c) of this note).

FINANCIAL STATEMENTS

NOTES TO THE INTERIM FINANCIAL STATEMENTS

5 Segmental analysis (continued)

Year ended 31 December 2018 Restated	Ardonagh Retail £000	Ardonagh Advisory £000	Ardonagh Specialty £000	Corporate £000	Total £000
Commission and fees	169,702	202,227	145,292	4,680	521,901
Other income	2,259	-	-	313	2,572
Investment income	24	-	1,420	662	2,106
Salaries and associated costs	(64,066)	(118,493)	(105,774)	(1,766)	(290,099)
Other operating costs	(68,025)	(51,964)	(48,508)	(39,653)	(208,150)
Impairment of financial assets	(2,920)	(556)	(1,585)	-	(5,061)
Depreciation, amortisation and impairment of non-financial assets	(36,104)	(11,905)	(18,844)	(4,431)	(71,284)
Adjustment to goodwill in respect of prior years	(2,633)	(462)	-	-	(3,095)
Fair value gain on derivatives	-	-	-	2,485	2,485
Share of profit from joint venture	1,777	-	-	-	1,777
Operating profit/(loss)	14	18,847	(27,999)	(37,710)	(46,848)
Gain on disposal of associate	-	-	-	7,482	7,482
Gain on disposal of business	19	-	-	-	19
Finance costs	(13)	(2)	(328)	(94,312)	(94,655)
Finance income	12	-	262	245	519
Profit/(loss) before tax	32	18,845	(28,065)	(124,295)	(133,483)
Tax credit	3,283	2,684	8,658	18,386	33,011
Profit/(loss) for the year	3,315	21,529	(19,407)	(105,909)	(100,472)

Ardonagh Retail is made up of the Retail, Schemes & Programmes and Paymentsshield operating segments (see part (b) of this note). Ardonagh Advisory consists of the Insurance Broking operating segment only. Ardonagh Specialty is made up of the Specialty & International and MGA operating segments (see part (c) of this note).

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

5 Segmental analysis (continued)

Part (b) - Ardonagh Retail

Year ended 31 December 2019	Retail £000	Schemes & Programmes £000	Payment- shield £000	Total £000
Commission and fees	194,277	37,292	43,123	274,692
Other income	18,778	439	-	19,217
Investment income	30	-	-	30
Salaries and associated costs	(71,713)	(16,694)	(9,151)	(97,558)
Other operating costs	(83,356)	(16,479)	(7,022)	(106,857)
Impairment of financial assets	(10,512)	(29)	(52)	(10,593)
Depreciation, amortisation and impairment of non-financial assets	(23,956)	(16,026)	(7,497)	(47,479)
Share of profit from joint venture	1,680	-	-	1,680
Operating profit/(loss)	25,228	(11,497)	19,401	33,132
Finance costs	(4,213)	(363)	(237)	(4,813)
Finance income	282	21	-	303
Profit/(loss) before tax	21,297	(11,839)	19,164	28,622
Tax charge	(1,550)	(205)	(2,818)	(4,573)
Profit/(loss) for the year	19,747	(12,044)	16,346	24,049

Year ended 31 December 2018 Restated	Retail £000	Schemes & Programmes £000	Payment- shield £000	Total £000
Commission and fees	76,487	51,442	41,773	169,702
Other income	2,077	182	-	2,259
Investment income	24	-	-	24
Salaries and associated costs	(27,115)	(26,220)	(10,731)	(64,066)
Other operating costs	(32,073)	(30,857)	(5,095)	(68,025)
Impairment of financial assets	(2,765)	(97)	(58)	(2,920)
Depreciation, amortisation and impairment of non-financial assets	(10,660)	(17,891)	(7,553)	(36,104)
Adjustment to goodwill in respect of prior years	-	(2,633)	-	(2,633)
Share of profit from joint venture	1,777	-	-	1,777
Operating profit/(loss)	7,752	(26,074)	18,336	14
Gain on disposal of business	-	19	-	19
Finance costs	-	(10)	(3)	(13)
Finance income	11	1	-	12
Profit/(loss) before tax	7,763	(26,064)	18,333	32
Tax credit/(charge)	377	5,527	(2,621)	3,283
Profit/(loss) for the year	8,140	(20,537)	15,712	3,315

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

5 Segmental analysis (continued)

Part (c) - Ardonagh Specialty

Year ended 31 December 2019	Specialty & International £000	MGA £000	Total £000
Commission and fees	103,899	35,915	139,814
Other income	-	172	172
Investment income	1,616	1	1,617
Salaries and associated costs	(67,666)	(19,545)	(87,211)
Other operating costs	(22,381)	(15,040)	(37,421)
Impairment of financial assets	(2,415)	(900)	(3,315)
Depreciation, amortisation and impairment of non-financial assets	(10,067)	(9,525)	(19,592)
Share of profit from associate	217	-	217
Operating profit/(loss)	3,203	(8,922)	(5,719)
Gain on disposal of business	-	2,244	2,244
Finance costs	(1,209)	(508)	(1,717)
Finance income	792	108	900
Profit/(loss) before tax	2,786	(7,078)	(4,292)
Tax (charge)/credit	(6,358)	227	(6,131)
Loss for the year	(3,572)	(6,851)	(10,423)

Year ended 31 December 2018 Restated	Specialty & International £000	MGA £000	Total £000
Commission and fees	93,483	51,809	145,292
Investment income	1,420	-	1,420
Salaries and associated costs	(61,075)	(44,699)	(105,774)
Other operating costs	(29,824)	(18,684)	(48,508)
Impairment of financial assets	(782)	(803)	(1,585)
Depreciation, amortisation and impairment of non-financial assets	(7,219)	(11,625)	(18,844)
Operating loss	(3,997)	(24,002)	(27,999)
Finance costs	(327)	(1)	(328)
Finance income	262	-	262
Loss before tax	(4,062)	(24,003)	(28,065)
Tax credit	3,930	4,728	8,658
Loss for the year	(132)	(19,275)	(19,407)

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6 Profit or loss items

The following items have been charged in arriving at the operating profit/(loss):

	31 December 2019 £000	31 December 2018 £000
Amortisation of intangible fixed assets		
Software costs	22,607	15,643
Other intangible assets	52,171	47,878
Depreciation on property, plant and equipment	9,937	7,763
Depreciation of right-of-use assets	10,134	-
Impairment of right-of-use assets	864	-
Depreciation and amortisation charges	95,713	71,284

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Investment income

	31 December 2019 £000	31 December 2018 £000
Interest income – fiduciary funds	2,657	2,106
	2,657	2,106

The Group's investment income arises from its holdings of cash and investments relating to fiduciary funds. Equivalent average cash and investment balances during the year amounted to £298.5m (2018: £279.0m) which were denominated principally in sterling. The average return for 2019 was 0.07% (2018: 0.06%).

8 Finance income and finance costs

	31 December 2019 £000	31 December 2018 £000
Financial assets measured at amortised cost		
Interest income: own funds	1,770	515
Interest income: discount unwind	154	2
Interest income: other	71	2
Financial liabilities measured at amortised cost		
Unwinding of transaction costs and discount on financial liabilities	(8,848)	(9,119)
Interest expense: bank and other borrowings*	(97,732)	(83,631)
Interest expense: commitment fee	(1,625)	(1,285)
Interest expense: shareholders' loans	(166)	(326)
Interest on premium financing liabilities	(2,786)	-
Other finance income/(costs)		
Amounts reclassified from the cash flow hedging reserve for cross currency swaps	3,992	-
Amortisation of costs of hedging	(144)	-
Interest on deferred consideration	-	(9)
Effective interest on lease liabilities (2018: finance leases)	(6,258)	(3)
Overdue tax	-	(28)
Unwinding of discount on provisions	(39)	(254)
Net finance costs	(111,611)	(94,136)
Analysed as:		
Finance income	1,995	519
Finance costs	(113,606)	(94,655)
Net finance costs	(111,611)	(94,136)

* The £97.7m (2018: £83.6m) interest expense on bank and other borrowings includes foreign currency translation differences arising on the debt and, when it is considered together with the £4.0m (2018: £nil) amount reclassified from the cash flow hedging reserve for cross currency swaps as a result of applying hedge accounting, the hedged interest expense on bank and other borrowings is determined to be £93.7m (2018: £83.6m).

During the year, the coupon interest expense on the Group's existing debt of circa £1,125.9m totalled £92.5m (2018: £81.7m). A further £8.7m (2018: £6.0m) of interest expense was recognised during the year relating to the unwind of the discount on these instruments as part of accounting for them at amortised cost using the effective interest rate.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Employee information

Salaries and associated expenses

	31 December 2019 £000	31 December 2018 £000
Wages and salaries	274,146	252,368
Share-based payment costs	3,258	-
Social security costs	30,122	28,134
Other pension costs	13,353	9,597
	<u>320,879</u>	<u>290,099</u>

Analysis of employees

	31 December 2019	31 December 2018
Average monthly number of Group employees during the year		
Administration	2,609	2,707
Sales	3,282	2,812
Management	331	396
	<u>6,222</u>	<u>5,915</u>

Key management compensation

Key management personnel are defined as senior management and the Board. Their compensation during the year was as follows:

	31 December 2019 £000	31 December 2018 £000
Fees, salaries and other short-term benefits	7,573	11,065
Post-employment benefits	16	110
	<u>7,589</u>	<u>11,175</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Employee information (continued)

Directors' remuneration

	31 December 2019 £000	31 December 2018 £000
Aggregate emoluments	3,782	6,795
Company contributions to money purchase pension scheme	-	92
	3,782	6,887

At 31 December 2019 a payment of £0.5m was receivable by a former director for loss of office in the prior period.

The aggregate emoluments of the highest paid Director were £2.5m (2018: £5.2m) and company pension contributions of £nil (2018: £0.1m) were made to a money purchase pension scheme on their behalf.

Retirement benefits are accruing in money purchase pension schemes for no Directors (2018: four).

All Directors benefit from qualifying third-party indemnity provisions in place during the financial year and at the date of this report.

Long-term incentives

See note 3 for the accounting policy for long-term incentive schemes and see note 31 for details of the provision recognised in respect of these schemes.

10 Auditor's remuneration

During the year, the Group obtained the following services from the Company's auditor and its associates. The amounts in the table are all exclusive of irrecoverable VAT:

	31 December 2019 £000	31 December 2018 £000
Fees payable for the audit of the parent company and of the consolidated financial statements	22	25
Fees payable for other services		
Audit of subsidiaries pursuant to legislation	1,385	1,718
Audit related assurance services	420	360
Tax compliance services	-	25
Services relating to corporate finance transactions*	905	465
All other services	750	1,552
	3,482	4,145

*The auditor provided £0.9m (2018: £0) of other services during the year relating to future potential M&A transactions.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Disposals and assets held for sale

Disposals

On 1 November 2018, the Group announced the sale of its Commercial MGA businesses with an effective date of 1 January 2019. £31.5m was received from the purchaser of the businesses on 2 January 2019 of which £30.0m represented the initial consideration for the sale.

On 16 October 2018, the Group announced the sale of the URIS Group's (previously Direct Group's) claims business with immediate effect. The fair value of the consideration for the sale was £26.5m, comprising £25.5m of cash and £1m being the fair value of contingent consideration.

Details of assets and liabilities disposed of and of the consideration received are set out in the table below:

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Non-current assets		
Intangible assets	-	20,340
Property, plant and equipment	60	635
	60	20,975
Current assets		
Trade and other receivables	-	14,740
Cash and cash equivalents	-	6,997
Assets held for sale	26,754	-
	26,754	21,737
Current liabilities		
Trade and other payables	-	(17,754)
Provisions	-	(133)
Liabilities held for sale	(1,976)	-
	(1,976)	(17,887)
Non-current liabilities		
Deferred tax liabilities	-	(1,643)
	-	(1,643)
Total net assets	24,838	23,182
Satisfied by:		
Proceeds - initial and deferred consideration	31,000	25,500
Contingent consideration receivable	-	952
Proceeds - extra consideration	367	-
Costs to sell	(4,285)	(3,251)
	27,082	23,201
Gain on disposal	(2,244)	(19)
Total net assets	24,838	23,182
	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Cash and cash equivalents disposed of		
Own funds	-	1,716
Fiduciary funds	-	5,281
	-	6,997

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Disposals and assets held for sale (continued)

Assets held for sale and disposal groups

As at 31 December 2019, the Group classified several freehold and leasehold properties, which form part of the Retail segment, as held for sale. The Group also classified its subsidiary Solis Re Agency Inc, which forms part of the MGA segment, as held for sale, given its intention to dispose of its controlling interest in (albeit retain significant influence over) that subsidiary in 2020. The figures shown in the table below reflect the full carrying amount of the assets and liabilities to be derecognised on disposal, but do not reflect any interest that is expected to be retained as an associate in relation to Solis Re Agency Inc. Amounts disclosed as held for sale as at 31 December 2018 relate to the sale of the Commercial MGA businesses (see above).

The Group recognised no impairment loss to reduce the carrying amount of the assets held for sale to its fair value less costs to sell.

At 31 December 2019, the disposal group comprised of the following assets and liabilities:

	31 December 2019 £000	31 December 2018 £000
Goodwill and intangible assets	-	26,416
Property, plant and equipment	2,138	14
Other assets	-	323
Trade and other receivables	798	-
Cash and bank balances - fiduciary	799	-
Total assets classified as held for sale	3,735	26,753
Trade and other payables	(1,754)	-
Deferred tax liabilities	-	(1,821)
Provisions for liabilities and charges	-	(155)
Total liabilities classified as held for sale	(1,754)	(1,976)
Net assets classified as held for sale	1,981	24,777

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Income and deferred tax

	31 December 2019 £000	Restated 31 December 2018 £000
Deferred tax – current year	29,099	38,170
Corporation tax – current year	(1,065)	(899)
Deferred tax – adjustment in respect of prior year	494	(1,717)
Corporation tax – adjustment in respect of prior year	1,459	(2,543)
Income tax credit	29,987	33,011
	31 December 2019 £000	31 December 2018 £000
Items that may be reclassified to profit or loss		
<u>Cash flow hedge reserve</u>		
Deferred tax on effective portion of changes in fair value	701	(5,241)
Deferred tax on net amount reclassified to profit or loss	(2,654)	4,288
<u>Costs of hedging reserve</u>		
Deferred tax on net change in fair value due to currency basis spread	390	(177)
Deferred tax on net amount reclassified to profit or loss	(25)	(29)
Deferred tax through Other Comprehensive Income	(1,588)	(1,159)

Income taxes of £21k were charged directly to equity on transition to IFRS 16 on 1 January 2019 (on transition to IFRS 15 on 1 January 2018: £3.9m).

The tax on the Group's loss before tax differs from the theoretical amount that would arise from applying the UK corporation tax rate for the year of 19% (2018: 19%) to the consolidated losses of the Group, as follows:

	31 December 2019 £000	Restated 31 December 2018 £000
Loss before taxation on continuing operations	(99,757)	(133,483)
Tax calculated at UK corporation tax rate of 19% (2018: 19%)	18,955	25,362
Expenses not deductible for tax purposes	570	(744)
Effect of disposal of subsidiaries	-	1,409
Brought forward deferred tax assets recognised	10,810	-
Tax losses for which no deferred tax asset is recognised	-	11,104
Deferred tax charge/(credit) regarding changes in tax rates or laws	(399)	229
Tax adjustment in respect of prior years	1,953	(4,260)
Other	(1,902)	(89)
Income tax credit on continuing operations	29,987	33,011

Future tax impacts

A reduction in the UK corporation tax rate to 17% (effective 1 April 2020) was substantively enacted since 6 September 2016, however, the UK Government published legislation on 19 March 2020 to maintain the UK corporation tax rate at 19% with effect from April 2020.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Intangible assets

The tables below provide a schedule of movements in the carrying amount of intangible assets held on the statement of financial position as at 31 December 2019.

2019 Cost	Goodwill £000	Customer relationships £000	Distribution network £000	Assets under construction £000
Beginning of year	765,156	328,343	102,602	26,455
Additions	3	2,019	-	4,743
Acquisitions	53,730	23,085	-	-
Disposals	-	-	-	(577)
Transfer between classes	-	-	-	(22,916)
Transfer to property, plant and equipment	-	-	-	-
End of year	818,889	353,447	102,602	7,705

2019 Cost	Brand £000	Computer software £000	Intellectual property £000	Total £000
Beginning of year	51,035	72,581	2,254	1,348,426
Additions	-	7,913	-	14,678
Acquisitions	638	2,053	-	79,506
Disposals	-	(38,186)	-	(38,763)
Transfer between classes	-	22,916	-	-
Transfer to property, plant and equipment	-	(404)	-	(404)
End of year	51,673	66,873	2,254	1,403,443

During 2019, the Group recognised an additional £2.5m as intangible assets related to internally generated software.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Intangible assets (continued)

2019 Amortisation	Goodwill £000	Customer relationships £000	Distribution network £000	Assets under construction £000
Beginning of year	86,400	65,687	38,275	-
Charge for year	-	34,334	10,253	-
Disposals	-	-	-	-
End of year	86,400	100,021	48,528	-
2019 Amortisation	Brand £000	Computer software £000	Intellectual property £000	Total £000
Beginning of year	23047	39218	596	253223
Charge for year	7,020	22,607	564	74,778
Disposals	-	(36,752)	-	(36,752)
End of year	30,067	25,073	1,160	291,249
2019 Net book value (NBV)	Goodwill £000	Customer relationships £000	Distribution network £000	Assets under construction £000
Cost at end of year	818,889	353,447	102,602	7,705
Amortisation at end of year	(86,400)	(100,021)	(48,528)	-
End of year	732,489	253,426	54,074	7,705
2019 Net book value (NBV)	Brand £000	Computer software £000	Intellectual property £000	Total £000
Cost at end of year	51,673	66,873	2,254	1,403,443
Amortisation at end of year	(30,067)	(25,073)	(1,160)	(291,249)
End of year	21,606	41,800	1,094	1,112,194

Included within computer software NBV as at 31 December 2019 was internally generated software NBV of £13.6m.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Intangible assets (continued)

The tables below provide a schedule of movements in the carrying value of intangible assets held on the statement of financial position as at 31 December 2018.

2018 Cost	Goodwill £000	Commission buy outs £000	Customer relationships £000	Distribution network £000
Beginning of year	756,974	12,664	309,830	109,270
Adjustment on transition to IFRS 15	-	(12,664)	-	-
Adjustments to goodwill in respect of prior years	(3,095)	-	-	-
Additions	129	-	7,445	-
Acquisitions	35,821	-	28,545	-
Disposals	-	-	-	-
Transfer between classes	(1,599)	-	-	-
Transfer from property, plant and equipment	-	-	-	-
Disposals of subsidiaries	(8,952)	-	(10,091)	-
Held for sale assets	(14,122)	-	(7,386)	(6,668)
End of year	765,156	-	328,343	102,602

2018 Cost	Assets under construction £000	Brand £000	Computer software £000	Intellectual property £000	Total £000
Beginning of year	22,268	47,619	54,188	2,254	1,315,067
Adjustment on transition to IFRS 15	-	-	-	-	(12,664)
Adjustments to goodwill in respect of prior years	-	-	-	-	(3,095)
Additions	9,953	7	11,920	-	29,454
Acquisitions	-	5,228	11,147	-	80,741
Disposals	(2,347)	-	(2,398)	-	(4,745)
Transfer between classes	(3,115)	-	4,714	-	-
Transfer from property, plant and equipment	-	-	344	-	344
Disposals of subsidiaries	(304)	-	(2,617)	-	(21,964)
Held for sale assets	-	(1,819)	(4,717)	-	(34,712)
End of year	26,455	51,035	72,581	2,254	1,348,426

During 2018, the Group recognised an additional £3.9m as intangible assets related to internally generated software.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Intangible assets (continued)

2018 Amortisation	Goodwill £000	Commission buy outs £000	Customer relationships £000	Distribution network £000
Beginning of year	86,400	7,807	40,107	29,842
Adjustment on transition to IFRS 15	-	(7,807)	-	-
Charge for year	-	-	29,182	10,760
Disposals	-	-	(1,051)	-
Held for sale assets	-	-	(2,551)	(2,327)
End of year	86,400	-	65,687	38,275

2018 Amortisation	Assets under construction £000	Brand £000	Computer software £000	Intellectual property £000	Total £000
Beginning of year	-	16,944	26,297	32	207,429
Adjustment on transition to IFRS 15	-	-	-	-	(7,807)
Charge for year	-	7,372	15,643	564	63,521
Disposals	-	-	(573)	-	(1,624)
Held for sale assets	-	(1,269)	(2,149)	-	(8,296)
End of year	-	23,047	39,218	596	253,223

2018 Net book value (NBV)	Goodwill £000	Commission buy outs £000	Customer relationships £000	Distribution network £000
Cost at end of year	765,156	-	328,343	102,602
Amortisation at end of year	(86,400)	-	(65,687)	(38,275)
End of year	678,756	-	262,656	64,327

2018 Net book value (NBV)	Assets under construction £000	Brand £000	Computer software £000	Intellectual property £000	Total £000
Cost at end of year	26,455	51,035	72,581	2,254	1,348,426
Amortisation at end of year	-	(23,047)	(39,218)	(596)	(253,223)
End of year	26,455	27,988	33,363	1,658	1,095,203

Included within computer software NBV as at 31 December 2018 was internally generated software NBV of £12.4m.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Intangible assets (continued)

The operating segments are the cash generating units ('CGUs') or groups of CGUs of the Group. A summary of goodwill allocated to the operating segments is presented in the tables below:

	Goodwill 31 December 2018 £m	Acquisitions and disposals £m	Intersegment reclassifications £m	Goodwill 31 December 2019 £m
Retail	168	-	-	168
Paymentshield	84	-	-	84
Insurance Broking	158	46	46	250
Schemes & Programmes	115	-	(46)	69
MGA	46	8	-	54
Specialty & International	108	-	-	108
	679	54	-	733

	Goodwill 31 December 2017 £m	Acquisitions and disposals £m	Intersegment reclassifications £m	Other adjustments £m	Goodwill 31 December 2018 £m
Retail	135	33	-	-	168
Paymentshield	88	-	(4)	-	84
Insurance Broking	131	1	27	(1)	158
Schemes & Programmes	148	(9)	(23)	(1)	115
MGA	61	-	-	(15)	46
Specialty & International	108	-	-	-	108
	671	25	-	(17)	679

Note: 'Intersegment reclassifications' arise from the reclassification of goodwill (and profits) across operating segments. 'Other adjustments' include adjustments to goodwill in respect of prior years and reclassification of the MGA commercial lines goodwill to held for sale.

Goodwill is tested for impairment annually, and whenever there is an indication that it may be impaired. The annual impairment test is performed as at 30 September each year, rather than as at the reporting date of 31 December, so as to enable more time to be dedicated to the impairment exercise and to thus result in the provision of more reliable information. However, information used in the annual impairment test as at 30 September is not available until after the date of issue of the 30 September financial statements, so an impairment, if any, that results from that annual impairment test would be reflected in the 31 December financial statements.

Goodwill is, for the purposes of impairment testing, allocated to CGUs or groups of CGUs expected to benefit from the business combination associated with that goodwill, where a CGU is the smallest identifiable group of assets that generate independent cash inflows. Management reviewed business performance, as at 30 September 2019 (and 30 September 2018), based on the CGUs or groups of CGUs that are the operating segments. The operating segments represented the lowest level within the Group at which goodwill was monitored for internal management purposes, so the annual impairment test was performed by reference to the operating segments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Intangible assets (continued)

An impairment test of goodwill is performed by comparing the carrying amount of each operating segment (i.e. CGU or group of CGUs), including the goodwill, with the recoverable amount of the operating segment. The recoverable amount of an operating segment is the higher of its fair value less costs of disposal (FVLCD) and its value in use (VIU), where the VIU of the operating segment is the present value of its future cash flows. If the recoverable amount of an operating segment is lower than its carrying amount, an impairment loss is recognised.

The impairment test of the operating segments as at 30 September 2019 (and 30 September 2018) did not result in an impairment charge to goodwill. The key data is summarised in the tables below and on the next page:

Table 1	Adjusted goodwill 30 September 2018 £m	Acquisitions and disposals £m	Intersegment reclassification £m	Other adjustments £m	Goodwill 30 September 2019 £m
Retail	135	33	-	-	168
Paymentshield	84	-	-	-	84
Insurance			46		
Broking	159	46		(1)	250
Schemes & Programmes	116	-	(46)		
MGA	47	7	-	(1)	69
Specialty & International			-	(1)	53
	108	-		-	108
	649	86	-	(3)	732

Table 2 30 September 2019	FVLCD £m	VIU £m	Recoverable amount £m
Retail	783	980	980
Paymentshield	282	354	354
Insurance Broking	900	1,126	1,126
Schemes & Programmes	181	226	226
MGA	158	197	197
Specialty & International	651	815	815
	2,955	3,698	3,698

Table 3 30 September 2019	Adjusted goodwill £m	Carrying amount £m	Recoverable amount £m	Headroom £m
Retail	168	348	980	632
Paymentshield	84	117	354	237
Insurance Broking	250	423	1,126	703
Schemes & Programmes	69	117	226	109
MGA	53	95	197	102
Specialty & International	108	204	815	611
	732	1,304	3,698	2,394

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Intangible assets (continued)

Table 1	Goodwill 31 December 2017 £m	Acquisitions and disposals £m	Intersegment reclassification £m	Adjusted goodwill 30 September 2018 £m
Autonet & Carole Nash	135	-	-	135
Paymentshield	88	-	(4)	84
Insurance Broking	131	1	27	159
Schemes & Programmes	148	(9)	(23)	116
MGA	61	(14)	-	47
Specialty & International	108	-	-	108
	671	(22)	-	649

Table 2 30 September 2018	FVLCS £m	VIU £m	Recoverable amount £m
Autonet & Carole Nash	308	347	347
Paymentshield	236	267	267
Insurance Broking	476	537	537
Schemes & Programmes	193	218	218
MGA	103	116	116
Specialty & International	341	384	384
	1,657	1,869	1,869

Table 3 30 September 2018	Adjusted goodwill £m	Carrying amount £m	Recoverable amount £m	Headroom £m
Autonet & Carole Nash	135	233	347	114
Paymentshield	84	121	267	146
Insurance Broking	159	284	537	253
Schemes & Programmes	116	189	218	29
MGA	47	92	116	24
Specialty & International	108	217	384	167
	649	1,136	1,869	733

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Intangible assets (continued)

Further information is provided below about the amounts in the preceding tables:

Goodwill

The 'Intersegment reclassifications' column in table 1 reflects the impact on goodwill of the reclassification during the 12 month period to 30 September 2019 of the SME business from the Schemes & Programmes operating segment to the Insurance Broking operating segment (2018: The 'Intersegment reclassifications' column in table 1 reflects the impact on goodwill of the reclassification during the 9 month period to 30 September 2018 of the Caring Professional business from the Schemes & Programmes operating segment to the Insurance Broking operating segment, and the transfer of the Health & Protect business and assets from the PaymentsShield operating segment to the Schemes & Programmes operating segment).

The 'Acquisitions and disposals' column in table 1 reflects the impact on goodwill of the acquisition by the Group during the 12 month period to 30 September 2019 of the share capital of Swinton (Holdings) Limited, the goodwill of which is included in the Retail operating segment, and of the share capital of Nevada Investment Holdings 2 Limited, the goodwill of which is included in the Insurance Broking and MGA operating segments given that it is attributed to its subsidiaries at the time of the acquisition, namely Health and Protection Solutions Limited, Minton House Group Limited and Professional Fee Protection Limited (2018: The 'Acquisitions and disposals' column in table 1 reflects the impact on goodwill of the acquisition by the Group during the 9 month period to 30 September 2018 of the business and assets of Haven Insurance Brokers Limited and of Trust Insurance Group Limited).

The term 'Adjusted' has been used to describe the goodwill as at 30 September 2018 in table 1 because it reflects the disposal by the Group of Direct Group Property Services Limited and of the MGA commercial lines business and assets (together the 'disposals') even though those disposals occurred after 30 September 2018. This was to ensure that the goodwill and thus the carrying amount as at 30 September 2018 was determined in a way that was consistent with their recoverable amount as at 30 September 2018, which was based on forecasts that reflected the disposals as if they had already occurred.

Carrying amount

The 'Carrying amount' column in table 3 includes the carrying amounts of the operating segments. These amounts are determined by adding back external debt and lease liabilities (2018: external debt) to the net assets of each operating segment and the Corporate non-operating segment, by allocating the resulting adjusted net assets of the Corporate non-operating segment across the operating segments pro rata to the resulting adjusted net assets of each operating segment, and by adding these amounts to the goodwill of the operating segments after first grossing that goodwill up for the non-controlling interest.

Value in use

The 'VIU' column in table 2 includes the present value of future cash flows of the operating segments together with an allocation of the cash flows of the Corporate non-operating segment, where the cash flows are based on the most recent five-year forecast (2018: three-year forecast) for Adjusted EBITDA as approved by management, pro forma for completed transactions as at 30 September 2019 (2018: 30 September 2018). These forecasts were determined by considering historic business performance, by overlaying it with assumptions to reflect areas where growth or income improvement is expected, and by taking into account the expected results of cost management programmes to which the Group is committed. The 2024 forecast (2018: 2021 forecast) is extrapolated to subsequent years using a steady growth rate being the CPI inflation rate of 1.9% per annum (2018: RPI inflation rate of 3% per annum), and a terminal value is calculated using the perpetual growth model. The discount rate of 9.31% (2018: 11%) that has been applied to the forecasts is a market participant weighted average cost of capital calculated by reference to the Capital Asset Pricing Model.

Fair value less costs of disposal (FVLCD)

The 'FVLCD' column in table 2 is determined by reference to the fair value of the Group, which is calculated based on multiples of forecast 2020 (2018: forecast 2019) Adjusted EBITDA and on information provided by external advisors. The fair value of a CGU is estimated using a valuation technique that makes use of level 3 inputs, in accordance with IFRS 13 'Fair Value Measurement', specifically by apportioning the fair value of the Group between the operating segments based on the VIU of each operating segment. The estimated costs of disposal, which are assumed based on market experience to be 1.5% (2018: 1.5%) of the fair value of the operating segment, are then deducted to determine the FVLCD of the operating segment.

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13 Intangible assets (continued)

Recoverable amount

The 'Recoverable amount' column in tables 2 and 3 is equal to the VIU for all operating segments, as VIU is greater than FVLCD in all cases.

The key assumption to which the VIU and thus the recoverable amount is most sensitive is the five-year forecast (2018: three-year forecast) for Adjusted EBITDA. If the five-year forecast for Adjusted EBITDA were to be decreased by 48.9% (2018: 13.5%), there would be an impairment to the Schemes & Programmes operating segment. If the forecast were to instead be decreased by 51.7% (2018: 20.3%), there would also be an impairment to the MGA operating segment. If the forecast were to instead be decreased by 63.1% (2018: 33.2%), there would also be an impairment to the Insurance Broking operating segment. No further reasonably possible change in this assumption alone would result in an impairment to any other CGU.

14 Property, plant and equipment

The tables below provide a schedule of the movements in the carrying amount of property, plant and equipment held on the statement of financial position at 31 December 2019.

	Freehold property £000	Leasehold improvements £000	Assets under construction £000	Furniture and office equipment £000
2019 Cost				
Beginning of year	8,591	17,191	263	2,798
IFRS 16 transition adjustment	(262)	-	-	-
Additions	-	3,719	97	309
Acquisitions	-	-	-	114
Disposals	(2,739)	(9,360)	(30)	(1,661)
Transfer from/(to) intangible assets	-	7	(233)	(37)
Assets classified as held for sale	(1,397)	-	-	-
End of year	4,193	11,557	97	1,523
	Computer equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
2019 Cost				
Beginning of year	25,859	8,403	181	63,286
IFRS 16 transition adjustment	-	-	-	(262)
Additions	1,739	1,496	11	7,371
Acquisitions	226	53	25	418
Disposals	(4,640)	(4,783)	(137)	(23,350)
Transfer to/(from) intangible assets	667	-	-	404
Assets classified as held for sale	-	-	-	(1,397)
End of year	23,851	5,169	80	46,470

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14 Property, plant and equipment (continued)

	Freehold property £000	Leasehold improvements £000	Assets under construction £000	Furniture and office equipment £000
2019 Depreciation				
Beginning of year	825	3,819	-	1,647
Charge for year	110	3,016	-	429
Disposals	-	(4,949)	-	(1,645)
End of year	935	1,886	-	431
	Computer equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
2019 Depreciation				
Beginning of year	15,415	4,455	117	26,278
Charge for year	5,256	1,094	32	9,937
Disposals	(4,538)	(4,665)	(116)	(15,913)
End of year	16,133	884	33	20,302
	Freehold property £000	Leasehold improvements £000	Assets under construction £000	Furniture and office equipment £000
2019 Net book value (NBV)				
Cost at end of year	4,193	11,557	97	1,523
Depreciation at end of year	(935)	(1,886)	-	(431)
NBV at end of year	3,258	9,671	97	1,092
	Computer equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
2019 Net book value (NBV)				
Cost at end of year	23,851	5,169	80	46,470
Depreciation at end of year	(16,133)	(884)	(33)	(20,302)
NBV at end of year	7,718	4,285	47	26,168

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14 Property, plant and equipment *(continued)*

The tables below provide a schedule of the movements in the carrying value of property, plant and equipment held on the statement of financial position at 31 December 2018.

	Freehold property £000	Leasehold improvements £000	Assets under construction £000	Furniture and office equipment £000
2018 Cost				
Beginning of year	4,161	13,578	110	2,981
Additions	36	364	153	383
Acquisitions	4,394	5,480	-	-
Disposals	-	(2,231)	-	(566)
Disposal of subsidiaries	-	-	-	-
Transfer to intangible assets	-	-	-	-
Assets classified as held for sale	-	-	-	-
End of year	8,591	17,191	263	2,798

	Computer equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
2018 Cost				
Beginning of year	23,672	8,783	277	53,562
Additions	1,101	661	22	2,720
Acquisitions	2,779	93	-	12,746
Disposals	(587)	(86)	(118)	(3,588)
Disposal of subsidiaries	(762)	(866)	-	(1,628)
Transfer to intangible assets	(344)	-	-	(344)
Assets classified as held for sale	-	(182)	-	(182)
End of year	25,859	8,403	181	63,286

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14 Property, plant and equipment (continued)

	Freehold property £000	Leasehold improvements £000	Assets under construction £000	Furniture and office equipment £000
2018 Depreciation				
Beginning of year	709	3,080	-	1,622
Charge for year	116	1,722	-	589
Transfer between classes	-	-	-	(111)
Disposals	-	(983)	-	(453)
Disposal of subsidiaries	-	-	-	-
Assets classified as held for sale	-	-	-	-
End of year	825	3,819	-	1,647
	Computer equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
2018 Depreciation				
Beginning of year	12,355	3,926	180	21,872
Charge for year	4,307	986	43	7,763
Transfer between classes	-	111	-	-
Disposals	(567)	(86)	(106)	(2,195)
Disposal of subsidiaries	(680)	(313)	-	(993)
Assets classified as held for sale	-	(169)	-	(169)
End of year	15,415	4,455	117	26,278
	Freehold property £000	Leasehold improvements £000	Assets under construction £000	Furniture and office equipment £000
2018 Net book value (NBV)				
Cost at end of year	8,591	17,191	263	2,798
Depreciation at end of year	(825)	(3,819)	-	(1,647)
NBV at end of year	7,766	13,372	263	1,151
	Computer equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
2018 Net book value (NBV)				
Cost at end of year	25,859	8,403	181	63,286
Depreciation at end of year	(15,415)	(4,455)	(117)	(26,278)
NBV at end of year	10,444	3,948	64	37,008

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15 Leases

The Group applied IFRS 16 from 1 January 2019 (see note 3).

The majority of the Group's leases are for properties in the UK and these leases typically run for a period of 5-10 years. Some of the Group's leases are being held over beyond the original end date of the lease. Rent is normally fixed but may be subject to a review every few years. Many of the Group's long-term contracts have an option to terminate the lease prior to its end date, however, in most cases, termination options are not reasonably certain to be exercised so that the lease liability reflects all lease payments through to the ultimate end date of the lease. Service charges and other contractual payments to the lessor are excluded from the measurement of the lease liability. VAT (including when it is irrecoverable) and business rates are also excluded from the measurement of the lease liability as they do not constitute a lease payment under IFRS 16.

The Group does not act as a lessor other than as a sublessor. Subleases are not considered material for the Group.

Leases of low value assets, for which the Group applies the practical expedient not to recognise a lease liability, are not considered material for the Group.

The table below provides a schedule of the movements in the carrying amount of the right-of-use assets and lease liabilities (when the Group acts as a lessee) that are held on the statement of financial position during the year ended 31 December 2019.

	Right-of-use assets			Lease liabilities £000
	Property £000	Non- property £000	Total £000	
As at 1 January 2019	64,015	338	64,353	(71,145)
Additions	5,988	890	6,878	(8,509)
Terminations/modifications	(23,225)	(58)	(23,283)	26,138
Depreciation	(9,691)	(443)	(10,134)	-
Impairment	(818)	(46)	(864)	-
Interest expense	-	-	-	(6,256)
Lease payments	-	-	-	16,073
Classified as held for sale	(741)	-	(741)	594
As at 31 December 2019	35,528	681	36,209	(43,105)
Current				(10,084)
Non-current				(33,021)
				(43,105)

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15 Leases (continued)

In addition to the above, the Group recognised the following in profit or loss for the period in relation to leases:

	31 December 2019 £000
Variable lease payments expensed (presented within other operating expenses and mainly relates to service charges)	3,778
Expense relating to irrecoverable VAT on rent payments and business rates (presented within other operating costs)	6,646
Net profit on termination of leases (presented within other income)	(2,992)
Finance income on finance subleases (presented within finance income)	(153)
Income from operating subleases (presented within other income)	(390)
	<u>6,889</u>

During the year ended 31 December 2019, the Group has completed the formal assignment of certain leases that were contractually agreed to be assigned on 31 December 2018 and on 1 January 2019. As a result, the Group derecognised the related lease liability and right-of-use asset amounting to £17.5m.

During the year ended 31 December 2019, the estimated total cash outflows for leases (excluding cash inflows for sub-leases and lease incentives), constituting rent payments (excluding VAT, whether recoverable or not) and variable lease payments (that do not form part of the lease liability - mainly service charges), was £19.9m.

Maturity analysis

The following table provides a maturity analysis of the Group's undiscounted lease liability:

	31 December 2019 £000
Within one year	10,963
In two to five years	39,779
In over 5 years	13,194
Total undiscounted value	<u>63,936</u>

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16 Business combinations

On 31 January 2019, The Ardonagh Group Limited completed the acquisition of 100% of the issued share capital of Nevada Investment Holdings 2 Limited (Nevada 2), the indirect holding company of Nevada 3, and its subsidiaries. The consideration paid for the acquisition was £67.0m of convertible equity certificates, which were subsequently converted to shares. There is no contingent consideration for this purchase.

The table below presents the consideration and the consolidated assets and liabilities of the Nevada 2 acquisition on 31 January 2019 and it also presents an adjustment to the Swinton acquisition completed on 31 December 2018:

	Nevada 2 £000	Swinton £000	Total £000
<u>Purchase consideration</u>			
Adjustment to purchase consideration	-	(400)	(400)
Issue of convertible equity certificates	67,000	-	67,000
Total purchase consideration	67,000	(400)	66,600
<u>Assets and liabilities as a result of the acquisitions</u>			
Non-current assets			
Right-of-use assets	694	-	694
Tangible assets	419	-	419
Current assets			
Cash own funds	8,171	-	8,171
Cash fiduciary funds	256	-	256
Trade and other receivables	2,126	-	2,126
Other assets	98	-	98
Current liabilities			
Trade and other payables	(5,970)	-	(5,970)
Lease liabilities	(694)	-	(694)
Contract liabilities	(104)	-	(104)
Non-current liabilities			
Contract liabilities	(123)	-	(123)
Provisions	(13,528)	-	(13,528)
Deferred tax	154	-	154
Net assets acquired	(8,501)	-	(8,501)
Customer relationships	23,085	-	23,085
Brand	638	-	638
Computer Software	2,053	-	2,053
Deferred tax	(4,373)	(32)	(4,405)
Net identifiable intangible assets acquired	21,403	(32)	21,371
Goodwill	54,098	(368)	53,730
Total purchase consideration	67,000	(400)	66,600

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16 Business combinations (continued)

Goodwill is calculated as the difference between the acquisition consideration and the acquisition date fair value of net assets acquired. It represents the value of the acquired business' assembled workforce and future economic benefits (beyond those already represented by other assets in the balance sheet) that we expect to receive as a result of the acquisition.

The acquisition of Nevada 2 contributed revenue of £15.5m and profit after tax of £2.6m to the Group in the year ended 31 December 2019. If the acquisitions had completed on the first day of the year, Group revenues would have been reported as £668.5m and loss after tax as £(72.9)m.

17 Transactions with non-controlling interests

During the year the Group purchased from non-controlling interests 33,610 B shares of Ardonagh Specialty Holdings Limited, which have no voting rights or rights to dividends, for a consideration of £4.9m, of which £1.6m was paid in the year.

The Group also purchased from non-controlling interests the remaining 15,634 B shares (representing 0.19% of the interest) of Price Forbes Holdings Limited, for a nominal consideration. The effect on equity attributable to the owners of Price Forbes Holdings Limited during the year is a reduction on the carrying amount of non-controlling interest of £0.1m and an increase in controlling interest reserve within equity of £0.1m.

The effect on the equity attributable to the owners of Ardonagh Specialty Holdings Limited during the year is summarised as follows:

	Ardonagh Specialty Holdings Limited £000	
31 December 2019		
Consideration paid/payable to non-controlling interests		(4,936)
Excess of consideration paid/payable recognised in the transactions with non-controlling interests reserve within equity		(4,936)
	Price Forbes Holdings 2018 £000	B.I.B.U. Acquisitions 2018 £000
31 December 2018		
Carrying amount of non-controlling interests purchased	13,946	-
Consideration paid/payable to non-controlling interests	(9,711)	(620)
Excess of consideration paid/payable recognised in the transactions with non-controlling interests reserve within equity	4,235	(620)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Investment in associates and joint ventures

Associates

Sino Insurance Brokers Limited:

On 12 September 2019, the Group acquired a 40% interest in Sino Insurance Brokers Limited (which has a wholly owned subsidiary, Sino Reinsurance Brokers Limited), comprising 400,000 ordinary shares of HK\$1 each. This associate is initially recognised at cost and subsequently via the equity method, where the cost is the consideration comprising cash of HK\$14.3m and deferred contingent consideration with a fair value that has been estimated, pending completion of the measurement period, to be HK\$21.4m. The Group is entitled, under the terms of the acquisition of the 40% interest, to exercise a call option during the period 1 January 2021 to 31 December 2023 to acquire a further 35% interest in Sino Insurance Brokers Limited, comprising 350,000 ordinary shares of HK\$1 each.

Bravo Investment Holdings Limited:

On 1 July 2016, the Group acquired a 19.9% share in Bravo Investment Holdings Limited (Bravo), which is incorporated and based in the UK. Just prior to this, Bravo acquired The Broker Network Limited and Countrywide Insurance Management Limited from Ardonagh Services Limited (formerly Towergate Insurance Limited). Bravo provides third party brokers with access to insurance products and a variety of business support services.

On 19 January 2018, the Group disposed of its shareholding in Bravo to Nevada Investment Holdings 2 Limited (Nevada 2), which was then a related party of the Ardonagh Group due to common shareholders. Nevada 2 subsequently sold its shares in Bravo and its rights and obligations under the sale and purchase agreement to Nevada 4 Midco 1 Limited, a related party of the Group due to common shareholders. £30.0m cash was received on the disposal to Nevada 2. The cash received, plus a further £1.2m, is subject to a contingent clawback mechanism based on the equity value of Bravo on the settlement date. Following a 1 July 2019 amended agreement, the settlement date is a date between 19 January 2020 and 30 September 2020, at the election of Ardonagh, and settlement may be in cash or equity of the Company. A deferred proceeds liability of £15.0m in relation to this clawback mechanism is recognised by the Group at 31 December 2019 (note 27).

At the time of disposal, the £30.0m cash received was recognised and £20.0m was recorded as a deferred proceeds liability, resulting in a gain on disposal of associate of £4.6m. At 31 March 2018, the fair value of the deferred proceeds liability was reassessed based on the then current equity value of Bravo, resulting in the recognition of a £3.3m increase to the gain on disposal. At 30 June 2019, the fair value of the deferred proceeds liability was reassessed again, resulting in the recognition of a £3.3m decrease to the gain on disposal. A further reassessment in the fourth quarter led to a £5.0m increase in the gain on disposal.

When the Group owned 19.9% of Bravo there was an agreement in place in respect of the equity of Bravo which included certain minority protection rights, rights in respect of share transfers and a long-term option arrangement over remaining shares in Bravo. This option was exercisable by the Group at or above market value and therefore the associated derivative had no fair value. This agreement was retained, with minor amendments, after the disposal of the associate.

	31 December 2019 £000	31 December 2018 £000
Investment in associates		
Start of the year	-	5,356
Addition	3,583	-
Share of profit for the year	217	-
Disposal	-	(5,356)
End of the year	3,800	-

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18 Investment in associate and joint venture (continued)

Summarised financial information in respect of the Group's interest in Sino Insurance Brokers Limited is set out below:

	31 December 2019 £000	31 December 2018 £000
Investment in associate		
Non-current assets	135	-
Current assets	15,048	-
Current liabilities	(4,931)	-
Equity attributable to the owners of the parent	10,252	-
	31 December 2019 £000	31 December 2018 £000
Investment in associate		
Revenue	924	-
Profit after tax	426	-

Joint ventures

The Group has a participating interest in Carole Nash Legal Services LLP, a legal practice. Carole Nash Insurance Consultants Limited, a Group subsidiary company, owns 50% of the total equity of Carole Nash Legal Services LLP.

	31 December 2019 £000	31 December 2018 £000
Investment in joint ventures		
Start of the year	3,340	2,763
Distribution	(1,400)	(1,200)
Share of profit for the year	1,680	1,777
End of the year	3,620	3,340

Summarised financial information in respect of the Group's interest in Carole Nash Legal Services LLP is set out below:

	31 December 2019 £000	31 December 2018 £000
Investment in joint ventures		
Current assets	4,745	4,430
Equity attributable to the owners of the parent	4,745	4,430
	31 December 2019 £000	31 December 2018 £000
Investment in joint ventures		
Revenue	3,676	3,964
Profit after tax	2,145	2,349

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19 Cash and cash equivalents

	31 December 2019 £000	31 December 2018 £000
Own funds	48,192	112,534
Own funds - restricted	36,604	46,017
Fiduciary funds	326,107	346,405
	410,903	504,956

Included within own funds at 31 December 2018 was £27.6m of cash in an escrow account. This was transferred into the Group's normal own funds account in January 2019. As at 31 December 2019, no funds are held in escrow.

Restricted own funds comprise:

- £13.5m as at 31 December 2019 (2018: £13.1m) of restricted cash kept in segregated accounts for claim settlements in relation to the disposal of the Towergate Financial business by Ardonagh Services Limited, an intermediate holding company within the Group.
- £23.1m as at 31 December 2019 (2018: £22.9m) of restricted cash kept in segregated accounts pursuant to the FCA's Threshold Condition 2.4 (applicable to the insurance broking industry), for ensuring that funds are available to pay any costs and expenses necessary to achieve an orderly wind down of the Group's business in the event its broking operations cease to operate or are otherwise closed. The amount of cash required to be held is determined by management and agreed by the FCA.
- £nil of cash (31 December 2018: £10m) is restricted in respect of the acquisition of Swinton in December 2018.

Fiduciary funds represent client money used to pay premiums to underwriters, to settle claims to policyholders and to defray commission and other income. Fiduciary funds are not available for general corporate purposes.

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20 Trade and other receivables

The Group had exposures at 31 December 2019 to numerous individual trade counterparties within trade receivables. In accordance with Group policy, trade receivable balances are continually monitored against credit limits and concentration of risk. No individual trade counterparty credit exposure is considered significant in the ordinary course of trading activity. The maximum exposure to credit risk at the reporting date is the carrying value of the receivables. The Group does not hold any collateral as security.

	31 December 2019 £000	31 December 2018 £000
Trade receivables	85,331	181,201
Less: expected credit loss allowance	(10,789)	(7,993)
Trade receivables - net	74,542	173,208
Prepayments	21,918	25,790
Accrued income	10,782	9,750
Other receivables*	32,133	35,651
Other debtors	23,857	22,625
Related party debtors	51,016	36,240
Contingent consideration receivable	279	952
	214,527	304,216
Current	198,771	286,716
Non-current	15,756	17,500
	214,527	304,216

* Other receivables include amounts recognised on a business combination in relation to the Group's right to variable consideration on rolling contracts with customers, for which the performance obligation was satisfied prior to the acquisition. These receivables are classified as FVTPL.

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21 Contract balances

	31 December 2019 £000	31 December 2018 £000
Contract assets	11,509	12,594
Current	9,801	10,315
Non-current	1,708	2,279
Contract liabilities		
Post-placement performance obligations	(6,548)	(7,773)
Other deferred income	(21,752)	(10,052)
	(28,300)	(17,825)
Current	(26,829)	(15,400)
Non-current	(1,471)	(2,425)
	(28,300)	(17,825)

Contract assets are amounts of revenue recognised by the Group that are subject to variability. Variable consideration is a key source of estimation uncertainty (see note 4). The decrease in contract assets during the year ending 31 December 2019 relates mainly to reclassification of balances to trade and other receivables. The estimated revenue relating to profit commission that was recognised in 2019 on policies inception prior to 2019 amounts to £4.8m (2018: £3.3m related to policies inception prior to 2018). This is generally due to re-estimation of amounts previously recognised and relaxation of the constraint on revenue as amounts become more certain.

Contract liabilities represent the Group's obligation to transfer services to customers for which the Group has received the consideration (or the amount is due) from the customer. During the year ended 31 December 2019, the Group recognised revenue amounting to £15.4m (2018: £11.9m) that was included in the opening balance of contract liabilities. Contract liabilities increased during the year ended 2019 mainly due to an increase in premium financing commissions that are advanced to the Group by third-party premium credit providers.

The Group applies the practical expedient in IFRS 15 not to disclose information about the transaction price associated with performance obligations to be completed after the reporting date, if the performance obligation is part of a contract that has an original expected duration of one year or less. With respect to contracts with an original expected duration of more than a year, the aggregate amount of transaction price allocated to performance obligations that are unsatisfied (or partially satisfied) as of the reporting date is £6.5m (2018: £7.8m). This amount is expected to be recognised as revenue as follows:

	31 December 2019 £000	31 December 2018 £000
Within 12 months of the reporting date	5,685	5,356
Between 12 and 24 months of the reporting date	435	1,039
More than 24 months after the reporting date	428	1,378
	6,548	7,773

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22 Other assets

	31 December 2019 £000	31 December 2018 £000
Costs to fulfil contracts with customers	7,254	6,724
Costs to obtain contracts with customers	20,881	13,248
	28,135	19,972
Current	19,098	16,266
Non-current	9,037	3,706
	28,135	19,972

The Group's costs to fulfil balance at each reporting period reflects salaries and other costs of customer-facing employees who undertake activities necessary to satisfy anticipated contracts with the customer. This is subsequently released to profit or loss when the Group recognises the related revenue from those contracts, which is usually soon after the reporting date (1-3 months). The net impact on profit or loss for the year ended 31 December 2019 was a decrease in staff costs of £0.5m (31 December 2018: £2.0m).

Costs to obtain include incremental fees paid to aggregator websites for obtaining new business and are amortised, on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates, over the average life of the relationship with the customer. Amortisation amounting to £21.7m was recognised in profit or loss during the year ended 31 December 2019 (31 December 2018: £9.7m). During the year ended 31 December 2019, costs to obtain contracts with customers increased due to a more extensive use of aggregator websites (also following the acquisition of Swinton in 2018) and higher sale volumes.

There was no impairment loss in relation to the costs capitalised.

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23 Cash generated from operations

	31 December 2019 £000	*Restated 31 December 2018 £000
Cash flows from operating activities		
Loss for the year after tax	(69,770)	(100,472)
Depreciation of property, plant and equipment and right-of-use assets	20,071	7,763
Amortisation	74,778	66,616
Loss on disposal and impairment of property, plant and equipment, right of use assets and intangible assets	7,658	1,393
Other (gains)/losses	(1,196)	138
Adjustment to gain on disposal of associate	(1,750)	-
Gain on disposal of business	(2,244)	(3,770)
Transaction costs on completed and aborted acquisitions accrued in the year	(353)	3,649
Transaction costs on completed and aborted acquisitions paid in the year	(4,167)	(2,315)
Finance costs - net of finance income	111,611	94,136
Investment income	(2,657)	(2,106)
Share of profit from associate and joint venture	(1,897)	(1,777)
Tax credit	(29,987)	(33,011)
Fair value loss/(gain) on derivatives	604	(2,485)
Recycling to income statement from cash flow hedging reserve on forward contracts	645	(318)
Increase/(decrease) in trade and other receivables	93,329	(71,620)
(Decrease)/increase in trade and other payables	(89,361)	117,573
Decrease in contract assets	1,084	2,474
Increase in other assets	(8,065)	(8,672)
Increase in contract liabilities	10,342	2,108
Effect of movements in exchange rates on cash held	5,443	-
Decrease in provisions	(25,206)	(602)
Net cash inflow from operations	88,912	68,702

* The Group has recognised a deferred tax asset in its consolidated financial statements in relation to interest that is subject to interest restriction tax regulations and certain other tax attributes. A deferred tax asset is recognised on the basis that future taxable profits will arise in the consolidated financial statements as a result of the unwind of the deferred tax liability that was already included in those financial statements in relation to intangible assets recognised on a business combination. The adjustment increases deferred tax assets and decreases retained losses in the statement of financial position by £32.4m as at 31 December 2018 (1 January 2018: £23.5m), and it increases the tax credit in the income statement for the year ended 31 December 2018 by £8.9m.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Reconciliation of liabilities to cash flows arising from financing activities

Year ended 31 December 2019	Premium financing liabilities £000	Trade and other payables £000	Borrowings £000	Lease liabilities £000	Financing cash flows relating to equity transactions £000	Total £000
At the beginning of the year	72,072	440	1,144,352	71,145	-	1,288,009
Interest paid on borrowings	(2,535)	(2,035)	(90,671)	-	-	(95,241)
Net repayments from premium financing	(67,731)	-	-	-	-	(67,731)
Debt transaction costs	-	-	(7,012)	-	-	(7,012)
Sundry loans issued	-	(8,347)	-	-	-	(8,347)
Interest paid on lease liabilities	-	-	-	(6,256)	-	(6,256)
Repayment of lease liabilities	-	-	-	(9,819)	-	(9,819)
Transactions with non-controlling interests	-	-	-	-	(4,304)	(4,304)
Settlement of shareholder loan notes	-	-	(4,589)	-	-	(4,589)
	(70,266)	(10,382)	(102,272)	(16,075)	(4,304)	(203,299)
Non-cash changes:						
Effect of changes in foreign exchange rates	-	-	(19,368)	-	-	(19,368)
Interest expense	2,535	1,625	104,595	6,256	-	115,011
Accrued transaction costs	-	-	8,531	-	-	8,531
New leases/lease modifications	-	-	-	(17,629)	-	(17,629)
Amounts classified as held-for-sale	-	-	-	(594)	-	(594)
At the end of the year	4,341	(8,317)	1,135,838	43,103	(4,304)	1,170,661

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Reconciliation of liabilities to cash flows arising from financing activities (continued)

Year ended 31 December 2018	Premium financing liabilities £000	Trade and other payables £000	Borrowings £000	Financing cash flows relating to equity transactions £000	Total £000
At the beginning of the year	-	3,119	896,356	-	899,475
Cash flows from financing activities:					
Proceeds from new loan notes	-	-	276,256	-	276,256
Proceeds from issue of shares	-	-	(45,000)	-	(45,000)
Proceeds from borrowings	-	(875)	(78,163)	-	(79,038)
Proceeds from premium financing	72,072	-	-	-	72,072
Repayment of borrowings	-	-	(6,406)	-	(6,406)
Costs incurred on borrowings/equity	-	-	-	(4,518)	(4,518)
Settlement of deferred consideration	-	-	(4,867)	-	(4,867)
Settlement of financial liabilities on acquisition	-	-	-	(116)	(116)
Capital element of finance lease rental payments	-	-	(44)	-	(44)
	72,072	(875)	141,776	(4,634)	208,339
Non-cash changes:					
On acquisition of business	-	(3,089)	(5,000)	-	(8,089)
Effect of changes in foreign exchange rates	-	-	26,439	-	26,439
Interest expense	-	1,285	87,659	-	88,944
Changes in fair value	-	-	(2,878)	-	(2,878)
Equity related	-	-	-	4,634	4,634
At the end of the year	72,072	440	1,144,352	-	1,216,864

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Financial instruments

Financial instruments classification

A description of each category of financial assets and financial liabilities and the related accounting policies can be found in note 3. The carrying amounts of the Group's financial assets and liabilities in each category are as follows:

Financial assets - 2019	Derivatives used for hedging £000	FVTPL £000	Amortised cost £000	FVTOCI £000	Total £000
Unlisted investments	-	-	-	271	271
UCIS assets	-	36	-	-	36
Trade receivables excluding prepayments	-	-	74,542	-	74,542
Other receivables	-	32,133	41,908	-	74,041
Cash and cash equivalents	-	-	410,903	-	410,903
Derivatives	6,241	-	-	-	6,241
At 31 December 2019	6,241	32,169	527,353	271	566,034

Financial assets - 2018	Derivatives used for hedging £000	FVTPL £000	Amortised cost £000	FVTOCI £000	Total £000
Unlisted investments	-	-	-	271	271
UCIS assets	-	42	-	-	42
Trade receivables excluding prepayments	-	-	173,208	-	173,208
Other receivables	-	36,603	36,585	-	73,188
Cash and cash equivalents	-	-	504,956	-	504,956
Derivatives	4,478	-	-	-	4,478
At 31 December 2018	4,478	36,645	714,749	271	756,143

Financial liabilities - 2019	FVTPL £000	Amortised cost £000	Derivatives used for hedging £000	Total £000
Borrowings	-	(1,135,838)	-	(1,135,838)
Trade and other payables, excluding deferred income	-	(344,789)	-	(344,789)
Contingent consideration	(3,167)	-	-	(3,167)
Deferred proceeds	(15,000)	-	-	(15,000)
Derivative liabilities	-	-	(21,700)	(21,700)
At 31 December 2019	(18,167)	(1,480,627)	(21,700)	(1,520,494)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Financial instruments (continued)

Financial liabilities - 2018	FVTPL £000	Amortised cost £000	Derivatives used for hedging £000	Total £000
Borrowings	-	(1,144,352)	-	(1,144,352)
Trade and other payables, excluding deferred income	-	(409,938)	-	(409,938)
Contingent consideration	(1,575)	-	-	(1,575)
Deferred proceeds	(16,750)	-	-	(16,750)
Derivative liabilities	-	-	(13,132)	(13,132)
At 31 December 2018	(18,325)	(1,554,290)	(13,132)	(1,585,747)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Financial instruments (continued)

Fair value measurement

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly as prices, or indirectly derived from prices; and
- Level 3: unobservable inputs for the asset or liability.

The following table shows the levels within the hierarchy of financial assets and liabilities measured at fair value on an ongoing basis:

	Level 1	Level 2	Level 3	Total
31 December 2019	£000	£000	£000	£000
<u>Financial assets at fair value through profit or loss</u>				
UCIS recovered assets	-	-	36	36
Trade and other receivables	-	-	32,412	32,412
Cross-currency swaps used in cash flow hedges	-	3,063	-	3,063
Forward contracts used in cash flow hedges	-	3,178	-	3,178
<u>Financial assets at fair value through other comprehensive income</u>				
Unlisted investments	-	-	271	271
Total financial assets at fair value	-	6,241	32,719	38,960
Contingent consideration payable	-	-	(3,167)	(3,167)
Deferred proceeds	-	-	(15,000)	(15,000)
Forward contracts used in cash flow hedges	-	(289)	-	(289)
Cross-currency swaps used in cash flow hedges	-	(21,411)	-	(21,411)
Total financial liabilities at fair value through profit or loss	-	(21,700)	(18,167)	(39,867)
Net fair value at 31 December 2019	-	(15,459)	14,552	(907)
	Level 1	Level 2	Level 3	Total
31 December 2018	£000	£000	£000	£000
<u>Financial assets at fair value through profit or loss</u>				
UCIS recovered assets	-	-	42	42
Trade and other receivables	-	-	36,603	36,603
Cross-currency swaps used in cash flow hedges	-	4,478	-	4,478
<u>Financial assets at fair value through other comprehensive income</u>				
Unlisted investments	-	-	271	271
Total financial assets at fair value	-	4,478	36,916	41,394
Contingent consideration payable	-	-	(1,575)	(1,575)
Deferred proceeds	-	-	(16,750)	(16,750)
Forward contracts used in cash flow hedges	-	(4,330)	-	(4,330)
Cross-currency swaps used in cash flow hedges	-	(8,802)	-	(8,802)
Total financial liabilities at fair value through profit or loss	-	(13,132)	(18,325)	(31,457)
Net fair value at 31 December 2018	-	(8,654)	18,591	9,937

There were no transfers between Levels 1, 2 and 3 in 2019 or 2018.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Financial instruments (continued)

Fair value measurement (continued)

The following valuation techniques are used for instruments categorised in Levels 2 and 3:

Derivative financial instruments (Level 2)

The Group's cross-currency swaps and forward contracts are categorised within level 2 of the fair value hierarchy. These contracts are not traded in an active market, but the fair value is determined using valuation techniques using available market data, such as forward exchange rates corresponding to the maturity of the contract observable at the statement of financial position date and an appropriate sector credit spread.

UCIS recovered assets (Level 3)

The UCIS recovered assets are held at their fair value and are categorised within level 3 of the fair value hierarchy. Where no professional valuation is available, they are recognised at their published net asset value with an appropriate adjustment applied to the published unit price to reflect their illiquid nature and potentially lower net realisable value.

Trade and other receivables/contingent consideration receivable (Level 3)

Trade and other receivables include £0.3m at fair value in respect of contingent consideration receivable on the sale of URIS Group's claims business in 2018. This is categorised within level 3 of the fair value hierarchy with the valuation based on management's best estimate of the probability of the successful completion of the requirements set out in the sale and purchase agreement.

Also included in trade and other receivables at 31 December 2019 were assets at fair value through profit or loss that were recognised on a business combination in relation to the Group's right to variable consideration on rolling contracts with customers for which the performance obligation was satisfied prior to the acquisition. The fair value is a level 3 valuation and is calculated as the present value of future cash flows where those cash flows take into account expected cancellation rates and the life of the underlying insurance product.

Contingent consideration payable and deferred proceeds (Level 3)

Trade and other payables include £18.2m (31 December 2018: £18.3m) which are measured as financial liabilities at fair value through profit or loss. As at 31 December 2019 the liabilities relate to performance related contingent consideration amounts on the acquisition of Healthy Pets Limited made in 2017, the acquisition of an associate interest in Sino Insurance Brokers Limited in 2019 and the sale of the Group's 19.9% interest in Bravo (deferred proceeds) (note 18). They are categorised within level 3 of the fair value hierarchy.

Techniques such as estimated discounted cash flows were used to determine their fair value in line with the calculation specified in the purchase agreement. Financial liabilities in respect of contingent consideration will only be written back if the Group receives confirmation from the vendor that there is no liability outstanding.

Unlisted investments at fair value through other comprehensive income (Level 3)

Unlisted investments are categorised within level 3 of the fair value hierarchy. The valuation technique applied is cost less any provision for impairment.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Financial instruments (continued)

Reconciliation of recurring fair value measurements within level 3

The table below provides a schedule of movements in the carrying amount in the statement of financial position of financial assets with recurring fair value measurements within level 3:

	Financial liabilities at FVTPL £000	Financial assets at FVTPL £000	Financial assets at FVTOCI £000	Total £000
As at 1 January 2019	(18,325)	36,645	271	18,591
Gains and losses	587	15,376	-	15,963
Acquisition of companies	(2,141)	-	-	(2,141)
Settlements	1,712	(19,573)	-	(17,861)
At 31 December 2019	(18,167)	32,448	271	14,552

	Financial liabilities at FVTPL £000	Financial assets at FVTPL £000	Financial assets at FVTOCI £000	Total £000
As at 1 January 2018	(3,088)	12,437	268	9,617
Additions	-	-	3	3
Gains and losses	(182)	18	-	(164)
Acquisition of companies	(5,615)	35,651	-	30,036
Disposals	(16,750)	952	-	(15,798)
Settlements	7,310	(12,413)	-	(5,103)
At 31 December 2018	(18,325)	36,645	271	18,591

Gains and losses on the above instruments are recognised within other operating costs and other income.

As part of the UCIS redress process the Group was able to acquire, in some cases, illiquid assets held by claimants. These assets are classified as FVTPL and the Group intends to realise their cash value as soon as it is feasible to do so. The Group has designated all of its unlisted equity investments as FVTOCI because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. Dividends recognised in respect of the unlisted equity investments in the period amounted to £nil (2018: £nil).

As at 31 December 2019, trade and other receivables include a £32.2m (2018: £35.7m) asset classified at FVTPL that was recognised on a business combination in relation to the Group's right to variable consideration on rolling contracts with customers for which the performance obligation was satisfied prior to the acquisition date.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Financial instruments (continued)

Financial instruments risk

The Group is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk. As part of its overall governance and control arrangements, the Group operates a risk management framework (RMF) designed to identify, assess, manage, monitor and report on these risks.

The Group does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Group is exposed are described below.

Market risk analysis

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk resulting from its operating activities.

Foreign currency risk

The Group's main exposure to foreign currency risk arises from: (1) its USD Notes, and (2) the settlement in foreign currency, principally US Dollars, of brokerage and fees relating to the placement of insurance business originating overseas.

The Group uses a combination of cross-currency swaps and forward contracts to manage foreign currency risk.

The objective of the Group's cross-currency swaps is to mitigate exposure to foreign currency risk on its USD Notes. The Group receives a USD coupon matching its interest obligations under the USD Notes, and pays a fixed GBP coupon at specified half-yearly intervals (January and July) until the maturity of the swap in July 2021.

The Group enters forward contracts to mitigate the exposure resulting from USD revenue arising on the placement of premiums denominated in USD, which is not the presentation nor functional currency of the Group.

Based on forecast transactions, the Group effectively sells USD revenue by reference to individual brokerage transactions.

For further information on hedge accounting please refer to note 26 Hedge accounting.

Interest rate risk

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing. Long-term borrowings are therefore usually at fixed rates. The Group had £553.3m of 8.375% GBP Notes and USD755.0m of 8.625% USD Notes at 31 December 2019 (see note 29).

The Group is exposed to changes in market interest rates through the secured revolving credit facility borrowings at variable interest rates. However, as at 31 December 2019 these borrowings were currently undrawn, so increases and decreases in the current interest rate would not therefore result in changes to the total annual interest of the Group.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Financial instruments (continued)

Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The Group is exposed to this risk as it has a significant amount of trade receivables due from policyholders and from insurance companies with which it places insurance. However, most of the credit risk with policyholders is mitigated by the Group's ability to cancel the underlying policies and recoup a portion of the amount from insurers.

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 December, as summarised below:

	31 December 2019 £000	31 December 2018 £000
Cash and cash equivalents	410,903	504,956
Trade and other receivables excluding prepayments	192,609	278,426
Contract assets	11,509	12,594
Financial assets at FVTPL	36	42
	615,057	796,018

Counterparty balances are monitored as part of the credit control process. Significant balances are actively managed through the Group's ongoing strategic insurer relationship programme.

The Group had certain trade receivables at 31 December 2019 that had not been settled by the contractual due date but that were not considered to be impaired.

The credit risk for cash and cash equivalents, money market funds and derivative financial instruments is considered negligible as the counterparties are reputable financial institutions with high quality external credit ratings. The Group does not hold any collateral as security.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Financial instruments (continued)

Expected credit losses

The estimated ECL for the current year were calculated based on actual credit loss experience over two years by division. Actual credit loss experience is, where appropriate, adjusted by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. The scalar factors are based on GDP and unemployment rate forecasts (source: HM Treasury 'Forecasts for the UK Economy') and include the following:

- GDP: A 16.67% decrease in the growth in GDP is expected, from 1.35% in 2019 to 1.13% in 2020, which indicates that historical credit loss experience should be increased (2018: a 23.53% increase in the growth in GDP was expected, from 1.28% in 2018 to 1.58% in 2019, which indicated that historical credit loss experience should be decreased); and
- Unemployment rate: A 4.46% increase in unemployment rates is expected, from 3.93% in 2019 to 4.1% in 2020, which indicates that historical credit loss experience should be increased (2018: a 0.62% increase in unemployment rates was expected, from 4.05% in 2018 to 4.08% in 2019, which indicated that historical credit loss experience should be increased).

The net impact of the above scalar factors is to indicate that historical credit loss experience should be increased (2018: decreased). Historical credit loss experience was, where appropriate, therefore increased (2018: was not therefore changed as it is only increased as a result of considering scalar factors, not decreased, as it is assumed that the ECL model results in a higher and not lower provision for losses than the historical credit loss model).

ECL is measured on the basis that the counterparties are a single group and the calculation is not further distinguished between the Group's different customer types.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach set out in IFRS 9:

Lifetime ECL	Not credit impaired		Credit impaired	Total
	Collectively assessed	Individually assessed		
	£000	£000	£000	£000
Balance at 1 January 2019	(5,603)	(2,342)	(48)	(7,993)
Amounts written off	3,360	8,315	-	11,675
Amounts recovered	298	(14)	-	284
Change in loss allowance due to new trade receivables net of those derecognised for settlement	(6,324)	(8,425)	-	(14,749)
Acquisition of companies	(12)	6	-	(6)
Balance at 31 December 2019	(8,281)	(2,460)	(48)	(10,789)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Financial instruments (continued)

Lifetime ECL	Not credit impaired		Credit impaired £000	Total £000
	Collectively assessed £000	Individually assessed £000		
Balance at 1 January 2018	(3,239)	(1,734)	-	(4,973)
Adjustment to transition to IFRS 9	(239)	-	-	(239)
Net remeasured ECL at 1 January 2018	(3,478)	(1,734)	-	(5,212)
Amounts written off	3,816	178	-	3,994
Amounts recovered	141	-	-	141
Change in loss allowance due to new trade receivables net of those derecognised for settlement	(4,532)	(622)	-	(5,154)
Foreign exchange gains and losses	-	(164)	-	(164)
Changes in credit risk parameters	116	-	-	116
Acquisition of companies	(1,666)	-	(48)	(1,714)
Balance at 31 December 2018	(5,603)	(2,342)	(48)	(7,993)

The net expected credit losses recognised for trade receivables have been included in the statement of profit or loss as a separate line item.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Financial instruments (continued)

The following table sets out details of the age of trade receivables that are not overdue as well as an analysis of overdue amounts impaired and ECL recognised at 31 December 2019:

	Expected credit loss rate %	Estimated total gross carrying amount at default £000	Lifetime ECL £000	Total £000
Not past due	-	27,247	(193)	27,054
Past due:				
- not more than three months	(0.1)	39,135	(2,222)	36,913
- more than three months but not more than six months	(0.1)	6,399	(520)	5,879
- more than six months but not more than a year	(0.1)	4,615	(645)	3,970
- more than a year	(0.9)	7,935	(7,209)	726
At 31 December 2019	(0.1)	85,331	(10,789)	74,542

The following table sets out details of the age of trade receivables that are not overdue as well as an analysis of overdue amounts impaired and ECL recognised at 31 December 2018:

	Expected credit loss rate %	Estimated total gross carrying amount at default £000	Lifetime ECL £000	Total £000
Not past due	(0.5)	40,637	(440)	40,197
Past due:				
- not more than three months	(3.5)	31,215	(1,912)	29,303
- more than three months but not more than six months	(4.0)	2,345	(466)	1,879
- more than six months but not more than a year	(6.9)	5,432	(710)	4,722
- more than a year	(43.2)	10,324	(4,465)	5,859
At 31 December 2018	(4.4)	89,953	(7,993)	81,960

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Financial instruments (continued)

Liquidity risk analysis

Liquidity risk is the risk that the Group might be unable to meet its obligations.

The Group manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecasting cash inflows and outflows due in day-to-day business. The Group is cash generative and has an active cash management process. The Group Treasury function undertakes short term cash flow forecasting and closely monitors and manages the Group's cash balances. Immediate liquidity is available from the RCF (note 35) should any short-term financing be required. Drawings permissible under the RCF are limited by the Group's credit facility arrangements, which take into account the arrangements that are in place to address ETV liabilities. The RCF facility had not been utilised as at 31 December 2019.

The following are the remaining undiscounted contractual maturities (excluding interest payments) of non-derivative financial liabilities at the reporting date, except for lease liabilities (see note 15). Information about derivative financial liabilities is given in note 26 Hedge accounting.

	Carrying amount £000	Undiscounted amount £000	Within 12 months £000	Within 1-2 years £000	Within 2-5 years £000	More than 5 years £000
31 December 2019						
Senior secured notes	1,091,689	1,125,920	-	-	1,125,920	-
Senior secured loans and other borrowings	-	-	-	-	-	-
Premium financing liabilities	4,341	4,341	4,341	-	-	-
Trade and other payables	472,196	472,196	461,040	11,156	-	-
At 31 December 2019	1,568,226	1,602,457	465,381	11,156	1,125,920	-
	Carrying amount £000	Undiscounted amount £000	Within 12 months £000	Within 1-2 years £000	Within 2-5 years £000	More than 5 years £000
31 December 2018						
Senior secured notes	1,102,073	1,145,782	-	-	1,145,782	-
Senior secured loans and other borrowings	3,006	3,006	3,006	-	-	-
Premium financing liabilities	72,072	72,072	67,731	4,341	-	-
Trade and other payables	574,306	574,306	552,883	10,267	11,156	-
At 31 December 2018	1,751,457	1,795,166	623,620	14,608	1,156,938	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Hedge accounting

See note 25 with respect to the Group's exposure to foreign currency risk and how the Group mitigates that risk. Further details are provided below.

Derivatives

The Group has economic hedge relationships that mitigate foreign exchange risk arising from its USD Notes and USD revenue. It applies hedge accounting for those hedge relationships that meet the hedge accounting criteria detailed in note 3. The Group manages all other risks associated with these exposures, such as credit risk, but it does not apply hedge accounting for those risks.

Derivatives are only used for hedging purposes. The Group has the following derivative financial instruments as at the end of the period:

	31 December 2019 £000	31 December 2018 £000
Non-current assets		
Forward contracts - cash flow hedges	1,635	-
Cross-currency swaps - cash flow hedges	74	1,549
Current assets		
Forward contracts - cash flow hedges	1,543	-
Cross-currency swaps - cash flow hedges	2,989	2,929
Current liabilities		
Forward contracts - cash flow hedges	-	(3,081)
Cross-currency swaps - cash flow hedges	(1,970)	(448)
Non-current liabilities		
Forward contracts - cash flow hedges	(289)	(1,249)
Cross-currency swaps - cash flow hedges	(19,441)	(8,354)
Net derivative financial instrument liabilities	(15,459)	(8,654)

See note 25 for information on fair values and the assumptions and methods used to measure fair value.

Cross-currency swaps

The Group issues foreign currency fixed rate notes for funding purposes. In accordance with its risk management strategy, the Group enters into cross currency swap contracts to mitigate 100% of the risk of fluctuation of coupon and principal cash flows due to changes in foreign currency rates of issued foreign currency debt. These instruments are entered into to match the maturity profile of estimated repayments of the Group's debt. The Group receives a USD coupon matching its interest obligations under the USD Notes, and it pays a fixed GBP coupon at specified half-yearly intervals (January and July).

The Group has designated the cross-currency swaps as cash flow hedge relationships to hedge against movements in USD.

Cross-currency swaps in place at 31 December 2019 covered 100% of the principal USD Notes outstanding and related interest obligations. The fixed interest rates of the swaps range between 7.3% and 9.2%.

Foreign exchange gains and losses on the Group's debt that arise between the timing of the receipt of the debt proceeds and placement and/or designation of the swap instruments have been included as unrealised gains/losses in the period and recorded in finance costs in profit or loss.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Hedge accounting (continued)

Forward contracts

The Group enters into forward contracts to mitigate the exposure resulting from USD revenue arising on the placement of premiums denominated in USD, which is not the presentation currency nor functional currency of the Group.

Based on forecast transactions, the Group effectively sells accumulated USD revenue by reference to individual brokerage transactions. The Group's track record in receiving USD revenue from long established clients provides a high degree of confidence that forecast transactions are highly probable for hedge accounting purposes.

Cash flow hedging reserves

The following table provides a reconciliation of components of equity resulting from applying cash flow hedge accounting to derivatives that mitigate foreign exchange risk:

	Cash flow hedging reserve £000	Costs of hedging reserve £000
31 December 2019		
At 1 January 2019	(8,411)	2,465
<u>Changes in fair value recognised via other comprehensive income</u>		
Cross-currency swaps	(7,857)	(2,297)
Forward contracts	3,735	-
<u>Amounts reclassified to profit or loss</u>		
Cross-currency swaps	14,970	144
Forward contracts	645	-
	11,493	(2,153)
Tax on movements on reserves	(1,954)	366
At 31 December 2019	1,128	678
	Cash flow hedging reserve £000	Costs of hedging reserve £000
31 December 2018		
At 1 January 2018	(10,165)	1,709
<u>Changes in fair value recognised via other comprehensive income</u>		
Cross-currency swaps	28,845	1,082
Forward contracts	(2,511)	-
<u>Amounts reclassified to profit or loss</u>		
Cross-currency swaps	(23,495)	179
Forward contracts	(318)	-
	2,521	1,261
Tax on movements on reserves	(953)	(206)
Reclassification of reserves	(113)	-
At 31 December 2018	(8,710)	2,764

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Hedge accounting (continued)

The gain/(loss) included in the income statement during the period ending 31 December 2019 in relation to items designated as hedging instruments, including hedge ineffectiveness, were as follows:

	Cross- currency swaps £000	Forward contracts £000
31 December 2019		
<u>Amounts reclassified from other comprehensive income to profit or loss</u>		
Commission and fees	-	(694)
Other operating costs	-	49
Finance costs	(15,114)	-
<u>Hedge ineffectiveness</u>		
Other operating costs	-	(2)
Finance costs	(282)	-
	(15,396)	(647)
	Cross- currency swaps £000	Forward contracts £000
31 December 2018		
<u>Amounts reclassified from other comprehensive income to profit or loss</u>		
Commission and fees	-	318
Finance costs	23,316	-
<u>Hedge ineffectiveness</u>		
Other operating costs	-	(152)
	23,316	166

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26 Hedge accounting (continued)

The following table indicates the periods in which the undiscounted cash flows associated with the hedging instruments are expected to occur and the carrying amount of these hedging instruments:

	Carrying amount £000	Total £000	One to six months £000	Six to twelve months £000	One to two years £000	More than two years £000
31 December 2019						
Cross-currency swaps						
Net liabilities	(18,348)	(23,055)	1,048	(472)	(23,631)	-
Forward contracts						
Net assets	2,888	3,668	837	1,106	1,725	-
	(15,460)	(19,387)	1,885	634	(21,906)	-
	Carrying amount £000	Total £000	One to six months £000	Six to twelve months £000	One to two years £000	More than two years £000
31 December 2018						
Cross-currency swaps						
Net liabilities	(4,324)	(8,627)	244	1,787	2,510	(13,169)
Forward contracts						
Net liabilities	(4,330)	(4,530)	(2,445)	(660)	(515)	(910)
	(8,654)	(13,157)	(2,201)	1,127	1,995	(14,079)

A 10% strengthening (weakening) of the GBP against the USD at the reporting date would have the following effect on the value of the hedging instruments which also impacts the Group's equity:

	31 December 2019 £000	31 December 2018 £000
Cross-currency swaps		
10% strengthening	(56,515)	(57,723)
10% weakening	71,729	72,277
Forward contracts		
10% strengthening	14,104	14,081
10% weakening	(17,238)	(17,210)

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27 Trade and other payables

	31 December 2019 £000	31 December 2018 £000
Insurance creditors	312,201	387,593
Social security and other taxes	10,869	12,809
Other creditors	32,588	22,345
Related party creditors	34,103	36,814
Contingent consideration payable	1,062	1,353
Deferred proceeds	15,000	0
Deferred income	377	430
Accruals	54,840	91,539
Total current liabilities	461,040	552,883
Contingent consideration payable	2,105	222
Deferred proceeds	-	16,750
Other financial liabilities	30	30
Other creditors	9,022	4,421
Total non-current liabilities	11,157	21,423

Insurance creditors include an amount of £5.9m which provides for the estimated losses recoverable by the insurer for net premiums earned to date on those schemes with loss corridor arrangements. The estimated adjustment to revenue relating to the loss corridor that was recognised in 2019 on policies inception prior to 2019 amounts to £0.2m (in debit). This is due to re-estimation of amounts previously recognised.

The Directors consider the carrying amount of trade payables approximates to their fair value.

28 Premium financing liabilities

The premium financing liability comprises amounts payable to a third party financial institution. The Group, via its subsidiary Swinton Group Limited, entered into an arrangement with that institution on 31 December 2018 to receive cash, in exchange for which the Swinton Group Limited will transfer to that party the future receipts from customers associated with its premium financing receivables balance up to the amount of cash received plus interest.

Swinton Group Limited remains liable in the event of customer default, although in practice it is expected that any credit loss will be partially mitigated by premiums recouped from insurers except possibly in the event of an insurer insolvency. The Group continues to recognise the transferred receivables.

The premium financing liability is classified as a current liability as the underlying insurance policies are for a 12-month term. The premium financing liability is expected to be minimal after 30 April 2020 as the arrangement is an interim one and was in place for new insurance policies sold in the first 4 months of 2019, after which time the financial institution started to provide financing to the customer directly.

	31 December 2019 £000	31 December 2018 £000
Total premium financing liabilities	4,341	72,072

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29 Borrowings

	31 December 2019 £000	31 December 2018 £000
Finance lease liabilities	-	2
Interest payable	44,149	39,271
Secured loan and other borrowings	-	622
Total current borrowings	44,149	39,895
Senior Secured Notes	1,091,689	1,102,073
Secured loan facility	-	2,384
Total non-current borrowings	1,091,689	1,104,457

Senior secured notes comprise the following (excluding interest payable):

Date issued	Currency	Nominal interest rate	Year of maturity	31 December 2019		31 December 2018	
				Face value USD/£000	Carrying amount £000	Face value USD/£000	Carrying amount £000
26.06.2017	GBP	8.375%	2023	400,000	393,081	400,000	391,492
26.06.2017	USD	8.625%	2023	520,000	387,941	520,000	399,750
20.12.2017	GBP	8.375%	2023	55,000	53,940	55,000	53,696
18.11.2018	USD	8.629%	2023	235,000	159,000	235,000	159,543
08.06.2018	GBP	8.375%	2023	98,300	97,727	98,300	97,592
Total				1,308,300	1,091,689	1,308,300	1,102,073

Interest is payable on these notes in January and July of each year.

The Group hedges its foreign currency exposure from the senior secured notes as described in note 26.

The fair value of the senior secured notes as at 31 December 2019 and 2018, which is categorised within level 2 of the fair value hierarchy and is given for disclosure purposes only, is estimated as follows:

	Carrying amount £000	Fair value £000
Senior Secured Notes at 31 December 2019	1,091,689	1,117,571
Senior Secured Notes at 31 December 2018	1,102,073	966,964

On 26 September 2018, the Group's RCF was amended and restated to include an additional £50.0m facility made available solely to provide a Letter of Credit ancillary facility for the same amount. On 5 October 2018, a letter of credit of £50.0m was issued for the benefit of specified entities within the Group solely to provide credit support in respect of potential redress liabilities relating to the sale of certain enhanced transfer value (ETV) products. See note 31 for further information relating to ETV redress liabilities.

With effect from 1 December 2019, the contractual limitation on the amount that may be utilised of the Group's RCF was removed. The RCF facility capacity was £120m and had not been drawn at 31 December 2019 (31 December 2018: nil). At the date of this report, the Group's RCF committed facility had been extended to £170m, of which £70m was drawn. Permissible RCF drawings are limited by the Group's credit facility basket.

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30 Current tax and deferred tax

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

	31 December 2019 £000	31 December 2018 £000
Corporation tax payable	(313)	(387)
	<u>(313)</u>	<u>(387)</u>

The movement in deferred tax balances during the year is as follows:

31 December 2019	Net balance at 1 January £000	Recognised in profit or loss £000	Recognised in OCI £000	Acquired in business combination	Other movements £000	Net balance at 31 December £000	Deferred tax assets £000	Deferred tax liabilities £000
Temporary difference								
Property, plant and equipment	21,951	3,665	-	-	-	25,616	27,658	(2,042)
Tax losses	10,477	13,401	-	-	-	23,878	23,878	-
Interest restriction	21,933	519	-	-	-	22,452	22,452	-
Derivatives	1,267	-	(1,588)	-	-	(321)	-	(321)
Intangible assets	(61,205)	10,029	-	(4,301)	-	(55,477)	-	(55,477)
Other	4,559	1,978	-	-	-	6,537	6,558	(21)
	<u>(1,018)</u>	<u>29,592</u>	<u>(1,588)</u>	<u>(4,301)</u>	<u>-</u>	<u>22,685</u>	<u>80,546</u>	<u>(57,861)</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Current tax and deferred tax (continued)

31 December 2018 restated	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Acquired in business combination	Other movements	Net balance at 31 December	Deferred tax assets	Deferred tax liabilities
Temporary difference	£000	£000	£000	£000	£000	£000	£000	£000
Property, plant and equipment	15,253	3,682	-	3,305	(289)	21,951	21,951	-
Tax losses	9,568	5,903	-	-	(4,993)	10,477	10,477	-
Interest restriction	10,876	11,057	-	-	-	21,933	21,933	-
Derivatives	2,426	-	(1,159)	-	-	1,267	1,267	-
Intangible assets	(71,475)	12,152	-	(6,205)	4,323	(61,205)	-	(61,205)
IFRS 15 adjustment	(3,877)	-	-	-	3,877	-	-	-
Other	901	3,658	-	-	-	4,559	4,559	-
	(36,328)	36,452	(1,159)	(2,900)	2,918	(1,018)	60,187	(61,205)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Current tax and deferred tax (continued)

Deferred tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable based on the profit forecasts for the Group.

Finance Bill 2016 enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the reduction in the UK rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 December 2019 continue to be measured at a rate of 17%. If the amended tax rate had been used, the deferred tax asset would have been £2.9m higher.

The Group did not recognise deferred income tax assets of £16.4m (2018: £27.8m) in respect of deductible temporary differences.

	31 December 2019 £000	Restated* 31 December 2018 £000
Fixed assets	1,842	1,352
General provisions	553	534
Tax losses	14,036	25,876
Unrecognised deferred tax assets	16,431	27,762

* The Group has recognised a deferred tax asset in its consolidated financial statements in relation to interest that is subject to interest restriction tax regulations and certain other tax attributes. A deferred tax asset is recognised on the basis that future taxable profits will arise in the consolidated financial statements as a result of the unwind of the deferred tax liability that was already included in those financial statements in relation to intangible assets recognised on a business combination. The adjustment increases deferred tax assets and decreases retained losses in the statement of financial position by £32.4m as at 31 December 2018 (1 January 2018: £23.5m), and it increases the tax credit in the income statement for the year ended 31 December 2018 by £8.9m.

The Group had carried forward unrecognised tax losses of £95.9m (2018: £165.5m).

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31 Provisions

The Group held the following provisions as at 31 December 2019:

	ETV £000	Run off £000	LTIP £000	Litigation matters £000
At 1 January 2019	51,000	3,798	3,325	10,865
IFRS 16 transition adjustment	-	-	-	-
Reclassification	-	-	-	-
Additional provisions made during the year	12,500	955	1,239	4,161
Transferred in on acquisition	-	-	-	-
Transferred to other debtors/creditors	-	-	-	2,401
Utilised during the year	(15,928)	(2,484)	(4,173)	(8,067)
Unused amounts reversed during the year	-	-	(79)	(4,769)
Unwind of discount	-	-	-	-
At 31 December 2019	47,572	2,269	312	4,591

	Future renewal scheme £000	Property £000	Branch closure £000	Other £000	Total £000
At 1 January 2019	-	11,499	5,239	1,375	87,101
IFRS 16 transition adjustment	-	(2,374)	(998)	-	(3,372)
Reclassification	-	(362)	(1,209)	1,571	-
Additional provisions made during the year	-	4,139	-	-	-
Transferred in on acquisition	13,528	-	2,003	7,759	32,756
Transferred to other debtors/creditors	(5,864)	-	-	-	13,528
Utilised during the year	-	(937)	(2,785)	(8,188)	(3,463)
Unused amounts reversed during the year	(283)	(1,415)	(1,686)	(687)	(42,562)
Unwind of discount	-	39	-	-	(8,919)
At 31 December 2019	7,381	10,589	564	1,830	39

The Group discounts provisions to their present value, where appropriate. The unwinding of the provision discounting is included as an interest charge within finance costs in the income statement.

	31 December 2019 £000	31 December 2018 £000
Analysis of total provisions		
Non-current - to be utilised in more than one year	14,457	31,740
Current - to be utilised within one year	60,651	55,361
	75,108	87,101

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Provisions (continued)

Enhanced Transfer Values (ETV) and run off costs provision

Certain subsidiaries within the Group have obligations to make redress payments in respect of past pension transfer advice. As reported in previous financial statements management established a provision initially of £51m for the estimated total cost of redress following progress with a client contact programme that enabled the ETV population to be refined, the FCA publishing revised guidance on the calculation of redress and commencement of file reviews. Management also explained they had obtained independent actuarial input into estimating average redress amounts and specialist input for a sample of cases to estimate suitability rates to help inform the estimated cost of redress. In view of the estimation uncertainty in key assumptions, including those for average redress costs and the suitability rate, management acknowledged and disclosed that the ultimate cost could vary materially from the £51m estimate, that the provision would be updated based on experience gained as the redress programme progressed and that the Group's 'going concern' assessment scenarios included up to a 40% deterioration in the quantum of the ETV liabilities as well as a possible acceleration of the settlement profile of the redress cases. At half year 2019 management explained the redress programme was expected to be substantially complete by the end of 2020.

The main redress programme commenced in the third quarter of 2019 and the estimate for the overall cost of redress was increased to £59m at 30 September 2019, of which £6.4m had been settled at that date leaving a residual provision of £52.6m. Further progress has been made since 30 September 2019 with £26.9m having been paid at the date of signing this report, of which £15.9m was paid by 31 December 2019. Based on this settlement experience, additional case reviews progressing to settlement and input from specialists, the total redress cost estimate has been updated to £63.5m, resulting in a provision of £47.6m at 31 December 2019 after allowing for the payments already made at that date (£38.5m after allowing for payments at the time of signing this report).

The £4.5m increase in total redress costs since the third quarter of 2019 mainly reflects experience-based adjustments impacting the number of cases requiring redress together with revisions for a small number of individuals opting back into the review process since payments commenced. Overall the experience to date remains broadly supportive of previous estimates of average redress costs per case, with continued uncertainty regarding the number of cases that will ultimately be found to require redress as a result of unsuitable advice. Other sources of uncertainty, whilst considered less material, may include changes in economic inputs over the period of the redress programme, potential variances in redress methodology and any future changes in the ETV population.

Management still expect the redress programme to be substantially complete by the end of 2020. Based on the progress made and reducing levels of estimation uncertainty, the Group now includes in its 'going concern' stress and sensitivity scenarios a deterioration of up to 15% (30 September 2019: 20%) in the estimated quantum of the ETV liabilities as well as a possible acceleration of the settlement profile. As the programme progresses, the results of case reviews will continue to be used to further inform and update the provision as required.

Long-term incentive provision

The Group has a number of long-term incentive schemes. The amounts that will ultimately vest are dependent on achievement against various performance measures (including Group EBITDA and individual contribution targets) and/or service conditions. The incentives are paid to participants at the end of the relevant performance and/or service period.

General provision for litigation matters (including E&O claims)

In the normal course of business, the Group may receive claims in respect of alleged errors and omissions and other matters. Provisions are made in respect of such litigation matters, representing the best estimate of the liability based on legal advice where appropriate. The outcome of the currently pending and future proceedings, in relation to errors and omissions and other matters, cannot be predicted with certainty. Thus, an adverse decision in a current or future lawsuit could result in additional costs that are not covered, either wholly or partially, under insurance policies and that are in excess of the presently established provisions.

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31 Provisions (continued)

Property provision

Onerous lease £0.3m

Provides for costs incurred on vacant properties, excluding rent costs (which are subject to lease accounting).

Dilapidations £8.2m

Provides for the estimated amounts payable for dilapidations on each property at the end of the lease term.

Future renewal scheme

The provision for the future renewal scheme has been recognised as part of the acquisition of Nevada Investment Holdings 2 Limited (note 16). It represents the estimated costs to be paid to appointed representatives that meet certain eligibility criteria under a contract termination scheme introduced by the acquiree and is based on the amount that would be receivable by each appointed representative in respect of their portfolio if they remain active as an appointed representative.

Amounts are paid to appointed representatives over a period of four years from when the eligibility criteria under the scheme are met and they cease to act as an appointed representative. The amount paid is dependent on factors such as the size of the portfolio of the appointed representative and the rate of renewal commission on the underlying policies.

When the retirement of an appointed representative is agreed, the related liability is transferred to other creditors (within trade and other payables).

Branch closure

Relates to a provision held by The Swinton Group for the cost of closing branches, excluding rent costs (which are subject to lease accounting).

Other provision

The other provision balance at 31 December 2019 includes:

- £0.7m restructuring provisions; and
- £1.0m for potential liabilities relating to legacy balances.

32 Share capital and share premium

	Number of shares (thousands)	Ordinary shares £000	Total £000
At 1 January 2019	52,024	520,235	520,235
At 31 December 2019	58,724	587,235	587,235
At 1 January 2018	52,024	520,235	520,235
At 31 December 2018	52,024	520,235	520,235

On 31 January 2019, The Ardonagh Group Limited completed the acquisition of Nevada Investment Holdings 2 Limited and its subsidiaries (Nevada 2), a company registered in the Cayman Islands, from HPS and MDP who are the majority shareholders of the Group. Nevada 2 was the indirect holding company of Minton House Group Limited, Health and Protection Solutions Limited and Professional Fee Protection Limited on 31 January 2019.

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33 Share-based payments

Equity-settled share-based payment schemes:

The Ardonagh Group Limited operates the 'Ardonagh MIP' and 'Atlanta MIP', which are equity-settled share-based payment schemes. The fair value of the services received in exchange for the grant of the shares is recognised as an expense, measured based on the grant date fair value of the shares and recognised on a straight-line basis over the vesting period. The amounts attributable in 2018 to services performed, to new joiners and to leavers was not material.

The Ardonagh MIP replaced the existing 'Towergate MIP' scheme during 2017. Shares in the Towergate MIP were converted to deferred shares and redeemed in consideration for shares in the Ardonagh MIP. The cancellation and issuance was treated as a modification to the original scheme. The revised fair value therefore takes into account the incremental fair value granted as at the modification date in addition to the grant date fair value of the original scheme.

The Ardonagh and Atlanta MIP shares have no dividend or voting rights and cannot be sold. Shares are granted in exchange for the nominal subscription price of £0.01 per share. They are convertible to ordinary shares of the Group on the occurrence of a crystallisation event, being the earlier of a liquidity event, an IPO and a winding-up. The Group has the option to repurchase Ardonagh and Atlanta MIP shares if an employee leaves the Group prior to the occurrence of a crystallisation event, for an amount that depends on whether the employee is a 'good leaver' or 'bad leaver'.

The number of shares held by employees or third parties under the Ardonagh MIP and Atlanta MIP are as follows:

	Ardonagh MIP Number of shares	Atlanta MIP C shares Number of shares	Atlanta MIP D shares Number of shares
Outstanding at 1 January 2019	99,712	102,000	59,250
Granted during the year	18,668	-	-
Forfeited during the year	(335)	(6,559)	(3,763)
Bought back during the year	(225)	-	-
Outstanding at 31 December 2019	117,820	95,441	55,487

The grant date fair value of the scheme is calculated using a Black Scholes model, which includes discounts for the opportunity cost of equity and lack of control. The weighted-average fair value of shares granted during the period and the significant inputs used in the measurement of fair value were as follows:

	Ardonagh MIP		Atlanta MIP C shares		Atlanta MIP D shares	
	2019	2018	2019	2018	2019	2018
Weighted average fair value (per share)	£51.19	£17.10	n/a	£1.23	n/a	£1.40
Significant inputs:						
Equity value of issuing entity (£m)	1,189.4	659.0	n/a	130.4	n/a	130.4
Time discount	15%	25%	n/a	35%	n/a	35%
Volatility	26%	25%	n/a	-	n/a	-

The total expense recognised for share-based payments is disclosed in note 9.

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33 Share-based payments (continued)

Cash-settled share-based payment schemes:

The Group operates cash-settled share-based payment schemes under which employees hold shares in some of the Group's subsidiaries that entitle them to put those shares back to the Group for a cash amount that is based on the value of the shares. The shares track the value of certain businesses in the Group within the Specialty & International operating segment. The fair value of the liability is estimated based on multiples of forecast Adjusted EBITDA of the businesses whose values the shares track.

The number of shares held by employees under these schemes are as follows:

	Number of shares
Outstanding at 1 January 2019	25,000
Granted during the year	25,000
Outstanding at 31 December 2019	50,000

The Group recognises a liability, measured at fair value as at the reporting date, for its obligation to settle these share-based payments in cash. In the year ending 31 December 2019, the Group recognised an employee expense and a liability amounting to £2.9m (2018: £nil). No portion of the liability is considered to be fully vested as at 31 December 2019.

34 Contingent liabilities, assets and commitments

Guarantees

On 25 May 2017, Ardonagh Midco 3 plc, a newly incorporated intermediate holding company, entered into a £90.0m super senior revolving credit facility (RCF).

On 20 June 2017, Ardonagh Midco 3 plc issued £400.0m of 8.375% Senior Secured Notes and USD520.0m of 8.625% Senior Secured Notes. On 22 June 2017, the £425.0m Senior Secured Notes and £75.0m floating rate super Senior Secured Notes issued by Ardonagh Finco plc in April 2015 were redeemed.

On 20 December 2017, Ardonagh Midco 3 plc issued an additional £55.0m of 8.375% Senior Secured Notes which are fungible with the existing GBP Senior Secured Notes issued on 20 June 2017. On the same date the commitments under the RCF were increased to £105.0m.

On 18 June 2018, Ardonagh Midco 3 plc issued an additional £98.3m of 8.375% Senior Secured Notes which are fungible with the existing GBP Senior Secured Notes issued on 20 June 2017 and 20 December 2017.

On 26 September 2018, the Group's RCF was amended and restated to include an additional £50.0m facility made available solely to provide a Letter of Credit ancillary facility for the same amount. On 5 October 2018, a letter of credit of £50.0m was issued for the benefit of specified entities within the Group solely to provide credit support in respect of potential redress liabilities relating to the sale of certain enhanced transfer value products (ETV). See note 31 for further information relating to ETV redress liabilities. With effect from 1 December 2019, the contractual limitation on the amount that may be utilised of the Group's RCF was removed. As at 31 December 2019, the RCF facility capacity was £120m and undrawn. At the date of this report, the Group's RCF committed facility had been extended to £170m, of which £70m was drawn. Permissible RCF drawings are limited by the Group's credit facility basket.

On 19 November 2018 USD235m additional 8.625% Senior Secured Notes were issued.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 Contingent liabilities, assets and commitments (continued)

The obligations of Ardonagh Midco 3 plc under the Notes, RCF, and the subsequently issued 8.375% and 8.625% notes, are guaranteed and secured by Ardonagh Midco 2 plc, the immediate parent company of Ardonagh Midco 3 plc, and all its material and certain other subsidiaries. These subsidiaries are listed below:

Ardonagh Midco 3 plc (RCF Guarantor only)	Lunar 101 Limited
Ardonagh Finco plc	Morgan Law Limited
Nevada Investment Holdings 5 Limited	Paymentshield Group Holdings Limited
Nevada Investment Holdings 6 Limited	Paymentshield Holdings Limited
Nevada Investment Holdings 7 Limited	Paymentshield Limited
Ardonagh Midco 2 plc	Paymentshield Services Limited
Nevada Investments Holdings Limited	Ardonagh Services Limited
PFIH Limited	Towergate Risk Solutions Limited
Nevada InvestorCo Limited	Towergate Underwriting Group Limited
Nevada Investments Topco Limited	URIS Group Limited
Price Forbes Holdings Limited	URIS Central Administration Limited
Price Forbes & Partners Limited	Millennium Insurance Brokers Limited
Nevada Investments 1 Limited	URIS Topco Limited
Nevada Investments 2 Limited	Chase Templeton Group Limited
Nevada Investments 3 Limited	Chase Templeton Holdings Limited
Nevada Investments 4 Limited	Chase Templeton Limited
Nevada Investments 5 Limited	Ardonagh Advisory Holdings Limited
Nevada Investments 6 Limited	Ardonagh Specialty Holdings Limited
Nevada Investments 7 Limited	Swinton Group Limited
Arista Insurance Limited	Swinton (Holdings) Limited
Bishopsgate Insurance Brokers Limited	Swinton Properties Limited
Broker Network Holdings Limited	Atlanta Investment Holdings Limited
CCV Risk Solutions Limited	Atlanta Investment Holdings A Limited
Cullum Capital Ventures Limited	Atlanta 1 Insurance Services Limited
Four Counties Insurance Brokers Limited	Carole Nash Insurance Consultants Limited
Geo Specialty Group Holdings Limited	KDB Medicals Limited
Geo Underwriting Services Limited	Health and Protection Solutions Limited

Contractual obligations

The following table summarises material commitments as of 31 December 2019 that are not recognised as a liability in the statement of financial position:

	Less than one year £000	One to five years £000	More than five years £000	Total £000
Contractual commitments	2,285	-	-	2,285
	2,285	-	-	2,285

The total contractual commitments in the above table relates to capital expenditure on intangible assets.

The Group has no contingent liabilities at 31 December 2019.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 Related party transactions

Bravo

At 31 December 2017, the Group owned 19.9% of the voting shares in Bravo Investment Holdings Limited (Bravo) which had acquired The Broker Network Limited (Broker Network) and Countrywide Insurance Management Limited (Countrywide) from the Towergate Group in 2016.

In January 2018, the Group received £30.0m cash from Nevada 2, the ultimate parent company of Broker Network and Countrywide, in respect of the sale of its 19.9% shareholding in Bravo to Nevada 2. The cash received plus an additional £1.2m is subject to a contingent clawback clause dependent upon the future performance of the business. Nevada 2 was then a related party of the Ardonagh Group due to common shareholders, but Nevada 2 subsequently sold its shares in Bravo and its rights and obligations under the sale and purchase agreement to Nevada 4 Midco 1 Limited. Nevada 2 was then acquired by the Ardonagh Group on 31 January 2019, at which time Bravo was no longer a part of the Nevada 2 Group.

Following a 1 July 2019 amended agreement, the settlement date for the contingent clawback is a date between 19 January 2020 and 30 September 2020, at the election of Ardonagh, and settlement may be in cash or equity of the Company. A deferred proceeds liability of £15.0m (2018: £16.75m) in relation to this clawback mechanism is recognised by the Group at 31 December 2019 (note 27).

During 2019 the Group supplied services of £170,788 (2018: £182,177) to Bravo. A balance of £64,315 (2018: £374,092) was outstanding at 31 December 2019.

Share-based payment transactions

There were share-based transactions with certain key management personnel during the year. Further details of these transactions can be found in note 33.

Directors' loans

Loans to directors of £7.2m were brought into the Group as a result of the purchase of Nevada Investment Topco Limited (Nevada) on 22 June 2017. This balance consisted of four individual loans of which three were forgivable over differing periods to 2020.

At the date of acquisition of Nevada, the forgivable loans had a fair value of zero as it is the intention of the Directors to forgive these loans in line with the terms of the individual agreements. The carrying amount of the Directors' loans held on the Group's balance sheet at 31 December 2019 was £1.2m (2018: £1.2m).

Nevada Investment Holdings 2 Limited

On 31 January 2019, the Group completed the acquisition of Nevada Investment Holdings 2 Limited (Nevada 2), a company registered in the Cayman Islands, from the majority shareholders of the Group, HPS and MDP. Nevada 2 was the indirect holding company of Minton House Group Limited, Health and Protection Solutions Limited and Professional Fee Protection Limited on 31 January 2019.

Transactions with shareholders

During 2019 the Group paid costs of £20,861 on behalf of HPS. The balance outstanding at 31 December 2019 was £247,861 (2018: £227,000).

Ultimate parent company

The Ardonagh Group Limited's majority shareholder is HPS Investment Partners LLC. The Company's immediate parent is Ardonagh Midco 2 plc. The Ardonagh Group Limited is the Group's ultimate parent company and the highest level at which results are consolidated.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Group undertakings

The following were Group undertakings at 31 December 2019. Unless otherwise shown, the capital of each company is wholly-owned ordinary shares and the principal country of operation is the country of incorporation/registration.

Company	Share-holding	Registered office address	Country of incorporation	Nature of holding
Ardonagh Finco plc	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Arista Insurance Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
CCV Risk Solutions Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Geo Underwriting Services Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Paymentshield Limited	100%	Paymentshield House, Wight Moss Way, Southport, Merseyside, PR8 4HQ	England	Ordinary
Towergate Underwriting Group Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Antur Insurance Services Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary & preference
B.I.B. (Darlington) Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
B.I.B. Underwriters Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Berkeley Alexander Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Bishop Skinner Insurance Brokers Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Bishopsgate Insurance Brokers Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Dawson Whyte Limited	100%	116-118 Hollywood Road, Belfast, BT4 1NU	Northern Ireland	Ordinary
Fusion Insurance Services Scandinavia Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Four Counties Insurance Brokers Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Group undertakings (continued)

Company	Share-holding	Registered office address	Country of incorporation	Nature of holding
Geo Specialty Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Geo Specialty Liability Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Managing Agents Reference Assistance Services Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Morgan Law Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Oyster Property Insurance Specialists Limited	75%	1 Minster court, London, EC3R 7AA	England	Ordinary
Oyster Risk Solutions Limited	87.5%	1 Minster court, London, EC3R 7AA	England	Ordinary
Ardonagh Services Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary & deferred
Antur (West Wales) Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
B.I.B. (Darlington) Acquisitions Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
B.I.B.U. Acquisitions Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Bishop Skinner Acquisitions Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Bishop Skinner Insurance Brokers Holdings Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Broker Network Holdings Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Cullum Capital Ventures Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Geo Specialty Group Holdings Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Lunar 101 Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Group undertakings (continued)

Company	Share-holding	Registered office address	Country of incorporation	Nature of holding
Morgan Law (Holdings) Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Paymentshield Group Holdings Limited	100%	Paymentshield House, Wight Moss Way, Southport, Merseyside, PR8 4HQ	England	Ordinary
Paymentshield Holdings Limited	100%	Paymentshield House, Wight Moss Way, Southport, Merseyside, PR8 4HQ	England	Ordinary
Paymentshield Services Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Towergate Risk Solutions Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Nevada Investment Holdings 6 Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Nevada Investment Holdings 7 Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Nevada Investorco Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Nevada Investments 1 Limited	96.4%	1 Minster court, London, EC3R 7AA	England	Ordinary
Nevada Investments 2 Limited	96.4%	1 Minster court, London, EC3R 7AA	England	Ordinary
Nevada Investments 3 Limited	96.4%	1 Minster court, London, EC3R 7AA	England	Ordinary
Nevada Investments 4 Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Nevada Investments 5 Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Nevada Investments 6 Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Nevada Investments 7 Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Nevada Investments Holdings Limited	100%	89 Nexus Way, Camana Bay, Grand Cayman KY1-9009	Cayman Islands	Ordinary

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Group undertakings (continued)

Company	Share-holding	Registered office address	Country of incorporation	Nature of holding
Nevada Investments Topco Limited	100%	89 Nexus Way, Camana Bay, Grand Cayman KY1-9009	Cayman Islands	Ordinary
Nevada Management (Nominees) Limited	100%	89 Nexus Way, Camana Bay, Grand Cayman KY1-9009	Cayman Islands	Ordinary
Dawson Pennington & Company Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Ardonagh TM Holdco Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Atlanta Investment Holdings 3 Limited	80.9%	Nile Street, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Atlanta Investment Holdings 2 Limited	80.9%	Nile Street, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Atlanta Investment Holdings Limited	80.9%	Nile Street, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Atlanta 1 Insurance Services Limited	80.9%	Nile Street, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
KDB Medicals Limited	80.9%	Nile Street, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Atlanta Investment Holdings A Limited	80.9%	Nile Street, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Chase Templeton Holdings Limited	100%	First Floor, Millennium House, Victoria Road, Douglas, Isle of Man, IM2 4RW	Isle of Man	Ordinary
Chase Templeton Group Limited	100%	First Floor, Millennium House, Victoria Road, Douglas, Isle of Man, IM2 4RW	Isle of Man	Ordinary
Chase Templeton Limited	100%	5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG	England	Ordinary
Network Protect Limited	100%	First Floor, Millennium House, Victoria Road, Douglas, Isle of Man, IM2 4RW	Isle of Man	Ordinary

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Group undertakings (continued)

Company	Share-holding	Registered office address	Country of incorporation	Nature of holding
T F Bell Holdings Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
URIS Topco Limited	96.4%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary & preference
URIS Group Limited	96.4%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
URIS Central Administration Limited	96.4%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
Cassidy Davis Underwriting Agency Limited	96.4%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
Millennium Insurance Brokers Limited	96.4%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
RDG Midas Holdings (NI) Limited	96.4%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary & preference
Midas Underwriting Limited	96.4%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
Charles Hurst Insurance Services Limited	50%	Elizabeth House First Floor, 116-118 Holywood Road, Belfast, BT4 1NU	Northern Ireland	Ordinary
Direct Creditor Administration Limited	96.4%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
Direct Warranty Administration Limited	96.4%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
URIS Investment Limited	96.4%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary, deferred & preference

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Group undertakings (continued)

Company	Share-holding	Registered office address	Country of incorporation	Nature of holding
URIS Holdings Limited	96.4%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
Price Forbes Holdings Limited	100%	89 Nexus Way, Camana Bay, Grand Cayman KY1-9009	Cayman Islands	Ordinary
PFIH Limited	100%	6th Floor, 2 Minster Court, Mincing Lane, London, EC3R 7PD	England	Ordinary
Price Forbes Group Limited	100%	6th Floor, 2 Minster Court, Mincing Lane, London, EC3R 7PD	England	Ordinary
Price Forbes Labuan Limited	100%	ZICO Trust Limited, Unit 13 (A) Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000	Malaysia	Ordinary
Price Forbes & Partners Limited	100%	6th Floor, 2 Minster Court, Mincing Lane, London, EC3R 7PD	England	Ordinary
Price Forbes DMCC	100%	1004, JBC4, Cluster N, Jumeirah Lake Towers, United Arab Emirates	Dubai	Ordinary
Price Forbes & Partners (Bermuda) Limited	100%	Butterfield Bank Building, 6 th Floor, 65 Front Street, Hamilton, HM 12	Bermuda	Ordinary
Price Forbes (PTY) Limited	100%	1st Floor, Block A, Kingsley Office Park, 85 Protea Road, Chislehurst, Johannesburg	South Africa	Ordinary
Purely Insurance Limited	100%	6th Floor, 2 Minster Court, Mincing Lane, London, EC3R 7PD	England	Ordinary
Equinox Underwriting North America Inc	100%	2711 Centerville Road, Suite 400, Wilmington, DE 19808	USA	Ordinary
Solis Re Agency Inc	51%	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808	USA	Ordinary
Healthy Pets Limited	100%	6 Ridgeway Office Park, Bedford Road, Petersfield, Hampshire, GU32 3QF	England	Ordinary
Paymentshield Life Underwriting Services Limited	100%	Paymentshield House, Wight Moss Way, Southport, Merseyside, PR8 4HQ	England	Ordinary
Towergate Financial (East) Holdings Limited	84.2%	1 Minster court, London, EC3R 7AA	England	Ordinary
Towergate Financial (East) Intermediate Limited	84.2%	1 Minster court, London, EC3R 7AA	England	Ordinary

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Group undertakings (continued)

Company	Share-holding	Registered office address	Country of incorporation	Nature of holding
Towergate Financial (East) Limited	84.2%	1 Minster court, London, EC3R 7AA	England	Ordinary & preference
Towergate Financial (Group) Limited	85.1%	1 Minster court, London, EC3R 7AA	England	Ordinary
Towergate Financial (London) Limited	73.6%	1 Minster court, London, EC3R 7AA	England	Ordinary
Towergate Financial (North) Holdings Limited	77.8%	1 Minster court, London, EC3R 7AA	England	Ordinary
Towergate Financial (North) Limited	77.8%	1 Minster court, London, EC3R 7AA	England	Ordinary & preference
Towergate Financial (Scotland) Holdings Limited	85.1%	150 St Vincent Street, Glasgow, G2 5NE	Scotland	Ordinary
Towergate Financial (Scotland) Limited	85.1%	150 St Vincent Street, Glasgow, G2 5NE	Scotland	Ordinary
Towergate Financial (West) Holdings Limited	85.1%	1 Minster court, London, EC3R 7AA	England	Ordinary
Towergate Financial (West) Limited	84.9%	1 Minster court, London, EC3R 7AA	England	Ordinary & preference
HS 428 Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
Oak Affinity Consultancy Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
Four Counties Finance Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
Execcover Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
Moffatt & Co Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Arthur Marsh & Son Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Suddards Davies & Associates Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Waveney Group Schemes Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Group undertakings (continued)

Company	Share-holding	Registered office address	Country of incorporation	Nature of holding
Waveney Insurance Brokers (Commercial) Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Waveney Insurance Brokers Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
CCG Financial Services Limited	77.8%	1 Minster court, London, EC3R 7AA	England	Ordinary
Chorlton Cloughley Group Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
Cox Lee & Co Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
Duncan Pocock (Holdings) Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
JW Group Limited	100%	Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG	Scotland	Ordinary
M2 Financial Fees Limited	84.2%	1 Minster court, London, EC3R 7AA	England	Ordinary
Portishead Insurance Management Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Protectagroup Acquisitions Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Protectagroup Holdings Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Protectagroup Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Group undertakings (continued)

Company	Share-holding	Registered office address	Country of incorporation	Nature of holding
Richard V Wallis & Co Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
Roundcroft Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
The Folgate Partnership Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
Towergate Financial (Edinburgh) Limited	85.1%	150 St Vincent Street, Glasgow, G2 5NE	Scotland	Ordinary & preference
Towergate Financial (Huddersfield) Intermediate Limited	77.8%	1 Minster court, London, EC3R 7AA	England	Ordinary
Towergate Financial (Huddersfield) Limited	77.8%	1 Minster court, London, EC3R 7AA	England	Ordinary
Towergate FJC Limited	85.1%	1 Minster court, London, EC3R 7AA	England	Ordinary
Towergate Wilsons Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
Carole Nash Legal Services LLP	40.5%	Helmont House, Churchill Way, Cardiff, CF10 2HE	Wales	LLP
The Ardonagh Nominee Company Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Ardonagh Investments Limited	100%	22 Grenville Street, St. Helier, Jersey, JE4 8PX	Jersey	Ordinary
Ardonagh Investments 2 Limited	100%	22 Grenville Street, St. Helier, Jersey, JE4 8PX	Jersey	Ordinary
Broker Network Insurance Brokers Limited	100%	Hexagon House, Grimbald Crag Close, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary & preference
HS 426 Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
AIUA Holdings Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Group undertakings (continued)

Company	Share-holding	Registered office address	Country of incorporation	Nature of holding
Mastercover Insurance Services Limited	100%	2 Oaks Court, Warwick Road, Borehamwood, Hertfordshire, WD6 1GS	England	Ordinary
Ardonagh Specialty Holdings Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Carole Nash Insurance Consultants Limited	80.9%	Trafalgar House, 110 Manchester Road, Altrincham, Cheshire, WA14 1NU	England	Ordinary & deferred
William Rogers Holding Company Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
Nevada Investment Holdings 5 Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Autonet Law LLP	75%	PM House, 250 Shepcote Lane, Sheffield, S9 1TP	England	LLP
Townfrost Limited	100%	Hexagon House, Grimbald Crag Close, St James Business Park, Knaresborough, North Yorkshire, HP5 8PJ	England	Ordinary
Walter Ainsbury & Son Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Smith & Pinching General Insurance Services Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
Ainsbury (Insurance Brokers) Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Jubilee Service Solutions Limited	96.4%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
Lutine Assurance Services Limited	96.4%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
Ardonagh Midco 3 plc	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Bishopsgate North American Binders Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Price Forbes Risks Solutions Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Ardonagh Advisory Holdings Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Geo Europe B.V.	100%	Weena 505, 17de verdieping, 3013AL Rotterdam	Netherlands	Ordinary

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Group undertakings (continued)

Company	Share-holding	Registered office address	Country of incorporation	Nature of holding
Geo Underwriting Europe B.V.	100%	Weena 505, 17de verdieping, 3013AL Rotterdam	Netherlands	Ordinary
Atlanta Investment Holdings Midco B Limited	80.9%	Nile Street, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Atlanta Investment Holdings B Limited	80.9%	Nile Street, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Carole Nash Insurance Consultants (Ireland) Designated Activity Company	80.9%	Ulysses House, 22/24 Foley St, Mountjoy, Dublin	Ireland	Ordinary
Swinton (Holdings) Limited	100%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Swinton Group Limited	100%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Swinton Properties Limited	100%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Deferred
Fairfield Insurance Services Limited	100%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Its4Me Limited	100%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
EIBL Management Limited	100%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
EIBL Limited	100%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Andinsure Limited	100%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Walmsleys Insurance Brokers Limited	100%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Colonnade Insurance Brokers Limited	100%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Rockford Group Limited	100%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Rockford Insurance Brokers Limited	100%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Group undertakings (continued)

Company	Share-holding	Registered office address	Country of incorporation	Nature of holding
The T F Bell Group Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
Health and Protection Solutions Limited	100%	West Park House, 23 Cumberland Place, Southampton, SO15 2BB	England	Ordinary
Minton House Group Limited	100%	1 Minster court, London, EC3R 7AA	England	Ordinary
Brokers Educational Supply Teachers Claims Limited	100%	55 Bishopsgate, London, EC2N 3AS	England	Ordinary
Professional Fee Protection Limited	100%	5 Sylvan Way, Southfields Business Park, Basildon, SS15 6TH	England	Ordinary
Professional Financing Limited	100%	5 Sylvan Way, Southfields Business Park, Basildon, SS15 6TH	England	Ordinary
PFP Tax Services Limited	100%	5 Sylvan Way, Southfields Business Park, Basildon, SS15 6TH	England	Ordinary
Bishopsgate Energy Limited	100%	2 Minster court, London, EC3R 7AA	England	Ordinary
Atlanta Investment Holdings C Limited	100%	Nile Street, Burslem, Stoke-on-Trent, S16 2BA	England	Ordinary
Nevada Investment Holdings 3 Limited	100%	55 Bishopsgate, London, EC2N 3AS	England	Ordinary
Nevada Investment Holdings 2 Limited	100%	89 Nexus Way, Camana Bay, Grand Cayman KY1-9009	Cayman Islands	Ordinary
Nevada Investment Holdings Parent Limited	100%	89 Nexus Way, Camana Bay, Grand Cayman KY1-9009	Cayman Islands	Ordinary
Nevada Investment Holdings Midco Limited	100%	89 Nexus Way, Camana Bay, Grand Cayman KY1-9009	Cayman Islands	Ordinary
Price Forbes Europe NV	100%	Bastion Towers, 5 Place du Champ du Mars, Brussels 1050, Belgium	Belgium	Ordinary

37 Subsequent events

On 28 February 2020, the Group completed the purchase of certain business and assets held by Rural Insurance Group Limited. The consideration paid was £23.5m cash.

During the first quarter of 2020, the Group has also exchanged contracts (but not yet completed) in relation to its intention to purchase, subject to regulatory conditions including change of control approvals:

- The entire issued share capital of Bennetts Motorcycling Services Limited for £26m.
- The entire issued share capital of a target company registered in Ireland for EUR 25.2m.

The Directors have considered the guidance of the UK Financial Reporting Council and events relating to the spread of coronavirus (Covid-19) and have treated this as a non-adjusting subsequent event in these financial statements (see note 2 Basis of preparation).

FINANCIAL STATEMENTS

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	31 December 2019 £000	31 December 2018 £000
Non-current assets		
Investment in subsidiary	738,409	671,409
Other financial assets	68,000	65,000
Derivatives	74	1,549
Net deferred tax assets	372	1,266
	806,855	739,224
Current assets		
Other receivables	1,019,389	925,038
Cash and cash equivalents	4,916	69,401
Derivatives	2,989	2,930
Current tax asset	-	2,752
Total assets	1,027,294	1,000,121
Current liabilities		
Other payables	(292,330)	(190,398)
Borrowings	(43,899)	(37,639)
Current tax liability	(96)	-
Derivatives	(1,970)	(449)
	(338,295)	(228,486)
Non-current liabilities		
Borrowings	(1,096,598)	(1,108,861)
Derivatives	(19,442)	(8,354)
	(1,116,040)	(1,117,215)
Net assets	379,814	393,644
Capital and reserves		
Share capital	587,235	520,235
Hedging reserves	(2,064)	(6,181)
Retained losses	(205,603)	(120,621)
Capital contribution	246	211
Total equity	379,814	393,644

The notes on pages 159 to 163 form an integral part of these financial statements.

This set of financial statements was approved by the Board of Directors on 22 April 2020 and was signed on its behalf by:



D Cougill
Director

FINANCIAL STATEMENTS

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

	Share capital £000	Hedging reserves £000	Retained losses £000	Capital contribution £000	Total shareholders' equity £000
At 1 January 2019	520,235	(6,181)	(120,621)	211	393,644
Loss for the year	-	-	(84,982)	-	(84,982)
Other comprehensive income	-	4,117	-	-	4,117
Increase to capital contribution	-	-	-	35	35
Issue of share capital	67,000	-	-	-	67,000
At 31 December 2019	587,235	(2,064)	(205,603)	246	379,814

	Share capital £000	Hedging reserves £000	Retained losses £000	Capital contribution £000	Total shareholders' equity £000
At 1 January 2018	520,235	(11,048)	(40,353)	-	468,834
Opening balance adjustment	-	(471)	471	-	-
Loss for the year	-	-	(80,739)	-	(80,739)
Change in other comprehensive income	-	5,338	-	-	5,338
Share based payment reserve	-	-	-	211	211
At 31 December 2018	520,235	(6,181)	(120,621)	211	393,644

The notes on pages 159 to 163 form an integral part of these financial statements.

FINANCIAL STATEMENTS

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Authorisation of financial statements and statement of compliance

Ardonagh Midco 3 plc (the Company) was incorporated on the 21 April 2017 as a private company limited by shares with registered number 10735116. It is incorporated and domiciled in the United Kingdom. The Company became a public company on 19 May 2017. The financial statements for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 22 April 2020 and the statement of financial position was signed on the Board's behalf by Diane Cougill.

2 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 each of the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and were authorised for issue by the Board on 22 April 2020.

The financial statements are presented in GBP sterling (£).

The financial statements have been prepared on a historical cost basis, as modified to use a different measurement basis where necessary to comply with FRS 101.

2.2 Summary of disclosure exemptions

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the European Union (EU Adopted IFRS) and the Companies Act 2006, but it takes advantage of certain disclosure exemptions from IFRS that are permitted by FRS 101 as described below.

The Company has taken advantage of the following disclosure exemptions under FRS 101 where relevant:

- (a) the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-Based Payments because the arrangement concerns its own equity instruments and its separate financial statements are presented alongside the consolidated financial statements of the Group;
- (b) the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64 (q)(ii), B66 and B67 of IFRS 3 Business Combinations which includes among other exemptions the requirement to include a comparative period reconciliation for goodwill;
- (c) the requirements of paragraph 33(c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the cash flows of discontinued operations;
- (d) the requirements of IFRS 7 'Financial Instruments: Disclosures';
- (e) the requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement';
- (f) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a), to (c), 120 to 127 and 129 of IFRS 15 'Revenue from Contracts with Customers';
- (g) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to provide comparative period reconciliations in respect of outstanding shares, property, plant and equipment and intangible assets;
- (h) the requirements in paragraph 10(d) of IAS 1 Presentation of Financial Statements to prepare a cash flow statement and the requirements in IAS 7 Statement of Cash Flows regarding the same;
- (i) the requirements in paragraph 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 'Presentation of Financial Statements', which include the need to provide details on capital management;
- (j) the requirements of paragraphs 30 and 31 in IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', regarding disclosure of new IFRS standards not yet effective at the reporting date and their potential impact;

FINANCIAL STATEMENTS

NOTES TO THE COMPANY FINANCIAL STATEMENTS

2 Accounting policies *(continued)*

(k) the requirements in paragraphs 17 and 18(a) of IAS 24 'Related Party Disclosures', regarding disclosure of information on key management personnel, and the IAS 24 disclosure on related party transactions entered into between two or more members of a Group, (provided that any subsidiary which is party to the transaction is wholly owned by such a member);

(l) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 'Impairment of Assets' which include disclosure of valuation techniques, assumptions on which projections used in an impairment review are based and a sensitivity analysis thereon.

(m) the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16.

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

As permitted by s408 of the Companies Act 2006, no separate profit or loss account or statement of comprehensive income is presented in respect of the parent Company. The loss attributable to the Company is disclosed in the footnote to the Company's balance sheet.

The auditor's remuneration for audit and other services is disclosed in note 10 to the consolidated financial statements.

2.3 Going concern

After making enquiries the Directors have reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and have therefore prepared the accounts on a going concern basis. In making the going concern assessment the Directors have taken into account the following:

- The current capital structure and liquidity of the Group (see Strategic Report: Liquidity and Capital Resources on page 9) and its base case and stressed cash flow forecasts over the calendar years 2020 and 2021.
- The principal risks facing the Group, including the potential financial and operational impacts of Covid-19, and its systems of risk management and internal control.
- Improved operating cashflow during 2019.

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

- The Group continues to benefit from the Revolving Credit Facility of £120m. With effect from 1 December 2019, the contractual limitation on the amount that may be utilized of the Group's RCF was removed. As at 31 December 2019, the RCF facility capacity was £120m and undrawn. On 18 March 2020 the Group's RCF facility was extended to £170m, of which £70m was drawn. Permissible RCF drawings are limited by the Group's credit facility basket.
- Following the commencement of the main settlement of the ETV liabilities during the third quarter of 2019, the Group completes the majority of the settlement by the end of 2020.
- Client retention and renewal rates are expected to be robust, despite the likely economic downturn.

Key stress scenarios that the Directors have considered include cumulative stresses to the base plan of a net reduction in cashflow of over £100m in 2020 and further reductions in 2021. This results from:

- A sustained 20% shortfall in base case projected income in 2020 and 15% in 2021.
- A 10% deterioration in base case cash conversion rates over and above the fall in income
- A 15% deterioration in the quantum and acceleration of the settlement of the ETV liabilities compared to the base case.
- Mitigating actions within management control including delayed capital expenditure, a reduction in discretionary spend and some reduction in employee headcount and remuneration.

Our stress testing further indicates that revenues would need to decline by up to 30% compared to base case in each of the next 7 quarters, offset by slightly higher discretionary cost cuts and headcount reductions (but still assuming that the cost base does not reduce at the same speed as income) to reach our liquidity limits. The Directors consider these stress conditions to be a remote scenario.

Other mitigations which may be possible but have not been included in the above analysis include seeking shareholder support and further incremental and more prolonged cost reductions.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation (continued)

The Directors have also considered the wider operational consequences and ramifications of the Covid-19 pandemic.

- Business Continuity Plans are in place across each of the Group's operating segments, with measures to manage employee absences, access to the wider network of over 80 offices, the efficiency and stability of the Group's infrastructure and the ability for home working for a significant portion of our employee base. Leadership teams and working groups led by senior managers are in place to support operational resilience and taking common-sense precautions with a view to ensuring the wellbeing of colleagues. We continue to review this approach on a daily basis in line with latest global developments and government guidance.
- Insurance broking is a resilient and defensive market, which has historically had limited impact from past economic or capital market downturns. Ardonagh is highly diversified and not materially exposed to a single carrier, customer or market sector.
- Although Covid-19 developments are fluid, the stress testing demonstrates the Group's financial resilience and operating flexibility.

Following the assessment of the Group's financial position and its ability to meet its obligations as and when they fall due, including the potential financial implications of the Covid-19 pandemic included in stress tests, and the wider operational consequences and ramifications of the pandemic, the Directors are not aware of any material uncertainties that cast significant doubt on the Group's ability to continue as a going concern.

2.4 Taxation

Current tax

Current tax is recognised for the amount of tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised in respect of taxable temporary differences at the reporting date (except in relation to goodwill or a transaction which is not a business combination and does not affect profit nor taxable profit). Deferred tax assets are only recognised to the extent that it is probable they will be recovered against the reversal of deferred tax liabilities or against future taxable profits. Deferred tax assets and deferred tax liabilities are only offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and if they relate to income taxes levied by the same taxation authority on the same taxable entity or on different taxable entities which intend to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously.

The tax expense for the year comprises current and deferred tax. Income tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income. Similarly, income tax is recognised directly to equity if it relates to items that are recognised directly to equity.

2.5 Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

2.6 Financial assets

The Company's financial assets include intragroup receivables and other assets. They are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortised cost.

2.7 Financial liabilities

The Company's financial liabilities includes payables. They are initially measured at fair value less directly attributable transaction costs. The Company's financial liabilities are trade and other payables.

Trade and other payables represent amounts due to related parties. They are stated at cost.

2.8 Share capital

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

FINANCIAL STATEMENTS

NOTES TO THE COMPANY FINANCIAL STATEMENTS

3 Investment in subsidiaries

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Cost		
At 1 January	671,409	520,185
Additions	135,833	151,224
Disposals	(68,833)	-
At 31 December	738,409	671,409
Net book value		
At 1 January	671,409	520,185
At 31 December	738,409	671,409

On 31 January 2019, the Company completed the acquisition of Nevada Investments Holdings 2 Limited and its subsidiaries. The consideration paid was £67.0m of convertible equity certificates. On 5 February 2019, the Company contributed Nevada 2 to Ardonagh Midco 1 Limited in exchange for £67.0m shares giving rise to a further addition and a disposal in the year.

Shares in Group undertakings	Shareholding %	Principal activity
Ardonagh Midco 1 Limited	100	Holding company

The registered office of Ardonagh Midco 1 Limited is 44 Esplanade, St Helier, Jersey, JE4 9WG.

4 Other receivables

	31 December 2019 £000	31 December 2018 £000
Amounts owed by Group companies	1,015,484	920,828
Prepayments	1,512	5
Other assets	2,393	2,577
Related party debtors	-	1,628
	1,019,389	925,038

5 Other payables

	31 December 2019 £000	31 December 2018 £000
Amounts owed to Group companies	292,330	177,423
Accruals	-	12,239
Other liabilities	-	736
	292,330	190,398

FINANCIAL STATEMENTS

NOTES TO THE COMPANY FINANCIAL STATEMENTS

6 Share capital and premium

	31 December 2019 £000	31 December 2018 £000
Allotted, called up and fully paid shares		
Ordinary shares of £0.01 each	7,331	6,826

	Number of shares (thousands)	Ordinary shares £000	Total £000
At 1 January 2019	52,024	520,235	520,235
At 31 December 2019	58,724	587,235	587,235
At 1 January 2018	52,024	520,235	520,235
At 31 December 2018	52,024	520,235	520,235

7 Reserves

	31 December 2019 £000	31 December 2018 £000
Retained losses		
At 1 January	(120,621)	(40,353)
Opening balance adjustment (IFRS 9)	-	471
Loss for the year	(84,982)	(80,739)
At 31 December	(205,603)	(120,621)

8 Related party transactions

Transactions and balances with entities that form part of the Group

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

Directors' Remuneration

Directors emoluments of £0.4m for services provided to the Company have been paid by other Group entities who make no recharge to the Company.

All Directors benefit from qualifying third-party indemnity provisions in place during the financial period and at the date of this report.

9 Ultimate parent company

The Ardonagh Group Limited's majority shareholder is HPS Investment Partners LLC. The Ardonagh Group Limited is the Group's ultimate parent company and the highest level at which results are consolidated.

OTHER UNAUDITED FINANCIAL INFORMATION

INTRODUCTION TO OTHER UNAUDITED FINANCIAL INFORMATION

Information in this section is provided to show readers the full reconciliation between Reported results disclosed in section 2, which include acquisitions, disposals and financing transactions from the date they occur, and the alternative performance measures. The alternative performance measures comprise the Pro Forma results, which present material acquisitions, disposals and financing transactions as if they occurred on the first day of the prior period, and EBITDA and Adjusted EBITDA measures presented within the Pro Forma results.

OTHER UNAUDITED FINANCIAL INFORMATION

RECONCILIATION OF REPORTED RESULTS TO PRO FORMA FOR COMPLETED TRANSACTIONS RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Year ended 31 December 2019	Midco 3 Group audited GAAP £000	Pro Forma disposal adjust- ments £000	Pro Forma acquisition adjust- ments £000	Pro Forma debt adjust- ments £000	Pro Forma Midco 3 Group £000
Commission and fees	640,662	-	977	-	641,639
Other income	22,168	-	-	-	22,168
Investment income	2,657	-	-	-	2,657
Salaries and associated costs	(320,879)	-	(641)	-	(321,520)
Other operating costs	(227,863)	-	(294)	-	(228,157)
Impairment of financial assets	(14,465)	-	-	-	(14,465)
Depreciation, amortisation and impairment of non-financial assets	(95,713)	-	(264)	-	(95,977)
Fair value loss on derivatives	(604)	-	-	-	(604)
Share of profit from joint venture	1,680	-	-	-	1,680
Share of profit from associate	217	-	-	-	217
Operating profit	7,860	-	(222)	-	7,638
Adjustment to gain on disposal of associate	1,750	(1,750)	-	-	-
Gain on disposal of business	2,244	(2,244)	-	-	-
Finance costs	(113,606)	-	-	-	(113,606)
Finance income	1,995	-	-	-	1,995
(Loss)/profit before tax	(99,757)	(3,994)	(222)	-	(103,973)
Tax credit	29,987	-	22	-	30,009
(Loss)/profit for the year	(69,770)	(3,994)	(200)	-	(73,964)
Eliminate: Items excluded from EBITDA					
Finance costs	113,606				113,606
Tax credit	(29,986)				(30,008)
Depreciation, amortisation and impairment of non-financial assets	95,713				95,977
Fair value loss on derivatives	604				604
Loss from disposal of assets	6,794				6,794
Foreign exchange movements	2,769				2,769
EBITDA	119,730				115,778
Eliminate: Items excluded from Adjusted EBITDA					
Transformational hires	6,047				6,047
Business transformation costs	39,450				39,450
Legacy and other costs	6,166				6,177
Regulatory costs	13,971				13,971
Acquisition and financing costs	4,241				4,241
Adjustment to gain on disposal of associate	(1,750)				-
Gain on disposal of business	(2,244)				-
Adjusted EBITDA	185,611				185,664

OTHER UNAUDITED FINANCIAL INFORMATION

RECONCILIATION OF REPORTED RESULTS TO PRO FORMA FOR COMPLETED TRANSACTIONS RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Year ended 31 December 2018	Midco 3 Group audited GAAP £000	Pro Forma disposal adjust- ments £000	Pro Forma acquisition adjust- ments £000	Pro Forma debt adjust- ments £000	Pro Forma Midco 3 Group £000
Commission and fees	521,901	(28,489)	164,876	-	658,288
Other income	2,572	-	(14)	-	2,558
Investment income	2,106	-	22	-	2,128
Salaries and associated costs	(290,099)	24,276	(61,368)	-	(327,191)
Other operating costs	(208,150)	6,997	(90,233)	-	(291,386)
Impairment of financial assets	(5,061)	60	(5,800)	-	(10,801)
Depreciation, amortisation and impairment of non-financial assets	(71,284)	5,660	(16,448)	-	(82,072)
Adjustment to goodwill in respect of prior years	(3,095)	-	-	-	(3,095)
Fair value gain on derivatives	2,485	-	-	-	2,485
Share of profit from joint venture	1,777	-	-	-	1,777
Share of profit from associate	-	-	-	-	-
Operating (loss)/profit	(46,848)	8,504	(8,965)	-	(47,309)
Gain on disposal of associate	7,482	(7,482)	-	-	-
Gain on disposal of business	19	(19)	-	-	-
Finance costs	(94,655)	-	(223)	(14,713)	(109,591)
Finance income	519	-	63	-	582
(Loss)/profit before tax	(133,483)	1,003	(9,125)	(14,713)	(156,318)
Tax credit/(charge)	33,011	(548)	408	-	32,871
(Loss)/profit for the year	(100,472)	455	(8,717)	(14,713)	(123,447)
<i>Eliminate:</i>					
<i>Items excluded from EBITDA</i>					
Finance costs	94,655				109,591
Tax credit	(33,010)				(32,870)
Depreciation, amortisation and impairment of non-financial assets	71,284				82,072
Adjustment to goodwill in respect of prior years	3,095				3,095
Fair value gain on derivatives	(2,485)				(2,485)
Loss from disposal of assets	1,389				1,389
Foreign exchange movements	(415)				(415)
EBITDA	34,041				36,930
<i>Eliminate: Items excluded from Adjusted EBITDA</i>					
Transformational hires	22,874				22,874
Business transformation costs	31,168				59,516
Legacy and other costs	27,812				28,004
Regulatory costs	258				258
Acquisition and financing costs	5,000				6,117
Gain on disposal of associate	(7,482)				-
Gain on disposal of business	(19)				-
Adjusted EBITDA	113,652				153,699

OTHER UNAUDITED FINANCIAL INFORMATION

GLOSSARY OF TERMS

Acquisition and Financing Costs

Costs associated with acquiring businesses, with disposing of parts of the business, with raising additional financing (legal and accounting advisors, rating agencies, etc.), and with a change in the value of contingent consideration (after the measurement period has ended).

Adjusted EBITDA

EBITDA after adding back Management Reconciling Items.

Adjusted EBITDA Margin

Adjusted EBITDA divided by Total Income.

Available Cash

Total unrestricted own funds plus ETV restricted funds.

Available Liquidity

Available Cash plus Available RCF (Revolving Credit Facility).

Available RCF

Available and undrawn RCF.

Business Transformation Costs

Costs (other than restructuring costs) incurred in transforming the legacy Towergate business, in realising synergy benefits from acquired businesses by reorganising management and business structures and by implementing new systems and processes, in reorganising Group structures, in transforming business processes, in terminating contractual arrangements, and in driving a cost base that is the right size for the Group.

Cash Generating Unit (CGU)

The smallest group of assets that independently generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Discontinued Operation

A CGU or group of CGUs that has either: (a) been disposed of, or (b) is available for immediate sale in its present condition and its sale is highly probable.

EBITDA

Earnings after adding back finance costs (including from 1 January 2019 effective interest on lease liabilities), tax, depreciation (including with effect from 1 January 2019, depreciation of lease right-of-use assets), amortisation, impairment of non-financial assets, profit/loss on disposal of non-financial assets (except for right-of-use assets in the year of transition to IFRS 16), foreign exchange movements and dividends received.

EBITDA Margin

EBITDA divided by Total Income.

Foreign Exchange Movements

Gains/losses arising on the revaluation of monetary items (debtors, creditors, cash, etc.) and on derivatives to which hedge accounting has not been applied.

IAS 34

International Accounting Standard 34 'Interim Financial Reporting'. This standard applies when an entity prepares an interim financial report.

IFRS

International Financial Reporting Standards.

Key Performance Indicators

Measures agreed by the Board to determine underlying business performance (Total Income, Adjusted EBITDA, EBITDA, Operating Loss, Loss for the Year).

OTHER UNAUDITED FINANCIAL INFORMATION

GLOSSARY OF TERMS

Legacy and Other Costs

Legacy and other costs – Pre-2016 or non-repeatable costs arising from retention payments to key staff so as to provide long-term stability to the business, from insurer loss ratio performance for legacy underwriting disciplines and decision making, from external reviews and process improvements in cash and liquidity reporting, from write down of legacy IBA balances, from remediation work in the Finance function, and from commercial disputes.

Management Reconciling Items

- Discontinued Operations
- Restructuring costs
- Transformational Hires
- Business Transformation Costs (other than Restructuring Costs)
- Regulatory Costs
- Acquisition and Financing Costs
- Profit/loss on disposal of a business and investments (unless a discontinued operation)
- Legacy and Other Costs

Non-organic Growth

Growth arising from acquisitions of books of business, trades and assets, and companies.

Operating Cash Conversion

Operating and investing cash flow (as further defined as Adjusted EBITDA less working capital movement and maintenance capital expenditure), over Adjusted EBITDA.

Operating Segments

A component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Organic Growth

Growth adjusted to remove the impact of acquisitions, disposals, FX, hedges, back-books, accounting changes and certain one-off and distorting items.

Pro Forma for Completed Transactions

IFRS numbers which have been adjusted to: (a) include the results of new acquisitions from the first day of the immediately preceding comparative year, (b) remove the results and gain or loss on disposal of discontinued operations, and of other business disposals from the current and prior year, where they have occurred prior to the end of the reporting period, and (c) reflect financing transactions as if they had occurred on the first day of the prior year.

Regulatory Costs

Costs associated with one-off regulatory reviews and with changes in the regulatory and compliance environments.

Reported

Numbers disclosed within section 2 of this document (prepared in accordance with IFRS).

Restructuring Costs

Direct expenditures associated with a programme that is planned and controlled by management and that materially changes either: (a) the scope of a business undertaken by Ardonagh, or (b) the manner in which that business is conducted.

Total Income

Commission and fees, other income, investment income and finance income.

Transformational Hires

Net losses associated with new joiners hired to drive transformational business growth in the Insurance Broking, Specialty & International or MGA segments to whom a capacity restriction (no insurer to underwrite policies) or restrictive covenant applies. The net losses are calculated as the recruitment costs, sign on fees, costs of retention and salary (salary related costs) incurred during the period of the capacity restriction or covenant, or during the one year period after the capacity restriction or covenant has ended, less the income generated by those new joiners during that period. (If the net losses become negative, so that income generated exceeds salary-related costs, this is no longer a Management Reconciling Item).