THE

# ARDONAGH

GROUP

# ARDONAGH MIDCO 3 plc

## ANNUAL REPORT AND FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2018



Registered number 10735116

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# SECTION 1

# ARDONAGH MIDCO 3 plc

## STRATEGIC REPORT
## FOR THE YEAR ENDED 31 DECEMBER 2018

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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.

## STRATEGIC REPORT

This report comprises three sections:

Section 1: Strategic Report for the twelve months ended 31 December 2018. Financial information in Section 1 has been presented on Reported and Pro Forma bases. Information shown on a Reported basis is presented in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) with acquisitions, disposals and refinancing transactions reflected from the date the acquisition or refinancing completed. Pro Forma for Completed Transactions are presented as if significant acquisitions, disposals and refinancing transactions occurred on the first day of the comparative period and therefore current and prior period information is presented on a like-for-like basis to enable meaningful comparisons to be made. Significant acquisitions and disposals included in the Pro Forma for Completed Transactions information are the acquisition of Swinton (completed 31 December 2018), the disposals of the Claims business (completed 16 October 2018) and the disposal of the Commercial MGA business (completed 1 January 2019). Pro forma financial information for the acquisition of the "Nevada 3 Businesses" (acquisition of Minton House Group Limited "MHG", Health and Protection Solutions Limited "HIG" and Professional Fee Protection Limited "PFP", completed on 31 January 2019) has been excluded from this Strategic Report but has been included for information in the investor presentation referenced above.

The Ardonagh Midco 3 plc Group (the Group) has adopted IFRS 9 and IFRS 15 from 1 January 2018. The impact of the adoption of these standards has not been reflected in the Pro Forma for Completed Transactions results presented for 2017, in line with the Reported results.

Section 2: Financial Statements contain the audited financial statements for the twelve months ended 31 December 2018. Information presented in this section is in accordance with IFRS as adopted by the EU with acquisitions, disposals and refinancing transactions reflected from the date the acquisition or refinancing completed.

Section 3: Other Financial Information provides detailed reconciliations between Reported and Pro Forma results, and EBITDA and Adjusted EBITDA which are included in this document as alternative performance measures.

## STRATEGIC REPORT

### BACKGROUND

We are the leading independent insurance broker in the United Kingdom. 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, scaleable platform through a combination of both a sustained focus on driving organic growth and a highly selective and disciplined acquisition programme.

Our strong portfolio of over 20 established and widely recognised brands in the insurance industry, which will be further strengthened by the addition of Swinton's well-recognised consumer brand, underpins our organic growth plans, driving our growth ahead of expected continued market growth. The UK general insurance market is worth c.£90 billion(1) and has grown at an average of c.2% per year for the last 10 years.

We have invested heavily over the last two and a half years to restructure and integrate these businesses, and to build scaleable, 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.

Our highly experienced senior management team have on average over 20 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 80% and have significant investment experience in the insurance broking and underwriting market.

HPS is a global credit investment firm with approximately $48.0 billion of assets under management, as of 1 March 2019, 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 129 investment professionals and over 330+ employees globally.

MDP, based in Chicago, is a leading private equity investment firm that has raised over $23.0 billion of capital. Since formation in 1992, MDP's investment funds have invested in over 140 companies across a broad spectrum of industries, including business and government software and services, financial and transaction services, healthcare, basic industries, and telecom, media and technology services. Funds managed by MDP are a lead investor in NFP Corp., as well as The Amynta Group, a leading provider of warranty and specialty insurance solutions in the United States, and Navacord Inc., a growing Canadian property and casualty and group benefits insurance broker.

(1) Association of British Insurers research, Gross Written Premiums written in 2017 of £89 billion.

# STRATEGIC REPORT

## 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 distribution channels: Ardonagh Broking, Ardonagh MGA and Ardonagh Specialty which are detailed below.

### ARDONAGH BROKING

The Broking distribution channel is comprised of three operating segments: Insurance Broking, Retail and Paymentshield, providing a broad array of broking products to commercial SME and individual customers through: (i) our market-leading digital platform, (ii) our telephone contact centres, and (iii) our network of local offices across the United Kingdom, which provide customers with a traditional, face-to-face service and tailored broking advice.

Insurance Broking provides advice on insurance, risk management and health and protection solutions for our primarily commercial SME clients. The advice is delivered face-to-face, over the telephone or online, and offers clients 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 personal, commercial and corporate classes. Insurance and risk management solutions are sold mainly through the Towergate brand. The Health and Protection offering trades under the Towergate and Chase Templeton brands. As a member of the Worldwide Broker Network, Insurance Broking works with likeminded brokers around the world to deliver cross-border collaboration on behalf of its clients, giving us a global reach.

Retail includes three brands: 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.

### ARDONAGH SPECIALTY

The Specialty distribution channel is our Specialty & International operating segment which includes 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. Bishopsgate is a primarily UK and North American binding authority wholesale broking business. Both are Lloyd's of London brokers. Together they 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.

### ARDONAGH MGA

The MGA distribution channel includes two operating segments, MGA and Schemes & Programmes, and 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. 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.

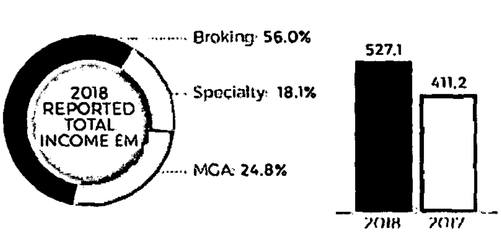
### CORPORATE

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.

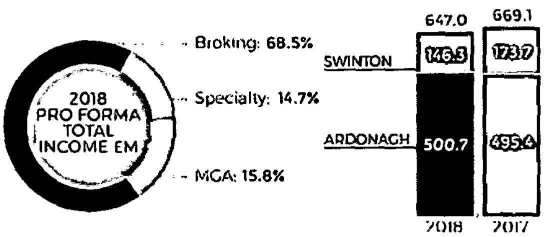
## STRATEGIC REPORT
### HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

**REPORTED** | **PRO FORMA FOR COMPLETED TRANSACTIONS**

**REPORTED TOTAL INCOME £ MILLION**

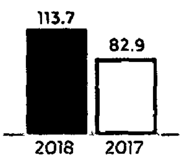



**PRO FORMA TOTAL INCOME £ MILLION**

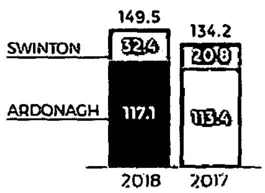



**Reported Total Income growth of +28.2% was driven by accretive acquisitions and organic growth.**

**REPORTED ADJUSTED EBITDA £ MILLION**

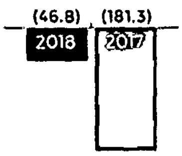



**PRO FORMA ADJUSTED EBITDA £ MILLION**

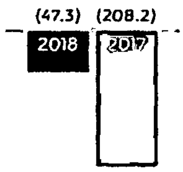



**Reported Adjusted EBITDA improvement of +37.2%, primarily driven by reported Total Income growth and delivery of cost savings.**

**REPORTED OPERATING LOSS £ MILLION**




**PRO FORMA OPERATING LOSS £ MILLION**




**£134 million improvement in Reported Operating Loss, primarily as the result of Total Income growth, delivery of cost savings, and reduced one-time costs and non-cash impairment charges.**

**AVAILABLE LIQUIDITY**
**2018: £215.6 million | 2017: £133.1 million**
**GROWTH: +62%**

**HEADCOUNT**
**2018: 5,918 | 2017: 6,196**
**REDUCTION: 4%**

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) but excludes the acquisition of the Nevada 3 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.

Definitions of KPIs and other Alternative Performance Measures (APMs) are set out in the glossary of terms in Section 3.

# STRATEGIC REPORT
## STRENGTHS AND STRATEGIES

**Our 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 5,900 professionals, the broad brand recognition for our portfolio of over 20 leading 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 two 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 scaleable 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 2018, no single carrier accounted for more than 11% 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 c.£90 billion[(1)] and has grown at an average of c.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 2018 was 80%) and our business model aims to drive growth and organic de-leveraging in the future.

(1) Association of British Insurers research, Gross Written Premiums written in 2017 of £89 billion.

STRATEGIC REPORT
STRENGTHS AND STRATEGIES

**Our Strengths** *(continued)*

**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.

**Our Strategies**

**Drive profitable and sustainable organic income growth**
We maintain a clear focus on driving consistent, profitable and sustainable organic income growth in niche and specialist areas of the insurance market value chain. Our producer compensation strategies and senior management incentive plans are aligned with our sales initiatives and targets, and leverage the flexibility provided by private ownership to offer highly competitive incentives to both attract and retain top talent, fostering increased commitment, entrepreneurship and the long-term alignment of goals with our shareholders. Additionally, over recent years we have significantly invested in producer recruitment and IT systems to further drive organic growth and enhance the customer experience.

We will continue to leverage our depth and breadth of customer and insurer relationships, our portfolio of more than 20 leading insurance brands, and our unparalleled depth of specialist market knowledge, to develop new products to match identified customer needs and to improve our existing product and service offerings, to drive new business growth and to maximise customer loyalty. We also believe significant further cross-selling opportunities exist across our portfolio, providing existing customers with additional and complementary products, further increasing customer loyalty.

**Realise cost and operational synergy opportunities across our platforms**
We will continue to leverage our combined scale to negotiate better deals with insurer counterparties, other industry participants and suppliers, to enable us to offer better products to our customers and to drive incremental profitability. We will also continue to transfer best practices across the enlarged group to drive improved operational efficiency and effectiveness.

Our significant investment over recent years into our modern and scaleable IT operating platform, was part of our transition to cloud-based data centres and a cloud-based core finance platform, which we believe will result in lower levels of capital expenditures going forward, in addition to yielding ongoing operating efficiencies across our businesses. These investments have produced an infrastructure model which enables us to integrate acquisitions more efficiently, and to scale to levels that were not possible with our historic environment and infrastructure.

We intend to rapidly conclude our major initiatives focused on integrating recent acquisitions, increasing efficiency, reducing costs and simplifying processes, primarily related to our middle- and back-office functions. We will continue exercising tight cost controls and will continue to implement new cost-reduction and efficiency improvement programmes across all segments as part of our "Business as Usual" strategy.

**Continue disciplined acquisition strategy**
We intend to selectively pursue further "add-on" strategic and financially accretive acquisitions of businesses, assets or insurance books when and where opportunities exist and fit within our corporate culture and overall strategy. We will continue to apply our proven and disciplined approach to evaluating opportunities and integrating acquisitions, leveraging our scaleable efficient operating platforms to reduce costs associated with on-boarding and integrating acquired businesses.

## STRATEGIC REPORT
### GROUP FINANCIAL PERFORMANCE

| | Reported | | | Pro Forma for Completed Transactions | | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | Change | **2018** | 2017 | Change |
| | **£m** | £m | £m | **£m** | £m | £m |
| Total income | **527** | 411 | 116 | **647** | 669 | (22) |
| Adjusted EBITDA | **114** | 83 | 31 | **150** | 134 | 15 |
| EBITDA | **35** | (24) | 59 | **35** | (35) | 70 |
| Operating loss | **(47)** | (181) | 135 | **(47)** | (208) | 161 |
| Loss for the year | **(109)** | (242) | 133 | **(132)** | (309) | 177 |

**Reported results**

Reported Total Income increased by £115.9 million to £527.1 million (2017: £411.2 million), and Adjusted EBITDA increased by £30.8 million to £113.7 million (2017: £82.9 million), predominantly as the result of the combination of the initial Ardonagh platform businesses on 22 June 2017 (Towergate, Autonet, Chase Templeton, Direct Group and Price Forbes), and the subsequent acquisitions completed by The Ardonagh Group (primarily Carole Nash, 20 December 2017). Organic income growth has been driven by increased retention rates and new business growth in Ardonagh Broking, combined with strong income growth driven by the significant investment to date in income producers, primarily in Ardonagh Specialty. This organic income growth has been offset in part by the remediation and exit of unprofitable business in our standard lines MGA business (Commercial MGA business disposal completed 1 January 2019), and the disposal of our Claims business (16 October 2018) resulting in only nine months' contribution from this business included in the 2018 reported results.

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 have not yet reached revenue maturity, and in central governance functions to support future growth.

The reported result for 2017 includes the full year result for the original Towergate businesses and the additional Ardonagh platform businesses, Autonet, Chase Templeton, Direct Group and Price Forbes, only from 22 June 2017 when the Group was created. Acquisitions completed by the Group are included in the result from the date they were acquired; these include the US Binders business and assets (1 August 2017), Healthy Pets (1 September 2017), and Carole Nash and Mastercover (both 20 December 2017). The Group also acquired the right to renew insurance policies relating to a number of insurance product lines (20 February 2018), the acquisition of business and assets from Haven Insurance Brokers Limited (28 February 2018) and business and assets from The Trust Insurance Group Limited (28 March 2018). The 2018 result also includes the impact of the disposal of our Claims business to Davies Group from 16 October 2018.

EBITDA includes three main areas of spend considered by management to represent one-time investments and costs to the business: transformational hires, business transformation and legacy costs. Transformational hires represent investment in teams and individuals to drive future transformational growth, primarily in the Specialty and MGA channels. This includes recruitment costs, sign-on fees, retention and other costs. Business transformation represents ongoing transformation projects including the finalisation of the Towergate transformation programmes, process improvements, restructuring and redundancy costs, and integration costs to realise synergy benefits from recent acquisitions. Legacy costs include costs associated with insurer loss ratio performance arising from legacy underwriting decisions, costs from external reviews and process improvements in cash and liquidity, write down of legacy IBA balances 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 £59.1 million to £35.1 million (2017: £(24.0) million) driven by £30.8 million improvement in Reported Adjusted EBITDA and £28.4 million reduction in one-time investment and legacy costs during 2018. We have invested significantly over recent years to integrate the Ardonagh businesses and build a scaleable efficient operating platform capable of on-boarding new business and acquisitions in a cost-efficient way.

Reported Operating Loss improved by £134.5 million to £(46.8) million (2017: £(181.3) million), primarily due to Reported Total Income growth, delivery of cost savings, and reduced one-time costs and non-cash impairment charges.

Reported Loss for the year improved by £132.9 million to £(109.4) million (2017: £(242.3) million), primarily due to a £134.5 million improvement in Operating Loss, offset primarily by additional financing costs.

## STRATEGIC REPORT
### GROUP FINANCIAL PERFORMANCE

**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 comparative period. These transactions include the acquisition of Swinton (completed 31 December 2018), which will be integrated into Autonet from 1 January 2019, the disposal of our Claims business to Davies Group (completed 16 October 2018), and the disposal of our standard lines Commercial MGA business to Arch UK Holdings Limited (completed 1 January 2019). Subsequent to the year ending 31 December 2018, we have also completed the acquisition of the Nevada 3 Businesses (31 January 2019), this acquisition has not been included within the Pro Forma results.

Total Income decreased by £22.1 million to £647.0 million (2017: £669.1 million) after adjusting for completed acquisitions and disposals. However, excluding the year on year decline in Swinton per page 5, income increased by £5.3 million to £500.7 million (2017: £495.4 million). Strong organic growth in Ardonagh Specialty, particularly in Aviation and Marine, and increased retention rates and new business growth in Ardonagh Broking, has been offset by items set out above.

Adjusted EBITDA increased by £15.3 million to £149.5 million (2017: £134.2 million) after adjusting for completed acquisitions and disposals. Excluding the year on year decline in Swinton per page 5, Adjusted EBITDA increased by £3.7m to £117.1 million (2017: £113.4 million). 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 £70.1 million to £35.0 million (2017: £(35.1) million) after adjusting for completed acquisitions and disposals. This reflects the improvement in Adjusted EBITDA and a £54.8 million reduction in one-time investment and legacy costs.

Operating Loss improved by £160.9 million to £(47.3) million (2017: £(208.2) million) after adjusting for completed acquisitions and disposals. This reflects Total Income growth, delivery of cost savings, and reduced one-time costs and non-cash impairment charges.

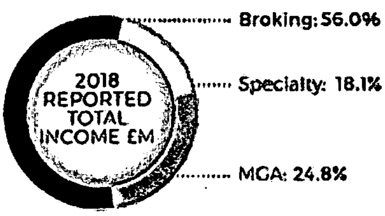
Loss for the year improved by £176.5 million to £(132.4) million (2017: £(308.9) million) after adjusting for completed acquisitions and disposals. This primarily reflects the £160.9 million improvement in Operating Loss Pro Forma for Completed Transactions.

Detailed reconciliations between Reported and Pro Forma for Completed Transactions results can be found in Section 3 of this report.

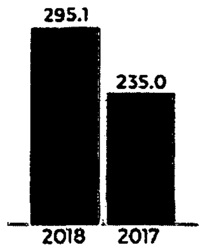
## STRATEGIC REPORT

### DISTRIBUTION CHANNEL PERFORMANCE: ARDONAGH BROKING

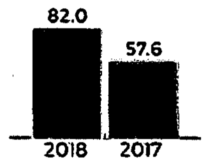
REPORTED TOTAL INCOME £ MILLION




REPORTED TOTAL INCOME £ MILLION




REPORTED ADJUSTED EBITDA £ MILLION




The Ardonagh Broking distribution channel includes three operating segments, Insurance Broking (55% Reported Total Income for Ardonagh Broking), Retail (27%), a combination of Autonet, Carole Nash and Swinton, and Paymentshield (18%).

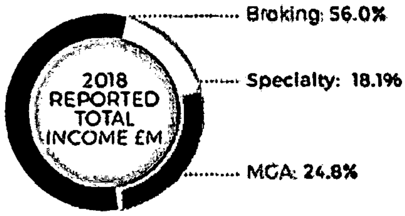
Reported Total Income increased by £60.1 million to £295.1 million (2017: £235.0 million) while Reported Adjusted EBITDA increased by £24.4 million to £82.0 million (2017: £57.6 million), predominantly driven by the acquisition of the two Ardonagh platform businesses Autonet and Chase Templeton (22 June 2017), the acquisitions of Carole Nash and Mastercover (20 December 2017), and the purchase of the right to renew certain insurance policies relating to a number of insurance product lines (20 February 2018). The Reported results exclude any impact from the acquisition of the Swinton business (completed 31 December 2018) or any impact from the Nevada 3 Business acquisition (completed 31 January 2019). There were no disposals in this distribution channel.

Reported Total Income also increased due to organic growth driven by increased retention rates (Schemes & Programmes +580bps, Insurance Broking +390bps) and strong new business growth (Retail +12.3%, Insurance Broking +5.9%, Paymentshield +5.4%). Organic growth was partially offset by a reduction in profit share payments in Paymentshield, as weather related claims returned to more normal levels after several benign years, and by the adverse impact from the implementation of IFRS 15.

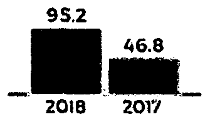
The improvement in Reported Adjusted EBITDA (+330bps Adjusted EBITDA Margin improvement) was driven by the increase in Total Income, combined with delivery of synergy and cost reduction plans.

## STRATEGIC REPORT
### DISTRIBUTION CHANNEL PERFORMANCE: ARDONAGH SPECIALTY

REPORTED TOTAL INCOME £ MILLION




REPORTED TOTAL INCOME £ MILLION




REPORTED ADJUSTED EBITDA £ MILLION

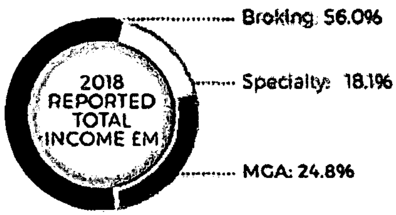

Reported Total Income increased £48.4 million to £95.2 million (2017: £46.8 million) while Reported Adjusted EBITDA increased by £10.5 million to £18.9 million (2017: £8.4 million), predominantly driven by the acquisitions of the Ardonagh platform business of Price Forbes (22 June 2017) and of the US Binders business and assets (1 August 2017). This channel has not completed any acquisitions or disposals in 2018.

Reported Total Income also increased due to strong organic growth in both Price Forbes and Bishopsgate with the on-boarding of a number of key income generators in 2017 and 2018 alongside substantial growth in our US Binders business and assets, partially offset by a negative impact of foreign exchange.

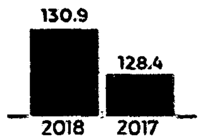
The improvement in Reported Adjusted EBITDA (+190bps Adjusted EBITDA Margin improvement) was driven by the increase in Total Income, combined with the delivery of synergy and cost reduction plans, although partially offset by the increased cost base from the investment to support income generators which are not yet at revenue maturity.

### DISTRIBUTION CHANNEL PERFORMANCE: ARDONAGH MGA

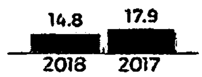
REPORTED TOTAL INCOME £ MILLION




REPORTED TOTAL INCOME £ MILLION




REPORTED ADJUSTED EBITDA £ MILLION




The Ardonagh MGA distribution channel includes our MGA and Schemes & Programmes operating segments. Reported Total Income increased £2.5 million to £130.9 million (2017: £128.4 million) while Reported Adjusted EBITDA decreased £3.1 million to £14.8 million (2017: £17.9 million). The channel completed the acquisition of the Ardonagh platform business of Direct Group (22 June 2017) and of Healthy Pets (1 September 2017), and the disposal of our Claims business (completed 16 October 2018). The reported result included our standard lines Commercial MGA business for the full 12-month period (disposal to Arch UK Holdings Limited completed 1 January 2019).

Impacting both Total Income and Adjusted EBITDA during the year was the remediation and exit of unprofitable business in our standard lines MGA business to improve the long-term sustainability of the business and repositioning to focus more on niche and specialty lines (disposal of Commercial MGA completed 1 January 2019), the disposal of our Claims business to Davies Group (16 October 2018), and a strategic move away from online third party sales for SMEs.

## STRATEGIC REPORT
### GROUP FINANCIAL CONDITION

<u>Statement of financial position</u>

The Group's Statement of Financial Position at 31 December 2018 and 31 December 2017 is presented below. Over the 12-month period the Group has reported a significant improvement in net current assets and a decline in net assets due to the reported loss for the year:

**Extracts from the consolidated statement of financial position**

| As at 31 December (£ million) | 2018 | 2017 |
|---|---|---|
| Intangible assets | **1,095.2** | 1,107.6 |
| Property, plant and equipment | **37.0** | 31.7 |
| Other non-current assets | **56.4** | 25.2 |
| Non-current assets | **1,188.6** | 1,164.5 |
| Current assets – excluding cash and cash equivalents | **343.0** | 147.9 |
| Current assets – cash and cash equivalents | **505.0** | 332.9 |
| Current liabilities | **(741.5)** | (491.6) |
| Net current assets/(liabilities) | **106.5** | (10.8) |
| Non-current liabilities | **(1,230.9)** | (988.3) |
| **Net assets** | **64.2** | 165.4 |

On 1 January 2019, the Group sold its Commercial MGA business for £31.5 million in cash. The assets and liabilities related to the sale are classified as held for sale in the Group's statement of Financial Position as at 31 December 2018, £26.8 million in current assets and £2.0 million in current liabilities.

Intangible assets decreased by £12.4 million during 2018. Of the total £1,095.2 million intangible assets balance held by the Group at 31 December 2018, £678.8 million relates to goodwill, which is tested for impairment on an annual basis. No impairment charge resulted from the 2018 impairment review. Intangible assets transferred to held for sale current assets in relation to the Commercial MGA business were £26.4 million at 31 December 2018 and £20.3m of intangible assets were disposed of with the Claims business. In addition, intangible assets of £77.8 million relating to the Swinton acquisition have been recognised in the period. The balance of the movement relates to additions and amortisation during the year.

Property, plant and equipment increased by £5.3 million during 2018, driven primarily by the acquisition of Swinton (£12.7 million), offset by the disposal of the Claims business (£0.7 million) and depreciation charged in the period of £7.8 million. The remaining £1.1 million increase is related to the net movement of additions and disposals.

The £195.1 million increase in current assets during 2018 is driven by the £26.4m transfer of intangible assets held for sale as noted above and the Swinton acquisition, which resulted in an increase of £118.5 million. Current assets disposed of with the Claims business were £21.7 million. The remainder of the increase in current assets primarily relates to an increase in insurance debtor balances and £23.1 million recognised on the adoption of IFRS 15.

Current liabilities have increased by £249.9 million, partly due to the acquisition of Swinton (£148.2 million) and held for sale liabilities of £2.0 million recognised in current liabilities, offset by the disposal of liabilities associated with the Claims business (£17.9 million). The adoption of IFRS 15 resulted in an increase of £15.4 million in current liabilities and £13.6 million of ETV provisions have been reclassified from non-current to current liabilities at 31 December 2018. The remaining increase is primarily driven by insurance creditors.

Non-current liabilities have increased by £242.6 million predominately due to the issuance of £98.3 million 8.375% GBP Senior Secured Notes on 8 June 2018 and $235.0 million 8.625% USD Senior Secured Notes issued on 19 November 2018, the recognition of a £16.8 million deferred proceeds liability as a result of the disposal of the Group's remaining 20% stake in Broker Network as well as non-current liabilities acquired with Swinton. This is primarily offset by the reclassification of ETV provision to current liabilities, as noted above.

# STRATEGIC REPORT
## LIQUIDITY & CAPITAL RESOURCES

**Liquidity and capital resources**

During the year, the Group has undertaken a number of financing transactions, which have improved its liquidity and capital resources. These include £98.3 million 8.375% GBP Senior Secured Notes issued 8 June 2018 to pay down drawn RCF and to finance further investment in the business. In addition, the Group disposed of certain non-core assets including the sale of the Group's 19.9% interest in Broker Network (£30 million cash received 19 January 2018), the Claims business disposal (£25.5 million cash received 16 October 2018) and the Commercial MGA disposal (£31.5 million cash received 1 January 2019, excluded from cash balances 31 December 2018).

Proactive and careful management of our liquidity continues to be a key priority for the Group, and improved processes have been implemented targeting 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 RCF.

The Group issued $235.0 million 8.625% Senior Secured Notes (fully underpinned by cross-currency swaps at a foreign exchange rate of 1.2979) in November 2018 to fund the acquisitions of Swinton, and the Nevada 3 Businesses, and to further improve the Group's liquidity.

The Group's RCF was amended and restated in September 2018 to include an additional £50.0 million Letter of Credit ancillary facility. A letter of credit of £50.0 million 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 32 for further information relating to ETV redress liabilities. While the Letter of Credit ancillary facility remains in place, the commitments under the RCF that may be utilised, are contractually limited to £90.0 million (in addition to the Letter of Credit ancillary facility). None of the RCF facility was utilised at 31 December 2018.

The GBP (£) and USD ($) Senior Secured Notes are reflected in these consolidated financial statements on an amortised cost basis (see note 29 of the financial statements), and the USD Notes have been converted to GBP at the year-end foreign exchange rate of 1.27.

| **Gross secured debt at 31 December (£m)** | **2018** | 2017 |
|---|---|---|
| £400.0m Notes | **400.0** | 400.0 |
| $520.0m Notes | **408.1** | 384.5 |
| £55.0m Notes | **55.0** | 55.0 |
| £98.5m Notes | **98.3** | - |
| $235.0m Notes | **184.4** | - |
| Adjustments to debt carrying value | **(43.7)** | (23.5) |
| **Total gross secured debt** | **1,102.1** | 816.0 |

| **Cash balances and available liquidity at 31 December (£m)** | **2018** | 2017 |
|---|---|---|
| Own funds | **112.5** | 48.1 |
| Own funds – restricted | **32.9** | 22.6 |
| Own funds – ETV | **13.1** | 10.0 |
| Fiduciary funds | **346.4** | 252.2 |
| **Total cash** | **505.0** | 332.9 |
| Less fiduciary and restricted (excluding ETV) | **(379.3)** | (274.8) |
| Available cash | **125.6** | 58.1 |
| RCF capacity | **120.0** | 105.0 |
| **RCF availability** | **90.0** | 75.0 |
| **Available liquidity** | **215.6** | 133.1 |

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

# STRATEGIC REPORT
## 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.

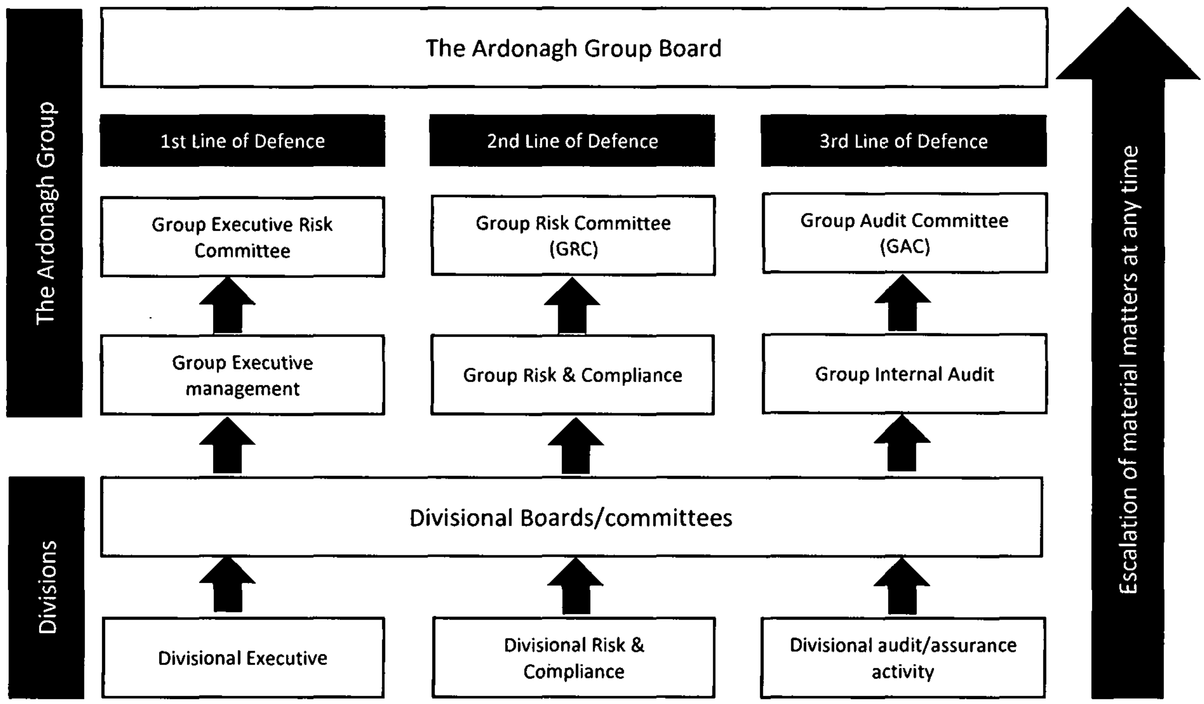
The Group's risk appetite is an expression of the amount and type of risk that it is willing to accept to achieve its strategic objectives. Risk appetite is set by the Board and is reviewed by the Group Risk Committee and the Board on at least an annual basis. Through the Risk Management Framework these 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 risk 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.



## STRATEGIC REPORT
### PRINCIPAL RISKS AND UNCERTAINITIES

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.

| ***Risk*** | ***Description*** |
|---|---|
| **Decline in economic conditions** | 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. |
| **Brexit** | The Brexit decision may lead to the UK leaving the single market for goods and services, affecting the ability of businesses to passport from the UK into other EU states and likewise into the UK from the EU.<br>We 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 (i.e. seeking direct authorisation in certain EU member states) have been put into effect. However, the loss of passporting rights may affect the insurance markets in which the Group operates, possibly reducing insurance capacity, competition and choice. |
| **Insurance market volatility** | Volatility or declines in premiums, as well as declines in commission rates, may seriously undermine our business and results of operations.<br>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. |
| **Breach of regulatory requirements** | 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 14) and closely monitors changes to the regulatory environment. |
| **Changes to regulatory environment** | Our business is primarily regulated by the Financial Conduct Authority (FCA). The Rules also impose certain minimum capital and liquidity requirements on the Group. 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 to achieve ongoing compliance. |
| **Changes to tax environment** | Results of operations and financial condition may be adversely affected by legislative or taxation changes. We are subject to the laws of England and Wales and the taxation rules administered by HM Revenue & Customs (HMRC). The UK government has raised the rate of insurance premium tax three times since 2014. Currently, commissions payable on insurance premiums are exempt from Value Added Tax. Any change to these taxation rates or the treatment of taxation on our other sources of income could have an adverse effect on our business performance. |

## STRATEGIC REPORT
### PRINCIPAL RISKS AND UNCERTAINITIES

| ***Risk*** | ***Description*** |
|---|---|
| **Cyber-security and data protection** | 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 database 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. |
| **Technology – keeping pace with change** | 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 programs and operating results could be adversely affected.<br>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. |
| **Loss of key staff** | 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 and other HR policies that are proportionate for their respective businesses. |
| **Relationships with insurers and other insurance intermediaries** | 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.<br>If third-party brokers and mortgage intermediaries do not provide customers with competitive levels of service or a significant number of them choose not to distribute our products, the level of written premiums we place with customers may decline.<br>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. |
| **Realisation of projected cost synergies, productivity enhancements or improvements in costs** | As part of our business strategy, we have identified and continue to identify opportunities to improve profitability by reducing costs and enhancing productivity. Any operational efficiencies, cost savings or optimization of middle- and back-office functions that we expect to realise from such efforts may differ materially from our estimates. Any such initiatives are subject to robust project planning and continuous oversight through to completion. |
| **Integration of acquired businesses** | 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. Acquisition integration is subject to robust project planning, governance and continuous oversight through to completion. |
| **Litigation** | 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.<br>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. |

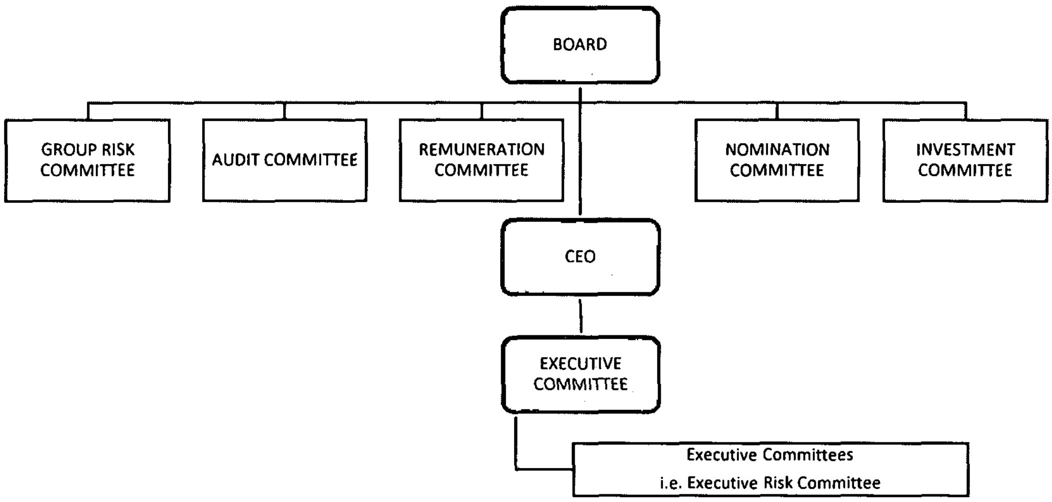
## STRATEGIC REPORT
### PRINCIPAL RISKS AND UNCERTAINITIES

| ***Risk*** | ***Description*** |
|---|---|
| **Debt and liquidity risk** | Our substantial debt requires us to dedicate a substantial portion of our cash flow from operations to making payments on our debt, thereby limiting the availability of funds for working capital, acquisitions, business opportunities and other general corporate purposes. Proceeds from debt are used to support our operations but also provide financing to fund |

| | |
|---|---|
| | the acceleration of strategic investments. This will support future generation of cash for reinvestment.<br>The Group 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 revolving credit facility (90m available at 31 December 2018 subject to credit basket restrictions) should any short-term financing be required.<br>The Group requires significant amounts of cash to manage the on-going operations of the business. There is a risk that the underlying business does not generate sufficient cash to meet its financial obligations as they fall due. The Group holds some assets that are non-liquid and there is a risk that these assets are not readily convertible into cash. |
| **Counterparty risk** | 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. |
| **Foreign currency risk** | 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. |
| **Financial reporting risk** | This is the risk of a material misstatement within the financial statements. The risk is increased where a significant level of manual intervention is required to extract and report financial balances and other financial information from underlying reporting systems. A series of controls have been implemented which cover the review and approval of the financial statements. External specialists have been engaged where necessary to support the acquisition accounting and to perform valuations of intangible assets and foreign currency swaps. Robust examinations of going concern have been supported by senior management review. |
| **ETV redress risk** | A provision continues to be recognised in 2018 in relation to the potential redress cost for unsuitable advice given to customers to transfer benefits from defined benefit schemes. The value of the provision for this liability is sensitive to changes in the assumptions made for average redress costs and overall population of cases reviewed which are judged as being unsuitably advised. Independent actuarial consultants have been engaged to provide a technical review of the redress exposure. Other specialists have reviewed individual ETV cases to assist in management's assessment of the percentage of the population that is non-redressable (the suitability rate). In addition, there remains uncertainty regarding the ultimate cost of the redress, which may therefor differ materially from the current provision. |

# STRATEGIC REPORT
## CORPORATE GOVERNANCE REPORT

**Board overview**
The chart below sets out the Board and committee reporting structure for the Ardonagh Group:




The Group Board is responsible to shareholders for creating and delivering sustainable shareholder value through the management of the Group's businesses. The Group Board sets the overall strategic direction within a Group risk appetite and framework of controls and delegates day-to-day management of the business to the CEO who, through the 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 employee engagement through the use of email, the intranet (including our weekly magazine 'Connect'), team meetings and through the use of online training and effective policies and business standards that have appropriate management owners across the Ardonagh Group. The Group Board exercises oversight and challenge over the management of the business, supported by the standing Board Committees (Audit, Group Risk, Investment, Remuneration and Nomination), to ensure management strikes an appropriate balance between promoting long-term growth and delivering short-term objectives.

The Group Board is also responsible for ensuring that management maintain a system of internal control, which provides assurance over the effectiveness of operations, internal financial controls and compliance with law and regulation. In carrying out this responsibility, the Group Board has regard to what is appropriate for our customers, business and reputation.

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 planned activities and issues that fall within the scope and responsibilities of the Group Board. The Chairman sets the agenda and ensures appropriate time is spent by the Group Board to consider and discuss strategic issues, disposals and acquisitions, deep dives to focus on specific areas of our business, performance and oversight and risk and regulatory matters.

# STRATEGIC REPORT
## CORPORATE GOVERNANCE REPORT

**Chairman**
The Chairman's role and responsibilities are set out below:

- Provide leadership of the Board and manage the business of the Board through setting its agenda in consultation with the CEO, CFO and the Group Company Secretary and taking full account of the issues and the concerns of Board members.
- Ensure that the Board decision-making processes are effective and promote the success of the Company by ensuring that Directors receive accurate, timely and high-quality supporting information and facilitate and encourage open and inclusive discussion, which challenges executives, where appropriate, particularly on matters of risk and strategy or other major proposals by drawing on Directors' skills, experience, knowledge and, where appropriate, independence.
- Promoting an effective Corporate Governance Framework appropriate to the Ardonagh Group, taking into account examples of Corporate Governance best practice.
- Ensure effective communication and engagement with investors and other stakeholders and ensure that members of the Board develop and maintain an understanding of the views of major investors and other key stakeholders.
- Establish and develop effective working relationships with management and in particular, developing a close relationship of trust with the Chief Executive.
- Monitor the Board for potential conflicts of interest and where identified, ensure that they are avoided or managed appropriately.
- Ensure that the performance of individual Board members, and of the Board and Committees as a whole, are regularly evaluated, and ensure appropriate action plans are put in place and implemented as a result of the Board and Committee evaluation.

**Chief Executive Officer (CEO)**
The Board has delegated the day to day management of the Ardonagh Group to the CEO. The CEO's role and responsibilities are set out in the Corporate Governance Framework. The CEO is assisted by the Executive Committee which comprises the Group Chief Financial Officer, each of the CEOs of each Business Segment and other senior leaders.

# STRATEGIC REPORT
## CORPORATE GOVERNANCE REPORT

**The Directors**
Since the formation of the Ardonagh Group, The Board have developed its composition to achieve a good balance of executive management, independent Non-Executive Directors and Board members representing investor interests. The Board Nomination Committee consider the desired experience and competency criteria to be applied for new Non-Executive Director appointments.

Board members, at both Group and Segment level, are recruited on the basis of their technical know-how, business experience, insights in specific areas and their personal characteristics in terms of teamwork, ability to challenge and communication skills. The Board believes that diversity at all levels, including the Board, strengthens Corporate Governance. Diversity, including gender, is an important consideration when recruiting directors, however the Board's policy is to select the best candidate irrespective of background. All directors have the following key responsibilities;

- Act in accordance with the General Duties of Directors. In addition, Directors will comply with all legal and regulatory obligations applicable to them and must ensure that the company does everything that is required of it by law and regulation;
- Provide effective oversight and constructive challenge and ensuring individual business decisions conform to agreed strategies and policies;
- Uphold high standards of integrity and probity and support the Chairman and CEO in instilling the appropriate culture, values and behaviours across the Group;
- Scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance;
- Apply their judgement to the business of the Board, leveraging their knowledge of the business;
- Satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.

In accordance with the Company's Articles of Association, those Shareholders in The Ardonagh Group Limited, holding shares on a look-through basis representing at least 10%, have a right to appoint Investor Directors (up to a maximum of five Investor Directors in total) and may remove such Investor Directors appointed by them.

As at the date of this report, the Board has twelve Board Directors, comprising John Tiner as the Non-Executive Chairman, David Ross as the CEO, Diane Cougill as the Chief Financial Officer, Scot French, Aurelio Cusaro, Vahe Dombalagian, Matthew Raino and Matthieu Boulanger as Non-Executive Directors (the Investor Directors) and Clive Bouch, Patrick Butler, Christine Dandridge and Feilim Mackle as independent Non-Executive Directors.

**Length of tenure of Non-Executive Directors**
The Board understands the importance of maintaining an appropriate balance between length of service and an ability to bring independent judgement, and the need for an appropriate level of skills and experience. The Board, through the Nomination Committee, reviews succession plans for both executive and Non-Executive Directors.

The length of service of the current Directors is shown below;

| Director | Date appointed | Length of service as at 31 March 2019 |
|---|---|---|
| Clive Bouch | 3 January 2017 | 2 years, 3 months |
| Matthieu Boulanger | 15 November 2017 | 1 year, 4 months |
| Pat Butler | 8 April 2016 | 3 years |
| Diane Cougill | 7 November 2018 | 5 months |
| Aurelio Cusaro | 22 December 2017 | 1 year, 3 months |
| Christine Dandridge | 13 May 2016 | 2 years, 10 months |
| Vahe Dombalagian | 16 December 2016 | 2 years, 3 months |
| Scot French | 2 April 2015 | 3 years, 11 months |
| Feilim Mackle | 5 August 2016 | 2 years, 8 months |
| Matthew Raino | 31 January 2018 | 1 year, 2 months |
| David Ross | 9 March 2016 | 3 years |
| John Tiner | 29 June 2015 | 3 years, 8 months |

**Board changes**
During 2018, Diane Cougill replaced Antony Erotocritou as an Executive Director on the Board and was appointed Chief Financial Officer effect from 7 November 2018.

**Independence**
To safeguard their independence, Directors are not entitled to participate in decision-making on any matter in which they have a material personal interest unless the Board unanimously determines otherwise. Where necessary, Directors are required to recuse themselves while such matters are being discussed. The Group Company Secretary maintains a register of interests and this records all such situations, including those that arose during 2018.

**Directors' election and re-election**
With the exception of the Investor Directors, all newly appointed Directors are presented for approval for election and existing Directors re-election at the Annual General Meeting. The Investor Directors may also propose new Investor Directors for election or re-election. Any appointment and removal of Directors, other than the Investor Directors, must be first approved by the Board Investor Directors, this comprising an Investor Director Reserved Matter in accordance with the provisions of 4.1 of Part C of Schedule 1 of the Amended and Restated Shareholders' Deed dated 22 December 2018.

**Board meetings**
During 2018, the Board held 9 scheduled Board meetings and 15 ad hoc Board meetings were convened to deal with certain specific business matters. In addition to their meeting commitments, the Non-Executive Directors also make themselves available to Ardonagh Group management whenever required and there is regular contact and discussion that takes place outside of the Board meeting schedule. Attendance at scheduled and ad hoc Board meetings in 2018 are set out in the table below:

| Director | Eligible to attend | Meetings attended |
|---|---|---|
| Clive Bouch | 24 | 22 |
| Matthieu Boulanger | 24 | 20 |
| Patrick Butler | 24 | 19 |
| Diane Cougill (appointed 7 November 2018) | 4 | 4 |
| Aurelio Cusaro | 24 | 22 |
| Christine Dandridge | 24 | 21 |
| Vahe Dombalagian | 24 | 23 |
| Antony Erotocritou (appointed 19 March 2018, resigned 7 November 2018) | 17 | 17 |
| Scot French | 24 | 23 |
| Feilim Mackle | 24 | 24 |
| Mark Mugge (resigned 2 March 2018) | 3 | 3 |
| Matt Raino | 23 | 21 |
| David Ross | 24 | 24 |
| John Tiner | 24 | 24 |

In addition to the above, there were various Board Committee meetings, and a Strategy Development event was held jointly with Ardonagh Group senior management in September 2018. Six Written Resolutions were passed in 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 independent Non-Executive Directors without the Executive Directors being present.

**Board activities during 2018**

The work of the Board follows an agreed annual work plan and principally falls under the following main areas.

- Business performance against plan
- Strategic issues, including acquisition and disposal strategy
- Financial reporting
- Enterprise risk framework
- Corporate governance
- Regulation and controls
- Operational matters and legacy issues

The Group Board monitored the performance of the Ardonagh Group through considering the following core reporting at each scheduled Board meeting:

- Group CEO reports highlighting issues such as strategic planning and implementation; updates on ongoing corporate transactions; trading forecasts and results; the Ardonagh Group's culture, vision and values; investment performance; and market and competitor developments.
- Group CFO reports on a range of issues including financial results and forecasts; capital; operational performance; strategic initiatives; cash flow & liquidity.
- Group CRO reports on regulatory issues, corporate governance, risk appetite and compliance.
- Reports and recommendations from each Board Committee.
- Reports and deep dives from Business Segments and functions.

As part of its annual work plan, the Group Board reviewed and approved the Annual Report and Accounts; the Ardonagh Group structure and strategy, operational and business plans; and all changes to the composition of the Group Board and its Committees. The Group Board also received regular updates on performance and progress against strategic initiatives, including Change and Transformation Initiatives and the new Corporate Governance Framework.

The majority of the unscheduled Group Board meetings held throughout 2018 were held to discuss and approve strategic acquisitions and disposals and related financing.

As noted above, a detailed Strategy development event took place in September 2018 when Group Board Directors received comprehensive presentations regarding strategic acquisitions and disposals, key in-flight change programmes (including the new Corporate Governance Framework) and cost efficiency opportunities.

**Board effectiveness**

The Chairman led an evaluation and effectiveness review in November 2017 and the actions arising from the review were agreed by the Directors at a Board meeting in January 2018. These actions were reported in the 2017 Annual report and were tracked throughout the year by the Chairman and Group Company Secretary and were considered to be completed by the Directors at a Board meeting held in August 2018.

An evaluation and effectiveness review will be undertaken during 2019 for both the Group and Segment Boards. The review will be led by the Chairman, with the support of the Group Company Secretary, and will be considered by the Group Nomination Committee prior to review by the Group and Segment Boards.

**Induction, training and development**

The Group Board recognises the importance of on-going development for our employees and Directors. 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 being faced by the business. The induction also includes Directors' duties and Board procedures, business planning and internal control processes, strategy and planning, measures used to monitor business performance, key risks and Internal Audit.

In addition, presentations and interactive briefing sessions on different aspects of the Group's business and on financial, legal and regulatory issues are regularly made to Directors, facilitated by professional advisers, where appropriate. Directors are also encouraged to make site visits across the Group to enhance their understanding of a Business Segment.

All Board Directors are expected to be able to commit the time required to adequately fulfil their responsibilities.

# STRATEGIC REPORT
## CORPORATE GOVERNANCE REPORT

**Conflicts of interest**

Under the Companies Act 2006, all 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 and Directors have continuing obligations to update the Group Board on any changes to these conflicts. If a Director takes an additional external directorship, then this will be raised with the Chairman prior to appointment to assess any potential conflicts that may arise and to ensure there is no impact on the Director's time commitment to the Ardonagh Group. It is accepted that Directors' external appointments benefit the Group by providing Directors with a wider range of skills, experience and knowledge.

The Group Board's conflict of interest procedures includes relevant disclosure at the beginning of each Board meeting and an annual formal review of potential conflicts of interests. As part of these procedures, due regard is made to the Director's duties and obligations under the Companies Act 2006 and a record is maintained by the Company Secretary of all notifications and authorisations granted by the Directors.

The Group Board has complied with the Conflict of Interest procedures during the 2018 financial year. Whilst there were a number of related party interests which were noted in respect of particular transactions entered into by the Group by the Investor Directors, 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.

**Board support**

The Group Board and its Committee are supplied with regular, comprehensive and timely information in a form and quality that enables them to discharge their duties effectively. All Directors are able to make further enquiries of the Executive Directors or the Ardonagh Group senior management team whenever necessary, and to 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.

**Risk Management and Internal Control Framework**

The Risk Management Framework is designed to identify, measure, manage, monitor and report significant risks to our Business model, future performance, solvency and liquidity. The Risk Management Policy articulates the key principles of the management and mitigation of risk to the Ardonagh Group's businesses and the three lines of defence model. The policy applies to all companies within the Ardonagh Group over which the Group Board exercises control and the Group Risk Committee has responsibility for ensuring these principles are understood and embedded effectively across the business.

The Group Board, assisted by the Audit and Group Risk Committees, reviews reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are remediated promptly and subject to appropriate ongoing monitoring. Both the Audit and the Group Risk Committees report regularly to the Group Board on their activities and make recommendations and escalate significant risk exposures to the Group Board as appropriate.

The Group Board retains ultimate responsibility for the Group's systems of internal control and risk management and their effectiveness. These frameworks play a key role in the management of risks that may impact the execution of the annual plan and strategic direction set by the Group Board. They are designed to identify and manage, rather than eliminate, risk and can only provide reasonable and not absolute assurance against material misstatement or losses.

The Group Board, assisted by the Audit Committee, undertook a specific assessment for the purposes of this annual report, which considered all significant aspects of internal financial controls and risk management, including the work of internal audit. The Group Board has not identified nor been advised of any systemic or significant failings or weaknesses that would impact the annual report being prepared on a going concern basis.

**Internal controls**

Reporting within the Group is structured so that key issues are escalated to the Executive Committee which then escalates issues to the Group Board or appropriate Board Committee. 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, including limits on revenue and capital expenditure, insurance spend and the settlement of claims. In turn, the CEO has delegated authority to his direct reports. There is a delegated authority framework in place throughout the Ardonagh Group.



**Board Committees**

The Group Board has delegated specific responsibilities to five standing Board Committees in order to consider, and provide oversight over, certain issues in greater detail. The standing Board Committees are the Audit Committee, the Group Risk Committee, the Remuneration Committee, the Investment Committee and the Nomination Committee. Whilst the Group Board has made use of its Committees, 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.

**Audit Committee**

The members of the Audit Committee as at the year ended 31 December 2018 were Clive Bouch (Chair), Christine Dandridge, Patrick Butler, Aurelio Cusaro and Matthieu Boulanger. On 14 January 2018 Matthieu Boulanger stepped down from the Committee and no replacement was appointed. The Group Board is satisfied that the Committee has adequate recent and relevant financial experience to fulfil the roles as required. The purpose of the Committee is set out in the report from the Chair of the Audit Committee set out on pages 27 to 29.

**Group Risk Committee**

The members of the Group Risk Committee as at the year ended 31 December 2018 were Patrick Butler (Chair), John Tiner, Matthieu Boulanger, Aurelio Cusaro, Feilim Mackle and Clive Bouch. On 14 January 2018 Matthieu Boulanger stepped down from the Committee and no replacement was appointed. The Group Board is satisfied that the Committee has relevant risk and compliance experience to fulfil the roles as required.

The Committee exercises oversight on behalf of the Group Board. Its principle purpose is:

- to consider and recommend to the Group Board, for its approval, the Ardonagh Group's risk appetite.
- to monitor and assess the key risks identified by the Ardonagh Group;
- to review, on behalf of the Group Board, the Ardonagh Group's risk profile and ensure it is within the risk appetite;
- to review the appropriateness and effectiveness of the Ardonagh Group's Risk Management Framework of governance, systems and controls;
- to specifically monitor compliance, relevant regulatory issues, the conduct of the Ardonagh Group business and the maintenance of a prudent culture.

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. As noted under the Audit Committee summary, an annual joint meeting of the Group Risk Committee and Audit Committee was held in December 2018 to review and approve the annual internal audit and compliance monitoring plans. The joint meeting also reviewed risk appetite and updates on changes to Corporate Governance legislation.

# STRATEGIC REPORT
## CORPORATE GOVERNANCE REPORT

**Remuneration Committee**
The Remuneration Committee members as at the year ended 31 December 2018 were John Tiner (Chair), Scot French, Aurelio Cusaro and Vahe Dombalagian. The Chief Executive, Chief Financial Officer and the Head of Reward each 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.
- to consider and approve the remuneration and performance targets for senior management and Executive Officers and those discharging key functions;
- to consider and approve the remuneration of the Chairman and Executive Directors on the Group Board and to determine the aggregate remuneration of the Independent Non-Executive Directors of the Group Board and Segment Boards;
- the award of rights under long term incentive plans and the approval of new bonus and incentivisation schemes, including The Ardonagh Group Limited's Management Incentive Plan (MIP);
- to approve the terms of and hiring packages for any new hire above limits determined by the Group Board from time to time;
- to approve leaver status for all management equity schemes and determine, where appropriate, when to exercise an option over shares and determine the fair market value.

**Nomination Committee**
The Nomination Committee members as at the year ended 31 December 2018 were John Tiner (Chair) and Scot French. The Chief Executive is a standing invitee to attend Nomination Committee meetings.

The principal purpose of the Committee 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;
- to ensure there is an effective framework for succession planning for the Group Board and senior management;
- to review the structure, balance, size, composition, working arrangements and capability (including the skills, knowledge, experience and diversity) required of the Group Board and make recommendations to the Group Board regarding any changes to its composition; and
- keep the Group Board's governance arrangements under review and make appropriate recommendations for the Group Board and the wider Ardonagh Group, including the appointment of directors to Segment Boards.

**Investment Committee**
The Investment Committee members as at the year ended 31 December 2018 were John Tiner (Chair), Scot French, Patrick Butler, Vahe Dombalagian, David Ross (CEO) and Diane Cougill (CFO). Mark Mugge was replaced by Antony Erotocritou, Group Finance Director, in March 2018. Antony Erotocritou stepped down from the Committee in November 2018 on Diane Cougill's appointment as Chief Financial Officer.

The principal purpose of the Committee is to formulate, monitor, review and execute the Group's strategy regarding acquisitions and disposals.

The Investment Committee meets on an ad hoc, as and when necessary basis.

# STRATEGIC REPORT
## CORPORATE GOVERNANCE REPORT

**Subsidiary governance**
The Group Board recognises that robust and independent oversight over our Business Segments is key to the successful delivery of our Business strategy. Oversight over our Business Segments during 2018 have been undertaken by division Committees (Distribution Division Committee, MGA Division Committee, Paymentshield Division Committee and a Wholesale Division Committee). During the year, these division Committees were expanded so that each Business Segment had its own Division Committee (which were renamed Transitional Governance Committees). Five of the six Transitional Governance Committees were chaired by an independent non-executive director and the membership of all Committees included at least one independent non-executive director. These changes to our subsidiary governance during 2018 aimed to ready the Group for the new Corporate Governance Framework that has been established effective from 1 January 2019.

The principal purpose of each of the division committees, and subsequently the Transitional Governance committees were to:

- review and evaluate the present and future business strategies, including relevant business and financial reports prepared by or for the division and, to the extent appropriate, the opportunities, threats, strengths and weaknesses relating to the division and ensure that the organisational structure and resources within the division are appropriate for implementing and supporting the chosen strategies.
- consider the plans and budgets (including the annual business plan) set by management and approved by the Group Board for future trading in the context of the capital base of the Regulated Companies and the strategy determined for the division by the Group Executive and agreed by the Group Board and agree the resources required to deliver these plans.
- consider and monitor the execution of the plans developed by the Risk Management, Regulatory Compliance, and Internal Audit functions to ensure the effective management of risk and internal control across the division.

During the year, each of the Division Committees and subsequently the Transitional Governance Committees received reports from the Business Segment CEO and CFO, Operations and People reports, Risk and Compliance reports and strategic matters. Each Committee has at least one Group representative director who ensures there is clear and effective two-way communication and escalation of matters between the Group and Business Segments. Representatives from Operations, Risk & Compliance and Internal Audit were standing invitees.

From 2019, the Transitional Governance Committees have been replaced by a holding company board for each of our Business Segments. The Segment Boards will increase the independent oversight over our businesses and have delegated authority and matters reserved for the Group Board so that the respective roles of the Group and Segment Boards are clearly set out. Each Segment Board will have at least one Group representative director to ensure there are clear lines of communication between the Ardonagh Group and Segment Boards.

**Protection available to Directors**
In line with normal market practice, the Group believes that it is in the Group's best interests to protect the directors from the consequences of innocent error or omission and, therefore, the Group maintains, at its expense, a Directors' & Officers' Liability insurance policy. The policy does not provide cover where the Director or Officer has acted fraudulently or dishonestly.

# STRATEGIC REPORT
## CORPORATE GOVERNANCE REPORT: AUDIT COMMITTEE REPORT

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

**The Committee's role**

The Committee supports the Group Board in overseeing the integrity of external financial reporting, including keeping under review the framework of internal controls and risk management systems in relation to the financial reporting process and protection of client assets. We keep under review the effectiveness of the external audit and auditor's independence, including provision of non-audit services (see note 10 on page 93 for details of audit and non-audit fees). We also review the independence, effectiveness, resourcing, audit plans and work of the internal audit function. The Committee reviewed and updated its terms of reference in 2018 and these are available from the Company Secretary.

The external auditor and Head of Internal Audit have direct access to the Committee and report regularly on their respective audit plans and the results of their work. The Head of Internal Audit has a formal reporting line to me. I also 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 and to keep abreast of developments. I provide regular updates to the Group Board on the key matters discussed at Audit Committee meetings.

**Composition**

The Committee members during the year are set out on page 24.

In addition to the Committee members, the Group Board Chairman, Chief Executive Officer, Chief Financial Officer, Head of Internal Audit and the Chief Risk Officer, together with senior representatives of the Company's external auditors, attend meetings. The Committee meets with the external audit engagement partner and the Head of Internal Audit without management being present and I also meet the external auditor and Head of Internal Audit between Committee meetings. The Committee has private sessions annually with each of the Group Financial Officer and the Chief Risk Officer.

**Activities during 2018**

The Committee's principal activities included review of:

- the annual and quarterly reports and financial statements
- significant financial reporting judgements and estimates
- 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
- management's FCA Threshold Condition 2.4 assessments and regulatory solvency compliance
- 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
- payment practices: new regulations came into force in 2018 that require a number of our businesses to report on their payment practices, policies and performance on a half-yearly basis in respect to in-scope contracts for goods and services.

The Committee concluded a formal external audit tender process at the start of the year and recommended the appointment of Deloitte LLP as the Company's new auditor.

# STRATEGIC REPORT

## 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. Significant issues considered by the Committee include the review of goodwill and other intangibles for any impairment, support for preparing the accounts on a going concern basis, the provision for ETV redress obligations, accounting for acquisitions and disposals including the identification and valuation of intangible assets, bad debt provisioning, adoption of new accounting standards, presentation of alternative performance measures and the quality of key disclosures. Our auditors provide an expanded audit report that includes explanation of those matters that, in their professional judgement, are of most significance in their audit of the Group financial statements. The auditor's report is on pages 37 to 48.

**Risk management and internal control**

The Audit Committee and Group Risk Committee provide important contributions to the oversight over 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 encourage and support continuous improvement in the effectiveness of the systems of risk management and internal control.

The Committee considers an important part of its role is to ensure that the commitment to strengthening the Group's internal control environment is maintained and that the work of the Group's third-line of defence also addresses whether the organisation's governance and culture is conducive to supporting effective systems of internal control.

**Internal audit**

Internal Audit's 2018 annual plan and resourcing was kept under review during the year. The Head of Internal Audit has reported on progress against the plan regularly throughout the year. On resourcing, the Committee has challenged management to ensure Internal Audit deploys the correct skill-sets and accordingly part of the budget is allocated to engaging external expertise when appropriate.

The Internal Audit plan is based on assessment of the business and its strategy, top risks and core systems. During the year, internal audit reviews were undertaken in respect of programmes assurance (e.g. operational transformation, GDPR, finance transformation), financial crime, client money and cyber risk and resilience, in addition to focussed audits of particular business areas.

The Committee approved the 2019 internal audit plan and resourcing at a joint meeting with the Group Risk Committee in December 2018. Following challenge from the Committee, the second-line and third-line annual assurance plans are more closely aligned and co-ordinated to enhance the effectiveness of these functions.

# STRATEGIC REPORT
## CORPORATE GOVERNANCE REPORT: AUDIT COMMITTEE REPORT

**External audit**
Following a rigorous process and appropriate due diligence, the Committee recommended Deloitte LLP to act as the Group's external auditor and this was approved by the Board. The Committee focussed on the transition arrangements to ensure that the quality of the 2018 quarterly results reviews and annual audit were not impaired. The audit engagement partner and senior members of the engagement team attended meetings during the year, providing detailed reports on the audit plan and transition, engagement team, regulatory change, auditor independence, key audit risks, work performed and results thereof.

The Committee has kept under review the performance of the external auditor, including their expertise, level of engagement, service delivery, significant audit risks and audit approach, quality and timeliness of reports, and cost effectiveness. Feedback is obtained from the Ardonagh Group's finance team on the audit team's performance and from Deloitte on how they have responded to matters highlighted in the Financial Reporting Council's Annual Quality Inspection reports. The Committee is satisfied that the 2018 audit was effective.

The Committee assesses annually the independence and objectivity of the external auditor, taking into account relevant UK professional and regulatory requirements and the relationship with the external auditors as a whole, including the provision of any non-audit services. The Committee receives reports from the external auditors on their arrangements to identify, report and manage any conflicts of interest and on the extent and nature of non-audit services provided. 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 objectivity and independence were safeguarded. Deloitte have confirmed that the level of non-audit fees and services provided have not affected their independence. The Committee also satisfies itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditors and the Company (other than in the ordinary course of business) and monitors the external auditor's compliance with relevant ethical and professional guidance.

**Committee performance and effectiveness**
An internal review of the Committee's performance and effectiveness was conducted in late November 2017 and reported in January 2018, as part of the Group Board Evaluation and Effectiveness Review. The outcome was positive, with the general consensus being that the Committee is working well, is well informed on complex, judgmental and high-risk issues and exercises proper challenge and oversight. It was further noted that the role and remit of the Committee is well defined and it plays an important role in the Ardonagh Group's governance. One area where improvement was considered appropriate related to managing the overlap between the Audit Committee and Group Risk Committee activities, particularly given the level of business transformation. In response, the Committee held a joint meeting with the Group Risk Committee in December 2018 to consider the effectiveness of integrated assurance through these lines of defence and approve the 2019 annual compliance monitoring and internal audit plans. As noted earlier the Committee's terms of reference were also reviewed during the year.

**Clive Bouch**
Chair of the Audit Committee

# STRATEGIC REPORT
## CORPORATE RESPONSIBILITY

In 2018, The Ardonagh Group made significant strides in strengthening the connection and contribution to the communities our businesses operate within.

The first full operating year of our registered UK charity, Ardonagh Community Trust (ACT), coupled with increased collaboration and resource sharing across Ardonagh's businesses have allowed the Group to deliver the beginnings of a tangible and impactful corporate responsibility programme in 2018. The central focus of this programme being to support and champion the initiatives, causes and projects close to the hearts of our employees.

### One year of Ardonagh Community Trust

ACT was established on 10 October 2017 with its purpose defined as using the collective power of The Ardonagh Group to help local communities become stronger, better and brighter.

After seeking feedback about choosing a national cause to champion across The Ardonagh Group in addition to local efforts, we announced a two-year national partnership with Mind, the mental health charity, via ACT, in March 2018.

In 2018, ACT's three pillars of matched funding, community grants and partnership with the mental health charity, Mind, were used at a local and business level to amplify the impact of new and established partnerships and initiatives, continuing to strengthen our relationships with clients and the wider public.

### The power of our people

The collective power of the Group's internal community was once again demonstrated via a Group-wide and nationwide fundraising day known as 'Go Green Day'.

Building on the success of our inaugural event in 2017, the second instalment of Go Green Day took place on 5 October 2018, raising money for ACT and national charity partner Mind.

It was once again a day filled with creativity, passion and community spirit as 6,000 employees from across the UK came together dressed in green to compete in challenges big and small, all for a collective cause.

An impressive £70,000 was raised throughout the day thanks to the generosity of teams and offices of all sizes, up £9,000 on the previous year's total. Funds raised were shared between ACT and Mind, all with the aim of creating stronger, brighter communities across the UK and much needed support, services and education for those suffering from mental health problems.

### Match funding and community grant programmes

Employee fundraising efforts such as Go Green Day have paved the way for the Group to deliver significant impact on local communities and causes on behalf of individuals, teams and whole offices of employees.

Through our match funding programme, which supports personal fundraising activity such as marathons and bake sales, over 115 employees had their chosen charity supported by ACT.

Alongside this, ACT's community grant programme awarded a total of 23 grants to projects, initiatives and organisations within communities closely linked to employees of The Ardonagh Group of companies. The grants covered a breadth of areas such as education and learning, healthcare, mental health, community development, arts and culture, sports and people in need as submitted by teams and individuals across the Group.

### Sustainable business practices

In 2018, collaboration and sharing of resources afforded the Group additional opportunities to operate with greater efficiency and smart technology, in turn improving environmental impacts and providing new Group-wide opportunities for personal development.

# STRATEGIC REPORT
## CORPORATE RESPONSIBILITY

**Travel and technology**
The roll out of online collaboration and meeting tools have improved communications within the Group's geographically diverse businesses, whilst reducing the carbon footprint associated with travel costs. In the second half of the year, the number of domestic flights reduced by 9%, international air travel by 56%, hotel stays by 48% and rail journeys by 20%.

Integration and rationalisation of our property portfolio has reduced our footprint by exiting 18 leases. An emphasis on train travel over cars reduced the Group's carbon emissions by over 200,000 kg.

This is supported by new technology including over 600 portable tablets for client facing teams, widespread use of Skype for Business, a reduction in the number of policy administration systems, 'Follow You' printing and the adoption of digital workplaces such as the Group intranet and Yammer. The now established use of this technology in the majority of our businesses and central functions in 2018 has driven positive behaviours in relation to the improvement of our environmental footprint, with other parts of the Group using the learnings of the change programme for future decision making around technology.

**Addressing the gender pay gap**
Although gender pay gap reporting in the previous year was recorded independently through our Business Segments, as a Group we have taken a series of measures to reduce the gender pay gap through increasing the number of women in senior roles. This includes:

- Group-wide pilot of executive coaching and peer support programme for female 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. We continue to develop and grow our programmes to support the development of female leaders.
- Enhanced maternity and paternity pay introduced from 1 January 2018.
- Flexible and remote working encouraged where appropriate including new focus on employees using their local office where possible instead of central London office.

**Developing our future**
The Group is committed to hiring and training apprentices and investing in the development of the careers of staff who have graduated from the apprenticeship programme. In 2018, 42 apprentices received training across a variety of professional functions and specialisms, including as insurance practitioners, in digital marketing, operations, business administration and HR support.

## DIRECTORS' REPORT

The Directors have pleasure in presenting their Strategic Report, Directors' Report and the audited financial statements for the year ended 31 December 2018. The Corporate Governance Report on pages 18 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 38 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 34 to the consolidated financial statements.

The Directors do not propose a dividend to equity shareholders (2017: £nil).

**Directors**
The Directors who held office during the period were as follows:
Clive Bouch
Matthieu Boulanger
Patrick Butler
Aurelio Cusaro
Christine Dandridge
Vahe Dombalagian
Scot French
Feilim Mackle
David Ross
John Tiner
Matthew Raino (appointed 31 January 2018)
Diane Cougill (appointed 7 November 2018)
Mark Mugge (resigned 2 March 2018)
Antony Erotocritou (appointed 2 March 2018, resigned 7 November 2018)

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

### Employees

***Recognition, reward and training***
Ardonagh's first group-wide employee awards event, The Spotlight Awards, was held in April 2018 celebrating the best and brightest employees, projects and team from the previous year. With over 450 colleagues receiving nominations from their peers across nine categories, the event celebrated over 100 finalists and crowned 11 individual and team winners in recognition of achievements, talents and values important to The Ardonagh Group as an organisation. These included community spirit, outstanding service and collaboration as well as leadership awards including rising star and leader of the year.

The Spotlight Awards will take place again in March 2019 to celebrate the achievements of 2018. With 11 revamped categories focused on recognising the Group's specialisms and expertise as well as leadership and collaboration, the nominations process enjoyed a similarly strong response from across the Group. Over 560 nominations were submitted for individuals, teams and projects, further highlighting talent and diversity across the organisation, as well the connection between peers and engagement of the Group's colleague base as a whole.

The Group is committed to supporting the professional development of employees, whether in technical training, leadership or project-specific skills. Our people recorded 6,954 hours of professional development and training in 2018.

Employees are incentivised on business and personal performance. Incentives vary depending on the nature of the business, with specific incentives in place for our relationship businesses, Advisory and Specialty, based on long-term growth. Greater emphasis was placed on the performance of the Group across a range of metrics.

As a people business, we have invested in growing our capability through strategic hiring in London markets, speciality and niche underwriting. We see this as integral to growing the business and will continue to ensure the Ardonagh Group is the employer of choice for key talent.

***Supporting employee mental health***
In July 2018, Ardonagh Group CEO David Ross signed the Time to Change pledge; a campaign to end mental health discrimination by charities Mind and Rethink Mental Illness.

Some 700 employers across England have made the pledge to change how we think and act about mental health in the workplace and make sure that employees who are facing these problems feel supported.

Part of the Time to Change pledge included a commitment to roll out a Mental Health First Aid (MHFA) training programme to help increase awareness and understanding of how to address mental health issues in the workplace.

130 employees from across the Group participated in the first course in November 2018 run in partnership with MHFA England and AXA PPP Healthcare in six locations across the UK.

The sessions received highly positive feedback from employees as well as a positive reception from the wider employee base when news of the pilot was shared through internal and external communications channels. The Group plans to continue the roll out of additional courses in 2019, including more half-day introductory courses as well as running select sessions of two-day courses which will result in 32 employees being fully trained as Mental Health First Aiders across our office network.

### 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.

## DIRECTORS' REPORT

**Political contributions**
The Group made no political contributions during the year.

**Subsequent events**
***Acquisitions***
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 HPS and MDP. The consideration for the acquisition was the issue by the Company of £67m principal amount of Convertible Equity Certificates of £0.01 each. Nevada 2 is the holding company of Minton House Group Limited, Health and Protection Solutions Limited and Professional Fee Protection Limited.

***Intragroup reorganisation***
On 31 January 2019, the Company entered into an Intragroup Transfer Agreement (the ITA) with its ultimate parent company, The Ardonagh Group Limited, its intermediate holding companies, Ardonagh Midco 1 Limited and Ardonagh Midco 2 plc and its wholly owned subsidiary Ardonagh Finco plc. Under the terms of the ITA, The Ardonagh Group Limited transferred the entire share capital of Nevada 2 to its wholly owned subsidiary Ardonagh Finco plc, by way of a series of contributions of the Nevada 2 shares. As part of this transfer the Company allotted and issued 67,000,000 ordinary shares of £0.01 each to its immediate parent, Ardonagh Midco 2 plc.

***Disposal***
On 1 January 2019, the Group completed the disposal of the business and certain assets of the commercial MGA of Geo, Towergate Commercial Underwriting and Fusion to Arch UK Holdings Limited, a subsidiary of Arch Insurance Company (Europe) Limited, for which a binding agreement had been entered into on 1 November 2018 (see note 33).

**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
9 April 2019

## 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

## AUDITED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2018

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE 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 2018 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;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statement 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:<br>• Enhanced Transfer Values ('ETV') provision<br>• Goodwill impairment<br>• Going concern<br>• Broker Network – Valuation of deferred proceeds financial liability<br>• Presentation of Alternative Performance Measures ('APMs')<br>• Provisions for credit exposures in Insurance Broking Accounts ('IBA') balances<br>• Revenue recognition – IFRS 15 transition |
| **Materiality** | The materiality that we used for the Group financial statements was £4.0m which was determined on the basis of reported Total Income. |

| | |
|---|---|
| **Scoping** | Scoping coverage included 12 entities subject to full scope audits and a further 5 subject to the audit of specified account balances. These scoped in entities represent 91% of Group commission and fee revenue and 94% of Group total assets and 93% of Group total liabilities. |

**Conclusions relating to going concern**

| | |
|---|---|
| We are required by ISAs (UK) to report in respect of the following matters where:<br>• the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or<br>• 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.

| **Enhanced Transfer Values ('ETV') provision** | |
|---|---|
| **Key audit matter description** | Following the 2014 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 the ETV pension advice given to customers of the Towergate Financial business. At 31 December 2018 the ETV provision was £51m (2017: £51m).<br><br>Key assumptions within the provision estimate are:<br>• The "suitability rate" – the percentage of customers in the population who it is concluded received suitable advice; and<br>• The average redress per customer where suitable advice was not given.<br><br>In determining the average redress per customer, management engaged an actuarial expert.<br><br>The related ETV disclosures provide the key assumptions that underpin the provision estimate and the sensitivity of the provision to these key assumptions.<br><br>Refer to note 4 to the financial statements (Key sources of estimation uncertainty) and note 32 to the financial statements (Provisions for other liabilities and charges). |

<table>
<tr><td>How the scope of our audit responded to the key audit matter</td><td>We have gained an understanding of the end to end ETV provision calculation process and assessed the design and implementation of relevant controls.<br><br>In addition, we performed the following audit procedures:<br><br>• we made enquiries of management to understand how they determined the various components and key assumptions included within the provision estimate, including:<br>    o the total redress case population;<br>    o the identification of "unsuitable" cases due for redress payment; and<br>    o the estimate of average customer redress based on the principles set out by the Financial Conduct Authority (FCA).<br><br>• we inspected correspondence with the FCA to identify regulatory observations in relation to the ETV redress process and progress of management's work to date;<br><br>• we tested the completeness and accuracy of data inputs into the provision calculation through agreeing customer file conclusions to calculation inputs; and<br><br>• we reviewed and challenged management's financial statement disclosure for appropriate presentation of key assumptions and uncertainties in the determination of the ETV provision.<br><br>We have worked with our pension actuarial experts to:<br><br>• review the reasonableness of the estimate of average customer redress assumptions used in calculating the ETV estimate; and<br><br>• assess the competence and independence of management's external expert.</td></tr>
<tr><td>Key observations</td><td>We concluded that the ETV provision recorded by management is reasonable and the key assumptions used are also reasonable.<br>We considered that the disclosures in relation to the estimation uncertainties and the sensitivity in key assumptions in notes 4 and 32 to the financial statements are appropriate.</td></tr>
<tr><td>Goodwill impairment</td><td></td></tr>
<tr><td>Key audit matter description</td><td>Goodwill arising on business combinations is a significant asset on the balance sheet of the Group £679m (2017: £671m). As required by IAS 36 goodwill is tested for impairment at least annually.<br><br>During 2018, management changed their operating segments to facilitate better operational decision making across the Group. Goodwill is therefore monitored at the operating segment level. Determining whether goodwill is impaired requires an estimation of the recoverable amount of each operating segment, using the higher of value in use (VIU) or fair value less costs to sell (FVLCS).<br><br>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.<br><br>Both a VIU and FVLCS approach was used to assess the recoverable amount of all operating segments.<br><br>Refer to note 4 to the financial statements (Key sources of estimation uncertainty) and note 13 to the financial statements (Intangible assets).</td></tr>
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| **How the scope of our audit responded to the key audit matter** | We have gained an understanding of management's process for performing the annual impairment test and assessed the design and implementation of relevant key controls.<br><br>In addition, we performed the following audit procedures:<br><br>• we challenged management on their methodology for performing the annual goodwill impairment test at the operating segment level in accordance with the requirements of IAS 36, and the basis for determining the fair value of each operating segment;<br><br>• we performed a detailed analysis and challenged the assumptions used in the annual impairment review, in particular forecast growth within the three-year business plan; and<br><br>• we performed an assessment of actual current period cash flows against prior period forecasts to assess the accuracy of management's forecasting.<br><br>We have worked with our valuation experts to:<br><br>• review and challenge key assumptions within the fair valuation model, including discount rates and price-earnings multiples, and benchmark these against external peer group data. |
| **Key observations** | Through performing our detailed testing, we considered that management's conclusion that no impairment is required as of 31 December 2018 is reasonable.<br><br>Key assumptions including discount rates and earnings multiples used within the assessment are reasonable.<br><br>We considered the financial statements disclosures in relation to the goodwill impairment test were appropriate. |
| **Going concern** | |
| **Key audit matter description** | 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. The Group reported an operating loss of £46.8m (2017: £181.3m) and cash inflow of £172.0m (2017: £189.8m).<br><br>Since the formation of the Group in 2017, significant investment has been made in major transformation projects, which put pressure on working capital and liquidity.<br><br>In June 2017 the Group issued £400m and $520m senior secured notes to refinance debt and to finance a number of acquisitions. In November 2018, the Group issued a further $235m of secured loan notes increasing long-term debt of the Group to £1.14bn (2017: £854m), with the proceeds used to acquire the Swinton Group. The Group's loan notes require significant interest payments of £99mper year, which are considered within year end forecast cash flows, and the adherence to debt covenant compliance.<br><br>The Group also continues to benefit from the availability of the Revolving Credit Facility (RCF), which remains undrawn as of 31 December 2018, and the Letter of Credit (LOC) issued in October 2018 to support the Group's ETV pension redress, which remains of uncertain quantum and timing.<br><br>Refer to note 2 (Basis of preparation). |

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| **How the scope of our audit responded to the key audit matter** | We performed the following audit procedures:<br>• we reviewed and challenged key assumptions underpinning cash flow forecasts including EBITDA growth, working capital, capital expenditure, interest expense, utilisation of the Revolving Credit Facility (RCF), potential impact of Brexit and cash flow mitigating actions within management's control;<br>• We performed an assessment of actual current period cash flows against prior period forecasts to address the accuracy of management's forecasting; and<br>• 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** | We agreed that management's use of the going concern basis of accounting was appropriate and considered that the going concern disclosures in note 2 to the financial statements (Basis of preparation) are appropriate. |
| **Broker Network – valuation of deferred proceeds financial liability** | |
| **Key audit matter description** | During the year, 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.<br>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 transaction agreement includes 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 January 2020, the Group may be required to compensate the purchaser up to a maximum of £31.2m.<br>*In accounting for this transaction, management exercised significant judgement in determining:*<br>• That the transaction should be accounted for as a sale rather than a form of financing; and<br>• The achieved IRR at January 2020 and hence the value of the clawback liability at that future date.<br>A financial liability of £16.75m in respect of the Broker Network transaction clawback clause of has been recognised at 31 December 2018.<br>Refer to note 4 to the financial statements (Key judgements and sources of estimation uncertainty) and note 17 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 assessed the design and implementation of relevant key controls.<br>We performed the following audit procedures:<br>• reviewed and challenged management's accounting approach;<br>• we reviewed Broker Network transactions throughout 2018 and obtained evidence for which aggregating deals had completed and could be included in the valuation model;<br>• we agreed data inputs into the valuation model to the budgets provided by Broker Network; |

| | |
|---|---|
| | • we reviewed and challenged management's methodology and valuation approach in respect of the revaluation of the clawback liability at the balance sheet date 31 December 2018, and the forecast valuation at the adjustment date January 2020; this valuation is dependent on Broker Network's pipeline of transactions to be completed through 2019; and<br><br>• we reviewed financial statement disclosures for transparency and completeness of information. |
| **Key observations** | We concluded that the valuation of deferred proceeds (clawback) financial liability recorded by management is reasonable. |
| **Presentation of Alternative Performance Measures (APMs)** | |
| **Key audit matter description** | Pro Forma 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 Forma balances are presented as if the significant acquisition and disposal related transactions occurred on the first day of the comparative period.<br><br>The Group reports items excluded from reported Adjusted EBITDA of £78.5m (2017: £106.9m), and Pro Forma Adjusted EBITDA of £114.5m (2017: £169.3m) in the Annual Report.<br><br>This measure and other such non-GAAP measures used are Alternative performance measures ("APMs"). An APM is defined by 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"*.<br><br>There is a risk that costs relating to the underlying performance of the business are incorrectly presented as adjusting items. 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.<br><br>All APMs are unaudited. Items excluded from Adjusted EBITDA are based on the Group's own definitions and may not be comparable to similar items used in the APMs of other organisations.<br><br>Refer to page 8 (Summary of Group Financial Performance) and page 171 (Other unaudited financial information). |
| **How the scope of our audit responded to the key audit matter** | We have gained an understanding of management's process for identifying exceptional or adjusting items across the Group and assessed the design and implementation of relevant key controls.<br><br>We performed the following audit procedures:<br><br>• We performed sample tests to provide assurance that the amounts of Items excluded from Adjusted EBITDA are in accordance with the definitions set out in the Glossary in Section 3 of the Annual Report.; and;<br><br>• We challenged the prominence given to Pro Forma Adjusted EBITDA and other APMs relative to the Group's statutory results. We read the description of the basis of Pro Forma results and considered whether it was consistently applied. |

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| **Key observations** | Our testing of a sample of items presented as adjusting did not identify any instances that were not presented in accordance with the Group's definitions.<br><br>We considered that the Group's use and presentation of Alternative Performance Measures was acceptable and consistently applied. |
| **Provisions for credit exposures in Insurance Broking Account (IBA) balances** | |
| **Key audit matter description** | The Towergate insurance broking business is subject to credit exposures on legacy funded IBA balances. These exposures arise from payments made to carriers or other amounts historically funded. A provision is required for amounts identified where there is a risk of recoverability. As at 31 December 2018 management booked a provision of £6.8m (2017: £0).<br><br>The process for setting a provision for credit exposures is complex, including manual business processes, assessment of large volumes of data and the application of management judgement in assessing recoverability of credit exposures in IBA balances.<br><br>Refer to note 19 (Trade and other receivables) and note 27 (Trade and other payables). |
| **How the scope of our audit responded to the key audit matter** | We have gained an understanding of management's process for calculating the provision and assessed the design and implementation of relevant key controls.<br><br>We performed the following audit procedures:<br><br>• we tested a sample of data used in the provision calculation for completeness and accuracy;<br><br>• we reviewed and challenged the key assumptions that underpin the provision calculation including recoverability rates; and<br><br>• we reviewed management's provision calculation for instances of bias through analysing contradictory evidence, and actual historical debt collections. |
| **Key observations** | We concluded that the provisions made for credit exposures in IBA balances are reasonable. |
| **Revenue recognition – IFRS 15 transition** | |
| **Key audit matter description** | IFRS 15 - *Revenue from contracts with customers* became effective from 1 January 2018. The Group adopted the new standard by applying the modified transition approach. This resulted in management recording an increase of approximately £14.4m in retained earnings as at 1 January 2018.<br><br>There is complexity in interpretation of the new standard and judgement involved in quantifying the impact, including the determination of variable consideration in relation to profit commissions, determination of types of costs which are capitalised, and the determination of performance obligations.<br><br>On an ongoing basis IFRS 15 will have an impact on commission and fees and EBITDA; we therefore identified inappropriate implementation of the standard as a potential area for fraud.<br><br>Refer to note 3 to the financial statements (Accounting policies) and note 4 to the financial statement (Key sources of estimation uncertainty) |

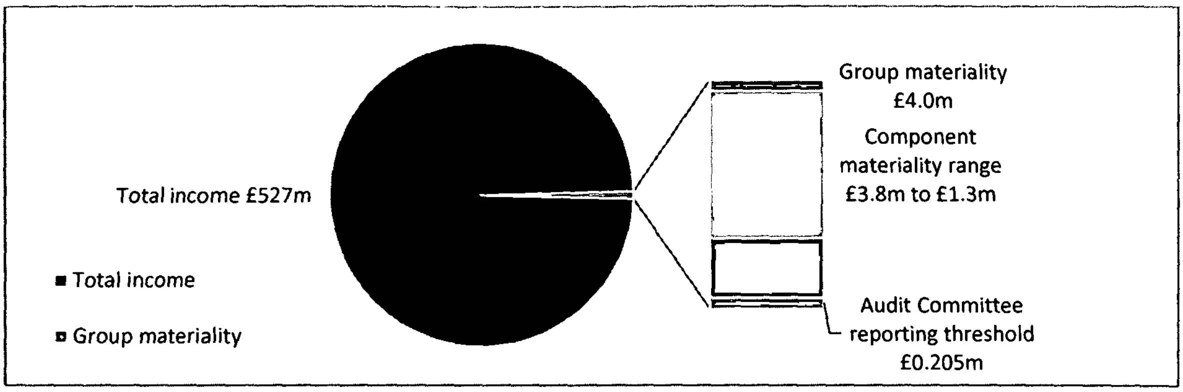
| | |
|---|---|
| **How the scope of our audit responded to the key audit matter** | We have gained an understanding of management's process for identifying and accounting for IFRS 15 transition and assessed the design and implementation of relevant key controls.<br><br>We performed the following audit procedures:<br><br>• we made enquiries of management to understand the nature of transition adjustments being made;<br><br>• we evaluated management's interpretation of the new accounting standard and challenged key assumptions they applied to transition adjustments;<br><br>• we tested management's schedules to verify the consistency of approach across all components and for mathematical accuracy;<br><br>• we reviewed financial statement disclosures for transparency and completeness of required information. |
| **Key observations** | No issues were identified through our detailed testing of IFRS transition adjustments.<br><br>We determined that the approach to application of IFRS 15 across the Group to be appropriate and in line with the requirements of the accounting standard.<br><br>We considered the transition disclosures within the financial statements to be appropriate. |

**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** | £4.0m | £3.8m |
| **Basis for determining materiality** | 0.77% of Reported Total Income of the Group | 0.25% company Net Assets |
| **Rationale for the benchmark applied** | Reported Total Income is determined to be the key driver behind the performance of the company going forward and is therefore of key interest to the shareholders. | Determined materiality based on total assets as the principle activities of the entity is to hold debt and its investment in subsidiaries balance |




We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £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.

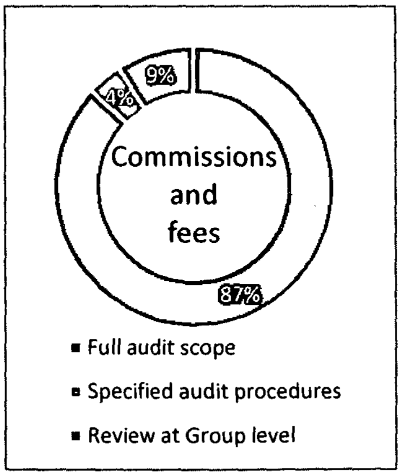
**An overview of the scope of our audit**

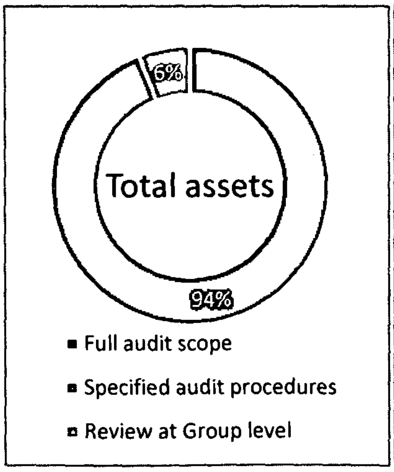
Given the number of components and operating locations within the Group, we assessed the extent of audit work required to be performed to give appropriate coverage for the purposes of the Group financial statement audit.

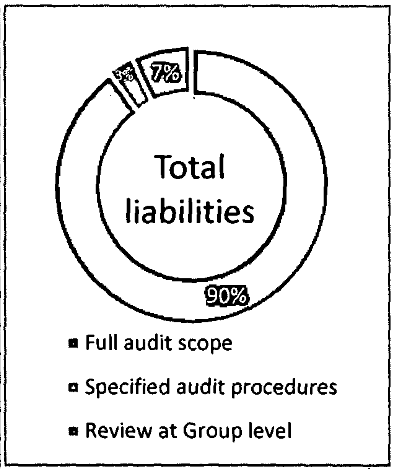
Of the Group's 17 reporting components, we subjected 12 to full scope audits for Group purposes and 5 to specified risk-focussed audit procedures. Those subjected to specified risk-focussed audit procedures are not individually financially significant enough to require full scope audit for Group purposes, but did present specific areas of risk which needed to be addressed.

Work on 16 components was carried out by the Group audit team. Work on a single component, Swinton (Holdings) Limited was undertaken by a component audit team. We directed and supervised their work providing detailed instructions setting out the work to be performed, the use to be made of that work, 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 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.

***We have nothing to report in respect of these matters.***

*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
9 April 2019

# FINANCIAL STATEMENTS
## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

| | Note | **Year ended 31 December 2018 £000** | Year ended 31 December 2017 £000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Commission and fees | 5 | **521,901** | 409,600 |
| Other income | 5 | **2,572** | 711 |
| Investment income | 7 | **2,106** | 149 |
| Salaries and associated costs | 9 | **(290,099)** | (240,954) |
| Other operating costs | 5 | **(208,150)** | (211,995) |
| Impairment of financial assets | 25 | **(5,061)** | (2,605) |
| Depreciation and amortisation charges | 6 | **(71,284)** | (56,908) |
| Adjustment to goodwill in respect of prior years | 13 | **(3,095)** | - |
| Impairment of goodwill and intangible assets | 13 | **-** | (84,517) |
| Fair value gain on derivatives | 5 | **2,485** | 6,289 |
| Share of profit from joint venture | 17 | **1,777** | 47 |
| Share of loss from associate | 17 | **-** | (1,139) |
| **Operating loss** | 5 | **(46,848)** | (181,322) |
| Finance income | 8 | **519** | 731 |
| Finance costs | 8 | **(94,655)** | (77,435) |
| Gain on disposal | 11 | **7,501** | - |
| Dividends received | | **-** | 38 |
| **Loss before tax** | 5 | **(133,483)** | (257,988) |
| Tax credit | 12 | **24,081** | 3,296 |
| **Loss for the year from continuing operations** | 5 | **(109,402)** | (254,692) |
| **Discontinued operations** | | | |
| Total profit for the year attributable to discontinued operations net of tax | 11 | **-** | 12,398 |
| **Loss for the year** | 5 | **(109,402)** | (242,294) |
| **Attributable to:** | | | |
| Owners of the parent | | **(112,657)** | (243,873) |
| Non-controlling interests | | **3,255** | 1,579 |
| **Loss for the year** | | **(109,402)** | (242,294) |

The notes on pages 56 to 156 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 2018

| | Note | **Year ended 31 December 2018 £000** | Year ended 31 December 2017 £000 |
|---|---|---|---|
| **Loss for the year** | | **(109,402)** | (242,294) |
| <u>Other comprehensive income</u> | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange differences on translating foreign operations | | - | (14) |
| Change in costs of hedging reserve | 26 | **1,261** | - |
| Change in cash flow hedging reserve | 26 | **2,521** | (10,412) |
| Income tax relating to these items | | **(1,159)** | 2,425 |
| **Other comprehensive income/(loss) for the year** | | **2,623** | (8,001) |
| **Total comprehensive loss for the year** | | **(106,779)** | (250,295) |
| **Attributable to:** | | | |
| Owners of the parent | | **(110,034)** | (250,293) |
| Non-controlling interests | | **3,255** | (2) |
| **Total comprehensive loss for the year** | | **(106,779)** | (250,295) |

The notes on pages 56 to 156 form an integral part of these consolidated financial statements.

# FINANCIAL STATEMENTS
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2018

| | Note | **31 December 2018 £000** | Restated 31 December 2017 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets* | 13 | **1,095,203** | 1,107,638 |
| Property, plant and equipment | 14 | **37,008** | 31,690 |
| Investment in associate and joint venture | 17 | **3,340** | 8,119 |
| Financial assets at fair value through other comprehensive income | 24 | **271** | 268 |
| Trade and other receivables | 19 | **17,500** | - |
| Contract assets | 20 | **2,279** | - |
| Other assets | 21 | **3,706** | - |
| Derivatives | 30 | **1,549** | 1,270 |
| Deferred tax assets | 31 | **27,759** | 15,526 |
| | | **1,188,615** | 1,164,511 |
| **Current assets** | | | |
| Cash and cash equivalents | 18 | **504,956** | 332,916 |
| Trade and other receivables | 19 | **286,716** | 146,894 |
| Derivatives | 30 | **2,929** | - |
| Financial assets at fair value through profit or loss | 24 | **42** | 37 |
| Held for sale assets | 33 | **26,753** | - |
| Contract assets | 20 | **10,315** | - |
| Current tax assets | 31 | **-** | 930 |
| Other assets | 21 | **16,266** | - |
| | | **847,977** | 480,777 |
| **Current liabilities** | | | |
| Trade and other payables | 27 | **(552,883)** | (376,985) |
| Held for sale liabilities | 33 | **(1,976)** | - |
| Borrowings | 29 | **(39,895)** | (71,286) |
| Derivatives | 30 | **(3,529)** | (3,743) |
| Premium financing liabilities | 28 | **(72,072)** | - |
| Contract liabilities | 20 | **(15,400)** | - |
| Current tax liabilities | 31 | **(387)** | - |
| Provisions | 32 | **(55,361)** | (39,589) |
| | | **(741,503)** | (491,603) |
| **Net current assets/(liabilities)** | | **106,474** | (10,826) |
| **Non-current liabilities** | | | |
| Trade and other payables | 27 | **(21,423)** | (10,273) |
| Borrowings | 29 | **(1,104,457)** | (825,070) |
| Derivatives | 30 | **(9,603)** | (37,182) |
| Deferred tax liabilities* | 31 | **(61,205)** | (71,475) |
| Contract liabilities | 20 | **(2,425)** | - |
| Provisions | 32 | **(31,740)** | (44,317) |
| | | **(1,230,853)** | (988,317) |
| **Net assets** | | **64,236** | 165,368 |

*The consolidated statement of financial position as at 31 December 2017 has been restated following the acquisition of Carole Nash which occurred on 20 December 2017. The previously reported financial statements as at 31 December 2017 recognised the excess of consideration over the fair value of net assets acquired entirely as goodwill. During the measurement period in 2018 intangible assets (note 13) and an associated deferred tax liability (note 31) have been recognised and restated in the financial statements at 31 December 2017.

## FINANCIAL STATEMENTS
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2018

| | Note | **31 December 2018 £000** | Restated 31 December 2017 £000 |
|---|---|---|---|
| **Capital and reserves attributable to the Group's shareholders** | | | |
| Share capital | 34 | **520,235** | 520,235 |
| Capital contribution reserves | | **60,211** | 60,000 |
| Retained losses | | **(567,110)** | (471,312) |
| Hedging reserves | | **(5,946)** | (7,985) |
| Merger reserve | | **61,876** | 61,876 |
| Non-controlling interest reserve | | **(3,695)** | (6,533) |
| Foreign currency translation reserve | | **(14)** | (14) |
| Shareholders' equity | | **65,557** | 156,267 |
| Non-controlling interest | | **(1,321)** | 9,101 |
| **Total equity** | | **64,236** | 165,368 |

The notes on pages 56 to 156 form an integral part of these consolidated financial statements.

This set of consolidated financial statements was approved by the Board of Directors on 9 April 2019 and was signed on its behalf by:

**D Cougill**
*Director*

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

| | Note | Share capital £000 | Capital contribution reserve £000 | Hedging reserve £000 | Merger reserve £000 | Foreign currency translation reserve £000 |
|---|---|---|---|---|---|---|
| At 1 January 2018 | | 520,235 | 60,000 | (7,985) | 61,876 | (14) |
| Transition to IFRS 9 and IFRS 15 | 3 | - | - | (471) | - | - |
| Opening NCI adjustment | | - | - | - | - | - |
| Restated at 1 January 2018 | | 520,235 | 60,000 | (8,456) | 61,876 | (14) |
| Loss for the year | | - | - | - | - | - |
| Other comprehensive income | | - | - | 2,623 | - | - |
| Distribution to NCI | | - | - | - | - | - |
| Adjustments to NCI | | - | - | - | - | - |
| Reclassification of reserves | | - | - | (113) | - | - |
| Capital contribution from parent | | - | 211 | - | - | - |
| **At 31 December 2018** | | 520,235 | 60,211 | (5,946) | 61,876 | (14) |

| | Note | Non-controlling interest reserve £000 | Retained losses £000 | Total shareholders' equity £000 | Non-controlling interest £000 | Total equity £000 |
|---|---|---|---|---|---|---|
| At 1 January 2018 | | (6,533) | (471,312) | 156,267 | 9,101 | 165,368 |
| Transition to IFRS 9 and IFRS 15 | 3 | - | 14,620 | 14,149 | 1,899 | 16,048 |
| Opening NCI adjustment | | - | 2,239 | 2,239 | (2,239) | - |
| Restated at 1 January 2018 | | (6,533) | (454,453) | 172,655 | 8,761 | 181,416 |
| Loss for the year | | - | (112,657) | (112,657) | 3,255 | (109,402) |
| Other comprehensive income | | - | - | 2,623 | - | 2,623 |
| Distribution to NCI | | - | - | - | (192) | (192) |
| Adjustments to NCI | | 2,725 | - | 2,725 | (13,145) | (10,420) |
| Reclassification of reserves | | 113 | - | - | - | - |
| Capital contribution from parent | | - | - | 211 | - | 211 |
| **At 31 December 2018** | | (3,695) | (567,110) | 65,557 | (1,321) | 64,236 |

The £16.1m adjustment to equity is a result of the adoption of IFRS 9 and IFRS 15 from 1 January 2018. The Group adopted these standards applying the modified retrospective approach without restatement. Of the adjustment above, £(0.2m) relates to IFRS 9 and £16.3m relates to IFRS 15.

## FINANCIAL STATEMENTS
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2017

| | Share capital £000 | Capital contribution reserve £000 | Hedging reserve £000 | Merger reserve £000 | Foreign currency translation reserve £000 |
|---|---|---|---|---|---|
| At 1 January 2017 | 520,235 | 60,000 | - | (220,235) | - |
| Profit/(loss) for the year | - | - | - | - | - |
| Issue of share capital in Ardonagh Finco plc prior to merger | - | - | - | 282,111 | - |
| Adjustment to non-controlling interests (NCI) | - | - | - | - | - |
| Acquisition of NCI | - | - | - | - | - |
| Other comprehensive income | - | - | (7,985) | - | (14) |
| At 31 December 2017 | 520,235 | 60,000 | (7,985) | 61,876 | (14) |

| | Non-controlling interest reserve £000 | Retained losses £000 | Total shareholders' equity £000 | Non-controlling interest £000 | Total equity £000 |
|---|---|---|---|---|---|
| At 1 January 2017 | - | (227,439) | 132,561 | 25 | 132,586 |
| Profit/(loss) for the year | - | (243,873) | (243,873) | 1,579 | (242,294) |
| Issue of share capital in Ardonagh Finco plc prior to merger | - | - | 282,111 | - | 282,111 |
| Adjustment to non-controlling interests (NCI) | (6,533) | - | (6,533) | (2,868) | (9,401) |
| Acquisition of NCI | - | - | - | 10,367 | 10,367 |
| Other comprehensive income | - | - | (7,999) | (2) | (8,001) |
| At 31 December 2017 | (6,533) | (471,312) | 156,267 | 9,101 | 165,368 |

For the period 21 April 2017 to 22 June 2017, the Company was not part of the Ardonagh Group and had no material revenue or assets. With effect from 22 June 2017, following a group restructure, share issue and purchase transactions with other Group companies, Ardonagh Midco 3 plc became an intermediate holding company within the Ardonagh Group. At this time, Ardonagh Midco 3 plc became the Group's debt financing company, replacing Ardonagh Finco plc.

In order to reflect the substance of the transactions outlined above, under IFRS 3 Business Combinations, the acquisition of Ardonagh Finco plc by the Group, is required to be accounted for under common control and merger accounting principles. Under this scenario, the consolidated financial statements of Ardonagh Midco 3 plc represent Ardonagh Finco plc and its controlled entities on a continuation basis.

The Consolidated Statement of Profit and Loss, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, and the Consolidated Statement of Cash Flows, including comparative financial information, are restated on a combined basis and adjustments are made to achieve consistency of accounting policies. The comparative figures for the financial year ended 31 December 2016 are extracted from the statutory accounts of Ardonagh Finco plc for that year.

As a result of applying merger accounting for the Midco Group, a merger reserve has been created. This reflects the difference in share capital between Ardonagh Midco 3 plc and Ardonagh Finco plc. The movement on the merger reserve during 2017 is due to the issuance of share capital by Ardonagh Finco plc in the year.

The notes on pages 56 to 156 form an integral part of these consolidated financial statements.

# FINANCIAL STATEMENTS
## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Note | **Year ended 31 December 2018 £000** | Year ended 31 December 2017 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash inflow from operations | 22 | **71,017** | 44,163 |
| Interest paid | | **(40)** | (6) |
| Interest received | | **516** | 726 |
| Investment income | | **2,106** | 149 |
| Income from joint venture | 17 | **1,200** | - |
| Tax paid | | **(528)** | (710) |
| Increase in Insurance Broking creditors | | **-** | 9,392 |
| Settlement of forward contracts | | **(691)** | - |
| Transaction costs on acquisitions | 15 | **(2,315)** | - |
| **Net cash inflow from operating activities** | | **71,265** | 53,714 |
| **Cash flows from investing activities** | | | |
| Acquisition of businesses net of cash acquired | 15 | **(143,388)** | (39,516) |
| Purchase of property, plant and equipment | 14 | **(2,373)** | (7,525) |
| Purchase of intangible fixed assets | 13 | **(19,735)** | (21,482) |
| Disposal of businesses | 11 | **52,828** | (77) |
| Contingent consideration received | | **12,400** | - |
| Contingent consideration paid | | **(7,310)** | - |
| Net cash disposed of with businesses | 11 | **(6,997)** | (3) |
| Dividends received | | **-** | 38 |
| Cash placed on fixed term deposits | | **-** | 13,508 |
| **Net cash outflow from investing activities** | | **(114,575)** | (55,057) |
| **Cash flows from financing activities** | | | |
| Proceeds from new loan notes | | **261,256** | 864,136 |
| Proceeds from borrowings | | **15,000** | 58,000 |
| Repayment of borrowings | | **(45,000)** | (530,451) |
| Interest paid on borrowings | | **(79,038)** | (37,973) |
| Proceeds from premium financing | 28 | **72,072** | - |
| Debt transaction costs | | **(6,406)** | (24,234) |
| Acquisition of shares from non-controlling interest | | **(4,326)** | (5,989) |
| Payment to non-controlling interest | | **(192)** | - |
| Costs incurred on the revolving credit facility | | **-** | (1,685) |
| Settlement of shareholder loan notes | | **(4,867)** | (748) |
| Settlement of deferred consideration | | **-** | (925) |
| Settlement of financial liabilities on acquisition | | **-** | (128,919) |
| Capital element of finance lease rental payments | | **(44)** | (41) |
| **Net cash inflow from financing activities** | | **208,455** | 191,171 |
| **Net increase in cash and cash equivalents** | | **165,145** | 189,828 |
| Cash and cash equivalents at the beginning of the year | | **332,916** | 143,088 |
| Effect of movements in exchange rates on cash held | | **6,895** | - |
| **Cash and cash equivalents at the end of the year** | 18 | **504,956** | 332,916 |

Cash and cash equivalents includes restricted cash, see note 18 for details.

The notes on pages 56 to 156 form an integral part of these 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 55 Bishopsgate, London, EC2N 3AS. 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 (£), which is also the Group's presentation and functional currency.

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.

Going concern

The financial statements of the Group set out on pages 49 to 55 have been prepared on a going concern basis. At 31 December 2018, the Group had net assets of £64.2.m (2017: £165.4m) and net current assets of £106.5m (2017: net current liabilities of £10.8m). The Group reported an operating loss of £46.8m for the year ended 31 December 2018 (2017: £181.3m) and cash inflows of £165.1m (2017: £189.8m).

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 13) and its base case and stressed cash flow forecasts over the calendar years 2019 and 2020.
- The principal risks facing the Group and its systems of risk management and internal control.
- 2019 liquidity to date is tracking favourably to plan.

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

- Invests to complete the major business transformation projects involving the finance function and broker system consolidation and that it achieves the projected synergies.
- Continues to benefit from the Revolving Credit Facility of £120m, which is limited to £90m whilst the Letter of Credit ancillary facility of £50m remains in place. None of the available £90m Revolving Credit Facility was utilised at 31 December 2018.
- Settles the ETV liabilities over a 24-month period commencing in the second half of 2019 (see note 32).

Key stress scenarios that the Directors have considered are:

- A shortfall in base case projected operating cash flows due to adverse economic conditions, project over-spend and project delays.
- Deterioration in the quantum and acceleration of the settlement of the ETV liabilities compared to the base case.
- Mitigating actions within management control such as:
  - Delayed capital expenditure and a reduction in discretionary spend. This action could be utilised if trading performance and cash flows are not in line with the reforecast and can be managed by temporary spending deferrals.
  - Raising additional debt, additional shareholder support, and the potential sale of non-core assets.
- The impact of Brexit.

Following the assessment of the Group's financial position and of its ability to meet its obligations as and when they fall due, the Directors have a reasonable expectation that the Group will be able to continue to operate for at least the next twelve months. Therefore, the annual financial statements have been prepared on a going concern basis.

## 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 2018 as described in 'Application of new and revised International Financial Reporting Standards' (section (s) below). Additional accounting policies have been incorporated in 2018 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.

*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. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

## 3 Accounting policies *(continued)*

*Disposal of subsidiaries*
Where the Group loses control of 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 determined them to be joint ventures. Joint ventures are accounted for using the equity method

## 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 8 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 5 and 15 years, which considers the Group's track record of retaining brands and experience of the insurance broker market.

*Computer software*
Acquired computer software licences are recognised when they are purchased separately or are recognised on a business combination. Their fair value is calculated by reference to the net book value acquired. These assets are amortised on a straight-line basis over their estimated useful lives of between 4 and 5 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 development of computer software (or from the development phase of an internal project) 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 as 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 four years.

### 3 Accounting policies *(continued)*

*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 four years.

*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.

*Commission buy outs*
Prior to 1 January 2018, commission buy outs were recognised as intangible assets, measured on initial recognition at the present value of projected future commission savings. These assets were amortised at a monthly rate of 3% on a reducing balance basis. Following the adoption of IFRS 15 'Revenue from Contracts with Customers' on 1 January 2018, commission buy outs are considered to be a cost to obtain and so are recognised only if they meet the criteria set out in IFRS 15, see (s) 'Application of new and revised International Financial Reporting Standards' below.

**(d) Property, plant and equipment**

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 land | - not depreciated |
| Freehold buildings | - 2% per annum on buildings/5% per annum on integral features |
| Leasehold improvements | - over the life of the lease |
| Fixtures and fittings | - 10% to 25% per annum |
| Furniture and office equipment | - 10% to 25% per annum |
| Computer equipment | - 20% to 25% per annum |
| Motor vehicles | - 25% to 33% per annum |

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.

## 3 Accounting policies *(continued)*

**(e) Leases**

A lease agreement that transfers substantially all the risks and rewards of ownership to the Group is a finance lease and results 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 is included in liabilities, on which interest arises and is charged to the income statement over the period of the lease term.

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

**(f) Financial instruments (accounting policy from 1 January 2018)**

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 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 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.

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 STATEMENTS
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 Accounting policies *(continued)*

*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 liable as principal for amounts arising from such transactions. In recognition of this relationship, debtors from insurance broking transactions are not included as an asset of the Group. Other than the receivable for fees and commissions earned on a transaction, no recognition of the insurance transaction occurs 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.

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 assets classified as FVTOCI*
Financial assets are classified and subsequently measured at FVOCI 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 FVOCI. 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 OCI. 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.

## 3 Accounting policies *(continued)*

*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 FVOCI, 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 FVOCI 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 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.

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, 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.

## 3 Accounting policies *(continued)*

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.

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.

## FINANCIAL STATEMENTS
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 Accounting policies *(continued)*

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 a 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 hedging accounting note below. Movements in the cash flow hedging reserve in shareholders' equity are included in the consolidated statement of changes in equity.

Cash flow hedges
The Group enters into cross-currency swaps and foreign exchange forwards 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.

## 3 Accounting policies *(continued)*

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 other operating costs.

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 a 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.

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.

## 3 Accounting policies *(continued)*

*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 exchange 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 foreign exchange 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
- 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 measured subsequently at amortised cost and at FVTOCI.

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

### 3 Accounting policies *(continued)*

**(g) Financial instruments (accounting policy prior to 1 January 2018)**

For accounting policies prior to 1 January 2018, refer to the Ardonagh Midco 3 plc Annual Report for the year ended 31 December 2017.

**(h) 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. In the year, the Group discount rate used to calculate the present value of provisions was amended to reflect the risk-free rate, the adjustment made can be seen in the provisions table (note 32).

**(i) 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.

**(j) Revenue**

The Group applied IFRS 15 from 1 January 2018 using the modified retrospective approach without restatement (see note 3(s) below). Prior to 1 January 2018 the Group had applied IAS 18 '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 or 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. Some of the policies are rolling until the customer cancels the policy.

The Group utilises the practical expedient in IFRS 15 not to adjust the amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between when the Group transfers a service to a customer and when the customer pays for that service will be one year or less.

*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. Under IAS 18, the Group recognised the commission and fees on placement of policies and recognised a provision for the costs to satisfy these performance obligations.

# FINANCIAL STATEMENTS
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 Accounting policies *(continued)*

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

- Profit share/loss corridor arrangements – these are trading deals 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 the profit share arrangements, an additional commission is earned from the insurer based on the profit from the underlying book of business or the number of policies placed. The estimated profit share is recognised as a contract asset and is reclassified to trade and other receivables when the underlying results are determined. Some profit commissions may be provided in advance, in which case they can be subject to a clawback. Advance profit share is recognised as a contract liability until the Group satisfies the underlying performance obligations.

  Under the 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 profit share and loss corridor 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 may take up to 2-3 years from the point at which the Group places a policy (i.e. satisfies its performance obligation).

  Under IAS 18, profit commission was recognised at a point when it could be measured with reasonable certainty, which was in some cases later than under IFRS 15. Accrued profit commission was presented in accrued income. Commission expected to be clawed back under a loss corridor arrangement was reduced against a provision when a loss to the Group was probable and the amount could be measured reliably.

- Some contracts with customers include cancellation rights, whereby the consideration receivable by the Group is subject to a clawback. Some policies placed by the Group are rolling until the customer cancels the policy. 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. Revenue recognised on rolling contracts (based on the expected consideration net of cancellations) is presented in contract assets until the consideration is invoiced.

*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. Other income also includes rent receivable and service charges receivable in respect of sub-let properties.

# FINANCIAL STATEMENTS
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 Accounting policies *(continued)*

**(k) 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. Under IAS 18, contract costs were generally expensed as incurred.

**(l) 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. The segments described have been revised in the period to reflect the way in which the Group is currently managed, and comparative values have been restated on this basis. Segments are reviewed and revised as necessary following structural changes within the Group or acquisitions of new companies.

**(m) 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.

## 3 Accounting policies *(continued)*

*Share-based payments*
The Group operates an equity-settled share-based payment scheme as at 31 December 2018 (the Ardonagh MIP). 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 Ardonagh MIP shares have no dividend or voting rights and cannot be sold. They are 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 Ardonagh MIP shares if an employee leaves the Group prior to the occurrence of a crystallisation event.

### (n) Foreign currencies

The Group's consolidated financial statements are presented in GBP, the Group's presentational currency, which is also the Company's functional 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, with differences recognised in profit or loss.

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 forward foreign exchange contracts taken out to hedge the currency exposure from future income are recognised in the profit and loss account 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 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 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 currency translation reserve in equity.

### (o) 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.

## 3 Accounting policies *(continued)*

The tax expense for the period 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.

### (p) 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.

### (q) 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 co-ordinated 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.

### (r) 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 and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

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

The following new standards, amendments to standards and interpretations have been issued and are mandatory for the first time in the Group's financial statements for the financial year beginning 1 January 2018:

- *Relevant and material (further information is provided below):*
  - IFRS 9 'Financial Instruments'; and
  - IFRS 15 'Revenue from Contracts with Customers'.
- *Relevant but not material:*
  - Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions'.
  - IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'.

## 3 Accounting policies *(continued)*

The following new standards, amendments to standards and interpretations have been issued but are not mandatory in the Group's financial statements for the financial year beginning 1 January 2018:

- *To be adopted by the Group on 1 January 2019, relevant and material (further information is provided below:*
  - IFRS 16 'Leases'
- *To be adopted early by the Group on 1 January 2019, relevant but not material:*
  - Amendments to IAS 1 and IAS 8 'Definition of Material'; and
  - Amendments to IFRS 3 'Definition of a Business'.
- *Not adopted early and still being assessed by the Group:*
  - IFRS 17 'Insurance Contracts';
  - Annual Improvements to IFRS Standards '2015-2017 Cycle';
  - Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement';
  - Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures';
  - Amendments to IFRS 9 'Prepayment Features with Negative Compensation'; and
  - IFRIC 23 'Uncertainty over Income Tax Treatments'.

**IFRS 9 'Financial Instruments'**
The Group's adoption date is 1 January 2018.

*Impact of adoption*
IFRS 9, the new standard for financial instruments replaces IAS 39 *Financial Instruments: Recognition and Measurement*. It makes changes to the previous guidance on the classification and measurement of financial assets and introduces an expected credit loss (ECL) model for the impairment of financial assets.

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 'Presentation of Financial Statements', which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss. Previously, the Group's approach was to include the impairment of trade receivables in operating costs.

Additionally, the Group adopted consequential amendments to IFRS 7 'Financial Instruments: Disclosures' that are applied to disclosures relating to 2018 but generally have not been applied to comparative information (as permitted under IFRS 9). The comparative period notes disclosures repeat the disclosures made in the prior year and are presented in accordance with IFRS 7 (pre-amendment by IFRS 9). Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9. The £2.6m impairment of trade receivables in 2017, calculated in accordance with IAS 39, has however been reclassified from operating costs to a separate line item.

## FINANCIAL STATEMENTS
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 Accounting policies *(continued)*

The impact on the Group's equity at 1 January 2018 is as follows:

| | Share capital and premium £000 | Foreign currency translation reserve £000 | Cash flow hedging reserve £000 | Costs of hedging reserve £000 | Retained losses £000 |
|---|---|---|---|---|---|
| Closing balance 31 December 2017 - IAS 39 | 520,235 | (14) | (7,985) | - | (567,342) |
| Costs of hedging excluded from hedge relationship (currency basis spread) | - | - | (2,180) | 1,709 | 471 |
| Increase in loss allowance for trade receivables | - | - | - | - | (239) |
| **Opening balance 1 January 2018 - IFRS 9** | 520,235 | (14) | (10,165) | 1,709 | (567,110) |

There is no material impact on non-controlling-interests on the adoption of IFRS 9. The application of IFRS 9 has had no impact on the consolidated cash flows of the Group.

# FINANCIAL STATEMENTS
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 Accounting policies *(continued)*

*(i) Classification and measurement*
On 1 January 2018 (the date of initial application of IFRS 9), the Group's management assessed which business models apply to the financial assets held by the Group and classified its financial instruments into the appropriate IFRS 9 categories. The assessment of the business model within which a financial asset is held was made based on the facts and circumstances that existed at the date of initial application.

The table below shows the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018:

| | **Original measurement category under IAS 39** | **New measurement category under IFRS 9** | **Original carrying amount under IAS 39 £000** | **Additional loss allowance or remeasurement recognised under IFRS 9 £000** | **New carrying amount under IFRS 9 £000** |
|---|---|---|---|---|---|
| **Derivatives assets** | Derivatives designated as hedging instruments | Derivatives designated as hedging instruments | 1,270 | - | 1,270 |
| **Unlisted equities** | Available for sale investments | Fair value through other comprehensive income | 268 | - | 268 |
| **UCIS recovered assets** | Available for sale investments | Fair value through profit or loss | 37 | - | 37 |
| **Trade & other receivables** | Loans and receivables | Amortised cost | 82,485 | (239) | 82,246 |
| **Cash and cash equivalents** | Loans and receivables | Amortised cost | 332,916 | - | 332,916 |
| **Borrowings** | Amortised cost | Amortised cost | (896,356) | - | (896,356) |
| **Contingent consideration payable** | Fair value through profit or loss | Fair value through profit or loss | (3,089) | - | (3,089) |
| **Trade payables** | Amortised cost | Amortised cost | (234,460) | - | (234,460) |
| **Other financial liabilities** | Amortised cost | Amortised cost | (30) | - | (30) |
| **Derivative liabilities** | Derivatives designated as hedging instruments | Derivatives designated as hedging instruments | (40,925) | - | (40,925) |

# FINANCIAL STATEMENTS
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 Accounting policies *(continued)*

The impact of the reclassification was as follows:

| Financial assets | Note | FVTPL £000 | FVTOCI £000 | Available for sale £000 |
|---|---|---|---|---|
| Closing balance 31 December 2017 - IAS 39 | | **1,270** | **-** | **305** |
| Reclassification of UCIS assets from available for sale to FVTPL | (a) | **37** | **-** | **(37)** |
| Reclassification of unlisted investments from available for sale to FVTOCI | (b) | **-** | **268** | **(268)** |
| **Opening balance 1 January 2018 - IFRS 9** | | **1,307** | **268** | **-** |

(a) Reclassification from available for sale to FVTPL
The Group's UCIS assets were reclassified from available for sale to financial assets at FVTPL under IFRS 9. They do not meet the IFRS 9 criteria for classification at amortised cost because their cash flows do not represent solely payments of principal and interest.

(b) Reclassification from available for sale to FVTOCI
The Group elected to present in other comprehensive income changes in the fair value of all its unlisted equity investments previously classified as available for sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of £0.3m were reclassified from available for sale to FVTOCI. There were no fair value gains to be reclassified.

(c) Cash and cash equivalents and trade receivables
The Group's cash and cash equivalents and trade receivables continue to be accounted for at amortised cost. The business model in which these assets are held is 'hold to collect' as the Group does not sell cash balances and trade receivables to other parties and the "solely payments of principal and interest" test is met as only interest is earned. These assets do not generally have a significant financing component. The application of IFRS 9's impairment requirements at 1 January 2018 resulted in an additional impairment loss on trade and other receivables, over the impairment recognised under IAS 39, of £0.2m.

(d) Derivatives
Derivative assets and liabilities continue to be designated as hedging instruments, but would otherwise continue to be accounted for at FVTPL.

(e) Financial liabilities
There was no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVTPL.

(f) Financial assets and liabilities designated as FVTPL
The Group has not designated any financial assets and financial liabilities at FVTPL and it has no current intention to do so. There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of IFRS 9.

### 3 Accounting policies *(continued)*

*(ii) Impairment*
IFRS 9 introduces a new expected credit loss (ECL) impairment model that replaces the incurred loss impairment model used when applying IAS 39. It is not necessary, when applying IFRS 9, for a credit event to have occurred before credit losses are recognised.

The Group has three types of assets subject to the IFRS 9 ECL model:
- trade and other receivables;
- contract assets; and
- cash and cash equivalents.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The new impairment model mainly impacts the Group's trade receivables.

The application of the IFRS 9 impairment requirements on 1 January 2018 resulted in additional impairment losses on trade and other receivables, over the impairment recognised under IAS 39, of £0.2m.

*Trade receivables*
The Group has applied the simplified approach to recognise lifetime ECL for its trade receivables as these balances do not generally have a significant financing component. This approach allows the use of a provision matrix and is similar to the Group's existing bad debt policy. However, this incorporates more forward-looking information when applying IFRS 9, such as the Group's outlook on the economy, and it is applied also to non-impaired assets.

ECL is calculated based on actual credit loss experience over two years by division. Actual credit loss experience is 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 sourced from the report by HM Treasury 'Forecasts for the UK Economy'.

*Contract assets*
Contract assets represent the Group's right to consideration in exchange for services rendered to customers or work completed but not invoiced at the reporting date or when that right is conditioned on something other than the passage of time (for example, the performance of the related contracts, or losses thereon). The contract assets are transferred to receivables when invoicing occurs or when the rights are otherwise no longer conditional other than on the passage of time.

The Group considers that its contract assets have low credit risk based on the external credit ratings of the counterparties. The application of IFRS 9's impairment requirements at 1 January 2018 did not have any impact on the measurement of the Group's contract assets.

*Cash and cash equivalents*
Cash and cash equivalents represent cash and deposits held with bank and financial institution counterparties with, wherever possible, a minimum single A credit rating from both Moody's and S&P.

The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The estimated impairment on cash and cash equivalents was calculated on a 12-month expected loss basis and reflects the short maturities of those exposures. The application of IFRS 9's impairment requirements at 1 January 2018 did not have any impact on the measurement of the Group's cash and cash equivalents.

## 3 Accounting policies *(continued)*

*(iii) Hedge accounting*

The Group uses hedge accounting in two areas:

- Hedging the currency risk on highly probable future cash flows denominated in USD using foreign exchange forward contracts; and
- Hedging the currency risk associated with the USD debt using cross-currency swaps.

The Group's previous hedging relationships qualify as continuing hedges upon the adoption of IFRS 9. Hedge documentation has been updated to reflect IFRS 9, which requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibits voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will qualify for hedge accounting. The Group does not currently undertake hedges of risk components of a non-financial item.

Prior to 1 January 2018, the Group separated the foreign currency basis spread from the cross-currency swaps and excluded it from the designation of that financial instrument as the hedging instrument. The fair value gains or losses arising from the basis spreads were thus recognised in profit or loss when applying IAS 39. Under IFRS 9, an entity may recognise the fair value changes in currency basis spreads as a cost of hedging in other comprehensive income and as a separate reserve within equity.

Similarly, an entity may separate the forward and the spot elements of a forward contract and designate as the hedging instrument only the change in the value of the spot element of the forward contract. The fair value changes in forward points would separately be accounted for as a cost of hedging in other comprehensive income and as a separate reserve within equity.

Such costs of hedging are amortised over the life of the hedged debt or recognised at a point in time when the highly probable cash flows settle (or the hedge is de-designated).

The treatment for the forward element of a forward and for the currency basis of a currency swap is optional and the option is applied on a hedge by hedge basis. The Group applies the following policies from 1 January 2018:

The Group recognise changes in the fair value of currency basis spread from the cross-currency swaps in a costs of hedging reserve within equity. This change has been applied retrospectively, resulting in a retrospective reclassification of £0.5m from retained earnings to the costs of hedging reserve on 1 January 2018. The Group designates the entire hedging instrument for forward contracts (i.e. the currency forward inclusive of the forward points), applying the '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 considered to be insignificant and thus do not warrant separation as costs of hedging and so are included in the measurement of the hedged item.

# FINANCIAL STATEMENTS
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 Accounting policies *(continued)*

*(iv) Derecognition*
The derecognition rules have been transferred from IAS 39 and remain largely unchanged.

**IFRS 15 'Revenue from Contracts with Customers'**
The Group's adoption date is 1 January 2018.

IFRS 15 replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts'. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, IFRS 15 introduces the following 5-step approach to revenue recognition:

Step 1: Identify the contract with a customer;
Step 2: Identify the performance obligations in the contract;
Step 3: Determine the transaction price;
Step 4: Allocate the transaction price to the performance obligations in the contract; and
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group adopted IFRS 15 by applying the modified retrospective approach without restatement, with the cumulative effect on initial application recognised as an adjustment to the opening equity balances at 1 January 2018. The information presented for 2017 is therefore presented as previously reported under IAS 18.

In accordance with the transition requirements, the standard has only been applied to contracts that were incomplete as at 1 January 2018. The Group also utilised the practical expedient in IFRS 15 not to account retrospectively for contract modifications prior to the date of initial application. The disclosure requirements of IFRS 15 have not been applied to comparative information, nor to contracts that were considered complete at the date of initial application.

*Impact of adoption*
The following tables and related narratives summarise the impact of adopting IFRS 15 on the Group's financial statements. There was no material impact on the Group's statement of cash flows for the year ended 31 December 2018. Further information about the Group's accounting policy under IFRS 15 compared to IAS 18 is provided in notes 3(j) and (k) above.

# FINANCIAL STATEMENTS
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 Accounting policies *(continued)*

*Impact on the opening balance of equity at 1 January 2018*

The table below shows the impact of initially applying IFRS 15 on the opening balance of equity at 1 January 2018:

| | Note | Variable consideration £000 | Post-placement obligations £000 | Costs to fulfil £000 | Costs to obtain £000 | Total £000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Contract assets | (a) | 15,068 | - | - | - | 15,068 |
| Trade and other receivables | (a) | (13,059) | 557 | - | - | (12,502) |
| Other assets | (b) (c) | - | - | 5,091 | 9,579 | 14,670 |
| Intangible assets | (c) | - | - | - | (4,857) | (4,857) |
| Deferred tax assets | | (2,102) | 154 | (967) | (1,820) | (4,735) |
| **Liabilities** | | | | | | |
| Contract liabilities | (d) | - | (15,717) | - | - | (15,717) |
| Trade and other payables | (a) (d) | 2,584 | 14,349 | - | - | 16,933 |
| Deferred tax liabilities | | - | - | - | 858 | 858 |
| Provisions | (a) | 6,569 | - | - | - | 6,569 |
| **Net assets/(liabilities)** | | 9,060 | (657) | 4,124 | 3,760 | 16,287 |
| **Equity** | | 9,060 | (657) | 4,124 | 3,760 | 16,287 |

The total impact on transition is an increase of £16.3m (net of tax) to equity, of which £14.4m is attributed to the owners of the parent (credited to retained losses) and £1.9m is attributed to non-controlling interests.

The £16.3m impact on transition that is reported above is £6.9m lower than the £23.2m impact on transition that was reported in the 30 September 2018 unaudited financial statements. This difference results from revisions to previous estimates.

The opening reserves adjustments do not impact the statement of profit or loss.

*Impact on profit or loss for the period to 31 December 2018*

The table below illustrates the impact of IFRS 15 on profit or loss for the year ended 31 December 2018. Line items that were not affected by IFRS 15 have not been included.

| | Note | Amounts which would be presented under IAS 18 £000 | IFRS 15 impact/ adjustment £000 | As presented for the year ended 31 December 2018 £000 |
|---|---|---|---|---|
| Commission and fee income | (a) (d) | 522,032 | (131) | 521,901 |
| Salaries and associated costs | (b) | (292,060) | 1,961 | (290,099) |
| Other operating costs | (c) | (207,966) | (184) | (208,150) |
| Depreciation, amortisation and impairment charges | (c) | (72,805) | 1,521 | (71,284) |
| Operating loss | | (50,015) | 3,167 | (46,848) |
| Tax credit | | 24,700 | (619) | 24,081 |
| Loss for the year | | (111,950) | 2,548 | (109,402) |

Of the IFRS 15 impact on profit or loss, £2.6m is attributable to the owners of the parent and a loss of £0.1m is attributable to the non-controlling interests.

## FINANCIAL STATEMENTS
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 Accounting policies *(continued)*

*Impact on the financial position at 31 December 2018*

The following table illustrates the impact of IFRS 15 on the financial position at 31 December 2018. Line items that were not affected by IFRS 15 have not been included.

| | Note | Amounts which would be presented under IAS 18 £000 | IFRS 15 amounts recognised on transition £000 | IFRS 15 impact/ adjustment £000 | As presented at 31 December 2018 £000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Contract assets | (a) | - | 1,130 | 1,149 | 2,279 |
| Other assets | (b) (c) | - | 9,579 | (5,873) | 3,706 |
| Intangible assets | (c) | 1,102,606 | (4,857) | (2,546) | 1,095,203 |
| Deferred tax assets | | 33,112 | (4,734) | (619) | 27,759 |
| **Current assets** | | | | | |
| Contract assets | (a) | - | 13,938 | (3,623) | 10,315 |
| Other assets | (b) (c) | - | 5,091 | 11,175 | 16,266 |
| Trade and other receivables | (a) | 294,805 | (12,504) | 4,415 | 286,716 |
| Held for sale assets | | 26,430 | - | 323 | 26,753 |
| **Non-current liabilities** | | | | | |
| Contract liabilities | (d) | - | (3,744) | 1,319 | (2,425) |
| Deferred tax liabilities | | (62,063) | 858 | - | (61,205) |
| Trade and other payables | (a) (d) | (29,512) | 9,419 | (1,330) | (21,423) |
| **Current liabilities** | | | | | |
| Contract liabilities | (d) | - | (11,973) | (3,427) | (15,400) |
| Trade and other payables | (a) (d) | (562,248) | 7,515 | 1,850 | (552,883) |
| Provisions | (a) | (61,665) | 6,569 | (265) | (55,361) |
| | | 741,465 | 16,287 | 2,548 | 760,300 |

(a) Variable commission
Commissions and fees revenue for contracts with variable consideration components is, when applying IFRS 15, recognised on a best estimate basis on policy inception, resulting in the earlier recognition of this revenue. In addition, amounts relating to variable consideration have been reclassified due to the presentation requirements of IFRS 15 (see 'Presentation of assets and liabilities' below). The impact on transition to IFRS 15 is a £9.1m credit to equity (net of tax).

(b) Costs to fulfil
Salaries and other costs associated with customer-facing employees are, when applying IFRS 15, deferred and matched with the related revenue, resulting in the later recognition of these costs. The impact on transition to IFRS 15 is a £4.1m credit to equity (net of tax).

(c) Costs to obtain
When applying IFRS 15, incremental costs paid to distributors (usually aggregator websites) for obtaining new business are capitalised if the estimated life of the client relationship purchased is greater than one year, resulting in the later recognition of these costs. Non-incremental costs relating to commission buy-outs that were previously recognised as an intangible asset do not meet the criteria in IFRS 15 to be capitalised, resulting in earlier recognition of these costs. The impact on transition to IFRS 15 is a £3.8m credit to equity (net of tax).

(d) Post-placement obligations
When applying IFRS 15, commissions and fees revenue associated with post-placement performance obligations (mainly claims handling services) is deferred based on standalone selling prices, resulting in the later recognition of revenue. In addition, deferred revenue – including in relation to placement obligations – has been reclassified due to the presentation requirements of IFRS 15 (see 'Presentation of assets and liabilities' below). The impact on transition to IFRS 15 is a £0.7m debit to equity (net of tax).

# FINANCIAL STATEMENTS
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 Accounting policies *(continued)*

Presentation of assets and liabilities
The Group changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15:

- Contract assets represent the Group's right to consideration in exchange for services that the Group has transferred to the customer when that consideration is variable in that it is conditional on something other than the passage of time. A contract asset is reclassified to trade and other receivables when it is no longer conditional other than on the passage of time.

  Amounts of variable consideration that were previously presented under trade and other receivables have been reclassified to contract assets on transition to IFRS 15. In addition, amounts expected to be paid under loss corridor arrangements have been reclassified from provisions to insurance creditors (trade and other payables) on transition to IFRS 15.

- Other assets include contract costs capitalised under IFRS 15, specifically costs to obtain and costs to fulfil assets.

- Contract liabilities represent the Group's obligation to transfer services to a customer for which the Group has received the consideration (or the amount is due) from the customer. This includes deferred revenue related to post-placement performance obligations and other deferred income (e.g. advances from customers for policies not yet incepted).

  Amounts of deferred income that were previously presented under trade and other payables have been reclassified to contract liabilities on transition to IFRS 15.

**(t) IFRS 16 'Leases'**

The Group's adoption date will be 1 January 2019.

*Nature of change*
IFRS 16 Leases sets out the principles for the recognition, measurement and presentation of leases, for both lessees and lessors. IFRS 16 replaces IAS 17 'Leases' and related interpretations when it becomes effective on 1 January 2019. The date of initial application for the Group will be 1 January 2019 and so IFRS 16 will apply for accounting periods beginning on or after that date.

The Group will adopt 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. There is not anticipated to be a significant impact on retained earnings on 1 January 2019 as the Group intends to recognise the right-of-use assets at an amount equal to the lease liabilities, as permitted by IFRS 16 when initially applying this new accounting standard.

IFRS 16 eliminates the classification of leases for lessees as either operating leases or finance leases. It introduces a single accounting model for lessees, requiring the Group to recognise substantially all of its current operating lease commitments in the statement of financial position as a lease liability and a right-of-use asset. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

# FINANCIAL STATEMENTS
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 Accounting policies *(continued)*

*Impact*

The Group has undertaken a project to identify the impact of the transition to IFRS 16. This has involved the use of third party experts, the identification of lease arrangements and the implementation of new internal reporting systems that are compliant with IFRS 16. The Group is continuing to assess the impact.

Areas of management judgement will 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 whether there are separate lease and non-lease components within a contract.

*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.

*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. 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.

Key impacts of IFRS 16 on lessee accounting are expected to be as follows:

- An increase in assets and an increase in liabilities in the range of £80 million to £90 million; and
- No impact of any significance on reserves.

The Group will elect not to recognise a right-of-use asset and a lease liability for short-term leases (i.e. 12 months or less) and leases of low-value assets.

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

- A single discount rate will be 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 an existing operating lease will, as an alternative to performing an impairment review, be reduced by the amount of the onerous lease provision for that operating lease immediately before the date of initial application.
- Initial direct costs will be excluded from the measurement of the right-of-use asset.
- The use of hindsight will be used, in particular in determining the lease term for arrangements with options to extend or terminate the lease.

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

- *Operating leases:*

A right of use asset and lease liability will be brought on to the balance sheet. The IAS 17 rental charge is replaced by depreciation and interest.

The main difference between the lease liability to be recognised on 1 January 2018 and the operating lease commitment disclosed in note 36 arises from the use of discount rates.

- *Finance leases:*

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

*Lessor accounting:*

The Group does not undertake arrangements as a lessor other than as a sublessor, but sublessor arrangements are not material to the Group.

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## 4 Critical accounting judgements and estimates

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**

Deferred tax assets
Significant judgement 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 2018 is £27.8m (2017: £15.5m). See note 31 for further information.

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, a related party of the Ardonagh Group due to common shareholders (see note 17). 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.

## 4 Critical accounting judgements and estimates *(continued)*

**Key sources of estimation uncertainty**

Revenue recognition – variable consideration
The Group is a party to profit sharing and loss corridor arrangements (see note 3(j)). 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 profit sharing or loss corridor 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 2018, a loss corridor liability of £6.3m is recognised in trade and other payables and a variable profit commission of £4.4m is recognised in contract assets.

Enhanced Transfer Values (ETV) provision
Certain subsidiaries within the Group have obligations to make redress payments in respect of historical pension transfer advice. The ETV provision of £51m (2017: £51m) represents management's present estimate of the Group's liability in relation to anticipated ETV costs.

The value of provision for this liability is sensitive to assumptions made for average redress and the overall population of cases reviewed which are judged as being unsuitably advised. The redress programme continues to remain at an early stage and there remains uncertainty regarding the ultimate cost, which may therefore differ materially from this estimate.

The provision will be reviewed during the course of the redress programme as the Group gains experience of actual redress payments. See note 32 for further information.

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.

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 VIU 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 are determined by considering historical 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. These forecasts are extrapolated to subsequent years using a steady growth rate being the RPI inflation rate of 3% per annum, and a terminal value is calculated using the perpetual growth model. The discount rate of 11% that is applied to the forecasts is a market participant weighted average cost of capital calculated by reference to the Capital Asset Pricing Model.

The fair value of the Group is calculated as 12 x forecast 2019 Adjusted EBITDA, where the 12 multiple is based on recent transactions in the insurance broking industry and on information provided by external advisors, but is nevertheless an assumption. The fair value of an operating segment is estimated 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 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.

## 4 Critical accounting estimates and judgements *(continued)*

**Key sources of estimation uncertainty** *(continued)*

Errors and omissions liability
During the ordinary course of business, the Group can be subject to claims for errors and omissions made in connection with its broking activities. A provision is established in respect of such claims when it is probable that the liability has been incurred and the amount of the liability can be reasonably estimated. The Group analyses its litigation exposures based on available information, including external legal consultation where appropriate, to assess its potential liability.

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. It is possible therefore that the financial position, results of operations or cash flows of the Group could be materially affected by the unfavourable outcome of litigation.

The Group is carrying a provision in relation to litigation matters of £10.9m as at 31 December 2018 (2017: £3.5m). See note 32 for further information.

Acquisition accounting
The acquisition in 2018 of Swinton, and in 2017 the acquisitions of Nevada (including Price Forbes and Autonet), Chase Templeton and Direct Group, Healthy Pets, Carole Nash and Mastercover, was accounted for under IFRS 3 'Business Combinations', which requires that the identifiable assets acquired and liabilities assumed to be measured at their acquisition date fair value. Intangible assets are recognised on a business combination, and an allocation of goodwill to those intangible assets is estimated. IFRS 3 allows adjustments to the provisional values to be recognised provided that they are identified and substantiated within a period which does not exceed one year from the acquisition date.

The amounts recognised in the financial statements for the acquisition of Swinton (see note 15) are provisional and adjustments are expected during the remainder of the measurement period, including in relation to the completion accounts mechanism that is set out in the sale and purchase agreement. The Group engaged independent experts to assist in the identification and valuation of intangible assets. See note 3 for further information on the approach used to estimating these fair values.

Useful lives of intangible assets
The Group has recognised a number of intangible assets resulting from business combinations, including those referred to the previous paragraph. The useful lives of these intangible assets have been estimated. See note 3 for further information on the approach used to estimating useful lives.

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## 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. The Group's operating segments were redefined in the second quarter of 2018 to reflect the revised presentation of information to the Group Executive Committee. The current operating segments reflect the Group's operational structure and comparative values have been restated on this basis. 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, £91.5m 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.

## 5 Segmental analysis *(continued)*

| Year ended 31 December 2018 | Insurance Broking £000 | Schemes & Programmes £000 | Specialty & International £000 | MGA £000 | Payment-shield £000 | Retail £000 | Corporate[1] £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | | |
| Commission and fees | 162,892 | 83,595 | 93,483 | 47,160 | 53,600 | 76,487 | 4,684 | 521,901 |
| Other income | - | 182 | - | - | - | 2,077 | 313 | 2,572 |
| Investment income | - | - | 1,420 | - | - | 24 | 662 | 2,106 |
| Salaries and associated costs | (103,144) | (39,296) | (61,074) | (42,520) | (15,182) | (27,115) | (1,768) | (290,099) |
| Other operating costs | (44,801) | (42,450) | (28,728) | (23,198) | (11,538) | (31,844) | (25,591) | (208,150) |
| Impairment of financial assets | (535) | (80) | (781) | (824) | (79) | (2,762) | - | (5,061) |
| Depreciation and amortisation charges | (11,026) | (19,473) | (7,217) | (10,343) | (8,133) | (10,661) | (4,431) | (71,284) |
| Adjustment to goodwill in respect of prior years | (462) | (1,436) | - | (1,197) | - | - | - | (3,095) |
| Fair value gain on derivatives | - | - | - | - | - | - | 2,485 | 2,485 |
| Share of profit from joint venture | - | - | - | - | - | 1,777 | - | 1,777 |
| **Operating profit/(loss)** | 2,924 | (18,958) | (2,897) | (30,922) | 18,668 | 7,983 | (23,646) | (46,848) |
| Finance income | - | 1 | 262 | - | - | 11 | 245 | 519 |
| Finance costs | (2) | (9) | (327) | (1) | (3) | - | (94,313) | (94,655) |
| Gain on disposal | - | 19 | - | - | - | - | 7,482 | 7,501 |
| **Profit/(loss) before tax** | 2,922 | (18,947) | (2,962) | (30,923) | 18,665 | 7,994 | (110,232) | (133,483) |
| Tax credit/(charge) | 691 | 3,889 | 1,967 | 3,958 | (3,149) | (1,659) | 18,384 | 24,081 |
| **Profit/(loss) for the year** | 3,613 | (15,058) | (995) | (26,965) | 15,516 | 6,335 | (91,848) | (109,402) |

*[1] The Price Forbes Group (which is included within the Specialty & International segment) applies hedge accounting to its forward contract derivatives which hedge forecast future sales and it was applying this policy when acquired by the Group on 22 June 2017. The Group applied hedge accounting to its forward contracts derivatives from 9 October 2017. The amounts in the cash flow hedging reserve are recycled to revenue (Commission and fees) when the hedged revenue is recognised. A £4.7m increase to revenue is included in the Corporate column, recognising the reversal of the Price Forbes entry plus an amount recycled by the Group.*

## FINANCIAL STATEMENTS
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### 5 Segmental analysis *(continued)*

| Year ended 31 December 2017 | Insurance Broking £000 | Schemes & Programmes £000 | Specialty & International £000 | MGA £000 | Payment-shield £000 | Retail £000 | Corporate £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|
| Continuing operations | | | | | | | | |
| Commission and fees | 152,224 | 69,971 | 46,307 | 58,384 | 59,746 | 22,977 | (9) | 409,600 |
| Other income | - | - | - | - | - | - | 711 | 711 |
| Investment income | - | - | 15 | - | 1 | 2 | 131 | 149 |
| Salaries and associated costs | (100,329) | (37,418) | (35,871) | (42,730) | (16,479) | (8,515) | 388 | (240,954) |
| Other operating costs | (40,376) | (26,365) | (15,741) | (17,957) | (13,022) | (9,556) | (88,978) | (211,995) |
| Impairment of financial assets | (537) | (297) | (138) | (730) | 18 | (921) | - | (2,605) |
| Depreciation and amortisation charges | (8,791) | (18,021) | (3,391) | (10,647) | (8,869) | (2,972) | (4,217) | (56,908) |
| Impairment of goodwill and intangible assets | - | (15) | | (76,806) | | | (7,696) | (84,517) |
| Fair value gain on derivatives | - | - | 6,289 | - | - | - | - | 6,289 |
| Share of profit from joint venture | - | - | - | - | - | 47 | - | 47 |
| Share of loss from associate | - | - | - | - | - | - | (1,139) | (1,139) |
| Operating profit/(loss) | 2,191 | (12,145) | (2,530) | (90,486) | 21,395 | 1,062 | (100,809) | (181,322) |
| Finance income | 1 | - | 448 | 7 | - | 2 | 273 | 731 |
| Finance costs | (22) | (13) | (123) | (13) | (2,795) | (2,493) | (71,976) | (77,435) |
| Dividends received | - | - | - | 38 | - | - | - | 38 |
| Profit/(loss) before tax | 2,170 | (12,158) | (2,205) | (90,454) | 18,600 | (1,429) | (172,512) | (257,988) |
| Tax credit/(charge) | 231 | 3,234 | 375 | 3,767 | (2,656) | 121 | (1,776) | 3,296 |
| Profit/(loss) for the year from continuing operations | 2,401 | (8,924) | (1,830) | (86,687) | 15,944 | (1,308) | (174,288) | (254,692) |
| Total profit for the year attributable to discontinued operations net of tax | - | - | - | - | - | - | 12,398 | 12,398 |
| Profit/(loss) for the year | 2,401 | (8,924) | (1,830) | (86,687) | 15,944 | (1,308) | (161,890) | (242,294) |

## FINANCIAL STATEMENTS
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### 6 Profit or loss items

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

| | 31 December 2018 £000 | 31 December 2017 £000 |
|---|---|---|
| Amortisation of intangible fixed assets | | |
| Software costs | **15,643** | 10,999 |
| Other intangible assets | **47,878** | 38,999 |
| Depreciation on property, plant and equipment | | |
| Owned assets | **7,750** | 6,867 |
| Leased assets under finance leases | **13** | 43 |
| **Depreciation and amortisation charges** | **71,284** | 56,908 |

| | 31 December 2018 £000 | 31 December 2017 £000 |
|---|---|---|
| Minimum lease payments | | |
| Land and buildings | **12,987** | 13,210 |
| Other assets | **6,470** | 2,656 |
| **Operating lease rentals expense** | **19,457** | 15,866 |

| | 31 December 2018 £000 | 31 December 2017 £000 |
|---|---|---|
| Impairment of goodwill and intangible assets | **-** | 84,517 |
| **Other charges during the year** | **-** | 84,517 |

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7 Investment income

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| Interest income – fiduciary funds | **2,106** | 149 |
| | **2,106** | 149 |

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 £93.0m (2017: £120.7m) which were denominated principally in sterling. The average return for 2018 was 0.06% (2017: 0.12%).

## 8 Finance income and finance costs

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| **Financial assets measured at amortised cost** | | |
| Interest income – own funds | **515** | 720 |
| Interest income – discount unwind | **2** | 6 |
| Interest income – other | **2** | 5 |
| **Financial liabilities measured at amortised cost** | | |
| Unwinding of discount on financial liabilities | **(9,119)** | (8,034) |
| Interest expense: Bank and other borrowings | **(83,631)** | (68,554) |
| Interest expense: Commitment fee for letter of credit | **(1,285)** | - |
| Interest expense: Shareholders' loans | **(326)** | (123) |
| **Other finance costs and interest expense** | | |
| Interest on deferred consideration | **(9)** | - |
| Finance leases | **(3)** | (6) |
| Overdue tax | **(28)** | (2) |
| Unwinding of discount on provisions | **(254)** | (716) |
| **Net finance costs** | **(94,136)** | (76,704) |
| Analysed as: | | |
| Finance income | **519** | 731 |
| Finance costs | (94,655) | (77,435) |
| **Net finance costs** | **(94,136)** | **(76,704)** |

Transaction costs of £9.5m (2017: £28.3m) were capitalised during 2018 as a result of issuing notes in June and December 2018 and the arrangement of the RCF facility.

In June 2017, the Group's £425m 8.75% senior secured notes and £75.0m floating rate super senior secured notes were repaid. Interest incurred on these notes prior to repayment was £33.1m and a further £4.8m was recognised as unwind of the discount as part of accounting for these at amortised cost.

During the year, the interest expense on the Group's existing c£1,145.8m of senior secured notes totalled £81.7m (2017: £35.5m). A further £6.0m was recognised during the year relating to the unwind of the discount on these instruments as part of accounting for these at amortised cost (2017: £2.9m).

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### 9 Employee information

**Salaries and associated expenses**

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| Wages and salaries | **252,368** | 213,248 |
| Social security costs | **28,134** | 22,771 |
| Other pension costs | **9,597** | 4,934 |
| | **290,099** | 240,953 |

**Analysis of employees**

| Average monthly number of Group employees during the year | **31 December 2018** | 31 December 2017 |
|---|---|---|
| Administration | **2,707** | 2,433 |
| Sales | **2,812** | 3,459 |
| Management | **396** | 297 |
| | **5,915** | 6,189 |

**Key management compensation**

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

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| Fees, salaries and other short-term benefits | **11,065** | 9,498 |
| Post-employment benefits | **110** | 87 |
| | **11,175** | 9,585 |

**Directors' remuneration**

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| Aggregate emoluments | **6,795** | 4,796 |
| Company contributions to money purchase pension scheme | **92** | 31 |
| | **6,887** | 4,827 |

The aggregate emoluments of the highest paid Director were £5.2m (2017: £3.2m) and company pension contributions of £0.1m (2017: £nil) were made to a money purchase scheme on their behalf.

Retirement benefits are accruing in money purchase schemes for four Directors (2017: 2).

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 note 32 for details of the provision recognised in respect of these schemes.

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## 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 inclusive of irrecoverable VAT:

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| Fees payable for the audit of the parent company and the consolidated financial statements | **25** | 50 |
| Fees payable for other services | | |
| Audit of subsidiaries pursuant to legislation | **1,718** | 1,411 |
| Audit related assurance services | **360** | 514 |
| Tax compliance services | **25** | 120 |
| Services relating to corporate finance transactions | **465** | 1,624 |
| All other services | **1552** | 194 |
| | **4,145** | 3,913 |

## 11 Discontinued operations and disposals

On 22 March 2016, the Group agreed to sell the entire issued share capital of The Broker Network Limited and Countrywide Insurance Management Limited (together, Broker Network), each a wholly owned subsidiary of the Group, to funds advised by HPS, The Ardonagh Group Limited's majority shareholder. The transaction completed on 1 July 2016. The consideration for the acquisition was satisfied in part by the allotment to the Group of approximately 19.9% of the shares in the acquisition vehicle, Bravo Investment Holdings Limited, partly through an initial cash consideration of £29.0m, and partly through contingent consideration of up to a further £17.2m if certain events and performance measures occurred in the period to 30 September 2017. The Group recognised a £12.4m asset during 2017 in relation to this contingent consideration, and £12.4m was subsequently received in cash in January 2018. For further information on the associate acquired see note 17.

The results of Broker Network were classified as discontinued operations within the consolidated income statement in 2017. The income statement impact of the recognising the aforementioned £12.4m asset in 2017 is classified within discontinued operations and is attributable to the owners of the parent.

**Results of discontinued operations**

| Network division | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| Income | - | - |
| Expenses | - | - |
| Profit before tax of discontinued operations | - | - |
| Tax credit | - | - |
| Result from operating activities net of tax | - | - |
| Profit on sale of discontinued operations | - | 12,398 |
| **Profit for the year on discontinued operations** | - | 12,398 |

There were no cash flows in 2018 or 2017 that were attributable to discontinued operations except for the contingent consideration received in relation to the sale which is noted above. This is classified as investing cash flows.

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## 11 Discontinued operations and disposals *(continued)*

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 is £26.5m, comprising £25.5m of cash and £1m being the fair value of contingent consideration.

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

| | 31 December 2018 £000 |
|---|---|
| Non-current assets | |
| Intangible assets | 20,340 |
| Property, plant and equipment | 635 |
| | 20,975 |
| Current assets | |
| Trade and other receivables | 14,740 |
| Cash and cash equivalents (see below) | 6,997 |
| | 21,737 |
| Current liabilities | |
| Trade and other payables | (17,754) |
| Provisions | (133) |
| | (17,887) |
| Non-current liabilities | |
| Deferred tax liabilities | (1,643) |
| **Total net assets** | 23,182 |
| **Satisfied by:** | |
| Proceeds received - initial consideration | 25,500 |
| Deferred consideration receivable | 952 |
| Costs to sell | (3,251) |
| | 23,201 |
| Profit on disposal | (19) |
| | 23,182 |
| **Cash and cash equivalents disposed of, is split by type as follows:** | |
| Own funds | 1,716 |
| Fiduciary funds | 5,281 |
| | 6,997 |

## 12 Income and deferred taxes

| | 31 December 2018 £000 | 31 December 2017 £000 |
|---|---|---|
| Deferred tax – current year | **29,240** | 4,206 |
| Corporation tax – current year | **(899)** | - |
| Deferred tax – adjustment in respect of prior year | **(1,717)** | (864) |
| Corporation tax – adjustment in respect of prior year | **(2,543)** | (46) |
| **Income tax credit** | **24,081** | 3,296 |

| | 31 December 2018 £000 | 31 December 2017 £000 |
|---|---|---|
| Deferred tax through Other Comprehensive Income | **(1,159)** | 2,425 |

Income taxes of £3.9m were charged directly to equity on transition to IFRS 15 on 1 January 2018 (see note 3(s)).

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% (2017: 19.25%, being the average rate due to the tax rate change in 2017) to the consolidated losses of the Group, as follows:

| | 31 December 2018 £000 | 31 December 2017 £000 |
|---|---|---|
| **Loss before taxation on continuing operations** | **(133,483)** | (257,988) |
| Tax calculated at UK corporation tax rate of 19% (2017: 19.25%) | **25,362** | 49,663 |
| Expenses not deductible for tax purposes | **(744)** | (14,918) |
| Effect of disposal of subsidiaries | **1,409** | - |
| Tax losses for which no deferred tax asset is recognised | **2,174** | (26,518) |
| Deferred tax expense/(credit) re changes in tax rates or laws | **229** | (4,028) |
| Tax adjustment for prior years | **(4,260)** | (910) |
| Other | **(89)** | 7 |
| **Income tax credit on continuing operations** | **24,081** | 3,296 |

Future tax impacts

A reduction in the UK corporation tax rate to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This reduction, from the existing rate of 19%, will reduce the Company's future current tax charge/credit.

The net deferred tax liability at 31 December 2018 has been calculated based on the rates disclosed in the above paragraph.

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### 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 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 IFRS15** | - | (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** | - | - | - | - |
| **Disposal 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 IFRS15** | - | - | - | - | (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 |
| **Disposal 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** |

The balances at the beginning of the year as at 31 December 2017 have been restated following the acquisition of Carole Nash on 20 December 2017. The previously reported financial statements as at 31 December 2017 recognised the excess of consideration over the fair value of net assets acquired entirely as goodwill. During the measurement period in 2018 intangible assets and an associated deferred tax liability have been recognised and restated in the financial statements at 31 December 2017.

Included within computer software as at 31 December 2018 was internally generated software (which comprises internal and third-party costs) of £19.9m. Internally generated software increased during the year by £3.4m, due to additions of £3.9m and disposals of £(0.5)m.

Included within assets under construction as at 31 December 2018 was internally generated assets under construction (which comprise internal and third-party costs) of £12.9m. Internally generated assets under construction increased during the year by £2.0m, due to additions of £3.0m and projects transferred to computer software of £(1.0)m.

The allocation for goodwill, intangible assets and deferred tax liabilities associated with the Carole Nash acquisition had not been completed as at 31 December 2017. The allocation was made during 2018 and so the 31 December 2017 balances were restated.

## FINANCIAL STATEMENTS
## 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 IFRS15 | - | (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 IFRS15 | - | - | - | - | (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** |

Included within computer software amortisation as at 31 December 2018 was internally generated software amortisation of £7.5m. Internally generated software amortisation during the year was £3.0m.

| 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.

## 13 Intangible assets *(continued)*

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 2017.

| 2017 Restated - Cost | Goodwill £000 | Commission buy outs £000 | Customer relationships £000 | Distribution network £000 |
|---|---|---|---|---|
| Beginning of year | 498,781 | 12,289 | 118,250 | 108,370 |
| Additions | - | 375 | 2,946 | 900 |
| Write off | - | - | - | - |
| Disposals | - | - | - | - |
| Acquisitions | 342,293 | - | 188,634 | - |
| Impairment | (84,100) | - | - | - |
| End of year | 756,974 | 12,664 | 309,830 | 109,270 |

| 2017 Restated - Cost | Assets under construction £000 | Brand £000 | Computer software £000 | Intellectual property £000 | Total £000 |
|---|---|---|---|---|---|
| Beginning of year | 9,724 | 29,556 | 37,635 | - | 814,605 |
| Additions | 10,865 | 119 | 7,018 | - | 22,223 |
| Write off | (1,187) | - | - | - | (1,187) |
| Disposals | - | - | (93) | - | (93) |
| Acquisitions | 2,866 | 17,944 | 10,044 | 2,254 | 564,036 |
| Impairment | - | - | (417) | - | (84,517) |
| End of year | 22,268 | 47,619 | 54,187 | 2,254 | 1,315,067 |

Included within computer software as at 31 December 2017 was internally generated software of £16.5m. Internally generated software increased during 2017 by £3.9m, due to additions of £1.3m and acquisitions of subsidiaries of £2.6m.

Included within assets under construction as at 31 December 2017 was internally generated assets under construction of £10.9m.

Impairment of computer software in 2017 related principally to the corporate segment.

# FINANCIAL STATEMENTS
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13 Intangible assets *(continued)*

| 2017 - Amortisation | Goodwill £000 | Commission buy outs £000 | Customer relationships £000 | Distribution network £000 |
|---|---|---|---|---|
| Beginning of year | 86,400 | 5,759 | 20,665 | 18,965 |
| Charge for year | - | 2,048 | 19,442 | 10,877 |
| End of year | 86,400 | 7,807 | 40,107 | 29,842 |

| 2017 - Amortisation | Assets under construction £000 | Brand £000 | Computer software £000 | Intellectual property £000 | Total £000 |
|---|---|---|---|---|---|
| Beginning of year | - | 10,344 | 15,298 | - | 157,431 |
| Charge for year | - | 6,600 | 10,999 | 32 | 49,998 |
| End of year | - | 16,944 | 26,297 | 32 | 207,429 |

Included within computer software amortisation as at 31 December 2017 was internally generated software amortisation of £4.6m. Internally generated software amortisation during the year was £2.4m.

| 2017 Restated Net book value (NBV) | Goodwill £000 | Commission buy outs £000 | Customer relationships £000 | Distribution network £000 |
|---|---|---|---|---|
| Cost at end of year | 756,974 | 12,664 | 309,830 | 109,270 |
| Amortisation at end of year | (86,400) | (7,807) | (40,107) | (29,842) |
| End of year | 670,574 | 4,857 | 269,723 | 79,428 |

| 2017 Restated Net book value (NBV) | Assets under construction £000 | Brand £000 | Computer software £000 | Intellectual property £000 | Total £000 |
|---|---|---|---|---|---|
| Cost at end of year | 22,268 | 47,619 | 54,187 | 2,254 | 1,315,067 |
| Amortisation at end of year | - | (16,944) | (26,297) | (32) | (207,429) |
| End of year | 22,268 | 30,675 | 27,890 | 2,222 | 1,107,638 |

Included within computer software NBV as at 31 December 2017 was internally generated software NBV of £12.0m.

Amortisation of goodwill at 31 December 2017 of £86.4m relates to an impairment of Towergate Retail, one of the Group's operating segments at that time.

# FINANCIAL STATEMENTS
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13 Intangible assets *(continued)*

A summary of goodwill allocated to each operating segment is presented below:

| | 31 December 2017 Goodwill £m | Acquisitions and disposals £m | Intersegment reclassifi-cations £m | Other adjustments £m | 31 December 2018 Goodwill £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 |
| **At 31 December 2018** | **671** | **25** | **-** | **(17)** | **679** |

'Intersegment reclassifications' include transfers of businesses and assets across operating segments, and the reclassification of goodwill and profits across operating segments. 'Other adjustments' include adjustments to goodwill in respect of prior years (see note 15) 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 was performed as at 31 December in 2017 and in previous years, but it was performed as at 30 September in 2018 and will be performed on this date in subsequent years. The change in the date of the annual impairment test will enable more time to be dedicated to this exercise and is thus expected to result in the provision of more reliable information.

Goodwill is, for the purposes of impairment testing, allocated to cash generating units (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. The segments (see note 5) were redefined in the second quarter of 2018 and management now reviews business performance based on the redefined operating segments (as listed in the table above), each of which comprises one or more CGUs. The operating segments now represent the lowest level within the Group at which goodwill is monitored for internal management purposes, so the annual impairment test as at 30 September 2018 was performed by reference to the operating segments.

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 to sell (FVLCS) 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.

## FINANCIAL STATEMENTS
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13 Intangible assets *(continued)*

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

| **Table 1**<br>**30 September 2018** | Goodwill<br>31 December<br>2017<br>£m | Acquisitions<br>and disposals<br>£m | Intersegment<br>reclassification<br>£m | **Adjusted goodwill**<br>**£m** |
|---|---|---|---|---|
| Retail | 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**<br>**30 September 2018** | FVLCS<br>£m | VIU<br>£m | **Recoverable amount**<br>**£m** |
|---|---|---|---|
| Retail | 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**<br>**30 September 2018** | Adjusted<br>goodwill<br>£m | Carrying<br>amount<br>£m | Recoverable<br>amount<br>£m | **Headroom**<br>**£m** |
|---|---|---|---|---|
| Retail | 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** |

## 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 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 Paymentshield operating segment to the Schemes & Programmes operating segment. The term 'Adjusted' has been used to describe the goodwill as at 30 September 2018 in tables 1 and 3 because the 'Acquisitions and disposals' column in table 1 reflects the disposal by the Group of Direct Group Property Services Limited and its subsidiaries and of the MGA commercial lines business and assets (together 'the disposals') even though those disposals occurred after 30 September 2018. This is to ensure that the goodwill and thus the carrying amount of the segment is determined in a way that is consistent with the recoverable amount, which is based on forecasts that reflect 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 grossing up the adjusted goodwill of each operating segment for the non-controlling interest, by adding the net assets of each operating segment to these amounts, and by allocating the net assets of the Corporate non-operating segment (after adding back external debt) across the operating segments based on the net assets of each operating segment.

*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 three-year forecast for Adjusted EBITDA as approved by management, pro forma for completed transactions as at 30 September 2018 with the exception that the disposals have been reflected as it they have already occurred (see the 'Goodwill' section above). These forecasts were determined by considering historical 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 2021 forecast is extrapolated to subsequent years using a steady growth rate being the RPI inflation rate of 3% per annum, and a terminal value is calculated using the perpetual growth model. The discount rate of 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 to sell (FVLCS)*
The 'FVLCS' column in table 2 is determined by reference to the fair value of Group, which is calculated as 12 x 2019 Adjusted EBITDA (calculated on the same basis as set out in the 'Value in use' section above), where the 12 multiple is based on recent transactions in the insurance broking industry and on information provided by external advisors. The fair value of an operating segment 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% of the fair value of the operating segment, are then deducted to determine the FVLCS of the operating segment.

*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 FVLCS in all cases.

The key assumption to which the VIU and thus the recoverable amount is most sensitive is the three-year forecast for Adjusted EBITDA. If the three-year forecast for Adjusted EBITDA was decreased by 13.5%, there would be an impairment to the Schemes & Programmes operating segment. If the forecast was instead decreased by 20.3%, there would also be an impairment to the MGA operating segment. If the forecast was instead decreased by 33.2%, there would also be an impairment to the Retail operating segment. No further reasonably possible change in this assumption alone would result in an impairment to any other operating segment. Brexit is not considered to be a key estimation uncertainty that would impact on the forecasts used for the goodwill impairment review.

## 13 Intangible assets *(continued)*

Year ended 31 December 2017
A summary of goodwill allocated to each CGU identified at 31 December 2017 is presented below:

| | 31 December 2016 £m | Restated purchased goodwill £m | Impairment £m | Restated 31 December 2017 £m |
|---|---|---|---|---|
| Advisory | 81 | - | - | 81 |
| Retail | 100 | - | - | 100 |
| Bishopsgate | 6 | 1 | - | 7 |
| Underwriting | 138 | - | (77) | 61 |
| Paymentshield | 88 | - | - | 88 |
| Autonet | - | 92 | - | 92 |
| Price Forbes | - | 101 | - | 101 |
| Chase Templeton | - | 49 | - | 49 |
| Direct Group | - | 42 | - | 42 |
| Healthy Pets | - | 6 | - | 6 |
| Carole Nash | - | 43 | - | 43 |
| Mastercover | - | 1 | - | 1 |
| | 413 | 335 | (77) | 671 |

Purchased goodwill as at 31 December 2017 has been restated following the acquisition of Carole Nash on 20 December 2017. The previously reported financial statements as at 31 December 2017 recognised the excess of consideration over the fair value of net assets acquired entirely as goodwill. During the measurement period in 2018 intangible assets and an associated deferred tax liability have been recognised and restated in the financial statements at 31 December 2017.

A further impairment of £7.3m has been recognised in respect of the acquisition of Nevada Investment Topco Limited on 22 June 2017, which resulted in the creation of a £7.3m goodwill balance. As Nevada Investment Topco Limited is an intermediate holding company in the Group, this goodwill balance was considered to be impaired and written off at the date of acquisition. In addition, £0.4m impairment has been recognised in respect of intangible assets in development. These assets are not allocated to a CGU and are within the Corporate division.

Goodwill is tested for impairment by comparing the carrying value of the CGU to which the goodwill has been allocated to the recoverable value of that CGU. The recoverable value of each CGU is determined as the higher of its fair value less costs to sell (FVLCS) or its value in use (VIU). For the year ending 31 December 2017, the recoverable value was higher on a FVLCS basis for eleven of the twelve CGUs identified. The recoverable value of the Chase Templeton CGU was higher on a VIU basis. All five CGUs in existence at 31 December 2016 were tested on a FVLCS basis which is consistent with the current period.

*Fair Value Less Costs to Sell*
The Group's FVLCS has been calculated on an enterprise valuation basis by adding the value derived for the Group's equity to the fair value of its net debt, less an allowance for costs to sell. The equity valuation is derived on the basis of share transactions taking place during the year. Borrowings have been valued by reference to the debt's quoted market price as at the reporting date.

The FVLCS of the new CGUs arising from acquisitions completed in the year has been determined by taking into account the consideration transferred for equity/debt acquired less an allowance for costs to sell.

In allocating the Group FVLCS to the pre-existing CGUs, the sum of the FVLCS attributable to these new CGUs was deducted from the Group's total FVLCS. The residual FVLCS was then apportioned to each of the pre-existing CGUs on the basis of their relative proportion of the Group's total forecast cash flows into perpetuity. This was calculated, by applying a terminal growth rate of 1.8% and discounting these cash flows back to present value, using a post-tax discount rate of 12%. This allocation basis most accurately reflects the perspectives of external market participants as it incorporates the Group's future investment plans and strategic objectives of the Group in the value attributed to each CGU.

### 13 Intangible assets *(continued)*

The FVLCS is considered a Level 3 valuation in the fair value hierarchy.

The Underwriting CGU's FVLCS of £96.6m was less than its carrying value resulting in an impairment of £76.8m.

This impairment charge in the Underwriting CGU has been driven by a requirement to undertake remedial action across a number of portfolios leading to reduced premium income but improved underwriting loss performance in future years. This essential action ensures the future continuity with our capacity providers. In addition to remediation, the investments made within GEO Specialty and GEO International have taken longer than anticipated to actively start trading, all investments and new product offerings are now fully live for 2018.

The value attributed to the remaining CGUs using a FVLCS basis is in excess of their respective carrying values. Therefore, no impairment of goodwill is necessary in these CGUs for the year ending 31 December 2017.

A reduction of the FVLCS of the Price Forbes (£1.7m), Healthy Pets (£1.1m) or Mastercover (£0.1m) CGUs would result in an impairment of these CGUs. These are all new CGUs acquired in the reporting period and their recoverable amounts have been ascertained by reference to their purchase price.

**Key assumptions and sensitivity analysis**

Enterprise Valuation

*Weighted average value per share*
The equity valuation of the Group is supported by the following share transactions which took place during the year:

- In Q1 a rights issue with a subscription price per share of £1.00 was announced and fully subscribed
- In Q2 the acquisition of Nevada was transacted on a share-for-share basis supported by a fairness opinion completed by a firm of valuation experts. Subsequently, existing shareholders were given an opportunity to acquire additional shares in the Group in the form of Convertible Equity Certificates (CECs) at a subscription price of £1.00 per share. This offer was taken up by minority shareholders who acquired an additional £23.0m CECs
- In Q4 convertible loan notes were issued in consideration for the purchase of non-controlling interest converted to equity on a £1: £1 basis

The weighted average value per share is calculated at £1 based on these transactions.

A reduction of £0.01 in the weighted average value per share would result in a further impairment of £0.7m in the Underwriting CGU.

No reasonably possible change in this assumption alone would result in the impairment of any other CGU.

*Fair Value of borrowings*
The fair value of the outstanding debt used in the FVLCS calculation was £862.4m (note 24). This represents the fair value of the Group's quoted non-current borrowings at the reporting date.

A 1% reduction in the fair value would result in further impairment of £0.6m in the Underwriting CGU. No reasonably possible change in this assumption alone would result in the impairment of any pre-existing CGUs.

*Value-in-use*
The VIU of each CGU was determined from a discounted future cash flow analysis using management's most recent Board-approved three-year plan. The recoverable amount of the Chase Templeton CGU was calculated to be higher on a VIU basis than on a FVLCS basis. The following paragraphs address the key assumptions and sensitivities analysis in respect of Chase Templeton's VIU.

**13 Intangible assets** *(continued)*

**Key assumptions and sensitivity analysis** *(continued)*

VIU in respect of this CGU was calculated after applying the following discount and terminal growth rates:

| | Post-tax discount rate | Pre-tax discount rate | Terminal growth rate |
|---|---|---|---|
| Chase Templeton | 12.0% | 13.3% | 1.8% |

*Discount rate*
The VIU calculation has been completed using a post-tax weighted average cost of capital (WACC) of 12%. The post-tax WACC rate used is taken from a range of rates used by external advisors in valuing intangible assets acquired through business combinations in the year. The pre-tax discount rates disclosed above have been deduced from the VIU model as permitted by accounting standards.

No reasonable possible change in the post-tax discount rate applied to cash flow projections would have resulted in an impairment of the Chase Templeton CGU.

*Terminal growth rate*
The terminal growth rate of 1.8% is in line with forecast GDP growth for the UK.

*Income Growth Rate/Expense Ratio*
Cash flow forecasts assume that on average income will increase by 19.4%, and the expense ratio will decrease by 2.1% over the three-year period of the plan.

Growth rates and expected future cash flows were arrived at using management estimates, past experience and available market statistics. An assessment of non-committed initiatives embedded in the plan has been made and these have been excluded from the discounted cash flow analysis as appropriate.

Sensitivity analysis
*Change in assumption required to trigger an impairment*
Scenario analysis has been modelled in which each of the key assumptions above have been changed independently in order to determine whether any reasonably possible change in these key assumptions would lead to an impairment of the Chase Templeton CGU. A reduction in average growth rates by 2.1% over the three-year plan period would trigger an impairment.

A reduction in the terminal growth rate to 0% would also result in an impairment of the Chase Templeton CGU.

No other reasonably possible changes in key assumptions would result in impairment of this CGU.

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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 2018.

| 2018 - Cost | Freehold property £000 | Leasehold improvements £000 | Assets under construction £000 | Furniture and office equipment £000 |
|---|---|---|---|---|
| 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** |

| 2018 - Cost | Computer equipment £000 | Fixtures and fittings £000 | Motor vehicles £000 | Total £000 |
|---|---|---|---|---|
| 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** |

## FINANCIAL STATEMENTS
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14 Property, plant and equipment *(continued)*

| **2018 - Depreciation** | **Freehold property £000** | **Leasehold improvements £000** | **Assets under construction £000** | **Furniture and office equipment £000** |
|---|---|---|---|---|
| Beginning of year | 709 | 3,080 | - | 1,622 |
| Charge for year | 116 | 1,722 | - | 589 |
| Transfer to intangible assets | - | - | - | (111) |
| Disposals | - | (983) | - | (453) |
| Disposals of subsidiaries | - | - | - | - |
| Assets classified as held for sale | - | - | - | - |
| **End of year** | **825** | **3,819** | **-** | **1,647** |

| **2018 - Depreciation** | **Computer equipment £000** | **Fixtures and fittings £000** | **Motor vehicles £000** | **Total £000** |
|---|---|---|---|---|
| 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) |
| Disposals of subsidiaries | (680) | (313) | - | (993) |
| Assets classified as held for sale | - | (169) | - | (169) |
| **End of year** | **15,415** | **4,455** | **117** | **26,278** |

| **2018 - Net book value (NBV)** | **Freehold property £000** | **Leasehold improvements £000** | **Assets under construction £000** | **Furniture and office equipment £000** |
|---|---|---|---|---|
| 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** |

| **2018 - Net book value (NBV)** | **Computer equipment £000** | **Fixtures and fittings £000** | **Motor vehicles £000** | **Total £000** |
|---|---|---|---|---|
| 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** |

As at 31 December 2018, assets included in motor vehicles above that were held under finance leases amounted to less than £0.1m.

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## 14 Property, plant and equipment *(continued)*

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 2017.

| 2017 - Cost | Freehold property £000 | Leasehold improvements £000 | Assets under construction £000 | Furniture and office equipment £000 |
|---|---|---|---|---|
| Beginning of year | - | 4,561 | 3,404 | 1,048 |
| Additions | 7 | 4,434 | - | 264 |
| Acquisitions | 4,154 | 2,889 | - | 1,194 |
| Disposals | - | - | (276) | - |
| Transfer between classes | - | 1,694 | (3,018) | 475 |
| End of year | 4,161 | 13,578 | 110 | 2,981 |

| 2017 - Cost | Computer equipment £000 | Fixtures and fittings £000 | Motor vehicles £000 | Total £000 |
|---|---|---|---|---|
| Beginning of year | 12,212 | 2,752 | 237 | 24,214 |
| Additions | 3,125 | 967 | 25 | 8,822 |
| Acquisitions | 7,545 | 5,115 | 71 | 20,968 |
| Disposals | (71) | (39) | (56) | (442) |
| Transfer between classes | 861 | (12) | - | - |
| End of year | 23,672 | 8,783 | 277 | 53,562 |

| 2017 - Depreciation | Freehold property £000 | Leasehold improvements £000 | Assets under construction £000 | Furniture and office equipment £000 |
|---|---|---|---|---|
| Beginning of year | - | 1,145 | - | 382 |
| Charge for year | 50 | 1,479 | - | 442 |
| Acquisitions | 659 | 456 | - | 781 |
| Transfer between classes | - | - | - | 17 |
| Disposals | - | - | - | - |
| End of year | 709 | 3,080 | - | 1,622 |

| 2017 - Depreciation | Computer equipment £000 | Fixtures and fittings £000 | Motor vehicles £000 | Total £000 |
|---|---|---|---|---|
| Beginning of year | 2,722 | 779 | 135 | 5,163 |
| Charge for year | 4,194 | 695 | 50 | 6,910 |
| Acquisitions | 5,527 | 2,491 | 46 | 9,960 |
| Transfer between classes | (17) | - | - | - |
| Disposals | (71) | (39) | (51) | (161) |
| End of year | 12,355 | 3,926 | 180 | 21,872 |

**14 Property, plant and equipment** *(continued)*

| 2017 - Net book value (NBV) | Freehold property £000 | Leasehold improvements £000 | Assets under construction £000 | Furniture and office equipment £000 |
|---|---|---|---|---|
| Cost at end of year | 4,161 | 13,578 | 110 | 2,981 |
| Depreciation at end of year | (709) | (3,080) | - | (1,622) |
| NBV at end of year | 3,452 | 10,498 | 110 | 1,359 |

| 2017 - Net book value (NBV) | Computer equipment £000 | Fixtures and fittings £000 | Motor vehicles £000 | Total £000 |
|---|---|---|---|---|
| Cost at end of year | 23,672 | 8,783 | 277 | 53,562 |
| Depreciation at end of year | (12,355) | (3,926) | (180) | (21,872) |
| NBV at end of year | 11,317 | 4,857 | 97 | 31,690 |

As at 31 December 2017, assets included in motor vehicles above held under finance leases amounted to less than £0.1m.

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### 15 Business combinations

In line with the Group's highly selective acquisition strategy the following acquisitions were made during the year ended 31 December 2018 to provide an entrance into, or an enhancement of, our footprint in specific markets:

- On 28 February 2018 and 28 March 2018 Towergate Underwriting Group Limited (TUGL), a subsidiary of the Group, completed the acquisition of certain business and assets, disclosed in the table below as portfolio purchases.
- On 31 December 2018, the Group acquired the Swinton Group by purchasing the entire issued share capital of Swinton (Holdings) Limited for cash consideration of £145.8m (subject to the completion accounts mechanism set out in the sale and purchase agreement).

The following adjustment was also made:

- An additional contingent consideration payment of £0.03m in relation to the 2017 acquisition of Healthy Pets.
- Adjustments to goodwill in respect of prior years, comprising £1.4m relating to the acquisition of Healthy Pets Limited in 2017 and £1.7m relating to the acquisition of Towergate in 2015.

The table below presents the impact of the acquisitions and adjustments:

| | Swinton £000 | Portfolio purchases £000 | Adjustments £000 | Total £000 |
|---|---|---|---|---|
| *Purchase consideration* | | | | |
| Cash paid | 145,757 | 954 | 30 | 146,741 |
| Contingent consideration | - | 295 | - | 295 |
| Adjustment to goodwill in respect of prior years | - | - | (3,095) | (3,095) |
| **Total purchase consideration** | **145,757** | **1,249** | **(3,065)** | **143,941** |
| *Assets and liabilities as a result of the acquisitions* | | | | |
| Cash and cash equivalents | 3,353 | - | - | 3,353 |
| Investments | 3 | - | - | 3 |
| Tangible assets | 12,746 | - | - | 12,746 |
| Receivables | 135,990 | - | (1,623) | 134,367 |
| Payables | (70,766) | - | - | (70,766) |
| Provisions | (10,399) | - | - | (10,399) |
| Deferred tax | 3,196 | - | - | 3,196 |
| **Net assets acquired** | **74,123** | **-** | **(1,623)** | **72,500** |
| Customer relationships | 28,083 | 462 | - | 28,545 |
| Brand | 5,224 | 4 | - | 5,228 |
| Computer Software | 11,147 | - | 1,599 | 12,746 |
| Deferred tax | (6,116) | (89) | - | (6,205) |
| **Net identifiable intangible assets acquired** | **38,338** | **377** | **1,599** | **40,314** |
| Goodwill | 33,296 | 872 | (3,041) | 31,127 |
| **Total purchase consideration** | **145,757** | **1,249** | **(3,065)** | **143,941** |

Contingent consideration of up to £0.3m is payable on the portfolio purchases made during 2018 dependent upon business performance and adherence to sales agreements.

The amounts recognised in the financial statements in relation to the Swinton acquisition are provisional and adjustments may be identified during the remainder of the measurement period.

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## 15 Business combinations

The amounts in the table above are preliminary and thus subject to adjustment during a period of up to one year following the acquisition date. The consideration transferred for an acquisition and the identifiable assets and liabilities acquired are measured at their fair values, the difference being goodwill. Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

The acquisitions contributed negligible revenue and profit to the Group during the year ended 31 December 2018. If the acquisitions had completed on the first day of the year, Group revenues would have been £146.3m higher and the Group loss for the period would have been £4.4m higher.

Acquisition costs of £3.6m were expensed in the year.

### 16 Transactions with non-controlling interests

For the year ended 31 December 2018

The Group purchased from non-controlling interests an additional 16.8% of the total A and B Ordinary shares of Price Forbes Holdings Limited for £8.9m. It also purchased from non-controlling interest D and E shares of Price Forbes Holdings Limited, for a consideration of £0.8m. The majority of the 17% non-non-controlling interest in Price Forbes Holdings Limited was purchased during the year for £9.7m with an increase in equity attributable to owners of the parent of £3.0m being recognised.

The Group also purchased from non-controlling interests the remaining 5% of the issued shares of B.I.B.U Acquisitions Limited, for £0.6m. The carrying amount of the 5% non-controlling interest in B.I.B.U Acquisition Limited, immediately prior to the purchase, was £nil. The Group recognised a decrease in equity attributable to owners of the parent of £0.6m.

The effect on the equity attributable to the owners of Price Forbes Holdings Limited and of B.I.B.U Acquisitions Limited during the period is summarised as follows:

| | **Price Forbes Holdings 2018 £000** | **B.I.B.U. Acquisitions 2018 £000** |
|---|---|---|
| Carrying amount of non-controlling interests purchased | **12,746** | **-** |
| Consideration paid to non-controlling interests | **(9,711)** | **(620)** |
| Excess/(deficit) recognised in the non-controlling interests reserve attributable to owners of the parent | **3,035** | **(620)** |

For the year ended 31 December 2017

The Group purchased from non-controlling interests an additional 4.8% of the issued shares of Price Forbes Holdings Limited, for £8.8m. The carrying amount of the existing 21.8% non-controlling interest in Price Forbes Holdings Limited, immediately prior to the purchase, was £13.7m. The Group recognised a £3.0m decrease in this amount to £10.7m and a decrease in equity attributable to owners of the parent of £5.8m.

The Group also purchased from non-controlling interests the remaining 1.45% of the issued shares of Nevada Investments 5 Limited, for £0.7m. The carrying amount of the 1.45% non-controlling interest in Nevada Investments 5 Limited, immediately prior to the purchase, was £(0.1)m. The Group recognised a £1.0m increase in this amount to £nil and a decrease in equity attributable to owners of the parent of £0.8m.

The effect on the equity attributable to the owners of Price Forbes Holdings Limited and of Nevada Investments 5 Limited during the period is summarised as follows:

| | Price Forbes Holdings 2017 £000 | Nevada Investments 5 2017 £000 |
|---|---|---|
| Carrying amount of non-controlling interests purchased | 2,996 | (129) |
| Consideration paid to non-controlling interests | (8,774) | (626) |
| Deficit of consideration paid recognised in the non-controlling interests reserve attributable to owners of the parent | (5,778) | (755) |

Note 39 contains additional information on the proportion of ownership of entities with non-controlling interests.

## 17 Investment in associate and joint venture

### Associate

| Investment in associate | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| At the start of the year | **5,356** | 6,495 |
| Share of loss for the period | **-** | (1,139) |
| Disposal | **(5,356)** | - |
| **At the end of the year** | **-** | 5,356 |

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 Towergate Insurance Limited, a subsidiary in the Group. Bravo provides third party brokers with access to insurance products and a variety of business support services. Bravo was accounted for using the equity method in these consolidated financial statements, which is set out in the Group's accounting policy (note 3).

On 19 January 2018, the Group disposed of its shareholding in Bravo to Nevada Investment Holdings 2 Limited, a related party of the Ardonagh Group due to common shareholders. £30.0m cash was received on disposal. The cash received, plus a further £1.2m, is subject to a contingent clawback mechanism based on the equity value at 19 January 2020.

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 contingent consideration payable was reassessed based on the current equity value of Broker Network, resulting in an additional £3.3m of gain on disposal being recognised. No further gain or loss on disposal was recorded as at 31 December 2018.

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 has no fair value. This agreement was retained, with minor amendments, after the disposal of the associate.

Summarised financial information in respect of the Group's interest in Bravo is set out below:

| Investment in associate | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| Non-current assets | - | 66,411 |
| Current assets | - | 38,875 |
| Non-current liabilities | - | (68,470) |
| Current liabilities | - | (25,266) |
| **Equity attributable to the owners of the parent** | - | 11,550 |

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### 17 Investment in associate and joint venture *(continued)*

| Investment in associate | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| **Revenue** | - | 23,151 |
| **Loss after tax** | - | (5,722) |

**Joint venture**

| Investment in joint venture | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| At the start of the year | **2,763** | - |
| On acquisition of subsidiaries | - | 2,716 |
| Disbursement | **(1,200)** | - |
| Share of profit for the year | **1,777** | 47 |
| **At the end of the year** | **3,340** | 2,763 |

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

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

| Investment in joint venture | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| Current assets | **4,430** | 3,562 |
| **Equity attributable to the owners of the parent** | **4,430** | 3,562 |

| Investment in joint venture | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| **Revenue** | **3,964** | 3,547 |
| **Profit after tax** | **2,349** | 2,074 |

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## 18 Cash and cash equivalents

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| Own funds | **112,534** | 48,115 |
| Own funds - restricted | **46,017** | 32,628 |
| Fiduciary funds | **346,405** | 252,173 |
| | **504,956** | 332,916 |

Included within own funds at 31 December 2018 is £27.6m of cash in an escrow account (2017: £nil). This was transferred into the Group's normal own funds account in January 2019.

Restricted own funds comprise:
- £13.1m as at 31 December 2018 (2017: £10.0m) of restricted cash kept in segregated accounts for claim settlements in relation to the disposal of the Towergate Financial business by Towergate Insurance Limited, an intermediate holding company within the Group.
- £22.9m as at 31 December 2018 (2017: £22.6m) 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.
- A further £10.0m of cash that is restricted in respect of the acquisition of Swinton.

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.

# FINANCIAL STATEMENTS
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## 19 Trade and other receivables

The Group had exposures at 31 December 2018 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 2018 £000** | Restated 31 December 2017 £000 |
|---|---|---|
| Trade receivables | **181,201** | 50,892 |
| Less: expected credit loss allowance/ provision for impairment | **(7,993)** | (4,973) |
| Trade receivables - net | **173,208** | 45,919 |
| Prepayments | **25,790** | 18,642 |
| Accrued income | **9,750** | 16,211 |
| Other receivables | **35,651** | - |
| Other debtors | **22,625** | 22,250 |
| Related party debtors | **36,240** | 31,474 |
| Contingent consideration receivable | **952** | 12,398 |
| | **304,216** | 146,894 |
| Current | **286,716** | 146,894 |
| Non-current | **17,500** | - |
| | **304,216** | 146,894 |

As a result of adopting IFRS 15 from 1 January 2018, amounts of variable consideration related to contracts with customers that were previously presented as trade and other receivables are presented as contract assets (see note 3(s) and note 20).

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.

## 20 Contract balances

| | 31 December 2018 £000 | 31 December 2017 £000 |
|---|---|---|
| **Contract assets** | **12,594** | - |
| | | |
| Current | **10,315** | - |
| Non-current | **2,279** | - |
| | | |
| **Contract liabilities** | | |
| Post-placement performance obligations | **(7,773)** | - |
| Other deferred income | **(10,052)** | - |
| | **(17,825)** | - |
| | | |
| **Current** | **(15,400)** | - |
| **Non-current** | **(2,425)** | - |
| | **(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 2018 (not visible from the above table as the comparative period is stated on an IAS 18 and not an IFRS 15 basis) relates mainly to less profit commission accrued due to adverse underwriting results of the insurer. The estimated revenue relating to profit commission that was recognised in 2018 on policies incepted prior to 2018 amounts to £3.3m. This is 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. The Group recognised revenue of £11.9m in 2018 that was included in the opening balance of contract liabilities.

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 £7.8m. This amount is expected to be recognised as revenue as follows:

| | £000 |
|---|---|
| Within 12 months of the reporting date | **5,356** |
| Between 12-24 months of the reporting date | **1,039** |
| More than 24 months after the reporting date | **1,377** |
| | **7,773** |

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## 21 Other assets

| | 31 December 2018 £000 | 31 December 2017 £000 |
|---|---|---|
| Costs to fulfil contracts with customers | 6,724 | - |
| Costs to obtain contracts with customers | 13,248 | - |
| | 19,972 | - |
| **Current** | 16,266 | - |
| **Non-current** | 3,706 | - |
| | 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 relating 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 2018 was a decrease in staff costs of £2m.

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 £9.7m was recognised in profit or loss during the year ended 31 December 2018.

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

## 22 Cash generated from operations

| **Cash flows from operating activities** | 31 December 2018 £000 | 31 December 2017 £000 |
|---|---|---|
| Loss for the year after tax | (109,402) | (242,294) |
| Depreciation | 7,763 | 6,910 |
| Amortisation and impairment | 66,616 | 134,098 |
| Loss/(profit) on disposal of property, plant and equipment | 1,393 | (11) |
| Loss on disposal of intangible assets | - | 68 |
| Other costs | 138 | 15 |
| Net finance costs | 94,136 | 76,705 |
| Dividends received | - | (38) |
| Gain on disposal of businesses | (3,770) | (10,619) |
| Investment income | (2,106) | (149) |
| Share of profit from joint venture | (1,777) | (47) |
| Share of loss from associate | - | 1,139 |
| Tax credit | (24,081) | (3,296) |
| Fair value gain on derivatives | (2,485) | (6,290) |
| Recycling to revenue from the cash flow hedging reserve on forward contracts | (318) | - |
| (Increase)/decrease in trade and other receivables | (71,620) | 11,228 |
| Increase/(decrease) in trade and other payables* | 121,222 | 35,594 |
| Decrease in contract assets | 2,474 | - |
| Increase in other assets | (8,672) | - |
| Increase in contract liabilities | 2,108 | - |
| (Decrease)/increase in provisions for liabilities and charges | (602) | 41,150 |
| **Net cash inflow from operations** | 71,017 | 44,163 |

* *Excluding insurance broking balances in 2017.*

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## 23 Reconciliation of liabilities to cash flows arising from financing activities

| 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 borrowings | - | - | 276,256 | - | 276,256 |
| Repayment of borrowings | - | - | (45,000) | - | (45,000) |
| Interest paid on borrowings | - | (875) | (78,163) | - | (79,038) |
| Proceeds from premium financing | 72,072 | | | | 72,072 |
| Debt transaction costs | - | - | (6,406) | - | (6,406) |
| Acquisition of shares and payments to non-controlling interest | - | - | - | (4,518) | (4,518) |
| Settlement of shareholder loan notes | - | - | (4,867) | - | (4,867) |
| Purchase of own shares | - | | | (116) | (116) |
| Capital element of finance lease rental payments | - | - | (44) | - | (44) |
| | 72,072 | (875) | 141,776 | (4,634) | 208,339 |
| **Non-cash changes:** | | | | | |
| Adjustments to opening balances | - | (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 |
| Borrowing costs not yet settled | - | - | (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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### 23 Reconciliation of liabilities to cash flows arising from financing activities *(continued)*

| Year ended 31 December 2017 | Trade and other payables £000 | Borrowings £000 | Other financial liabilities £000 | Financing cash flows relating to equity transactions £000 | Total £000 |
|---|---|---|---|---|---|
| At the beginning of the year | 1,271 | 526,823 | 294 | - | 528,388 |
| Cash flows from financing activities: | | | | | |
| Proceeds from new loan notes | - | 864,136 | - | - | 864,136 |
| Proceeds from issue of shares | - | - | - | 62,082 | 62,082 |
| Proceeds from borrowings | - | 58,000 | - | - | 58,000 |
| Repayment of borrowings | - | (530,157) | (294) | - | (530,451) |
| Costs incurred on borrowings/equity | - | (25,919) | - | (1,236) | (27,155) |
| Interest paid on borrowings | - | (37,913) | - | (60) | (37,973) |
| Acquisition of shares and payments to non-controlling interest | - | - | - | (5,989) | (5,989) |
| Settlement of shareholder loan notes | - | (748) | - | - | (748) |
| Settlement of deferred consideration | (925) | - | - | - | (925) |
| Settlement of financial liabilities on acquisition | - | (128,919) | - | - | (128,919) |
| Capital element of finance lease rental payments | | (41) | - | - | (41) |
| | (925) | 198,439 | (294) | 54,797 | 252,017 |
| Non-cash changes: | | | | | |
| On acquisition of business | 2,693 | 117,441 | 12,041 | - | 132,175 |
| Effect of changes in foreign exchange rates | - | (24,492) | - | - | (24,492) |
| Interest expense | 80 | 80,485 | (39) | - | 80,526 |
| Borrowing costs not yet settled | - | (2,340) | - | - | (2,340) |
| Changes in fair value | - | - | 28,923 | - | 28,923 |
| Equity related | - | - | - | (54,797) | (54,797) |
| At the end of the year | 3,119 | 896,356 | 40,925 | - | 940,400 |

## FINANCIAL STATEMENTS
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 24 Financial instruments

Financial instruments classification

Note 3 provides a description of each category of financial assets and financial liabilities and the related accounting policies. The carrying amounts of the Group's financial assets and liabilities in each category are as follows:

| **Financial assets** | **Derivatives used for hedging £000** | **Fair value through profit or loss £000** | **Amortised cost £000** | **Fair value through OCI £000** | **Total £000** |
|---|---|---|---|---|---|
| Unlisted investments | - | - | - | 271 | 271 |
| UCIS assets | - | 42 | - | - | 42 |
| Trade receivables excluding prepayments | - | - | 173,208 | - | 173,208 |
| Other receivables | - | 36,603 | 68,615 | - | 105,218 |
| Cash and equivalents | - | - | 504,956 | - | 504,956 |
| Derivatives | 4,478 | - | - | - | 4,478 |
| **At 31 December 2018** | **4,478** | **36,645** | **746,779** | **271** | **788,173** |

| Financial assets | Derivatives used for hedging £000 | Loans and receivables £000 | Available for sale £000 | Total £000 |
|---|---|---|---|---|
| Available for sale assets | - | - | 305 | 305 |
| Trade and other receivables excluding prepayments | - | 128,252 | - | 128,252 |
| Cash and cash equivalents | - | 332,916 | - | 332,916 |
| Derivatives | 1,270 | - | - | 1,270 |
| At 31 December 2017 | 1,270 | 461,168 | 305 | 462,743 |

| **Financial liabilities** | **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)** |

**24 Financial instruments** *(continued)*

| Financial liabilities | FVTPL £000 | Amortised cost £000 | Derivatives used for hedging £000 | Total £000 |
|---|---|---|---|---|
| Borrowings | - | (896,356) | - | (896,356) |
| Trade and other payables excluding deferred income | (3,089) | (362,784) | - | (365,873) |
| Derivative liabilities | - | - | (40,925) | (40,925) |
| At 31 December 2017 | (3,089) | (1,259,140) | (40,925) | (1,303,154) |

The table below provides a schedule of movements in the carrying amount in the statement of financial position of financial assets classified as FVTPL and FVTOCI:

| Movements of assets classified as FVTPL and FVTOCI | **Derivatives used for hedging £000** | **Financial assets at FVTPL £000** | **Financial assets at FVTOCI £000** | **Total £000** |
|---|---|---|---|---|
| As at 1 January 2018 | 1,270 | 37 | 268 | 1,575 |
| Net fair value increase | 3,208 | 18 | - | 3,226 |
| Acquisition of companies | - | - | 3 | 3 |
| Disposals and settlements | - | (13) | - | (13) |
| **At 31 December 2018** | **4,478** | **42** | **271** | **4,791** |

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 (2017: £nil).

As at 31 December 2018 trade and other receivables include an 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.

A description of the Group's risk management objectives and policies is provided in the Strategic Report.

The methods used to measure financial assets and liabilities reported at fair value are described in note 3.

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### 24 Financial instruments *(continued)*

Fair value measurement
Financial assets and 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:

| 31 December 2018 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| **Financial assets at FVTPL** | | | | |
| UCIS recovered assets | - | - | 42 | 42 |
| Trade and other receivables | - | - | 36,604 | 36,604 |
| Cross-currency swaps used in cash flow hedges | - | 4,478 | - | 4,478 |
| **Financial assets at FVTOCI** | | | | |
| Unlisted investments | - | - | 271 | 271 |
| **Total financial assets at fair value** | - | 4,478 | 36,917 | 41,395 |
| Contingent consideration payable | - | - | (1,575) | (1,575) |
| Deferred proceeds | - | - | (16,750) | (16,750) |
| Foreign exchange 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** | - | (13,132) | (18,325) | (31,457) |
| **Net fair value at 31 December 2018** | - | (8,654) | 18,592 | 9,938 |

| 31 December 2017 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| Available for Sale: UCIS recovered assets | - | - | 37 | 37 |
| Foreign exchange forward contracts used in cash flow hedges | - | 1,270 | - | 1,270 |
| Contingent consideration receivable | - | - | 12,398 | 12,398 |
| Total financial assets at fair value | - | 1,270 | 12,435 | 13,705 |
| Contingent consideration payable | - | - | (3,089) | (3,089) |
| Foreign exchange forward contracts used in cash flow hedges | - | (3,743) | - | (3,743) |
| Cross-currency swaps used in cash flow hedges | - | (37,182) | - | (37,182) |
| Total financial liabilities at fair value | - | (40,925) | (3,089) | (44,014) |
| Net fair value at 31 December 2017 | - | (39,655) | 9,346 | (30,309) |

There were no transfers between Levels 1, 2 and 3 in 2018 or 2017.

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### 24 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 foreign currency forward contracts are categorised within level 2 of the fair value hierarchy. These derivative contracts are not traded in an active market, but the fair value is determined using valuation techniques and available market data, such as forward exchange rates corresponding to the maturity of the contract observable at the consolidated 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)**
At 31 December 2018 trade and other receivables include £1.0m at fair value in respect of the contingent consideration receivable on the sale of URIS Group's claims business disposal (note 11). Contingent consideration at 31 December 2017 of £12.4m represents contingent consideration at fair value receivable on the Broker Network sale (note 11). These are categorised within level 3 of the fair value hierarchy with the valuation based on management's best estimate of the profitability of Broker Network and the claims business for the relevant period, and on the earn out calculation as set out in the sale and purchase agreement between the Group and Bravo, the entity that purchased the majority share in Broker Network.

Also included in trade and other receivables at 31 December 2018 (2017: £nil) were assets at FVTPL 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 expected life of the underlying insurance product.

**Contingent consideration payable and deferred proceeds (Level 3)**
Trade and other payables include £16.7m (2017: £3.1m) that are designated as financial liabilities at fair value through profit or loss. The liabilities as at 31 December 2017 relate to performance related contingent consideration amounts on an acquisition made in 2017, and the sale of the Group's 19.9% interest in Bravo (deferred proceeds; see note 17). These amounts 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 sale and purchase agreement. Financial liabilities in respect of contingent consideration are only written back if the Group receives confirmation from the vendor that there is no liability remaining.

**Unlisted investments at FVTOCI (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.

Fair value of non-current borrowings
The fair values of non-current borrowings at fixed rates as at 31 December 2018 and 31 December 2017, which are categorised within level 2 of the fair vale hierarchy, are as follows:

| | Carrying amount £000 | Fair value £000 |
|---|---|---|
| **Senior Secured Notes at 31 December 2018** | **1,102,073** | **966,964** |
| Senior Secured Notes at 31 December 2017 | 816,064 | 863,169 |

The Directors consider the carrying amounts for trade and other receivables and trade and other payables to approximate their fair values.

## 24 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 foreign exchange 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 foreign exchange 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 30 Derivatives.

*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 £553.5m of 8.375% GBP Notes and USD755.0m of 8.625% USD Notes at 31 December 2018 (see note 29).

The Group is exposed to changes in market interest rates through the secured loan facility borrowings at variable interest rates. However, these borrowings are 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.

## 24 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 accounts receivable from the insurance companies with which it places insurance. If those insurance companies experience liquidity problems or other financial difficulties, the Group could encounter delays or defaults in receipt of payments.

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

| | **Year ended 31 December 2018 £000** | Year ended 31 December 2017 £000 |
|---|---|---|
| Cash and cash equivalents | **504,956** | 332,916 |
| Trade and other receivables excluding prepayments | **278,426** | 128,252 |
| Contract assets | **12,594** | - |
| Financial assets at FVTPL (2017: Available for sale) | **42** | 37 |
| Financial assets at FVTOCI (2017: Available for sale) | **271** | 268 |
| | **796,289** | 461,473 |

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 2018 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.

Credit quality analysis
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)** | **94,521** | **(440)** | **94,081** |
| **Past due:** | | | | |
| - not more than three months | **(3.5)** | **54,513** | **(1,912)** | **52,601** |
| - more than three months but not more than six months | **(4.0)** | **11,579** | **(466)** | **11,113** |
| - more than six months but not more than a year | **(6.9)** | **10,264** | **(710)** | **9,554** |
| - more than a year | **(43.2)** | **10,324** | **(4,465)** | **5,859** |
| **At 31 December 2018** | **(4.4)** | **181,201** | **(7,993)** | **173,208** |

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## 24 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 provided for at 31 December 2017:

| | Trade receivables £000 | Provision for impairment £000 | Net trade receivables £000 |
|---|---|---|---|
| Not overdue | 15,660 | (315) | 15,345 |
| Past due: | | | |
| - not more than three months | 21,012 | (476) | 20,536 |
| - more than three months but not more than six months | 7,974 | (424) | 7,550 |
| - more than six months but not more than a year | 2,222 | (1,088) | 1,134 |
| - more than a year | 4,024 | (2,670) | 1,354 |
| At 31 December 2017 | 50,892 | (4,973) | 45,919 |

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 29) 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 2018.

## FINANCIAL STATEMENTS
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25 Expected credit losses (ECL) and ECL allowance

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 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 and include the following:

- GDP: A 23.53% increase in the growth in GDP is expected, from 1.28% in 2018 to 1.58% in 2019, which indicates that historical credit loss experience should be decreased (source: HM Treasury 'Forecasts for the UK Economy'); and
- Unemployment rate: A 0.62% increase in unemployment rates is expected, from 4.05% in 2018 to 4.08% in 2019, which indicates that historical credit loss experience should be increased (source: HM Treasury 'Forecasts for the UK Economy').

The net impact of the above scalar factors is to indicate that historical credit loss experience should be decreased. Historical credit loss experience 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:

| | Not credit impaired | | | |
|---|---|---|---|---|
| **Lifetime ECL** | **Collectively assessed £000** | **Individually assessed £000** | **Credit impaired £000** | **Total £000** |
| Balance at 31 December 2017 under IAS 39 | (3,239) | (1,734) | - | (4,973) |
| Adjustment on 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 due to 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.

### 25 Expected credit losses (ECL) and ECL allowance *(continued)*

Movements in the Group provision for impairment of trade receivables for year ended 31 December 2017 were as follows:

| Provision for impairment | Trade receivables £000 |
|---|---|
| Beginning of the year | (2,765) |
| Acquisitions | (2,515) |
| Increase in expected credit loss/impairment | (2,605) |
| Receivables written off during the year as uncollectable | 2,912 |
| **Total current trade and other receivables** | **(4,973)** |

Provisions for receivables impairment during 2017 have been restated to distinguish between acquisitions and movement in expected credit loss.

## 26 Cash flow hedging reserves

The Group has economic hedge relationships that mitigate foreign exchange risks arising from its USD Notes and USD revenue. It applies hedge accounting for those hedge relationships that meet the hedge accounting criteria. Further details of the hedging criteria and information on cross-currency swaps and foreign exchange forward contracts that the Group uses can be found in note 30.

The following table indicates the periods in which the not discontinued cash flows associated with cash flow hedges are expected to occur and the carrying amounts of the related hedging instruments:

| | Carrying amount £000 | Total £000 | One to six months £000 | Six to twelve months £000 | More than one year £000 |
|---|---|---|---|---|---|
| **Cross-currency swaps** | | | | | |
| Net liabilities | (4,324) | (8,627) | 244 | 1,787 | (10,658) |
| **Foreign exchange forward contracts** | | | | | |
| Liabilities | (4,330) | (4,530) | (2,445) | (660) | (1,425) |
| | **(8,654)** | **(13,157)** | **(2,201)** | **1,127** | **(12,083)** |

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items resulting from cash flow hedge accounting:

| | Cash flow hedging reserve £000 | Costs of hedging reserve £000 |
|---|---|---|
| At 1 January 2018 | (7,985) | - |
| Adjustment on transition to IFRS 9 | (2,180) | 1,709 |
| **Restated 1 January 2018** | **(10,165)** | **1,709** |
| **<u>Changes in fair value</u>** | | |
| Foreign currency risk - cross-currency swaps | 28,845 | 1,082 |
| Foreign currency risk - foreign exchange forward contracts | (2,511) | - |
| **<u>Amounts reclassified to profit or loss</u>** | | |
| Foreign currency risk - cross-currency swaps | (23,495) | 179 |
| Foreign currency risk - foreign exchange forward contracts | (318) | - |
| | **2,521** | **1,261** |
| Tax on movements on reserves | **(654)** | **(505)** |
| Reclassification of reserves | **(113)** | **-** |
| **At 31 December 2018** | **(8,411)** | **2,465** |

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## 26 Cash flow hedging reserves *(continued)*

The amounts included in the income statement during the year ending 31 December 2018 in relation to items designated as hedging instruments, including hedge ineffectiveness, were as follows:

| | Cross-currency swaps £000 | Foreign exchange forward contracts £000 |
|---|---|---|
| <u>Amounts reclassified from OCI to profit or loss</u> | | |
| Commission and fees | - | 318 |
| Finance costs | 23,316 | - |
| <u>Ineffectiveness</u> | | |
| Other operating costs | - | (152) |
| | 23,316 | 166 |

## 27 Trade and other payables

| | 31 December 2018 £000 | 31 December 2017 £000 |
|---|---|---|
| Insurance creditors | 387,593 | 234,460 |
| Social security and other taxes | 12,809 | 16,293 |
| Other creditors | 22,345 | 12,183 |
| Related party creditors | 36,814 | 38,857 |
| Contingent consideration payable | 1,353 | 2,264 |
| Deferred income* | 430 | 11,967 |
| Accruals | 91,539 | 60,961 |
| **Total current liabilities** | 552,883 | 376,985 |
| Contingent consideration payable | 222 | 825 |
| Deferred proceeds | 16,750 | - |
| Other financial liabilities | 30 | 30 |
| Deferred income* | - | 9,418 |
| Other creditors | 4,421 | - |
| **Total non-current liabilities** | 21,423 | 10,273 |

*Due to adopting IFRS 15 from 1 January 2018, deferred income related to contracts with customers is included within contract liabilities (see note 3(s) and note 20).

Insurance creditors include an amount of £6.3m 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 revenue relating to loss corridor that was recognised in 2018 on policies incepted prior to 2018 amounts to £0.8m. 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 £73.3m 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 £73.3m 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 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 that will continue for new insurance policies sold in the 4 months after 31 December 2018, after which time the financial institution will provide financing to the customer directly.

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| **Premium financing liabilities** | **72,072** | - |

## 29 Borrowings

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| Finance lease liabilities | **2** | 44 |
| Interest payable | **39,271** | 37,842 |
| Secured loan facility | **622** | 33,400 |
| **Total current borrowings** | **39,895** | 71,286 |
| Finance lease liabilities | **-** | 1 |
| Senior Secured Notes | **1,102,073** | 816,064 |
| Secured loan facility | **2,384** | 9,005 |
| **Total non-current borrowings** | **1,104,457** | 825,070 |

On 22 June 2017, the Company issued £400.0m of 8.375% Senior Secured Notes and USD520.0m of 8.625% Senior Secured Notes. On 20 December 2017 and 8 June 2018 additional 8.375% Senior Secured Notes were issued in the amounts of £55.0m and £98.3m respectively, and on 19 November 2018 USD235m additional 8.625% Senior Secured Notes were issued. The issuances are presented net of transaction costs in the table above.

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 32 for further information relating to ETV redress liabilities. While the Letter of Credit ancillary facility remains in place the commitments under the RCF that may actually be utilized are contractually limited to £90.0m excluding the Letter of Credit ancillary facility. Permissible RCF drawings are further limited by the terms of the Group's overall credit facility arrangement. The RCF facility had not been utilised at 31 December 2018 (31 December 2017: £30.0m utilised).

The Group has economic hedge relationships that mitigate foreign exchange risks 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

## 30 Derivatives

Derivatives are only used for hedging purposes. The Group has the following derivative financial instruments as at 31 December:

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| **Non-current assets** | | |
| Foreign exchange forward contracts – cash flow hedges | - | 1,270 |
| Cross-currency swaps - cash flow hedges | 1,549 | - |
| **Current assets** | | |
| Cross-currency swaps - cash flow hedges | 2,929 | - |
| **Current liabilities** | | |
| Foreign exchange forward contracts – cash flow hedges | (3,081) | (3,743) |
| Cross-currency swaps - cash flow hedges | (448) | - |
| **Non-current liabilities** | | |
| Foreign exchange forward contracts – cash flow hedges | (1,249) | - |
| Cross-currency swaps - cash flow hedges | (8,354) | (37,182) |
| **Net derivative financial instrument liabilities** | (8,654) | (39,655) |

See note 24 for information on fair values and the assumptions and methods used to measure fair value.

See note 3 for information on accounting policies adopted in respect of derivative financial instruments and hedge accounting.

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) until the maturity of the swap in July 2021. The maturity date of the swap and debt instruments are due to coincide, at which point the Group will redeem the USD Notes using the USD principal received under the swap and pay a GBP principal set at the outset of the swap.

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 2018 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 arising 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.

Foreign exchange forward contracts

The Group enters foreign exchange 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.

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### 31 Current tax and deferred tax

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

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| **Corporation tax receivable** | **(387)** | 930 |
| | **(387)** | 930 |

Deferred tax liabilities relate to intangible assets arising from business combinations. The movement in deferred tax liabilities during the year is as follows:

| | **31 December 2018 £000** | Restated 31 December 2017 £000 |
|---|---|---|
| Beginning of the year | **(71,475)** | (43,309) |
| Deferred tax credit on intangibles | **12,152** | 8,979 |
| Additions in the year | **(6,205)** | (37,145) |
| Disposals in the year | **1,643** | - |
| IFRS 15 transition adjustment | **859** | - |
| Other movements | **1,821** | - |
| **End of the year** | **(61,205)** | (71,475) |

The analysis of deferred tax assets and deferred tax liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| Property, plant and equipment | **10,406** | 5,542 |
| Tax losses | **11,528** | 6,657 |
| Cross-currency swaps | **1,266** | 2,426 |
| Other | **4,559** | 901 |
| **Deferred tax assets** | **27,759** | 15,526 |
| Offset against deferred tax liabilities | **(27,759)** | (15,526) |
| **Net deferred tax assets** | **-** | - |

| | **31 December 2018 £000** | Restated 31 December 2017 £000 |
|---|---|---|
| Deferred tax liabilities | **(61,205)** | (71,475) |
| Offset of deferred tax assets | **27,759** | 15,526 |
| **Net deferred tax liabilities** | **(33,446)** | (55,949) |

### 31 Current tax and deferred tax *(continued)*

The movement in net deferred tax liabilities is as follows:

| | **31 December 2018 £000** | Restated 31 December 2017 £000 |
|---|---|---|
| Beginning of the year | **(55,949)** | (26,892) |
| Deferred tax income | **27,523** | 3,342 |
| Deferred tax income - OCI | **(1,159)** | 2,427 |
| Transfer in relation to held for sale assets | **1,821** | - |
| Deferred tax - equity | **(3,876)** | - |
| Deferred tax - acquisitions in the year | **(2,900)** | (34,826) |
| Deferred tax on business disposal | **1,353** | - |
| Other movements | **(259)** | - |
| **Net deferred tax liabilities at the end of the year** | **(33,446)** | (55,949) |

Following the completion of an allocation of intangibles assets in 2018 relating to the acquisition of Carole Nash on 20 December 2017, the audited balances as at 31 December 2017 have been restated. The restatement includes the recognition of a deferred tax liability on the intangible assets identified (excluding goodwill).

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.

The net deferred tax liability is calculated by reference to the rates disclosed in note 12. Deferred tax assets arising on losses and other timing differences are calculated assuming an expected future rate of 17% at the date of utilisation. The tax rate prevailing at the time the losses are utilised may differ.

The Group did not recognise deferred income tax assets of £59.6m (2017: £54.5m) in respect of deductible temporary differences.

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| Fixed assets | **12,992** | 13,767 |
| General provisions | **534** | 10,102 |
| Losses | **24,825** | 20,823 |
| Interest restriction | **21,226** | 9,792 |
| **Unrecognised deferred tax assets** | **59,577** | 54,484 |

The Group had carried forward unrecognised tax losses of £150.1m (2017: £122.5m).

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### 32 Provisions for other liabilities and charges

The Group held the following provisions as at 31 December 2018:

| | ETV £000 | Run-off £000 | LTIP £000 | Litigation matters £000 |
|---|---|---|---|---|
| At 1 January 2018 | 51,000 | 7,541 | 3,001 | 3,513 |
| Reclassification | - | - | - | - |
| Charged to profit or loss | - | 1,033 | 508 | 8,805 |
| Disposals | - | - | - | - |
| Transferred on acquisition | - | - | - | 749 |
| Utilised during the period | - | (4,776) | (184) | (2,202) |
| Unwind of discount | - | - | - | - |
| Held for sale | - | - | - | - |
| **At 31 December 2018** | 51,000 | 3,798 | 3,325 | 10,865 |

| | Property £000 | Loss corridor £000 | Branch closure £000 | Other £000 | Total £000 |
|---|---|---|---|---|---|
| At 1 January 2018 | 9,241 | 6,569 | - | 3,041 | 83,906 |
| Reclassification | - | (6,569) | - | (1,747) | (8,316) |
| Charged to profit or loss | (467) | - | - | 853 | 10,732 |
| Disposals | (133) | - | - | - | (133) |
| Transferred on acquisition | 4,105 | - | 5,239 | 306 | 10,399 |
| Utilised during the period | (1,346) | - | - | (1,078) | (9,586) |
| Unwind of discount | 254 | - | - | - | 254 |
| Held for sale | (155) | - | - | - | (155) |
| **At 31 December 2018** | 11,499 | - | 5,239 | 1,375 | 87,101 |

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.

| **Analysis of total provisions** | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| Non-current - to be utilised in more than one year | 31,740 | 44,317 |
| Current - to be utilised within one year | 55,361 | 39,589 |
| | 87,101 | 83,906 |

## 32 Provisions for other liabilities and charges *(continued)*

Enhanced Transfer Values (ETV) and run off costs provision

As previously reported, certain subsidiaries within the Group have obligations to make redress payments in respect of historical pension transfer advice. The ETV business ceased in 2014 and the relevant subsidiaries ceased trading in March 2015 following a trade and asset sale of their remaining activities.

As disclosed in the Group's Annual Financial Statements for the year ended 31 December 2017, a client contact programme has enabled the ETV population to be refined, the FCA has published revised guidance on the calculation of redress, and file reviews have commenced. In light of these developments, management established a provision in the final quarter of 2017 of £51 million, representing the estimate of the redress liabilities that will fall due. In maintaining this provision, the Directors have taken into account that the redress programme continues to remain at an early stage and there remains uncertainty regarding the ultimate cost, which may therefore differ materially from this initial estimate. Specifically:

- the Directors obtained independent actuarial advice on a sample of cases to assist in estimating the average cost per redress case. In extrapolating the results to the entire population, the advisers have identified a +/- 20% risk of variation to the outcome; and
- there remains uncertainty regarding the number of cases within the population for which advice will be determined to be unsuitable and the actual outcome may vary from management's present estimate, which has been based on a sample of cases reviewed to date. In arriving at the estimate of the population judged to have received unsuitable advice, management has taken into account the findings of a number of case reviews carried out by independent specialists.

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. In view of these uncertainties, as part of the going concern scenarios, the Directors have considered a 40% deterioration in the quantum of the ETV liabilities as well as a possible acceleration of the settlement profile of the redress cases. The redress programme is currently expected to commence in the second quarter of 2019 and to last up to 24 months. As the programme progresses, the results of case reviews will be used to further inform and update the provision as required.

The review activities are provided for separately within the run-off provision. The balance of the run-off provision as at 31 December 2018 is £3.8m, which includes a £1.0m increase in 2018 in estimated cost and expenses of the review.

Long-term incentive provision

Three new long-term incentive provision schemes were established in 2016. 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, which for one scheme was in 2018. For the other two schemes, an interim payment was made in 2017, the amount of which will be deducted from the final payments due in 2019.

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.

### 32 Provisions for other liabilities and charges *(continued)*

Property provision

*Onerous lease (£3.2m)*
Provides for costs incurred on vacant properties for the full remaining term of the lease. When a property is exited before the end of the lease term, the future committed rental payments are provided for in full and that provision is released to the consolidated income statement over the remaining life of the lease.

*Rents above market value provision (£1.3m)*
This provision relates to leasehold properties purchased in a business combination and includes for the full remaining term of the lease the portion of rental payments that are above the property's market rental value. The provision is released to the consolidated income statement over the life of the leases.

*Dilapidations provision (£7.0m)*
Provides for the estimated amounts payable for dilapidations on each property at the end of the lease term.

Loss corridor provision
In 2017, the loss corridor provision, which provides for the estimated losses recoverable by the insurer for net premium earned to date on those schemes with loss sharing clauses, was classified as a provision. Following the adoption of IFRS 15 amounts expected to be paid under loss corridor arrangements have been reclassified from provisions to insurance creditors (trade and other payables).

Branch closure
Relates to a provision held by The Swinton Group for the cost of closing branches including future rent and service charge liabilities until the lease expiry date.

Other provision
The other provision balance at 31 December 2018 includes:

- £1.0m restructuring provisions
- £0.3m for potential liabilities relating to legacy balances

### 33 Held for sale assets and liabilities

The Group announced on 1 November 2018 that it had agreed the sale of its commercial MGA business and selected assets, including the commercial underwriting areas of the Group's MGA segment, with an effective date of 1 January 2019.

The major classes of assets and liabilities comprising the operations that are classified as held for sale at 31 December 2018 are as follows:

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| Goodwill and intangible assets | **26,416** | - |
| Property, plant and equipment | **14** | - |
| Other assets | **323** | - |
| **Total assets classified as held for sale** | **26,753** | - |
| Deferred tax liabilities | **(1,821)** | - |
| Provisions for liabilities and charges | **(155)** | - |
| **Total liabilities classified as held for sale** | **(1,976)** | - |
| **Net assets classified as held for sale** | **24,777** | - |

## 34 Share capital

| | Number of shares (thousands) | Ordinary shares £000 | Total £000 |
|---|---|---|---|
| **At 1 January 2018** | **52,023,520** | **520,235** | **520,235** |
| **At 31 December 2018** | **52,023,520** | **520,235** | **520,235** |
| At 1 January 2017 | 52,023,520 | 520,235 | 520,235 |
| At 31 December 2017 | 52,023,520 | 520,235 | 520,235 |

## 35 Share-based payments

The Group operates an equity-settled share-based payment scheme as at 31 December 2018, the 'Ardonagh MIP'. 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 and 2017 to services performed, to new joiners and to leavers is 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 MIP shares have no dividend or voting rights and cannot be sold. 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 MIP shares if an employee leaves the Group prior to the occurrence of a crystallisation event.

The grant date fair value of the scheme is calculated using a Black Scholes model, which includes discounts for the opportunity cost of equity, lack of control and good/bad leaver provisions.

## 36 Contingent liabilities, assets and commitments

**Guarantees**

On 25 May 2017, the Company entered into a £90.0m super senior revolving credit facility (RCF).

On 20 June 2017, the Company 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, the Company 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, the Company 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 (ETV) products. See note 32 for further information relating to ETV redress liabilities. While the Letter of Credit ancillary facility remains in place the commitments under the RCF that may actually be utilized are contractually limited to £90.0m (excluding the Letter of Credit ancillary facility). Permissible RCF drawings are further limited by the terms of the Group's overall credit facility arrangement. The RCF facility had not been utilised at 31 December 2018 (31 December 2017: £30.0m utilised).

On 19 November 2018 USD235m additional 8.625% Senior Secured Notes were issued.

The obligations of the Company under the Notes, RCF, and the subsequently issued 8.375% and 8.625% notes, are guaranteed and secured by Ardonagh Midco 2 plc, the Company's immediate parent company, and all its material and certain other subsidiaries. These subsidiaries are listed below:

Ardonagh Midco 3 plc (RCF Guarantor only)
Ardonagh Finco plc
Nevada Investment Holdings 5 Limited
Nevada Investment Holdings 6 Limited
Nevada Investment Holdings 7 Limited
Ardonagh Midco 2 plc
Nevada Investments Holdings Limited
PFIH Limited
Nevada InvestorCo Limited
Nevada Investments Topco Limited
Price Forbes Holdings Limited
Price Forbes & Partners Limited
Nevada Investments 1 Limited
Nevada Investments 2 Limited
Nevada Investments 3 Limited
Nevada Investments 4 Limited
Nevada Investments 5 Limited
Nevada Investments 6 Limited
Nevada Investments 7 Limited
Arista Insurance Limited
Bishopsgate Insurance Brokers Limited
Broker Network Holdings Limited
CCV Risk Solutions Limited
Cullum Capital Ventures Limited
Four Counties Insurance Brokers Limited
Geo Specialty Group Holdings Limited
Geo Underwriting Services Limited
Lunar 101 Limited
Morgan Law Limited
Paymentshield Group Holdings Limited
Paymentshield Holdings Limited
Paymentshield Limited
Paymentshield Services Limited
Towergate Insurance Limited
Towergate Risk Solutions Limited
Towergate Underwriting Group Limited
URIS Group Limited
URIS Central Administration Limited
Millennium Insurance Brokers Limited
URIS Topco Limited
Chase Templeton Group Limited
Chase Templeton Holdings Limited
Chase Templeton Limited
Towergate Insurance Broking Holdings Limited
Ardonagh Specialty Holdings Limited
Swinton Group Limited
Swinton (Holdings) Limited
Swinton Properties Limited
Atlanta Investment Holdings Limited
Atlanta Investment Holdings A Limited
Autonet Insurance Services Limited
Carole Nash Insurance Consultants Limited
KDB Medicals Limited

## 36 Contingent liabilities, assets and commitments *(continued)*

**Contractual obligations**
The following table summarises material commitments as of 31 December 2018:

| | Less than one year £000 | One to five years £000 | More than five years £000 | Total £000 |
|---|---|---|---|---|
| Senior Secured Notes | - | 1,145,782 | - | 1,145,782 |
| Operating leases | 18,698 | 43,875 | 12,839 | 75,412 |
| Other obligations | 1,354 | 222 | - | 1,576 |
| Contractual commitments | 8,346 | 1,993 | - | 10,339 |
| | 28,398 | 1,191,872 | 12,839 | 1,233,109 |

Of the total contractual commitments in the table above £5.9m relates to projects driving operational efficiencies in the business which will be charged to the income statement, £4.2m relates to expenditure on intangible assets and £0.2m relates to property, plant and equipment.

The Group has no contingent liabilities at 31 December 2018.

## 37 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 and Countrywide Insurance Management Limited from Towergate. In January 2018, the Group received £30m cash from Nevada Investment Holdings 2 Limited in respect of the sale of its 19.9% shareholding in Bravo. Nevada Investment Holdings 2 Limited is a related party of the Group due to its common shareholders. The cash received plus an additional £1.2m is subject to a contingent clawback clause dependent upon the future performance of the Broker Network.

During 2018 the Group supplied services of £182,177 (2017: £345,987) to Bravo. A balance of £374,092 (2017: £294,530) was outstanding at 31 December 2018.

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 35.

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, each forgivable over different periods. The maximum length of the loan is 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 value of Directors' loans held on the Group's balance sheet at 31 December 2018 was £1.2m (2017: £1.2m).

Nevada Investments Holdings 2 Group
Nevada Investments Holdings 2 Limited and its subsidiaries (Nevada Group) are related parties of the Group due to common shareholders. During 2018 the Group entered into a loan agreement with Nevada Investment Holdings 3 Limited, a subsidiary of Nevada Investments Holdings 2 Limited whereby the Group will advance funds of up to £2.0m with interest accruing at a rate of 3% on a drawn balance. The balance on this loan was £1.7m at 31 December 2018 and was fully repaid prior to the acquisition of the Nevada Group by the Ardonagh Group on 31 January 2019 (note 40).

The Group paid costs on behalf of Minton House Group Limited, a subsidiary of Nevada Investments Holdings 2 Limited, of £1.3m during the year of which £252,984 was outstanding at 31 December 2018.

Transactions with non-controlling interests
On 22 August 2017, the Group paid £12.7m for an additional 17% of the issued shares of Price Forbes Holdings Limited, bringing the non-controlling interest down to under 1%. See note 16 for further information.

Transactions with Employee Benefit Trust
During the year, the Group paid costs of £211,667 on behalf of the Group's employee benefit trust, this balance was outstanding at 31 December 2018.

## 37 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 and Countrywide Insurance Management Limited from Towergate. In January 2018, the Group received £30m cash from Nevada Investment Holdings 2 Limited in respect of the sale of its 19.9% shareholding in Bravo. Nevada Investment Holdings 2 Limited is a related party of the Group due to its common shareholders. The cash received plus an additional £1.2m is subject to a contingent clawback clause dependent upon the future performance of the Broker Network.

During 2018 the Group supplied services of £0.2m (2017: £0.3m) to Bravo. A balance of £0.4m (2017: £0.3m) was outstanding at 31 December 2018.

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 35.

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, each forgivable over different periods. The maximum length of the loan is 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 value of Directors' loans held on the Group's balance sheet at 31 December 2018 was £1.2m (2017: £1.2m).

Nevada Investments Holdings 2 Group

Nevada Investments Holdings 2 Limited and its subsidiaries (Nevada Group) are related parties of the Group due to common shareholders. During 2018 the Group entered into a loan agreement with Nevada Investment Holdings 3 Limited, a subsidiary of Nevada Investments Holdings 2 Limited whereby the Group will advance funds of up to £2.0m with interest accruing at a rate of 3% on a drawn balance. The balance on this loan was £1.7m at 31 December 2018 and was fully repaid prior to the acquisition of the Nevada Group by the Ardonagh Group on 31 January 2019 (note 40).

The Group paid costs on behalf of Minton House Group Limited, a subsidiary of Nevada Investments Holdings 2 Limited, of £1.3m during the year of which £252,984 was outstanding at 31 December 2018.

Transactions with non-controlling interests

On 22 August 2017, the Group paid £12.7m for an additional 17% of the issued shares of Price Forbes Holdings Limited, bringing the non-controlling interest down to under 1%. See note 16 for further information.

Transactions with Employee Benefit Trust

During the year, the Group paid costs of £0.2m on behalf of the Group's employee benefit trust, this balance was outstanding at 31 December 2018.

## 38 Ultimate parent company

The Ardonagh Group Limited is the Company's ultimate parent and the highest level at which the results are consolidated. The Company's immediate parent is Ardonagh Midco 2 plc. The Ardonagh Group Limited's majority shareholder is HPS Investment Partners LLC.

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## 39 Group undertakings

The following were Group undertakings at 31 December 2018. Unless otherwise shown, the capital of each company is wholly-owned, is in 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% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Arista Insurance Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| CCV Risk Solutions Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Geo Underwriting Services Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Paymentshield Limited | 100% | Paymentshield House, Wight Moss Way, Southport, Merseyside, PR8 4HQ | England | Ordinary |
| Towergate Underwriting Group Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |

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### 39 Group undertakings *(continued)*

| Company | Share-holding | Registered office address | Country of incorporation | Nature of holding |
|---|---|---|---|---|
| Antur Insurance Services Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary & preference |
| B.I.B. (Darlington) Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| B.I.B. Underwriters Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Berkeley Alexander Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Bishop Skinner Insurance Brokers Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Bishopsgate Insurance Brokers Limited | 100% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |
| Dawson Whyte Limited | 100% | 116-118 Holywood Road, Belfast, BT4 1NU | Northern Ireland | Ordinary |
| Fusion Insurance Services Scandinavia Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Four Counties Insurance Brokers Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Geo Specialty Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Geo Specialty Liability Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Managing Agents Reference Assistance Services Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Morgan Law Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Oyster Property Insurance Specialists Limited | 75% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Oyster Risk Solutions Limited | 87.5% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Towergate Insurance Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary & deferred |
| Antur (West Wales) Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| B.I.B. (Darlington) Acquisitions Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| B.I.B.U. Acquisitions Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |

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### 39 Group undertakings *(continued)*

| Company | Share-holding | Registered office address | Country of incorporation | Nature of holding |
|---|---|---|---|---|
| Bishop Skinner Acquisitions Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Bishop Skinner Insurance Brokers Holdings Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Broker Network Holdings Limited | 100% | Hexagon House, Grimbald Crag Close, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ | England | Ordinary |
| Cullum Capital Ventures Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Geo Specialty Group Holdings Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Lunar 101 Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Morgan Law (Holdings) Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | 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% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Towergate Risk Solutions Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Nevada Investment Holdings 6 Limited | 100% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |
| Nevada Investment Holdings 7 Limited | 100% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |
| Nevada Investorco Limited | 100% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |
| Nevada Investments 1 Limited | 96.4% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |
| Nevada Investments 2 Limited | 96.4% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |
| Nevada Investments 3 Limited | 96.4% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |
| Nevada Investments 4 Limited | 100% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |
| Nevada Investments 5 Limited | 100% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |

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### 39 Group undertakings *(continued)*

| Company | Share-holding | Registered office address | Country of incorporation | Nature of holding |
|---|---|---|---|---|
| Nevada Investments 6 Limited | 100% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |
| Nevada Investments 7 Limited | 100% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |
| Nevada Investments Holdings Limited | 100% | Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104 | Cayman Islands | Ordinary |
| Nevada Investments Topco Limited | 100% | Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104 | Cayman Islands | Ordinary |
| Nevada Management (Nominees) Limited | 100% | Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104 | Cayman Islands | Ordinary |
| Dawson Pennington & Company Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Ardonagh TM Holdco Limited | 100% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |
| Atlanta Investment Holdings 3 Limited | 80.9% | Devonshire House, 1 Mayfair Place, 4th Floor, London, W1J 8AJ | England | Ordinary |
| Atlanta Investment Holdings 2 Limited | 80.9% | Devonshire House, 1 Mayfair Place, 4th Floor, London, W1J 8AJ | England | Ordinary |
| Atlanta Investment Holdings Limited | 80.9% | Devonshire House, 1 Mayfair Place, 4th Floor, London, W1J 8AJ | England | Ordinary |
| Autonet Insurance Services Limited | 80.9% | Nile Street, Burslen, Stoke-on-Trent, ST6 2BA | England | Ordinary |
| KDB Medicals Limited | 80.9% | Nile Street, Burslen, Stoke-on-Trent, ST6 2BA | England | Ordinary |
| Bike Net Insurance Services Limited | 80.9% | Nile Street, Burslen, Stoke-on-Trent, ST6 2BA | England | Ordinary |
| Atlanta Investment Holdings A Limited | 80.9% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | 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 UK Office Limited | 100% | First Floor, Millennium House, Victoria Road, Douglas, Isle of Man, IM2 4RW | Isle of Man | Ordinary |

## FINANCIAL STATEMENTS
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 39 Group undertakings *(continued)*

| Company | Share-holding | Registered office address | Country of incorporation | Nature of holding |
|---|---|---|---|---|
| Anglia Financial Solutions Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Atlas Consulting Group Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Atlas Health Consultants Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Benefits For Business Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Best Health Business Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Best Health UK Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Bestworld Financial Management Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Business Protection Online Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Chartered Life Limited | 100% | 2nd Floor North Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN | Scotland | Ordinary |
| Complete Healthcare Solutions Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Get Private Individual Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Get Private Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Health Assist Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| HA Scotland Limited | 100% | 2nd Floor North Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN | Scotland | Ordinary |
| Health Equity Solutions Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Healthcare Quotations (Holdings) Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Healthcare Quotations Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Howill Group Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |

## FINANCIAL STATEMENTS
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 39 Group undertakings *(continued)*

| Company | Share-holding | Registered office address | Country of incorporation | Nature of holding |
|---|---|---|---|---|
| Independent Health Insurance Services Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| J.V.A Healthcare Services Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Jigsaw Healthcare Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Lewis Powell Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| London Medical Brokers Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| M & A Healthcare Products Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Marcus Christian Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Medical Insurance Advisers Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Medins Healthcare Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Medisearch Direct Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Mutual Health Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Perfect Health Insurance Services Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Planhealth Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| T F Bell Holdings Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Positively Healthcare Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Positively Money Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Preferred Medical I T Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Preferred Medical Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |

## FINANCIAL STATEMENTS
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 39 Group undertakings *(continued)*

| Company | Share-holding | Registered office address | Country of incorporation | Nature of holding |
|---|---|---|---|---|
| Private Medical Insurance Advisers Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Private Medical Solutions (UK) Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Private Medicalcare Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Simply Assured Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| SJS Healthcare Associates Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Ultimate Health Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Wellbeing Health Insurance Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | England | Ordinary |
| Search Healthcare Limited | 100% | 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 0FG | 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 |

## FINANCIAL STATEMENTS
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 39 Group undertakings *(continued)*

| Company | Share-holding | Registered office address | Country of incorporation | Nature of holding |
|---|---|---|---|---|
| URIS Investment Limited | 96.4% | Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL | England | Ordinary, deferred & preference |
| URIS Holdings Limited | 96.4% | Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL | England | Ordinary |
| Price Forbes Holdings Limited | 100% | Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104 | 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% | 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% | Appleby, Canon's Court, 22 Victoria Street, Hamilton, HM 12 | Bermuda | Ordinary |
| Price Forbes (PTY) Limited | 100% | 1st Floor, Block A, Kingsley Office Park, 85 Protea Road, Chislehurston, 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% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Towergate Financial (East) Intermediate Limited | 84.2% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Towergate Financial (East) Limited | 84.2% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary & preference |

# FINANCIAL STATEMENTS
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39 Group undertakings *(continued)*

| Company | Share-holding | Registered office address | Country of incorporation | Nature of holding |
|---|---|---|---|---|
| Towergate Financial (Group) Limited | 85.1% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Towergate Financial (London) Limited | 73.6% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Towergate Financial (North) Holdings Limited | 77.8% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Towergate Financial (North) Limited | 77.8% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | 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% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Towergate Financial (West) Limited | 84.9% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary & preference |
| HS 428 Limited | 100% | Paymentshield House, Wight Moss Way, Southport, Merseyside, PR8 4HQ | England | Ordinary |
| Oak Affinity Consultancy Limited | 100% | Paymentshield House, Wight Moss Way, Southport, Merseyside, PR8 4HQ | England | Ordinary |
| Four Counties Finance Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Execcover Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Moffatt & Co Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Arthur Marsh & Son Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Suddards Davies & Associates Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Waveney Group Schemes Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Waveney Insurance Brokers (Commercial) Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Waveney Insurance Brokers Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Capital & County Insurance Brokers Limited | 100% | 15 Canada Square, London, E14 5GL | England | Ordinary |

# FINANCIAL STATEMENTS
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39 Group undertakings *(continued)*

| Company | Share-holding | Registered office address | Country of incorporation | Nature of holding |
|---|---|---|---|---|
| CCG Financial Services Limited | 77.8% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Chorlton Cloughley Group Limited | 100% | 15 Canada Square, London, E14 5GL | England | Ordinary |
| Cox Lee & Co Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Crawford Davis Insurance Consultants Limited | 100% | 15 Canada Square, London, E14 5GL | England | Ordinary |
| Duncan Pocock (Holdings) Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Eclipse Park Acquisitions Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| JW Group Insurance & Risk Managers Limited | 100% | Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG | Scotland | Ordinary |
| JW Group Limited | 100% | Davidson House, 57 Queen Charlotte Street, Edinburgh, EH6 7YD | Scotland | Ordinary |
| M. Wood Insurance Services Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| M2 Financial Fees Limited | 84.2% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Portishead Insurance Management Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Priestley & Partners (Insurance) Brokers Limited | 100% | 15 Canada Square, London, E14 5GL | England | Ordinary |
| Protectagroup Acquisitions Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Protectagroup Holdings Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Protectagroup Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Richard V Wallis & Co Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Roundcroft Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| The Folgate Partnership Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Three Counties Insurance Brokers Limited | 100% | 15 Canada Square, London, E14 5GL | England | Ordinary |
| TL Risk Solutions Limited | 100% | 15 Canada Square, London, E14 5GL | England | Ordinary |
| Towergate Chase Parkinson Limited | 100% | 15 Canada Square, London, E14 5GL | England | Ordinary |

### 39 Group undertakings *(continued)*

| Company | Share-holding | Registered office address | Country of incorporation | Nature of holding |
|---|---|---|---|---|
| Towergate Financial (Edinburgh) Limited | 85.1% | 150 St Vincent Street, Glasgow, G2 5NE | Scotland | Ordinary & preference |
| Towergate Financial (Huddersfield) Intermediate Limited | 77.8% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Towergate Financial (Huddersfield) Limited | 77.8% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Towergate FJC Limited | 85.1% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Towergate Wilsons Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Carole Nash Legal Services LLP | 40.5% | Helmont House, Churchill Way, Cardiff, CF10 2HE | Wales | LLP |
| The Ardonagh Nominee Company Limited | 100% | 55 Bishopsgate, London, EC2N 3AS | 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% | Paymentshield House, Wight Moss Way, Southport, Merseyside, PR8 4HQ | England | Ordinary |
| Just Insurance Brokers Limited | 100% | 15 Canada Square, London, E14 5GL | England | Ordinary |
| AIUA Holdings Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Mastercover Insurance Services Limited | 100% | 2 Oaks Court, Warwick Road, Borehamwood, Hertfordshire, WD6 1GS | England | Ordinary |
| Ardonagh Specialty Holdings Limited | 100% | 55 Bishopsgate, London, EC2N 3AS | 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% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Van Net Insurance Services Limited | 80.9% | Nile Street, Burslen, Stoke-on-Trent, ST6 2BA | England | Ordinary |
| Nevada Investment Holdings 5 Limited | 100% | 55 Bishopsgate, London, EC2N 3AS | 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 |

# FINANCIAL STATEMENTS
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39 Group undertakings *(continued)*

| Company | Share-holding | Registered office address | Country of incorporation | Nature of holding |
|---|---|---|---|---|
| Walter Ainsbury & Son Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Smith & Pinching General Insurance Services Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| HLI (UK) Limited | 100% | 15 Canada Square, London, E14 5GL | England | Ordinary |
| Ainsbury (Insurance Brokers) Limited | 100% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | 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% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |
| Bishopsgate North American Binders Limited | 100% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |
| Price Forbes Risks Solutions Limited | 100% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |
| Towergate Insurance Broking Holdings Limited | 100% | 55 Bishopsgate, London, EC2N 3AS | England | Ordinary |
| Geo Europe B.V. | 100% | Weena 505, 17de verdieping, 3013AL Rotterdam | Netherlands | Ordinary |
| Geo Underwriting Europe B.V. | 100% | Weena 505, 17de verdieping, 3013AL Rotterdam | Netherlands | Ordinary |
| Atlanta Investment Holdings Midco B Limited | 80.9% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Atlanta Investment Holdings B Limited | 80.9% | Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, ME14 3EN | England | Ordinary |
| Carole Nash Insurance Consultants (Ireland) Designated Activity Company | 80.9% | Ulysses House, 22/24 Foley St, Mountjoy, Dublin | Ireland | Ordinary |
| URIS Group Insurance Services (Europe) Designated Activity Company | 96.4% | 70 Sir John Rogersons Quay, Dublin 2, D02 R296 | 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 |

## 39 Group undertakings *(continued)*

| Company | Share-holding | Registered office address | Country of incorporation | Nature of holding |
|---|---|---|---|---|
| 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 |

# FINANCIAL STATEMENTS
# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 40 Subsequent events

Acquisitions
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 HPS and MDP. The consideration for the acquisition was the issue of £67m principal amount of Convertible Equity Certificates of £0.01 each. Nevada 2 is the indirect holding company of Nevada Investment Holdings 3 Limited, which holds Minton House Group Limited, Health and Protection Solutions Limited and Professional Fee Protection Limited.

Intragroup reorganisation
On 31 January 2019, the Company entered into an Intragroup Transfer Agreement (the ITA) with its ultimate parent company, The Ardonagh Group Limited, its intermediate holding companies, Ardonagh Midco 1 Limited and Ardonagh Midco 2 plc and its wholly owned subsidiary Ardonagh Finco plc. Under the terms of the ITA, The Ardonagh Group Limited transferred the entire share capital of Nevada 2 to its wholly owned subsidiary Ardonagh Finco plc, by way of a series of contributions of the Nevada 2 shares. As part of this transfer the Company allotted and issued 67,000,000 ordinary shares of £0.01 each to its immediate parent, Ardonagh Midco 2 plc.

Disposal
On 1 January 2019, the Group completed the disposal of the business and certain assets of the commercial MGA of Geo, Towergate Commercial Underwriting and Fusion to Arch UK Holdings Limited, a subsidiary of Arch Insurance Company (Europe) Limited, for which a binding agreement had been entered into on 1 November 2018 (see note 33).

# FINANCIAL STATEMENTS
## COMPANY STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2018

| | Note | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in subsidiary | 3 | **671,409** | 520,185 |
| Other financial assets | 4 | **65,000** | 62,500 |
| Derivatives | 5 | **1,549** | 2,425 |
| Deferred tax assets | 8 | **1,266** | - |
| | | **739,224** | 585,110 |
| **Current assets** | | | |
| Other receivables | 6 | **925,038** | 808,853 |
| Cash and cash equivalents | 7 | **69,401** | 6,667 |
| Derivatives | 5 | **2,930** | - |
| Current tax asset | 8 | **2,752** | - |
| | | **1,000,121** | 815,520 |
| **Current liabilities** | | | |
| Other payables | 9 | **(190,398)** | (12,308) |
| Borrowings | 10 | **(37,639)** | (66,241) |
| Derivatives | 5 | **(449)** | - |
| | | **(228,486)** | (78,549) |
| **Non-current liabilities** | | | |
| Borrowings | 10 | **(1,108,861)** | (816,065) |
| Derivatives | 5 | **(8,354)** | (37,182) |
| | | **(1,117,215)** | (853,247) |
| **Net assets** | | **393,644** | 468,834 |
| **Capital and reserves** | | | |
| Share capital | 11 | **520,235** | 520,235 |
| Hedging reserves | | **(6,181)** | (11,048) |
| Retained losses | 12 | **(120,621)** | (40,353) |
| Capital contribution | | **211** | - |
| **Total equity** | | **393,644** | 468,834 |

The Company reported a loss of £80.7m for the financial year ended 31 December 2018 (2017: £40.4m).

These financial statements were approved by the Board of Directors on 9 April 2019 and were signed on its behalf by:

D Cougill
Director

The notes on pages 159 to 168 form part of these financial statements.

## FINANCIAL STATEMENTS
## COMPANY STATEMENT OF CHANGES IN EQUITY
## AS AT 31 DECEMBER 2018

| | **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** |

| | Share capital £000 | Hedging reserve £000 | Retained losses £000 | Total Shareholders' equity £000 |
|---|---|---|---|---|
| On incorporation | - | - | - | - |
| Issue of share capital | 520,235 | - | - | 520,235 |
| Change in other comprehensive income | - | (11,048) | - | (11,048) |
| Loss for period | - | - | (40,353) | (40,353) |
| At 31 December 2017 | 520,235 | (11,048) | (40,353) | 468,834 |

The notes on pages 159 to 168 form part of these 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 9 April 2019 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 all periods 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 9 April 2019.

The financial statements are presented in GBP sterling (£), which is also the Company's presentation and functional currency.

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, 38(a), 38(b), 38(c) 38(d), 40(a) 40(b), 40(e) 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 assumptions on which projections used in an impairment review are based and a sensitivity analysis thereon.

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 profit attributable to the Company is disclosed as a 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 13) and its base case and stressed cash flow forecasts over the calendar years 2019 and 2020.
- The principal risks facing the Group and its systems of risk management and internal control.
- 2019 liquidity to date is tracking favourably to plan.

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

- Invests to complete the major business transformation projects involving the finance function and broker system consolidation and that it achieves the projected synergies.
- Continues to benefit from the Revolving Credit Facility of £120m, which is limited to £90m whilst the Letter of Credit ancillary facility of £50m remains in place. None of the available £90m Revolving Credit Facility was utilised at 31 December 2018.
- Settles the ETV liabilities over a 24-month period commencing in the second half of 2019 (see note 32 to the consolidated financial statements).

Key stress scenarios the Directors have considered are:

- A shortfall in base case projected operating cash flows due to adverse economic conditions, project over-spend and project delays.
- Deterioration in the quantum and acceleration of the settlement of the ETV liabilities compared to the base case.
- Mitigating actions within management control such as:
    - Delayed capital expenditure and a reduction in discretionary spend. This action could be utilised if trading performance and cash flows are not in line with the reforecast and can be managed by temporary spending deferrals.
    - Raising additional debt, additional shareholder support, and the potential sale of non-core assets.
- The impact of Brexit.

# FINANCIAL STATEMENTS
# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 2 Accounting policies *(continued)*

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 period 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 and are subsequently measured at amortised 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 subsidiary

| | **Year ended 31 December 2018 £000** | Year ended 31 December 2017 £000 |
|---|---|---|
| **Cost** | | |
| At 1 January | **520,185** | - |
| Additions | **151,224** | 520,185 |
| **At 31 December** | **671,409** | 520,185 |
| **Net book value** | | |
| At 1 January | **520,185** | - |
| **At 31 December** | **671,409** | 520,185 |

| **Shares in Group undertakings** | **Shareholding %** | **Principal activity** |
|---|---|---|
| Ardonagh Finco plc | **100** | **Holding company** |

The registered office of Ardonagh Finco plc is Towergate House, Eclipse Park, Sittingbourne, Maidstone, Kent, ME14 3EN.

## 4 Other financial assets

| | **2018 Subordinated loan £000** | 2017 Subordinated loan £000 |
|---|---|---|
| Beginning of the year | **62,500** | - |
| Additions | **-** | 62,500 |
| Roll up of interest | **2,500** | - |
| End of the year | **65,000** | 62,500 |

The financial asset above relates to two intragroup loans the Company has with Atlanta Investments Holdings A Limited an indirect subsidiary within the Group. Of the loan balance noted above, £12.5m relates to a loan where interest is rolled into the principal annually.

# FINANCIAL STATEMENTS
# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 5 Derivatives

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| **Non-current assets** | | |
| Cross-currency swaps - cash flow hedges | **1,549** | - |
| **Current assets** | | |
| Cross-currency swaps - cash flow hedges | **2,930** | - |
| **Non-current liabilities** | | |
| Cross-currency swaps – cash flow hedges | **(8,354)** | (37,182) |
| **Current liabilities** | | |
| Cross-currency swaps - cash flow hedges | **(449)** | - |
| **Net derivative financial instrument liabilities** | **(4,324)** | (37,182) |

See note 24 of the consolidated financial statements for information on fair values and the assumptions and methods used to measure fair value.

See note 3 of the consolidated financial statements for information on accounting policies adopted in respect of derivative financial instruments and hedge accounting.

Cross-currency swaps
The Company 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 Company 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) until the maturity of the swap in July 2021. The maturity date of the swap and debt instruments are due to coincide, at which point the Group will redeem the USD Notes using the USD principal received under the swap and pay a GBP principal set at the outset of the swap.

The Company 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 2018 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 arising 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.

## FINANCIAL STATEMENTS
## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### 6 Other receivables

| | 31 December 2018 £000 | 31 December 2017 £000 |
|---|---|---|
| Prepayments | 5 | - |
| Amounts receivable from Group companies | 920,828 | 807,627 |
| Other debtors | 2,577 | 1,226 |
| Related party debtors | 1,628 | - |
| | 925,038 | 808,853 |

### 7 Cash and cash equivalents

| | 31 December 2018 £000 | 31 December 2017 £000 |
|---|---|---|
| Own funds | 69,401 | 6,667 |
| | 69,401 | 6,667 |

### 8 Income and deferred tax

| | 31 December 2018 £000 | 31 December 2017 £000 |
|---|---|---|
| **Corporation tax receivable** | 2,752 | - |
| | 2,752 | - |

| Deferred tax assets | 31 December 2018 £000 | 31 December 2017 £000 |
|---|---|---|
| Beginning of the year | 2,425 | - |
| Effect of change in tax rate | (134) | - |
| Short term temporary differences | (1,025) | - |
| **End of the year** | 1,266 | - |

| Deferred tax assets | 31 December 2018 £000 | 31 December 2017 £000 |
|---|---|---|
| Short term temporary differences | 1,266 | - |
| | 1,266 | - |

## FINANCIAL STATEMENTS
## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### 9 Other payables

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| Other liabilities | **736** | 3,930 |
| Amounts owed to Group companies | **177,423** | 8,378 |
| Accruals | **12,239** | - |
| | **190,398** | 12,308 |

### 10 Borrowings

| | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| <u>**Current liabilities**</u> | | |
| Interest payable | **39,271** | 37,841 |
| RCF borrowings net of transaction fees | **(1,632)** | 28,400 |
| <u>**Non-current liabilities**</u> | | |
| Loan notes | **1,108,861** | 816,065 |
| | **1,146,500** | 882,306 |

### 11 Share capital and premium

| | **Number of shares (thousands)** | **Ordinary shares £000** |
|---|---|---|
| **At 1 January and 31 December 2018** | **52,023,520** | **520,235** |
| On incorporation | - | - |
| Issue of share capital | 52,023,520 | 520,235 |
| **At 31 December 2017** | **52,023,520** | **520,235** |

### 12 Reserves

| **Retained losses** | **31 December 2018 £000** | 31 December 2017 £000 |
|---|---|---|
| At 1 January | **(40,353)** | - |
| Opening balance adjustment (IFRS 9) | **471** | - |
| Loss for the year | **(80,739)** | (40,353) |
| **At 31 December** | **(120,621)** | (40,353) |

# FINANCIAL STATEMENTS
# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 13 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 £0.7m 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.

## 14 Commitments

__Guarantees__

On 25 May 2017, the Company entered into a £90.0m super senior revolving credit facility (RCF).

On 20 June 2017, the Company 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, the Company 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, the Company 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 (ETV) products. See note 32 (of the consolidated financial statements) for further information relating to ETV redress liabilities. While the Letter of Credit ancillary facility remains in place the commitments under the RCF that may actually be utilized are contractually limited to £90.0m (excluding the Letter of Credit ancillary facility). Permissible RCF drawings are further limited by the terms of the Group's overall credit facility arrangement. The RCF facility had not been utilised at 31 December 2018 (31 December 2017: £30.0m utilised).

On 19 November 2018 USD235m additional 8.625% Senior Secured Notes were issued.

The obligations of the Company under the Notes, RCF, and the subsequently issued 8.375% and 8.625% notes, are guaranteed and secured by Ardonagh Midco 2 plc, the Company's immediate parent company, and all its material and certain other subsidiaries. These subsidiaries are listed below:

Ardonagh Midco 3 plc (RCF Guarantor only)
Ardonagh Finco plc
Nevada Investment Holdings 5 Limited
Nevada Investment Holdings 6 Limited
Nevada Investment Holdings 7 Limited
Ardonagh Midco 2 plc
Nevada Investments Holdings Limited
PFIH Limited
Nevada InvestorCo Limited
Nevada Investments Topco Limited
Price Forbes Holdings Limited
Price Forbes & Partners Limited
Nevada Investments 1 Limited
Nevada Investments 2 Limited
Nevada Investments 3 Limited
Nevada Investments 4 Limited
Nevada Investments 5 Limited
Nevada Investments 6 Limited
Nevada Investments 7 Limited
Arista Insurance Limited
Bishopsgate Insurance Brokers Limited
Broker Network Holdings Limited
CCV Risk Solutions Limited
Cullum Capital Ventures Limited
Four Counties Insurance Brokers Limited
Geo Specialty Group Holdings Limited
Geo Underwriting Services Limited
Lunar 101 Limited
Morgan Law Limited
Paymentshield Group Holdings Limited
Paymentshield Holdings Limited
Paymentshield Limited
Paymentshield Services Limited
Towergate Insurance Limited
Towergate Risk Solutions Limited
Towergate Underwriting Group Limited
URIS Group Limited
URIS Central Administration Limited
Millennium Insurance Brokers Limited
URIS Topco Limited
Chase Templeton Group Limited
Chase Templeton Holdings Limited
Chase Templeton Limited
Towergate Insurance Broking Holdings Limited
Ardonagh Specialty Holdings Limited
Swinton Group Limited
Swinton (Holdings) Limited
Swinton Properties Limited
Atlanta Investment Holdings Limited
Atlanta Investment Holdings A Limited
Autonet Insurance Services Limited
Carole Nash Insurance Consultants Limited
KDB Medicals Limited

These guarantees have been treated under IFRS 4 in line with the accounting policy described in note 3 to the consolidated financial statements.

## 15 Ultimate parent company

The Company's controlling party is HPS Investment Partners LLC. At 31 December 2018, The Ardonagh Group Limited is the largest group in which the results are consolidated. The Ardonagh Group Limited is incorporated in Jersey (registered office address: 47 Esplanade, St Helier, Jersey, JE1 0BD and its financial statements are available on request from Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, Kent, ME14 3EN.

## 16 Subsequent events

On 31 January 2019, the Company entered into an Intragroup Transfer Agreement (the ITA) with its ultimate parent company, The Ardonagh Group Limited, its intermediate holding companies, Ardonagh Midco 1 Limited and Ardonagh Midco 2 plc and its wholly owned subsidiary Ardonagh Finco plc. Under the terms of the ITA, The Ardonagh Group Limited transferred the entire share capital of Nevada 2 to its wholly owned subsidiary Ardonagh Finco plc, by way of a series of contributions of the Nevada 2 shares. As part of this transfer the Company allotted and issued 67,000,000 ordinary shares of £0.01 each to its immediate parent, Ardonagh Midco 2 plc.

# SECTION 3

# ARDONAGH MIDCO 3 plc

## OTHER UNAUDITED FINANCIAL INFORMATION
## FOR THE YEAR ENDED 31 DECEMBER 2018

# OTHER UNAUDITED FINANCIAL INFORMATION

## INTRODUCTION

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 Pro Forma for Completed Transactions results, which present material acquisitions, disposals and financing transactions as if they occurred on the first day of the prior period. Reconciliations from Loss for Period to EBITDA and Adjusted EBITDA on both a Reported and Pro Forma for Completed Transactions basis are also provided.

# OTHER UNAUDITED FINANCIAL INFORMATION

## RECONCILIATION OF REPORTED RESULTS TO PRO FORMA FOR COMPLETED TRANSACTIONS RESULTS - 31 DECEMBER 2018

| Year ended 31 December 2018 | Ardonagh Midco 3 audited GAAP £000 | Pro Forma disposal adjust-ments £000 | Pro Forma acquisition adjust-ments £000 | Pro Forma debt adjust-ments £000 | Pro Forma Ardonagh Midco 3 £000 |
|---|---|---|---|---|---|
| Commission and fees | 521,901 | (28,489) | 148,370 | - | 641,782 |
| Other income | 2,572 | - | (14) | - | 2,558 |
| Investment income | 2,106 | - | - | - | 2,106 |
| Salaries and associated costs | (290,099) | 24,276 | (51,595) | - | (317,418) |
| Other operating costs | (208,150) | 6,997 | (86,468) | - | (287,621) |
| Impairment of financial assets | (5,061) | 60 | (5,800) | - | (10,801) |
| Depreciation and amortisation charges | (71,284) | 5,660 | (13,419) | - | (79,043) |
| Adjustment to goodwill in respect of prior years | (3,095) | - | - | - | (3,095) |
| Fair value gain on derivatives | 2,485 | - | - | - | 2,485 |
| Impairment of goodwill and intangible assets | - | - | - | - | - |
| Share of profit from joint venture | 1,777 | - | - | - | 1,777 |
| Share of loss from associate | - | - | - | - | - |
| Operating loss | (46,848) | 8,504 | (8,926) | - | (47,270) |
| Finance income | 519 | - | 63 | - | 582 |
| Finance costs | (94,655) | - | (221) | (14,713) | (109,589) |
| Gain on disposal | 7,501 | (7,501) | - | - | - |
| Dividends received | - | - | - | - | - |
| Loss before tax | (133,483) | 1,003 | (9,084) | (14,713) | (156,277) |
| Tax credit | 24,081 | (548) | 304 | - | 23,837 |
| Loss for the year from continuing operations | (109,402) | 455 | (8,780) | (14,713) | (132,440) |
| Total profit for the year attributable to discontinued operations net of tax | - | - | - | - | - |
| **Loss for the year** | (109,402) | 455 | (8,780) | (14,713) | (132,440) |
| *Eliminate: Items excluded from EBITDA* | | | | | |
| Finance costs | 94,655 | | | | 109,589 |
| Tax credit | (24,081) | | | | (23,837) |
| Depreciation and amortisation charges | 71,284 | | | | 79,043 |
| Adjustment to goodwill in respect of prior years | 3,095 | | | | 3,095 |
| Impairment of goodwill and intangible assets | - | | | | - |
| Foreign exchange movements | (415) | | | | (415) |
| Dividends received | - | | | | - |
| **EBITDA** | 35,136 | | | | 35,035 |
| *Eliminate: Items excluded from Adjusted EBITDA* | | | | | |
| Transformational hires | 22,874 | | | | 22,874 |
| Business transformation | 31,167 | | | | 59,515 |
| Legacy costs | 27,812 | | | | 27,945 |
| Regulatory costs | 258 | | | | 258 |
| Acquisition and financing costs | 5,012 | | | | 5,012 |
| Profit on disposal of businesses and investments | (7,501) | | | | - |
| Share of loss from associate | - | | | | - |
| Reduction in value of contingent consideration | (11) | | | | (11) |
| Loss from disposal of assets | 1,389 | | | | 1,389 |
| Fair value gain on derivatives | (2,485) | | | | (2,485) |
| **Adjusted EBITDA** | 113,651 | | | | 149,532 |

# OTHER FINANCIAL INFORMATION

## RECONCILIATION OF REPORTED RESULTS TO PRO FORMA FOR COMPLETED TRANSACTIONS RESULTS - 31 DECEMBER 2017

| Year ended 31 December 2017 | Ardonagh Midco 3 audited GAAP £000 | Pro Forma disposal adjust-ments £000 | Pro Forma acquisition adjust-ments £000 | Pro Forma debt adjust-ments £000 | Pro Forma Ardonagh Midco 3 £000 |
|---|---|---|---|---|---|
| Commission and fees | 409,600 | (37,486) | 293,662 | - | 665,776 |
| Other income | 711 | - | 1,367 | - | 2,078 |
| Investment income | 149 | - | - | - | 149 |
| Salaries and associated costs | (240,954) | 24,984 | (139,793) | - | (355,763) |
| Other operating costs | (211,995) | 8,889 | (147,730) | - | (350,836) |
| Impairment of financial assets | (2,605) | 373 | (10,378) | - | (12,610) |
| Depreciation and amortisation charges | (56,908) | 7,484 | (29,752) | - | (79,176) |
| Adjustment to goodwill in respect of prior years | - | - | - | - | - |
| Fair value gain on derivatives | 6,289 | - | - | - | 6,289 |
| Impairment of goodwill and intangible assets | (84,517) | - | - | - | (84,517) |
| Share of profit from joint venture | 47 | - | 1,520 | - | 1,567 |
| Share of loss from associate | (1,139) | - | - | - | (1,139) |
| Operating loss | (181,322) | 4,244 | (31,104) | - | (208,182) |
| Finance income | 731 | - | 388 | - | 1,119 |
| Finance costs | (77,435) | - | (923) | (26,563) | (104,921) |
| Gain on disposal | - | - | - | - | - |
| Dividends received | 38 | - | - | - | 38 |
| Loss before tax | (257,988) | 4,244 | (31,639) | (26,563) | (311,946) |
| Tax credit | 3,296 | (542) | 583 | - | 3,337 |
| Loss for the year from continuing operations | (254,692) | 3,702 | (31,056) | (26,563) | (308,609) |
| Total profit/(loss) for the year attributable to discontinued operations net of tax | 12,398 | (12,738) | - | - | (340) |
| Loss for the year | (242,294) | (9,036) | (31,056) | (26,563) | (308,949) |
| *Eliminate: Items excluded from EBITDA* | | | | | |
| Finance costs | 77,435 | | | | 104,921 |
| Tax credit | (3,296) | | | | (3,337) |
| Depreciation and amortisation charges | 56,908 | | | | 79,176 |
| Adjustment to goodwill in respect of prior years | - | | | | - |
| Impairment of goodwill and intangible assets | 84,517 | | | | 84,517 |
| Foreign exchange movements | 2,798 | | | | 8,634 |
| Dividends received | (38) | | | | (38) |
| EBITDA | (23,970) | | | | (35,076) |
| *Eliminate: Items excluded from Adjusted EBITDA* | | | | | |
| Transformational hires | 15,040 | | | | 17,436 |
| Business transformation | 25,692 | | | | 68,655 |
| Legacy costs | 17,056 | | | | 17,825 |
| Regulatory costs | 58,590 | | | | 58,590 |
| Acquisition and financing costs | 7,993 | | | | 11,543 |
| (Profit)/loss on disposal of businesses and investments | (12,398) | | | | 340 |
| Share of loss from associate | 1,139 | | | | 1,139 |
| Reduction in value of contingent consideration | 15 | | | | 15 |
| Loss from disposal of assets | 57 | | | | 57 |
| Fair value gain on derivatives | (6,289) | | | | (6,289) |
| Adjusted EBITDA | 82,925 | | | | 134,235 |

# OTHER UNAUDITED FINANCIAL INFORMATION

## GLOSSARY OF TERMS

**Acquisition and financing costs**
Costs associated with acquiring businesses, with disposing of parts of the business, and with raising additional financing (legal and accounting advisors, rating agencies, etc).

**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.

**Available RCF**
Available and undrawn RCF (Revolving Credit Facility).

**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, tax, depreciation, amortisation, impairment of goodwill, 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 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).

**Legacy costs**
Pre-2016 and 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, and from remediation work in the Finance function.

# OTHER UNAUDITED FINANCIAL INFORMATION

## GLOSSARY OF TERMS

**Management reconciling items**

- Discontinued operations
- Restructuring costs
- Transformational hires
- Business transformation costs (other than restructuring costs)
- Legacy costs
- Regulatory costs
- Acquisition and financing costs
- Profit/loss on disposal of a business and investments (unless a discontinued operation)
- Share of operating loss from associate
- Reduction/increase in the value of contingent consideration
- Loss from disposal of assets

**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. This excludes one-off costs, other capital expenditure and costs related to cost saving and income growth initiatives.

**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 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 the audited financial statements section 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.

**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.

**Total Income**

Commission and fees, other income, investment income and finance income.

**Transformational hires**

Recruitment costs, sign-on fees, costs of retention and salary 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. Also, includes investment in the MGA segment to create branches of the business in Scandinavia.