

LANCASHIRE INSURANCE MARKETING SERVICES LIMITED

Financial Statements For the year ended 31 December 2019



Registered in England and Wales number 05586830

Contents

Directors and officers	3
Directors' report	4
Strategic report	6
Independent auditor's report	7
Statement of comprehensive income	9
Statement of financial position	10
Statement of changes in shareholder's equity	11
Statement of cash flows	12
Accounting policies	13
Notes to the financial statements	15

Company details

DIRECTORS

Michael Connor
John Cadman
Russell Worsley
Hayley Johnston

OFFICER

Michael Bambury

Company secretary

AUDITOR

KPMG LLP
Registered Auditor
15 Canada Square
London
E14 5GL

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Level 29
20 Fenchurch Street
London
EC3M 3BY

Registered number

05586830 (England and Wales)

The Company is a member of the Lancashire Insurance Group (www.lancashiregroup.com).

Directors' report

The directors present their report and the audited financial statements for Lancashire Insurance Marketing Services Limited, registered company number 5586830 ("LIMSL" or "the Company") for the year ended 31 December 2019.

Principal activity

The Company is a Financial Conduct Authority authorised insurance intermediary providing marketing services to Lancashire Insurance Company Limited ("LICL"), a Bermudian insurer. The directors consider that this will continue unchanged into the foreseeable future.

Directors' interests

The present directors and those who served during the year ended 31 December 2019 are as follows:

J Cadman (appointed 26 April 2019)
P Gregory (resigned 8 February 2019)
M Connor
R Worsley
H Johnston (appointed 26 April 2019)

None of the directors has any financial interest in the Company. The interests of the directors in Lancashire Holdings Limited ("LHL") or its subsidiaries are dealt with in note 5 and in the financial statements of Lancashire Insurance Company (UK) Limited ("LUK").

Payment policy

It is company policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions.

Employees

The Company has no employees and has not had any employees during the year under review. Disclosures relating to employees may be found in the financial statements of Lancashire Insurance Services Limited ("LISL").

Directors' and officers' liability insurance

The Company has maintained insurance to cover directors' and officers' liability as defined by section 236(6) of the Companies Act 2006 as amended.

Principal risks and uncertainties

The Company's expenses are recharged to Group companies under service level agreements and therefore the Company is not exposed to significant business risks underlying its financial results.

The principal financial risk and uncertainty facing the Company is liquidity risk, although this is not considered to be significant. The Company has exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short term cash flow requirements. The inability to meet short term cash flow requirements is dependent on other companies within the Lancashire Group. Details of the liquidity risk of the Lancashire Group can be found in the financial statements of LHL.

Statement of disclosure of information to auditors

Each person who is a director at the date of approval of this report confirms that:

- so far as the director is aware there is no relevant audit information of which the Company's auditors are unaware; and
- he or she has taken all the steps that ought to have been taken in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and

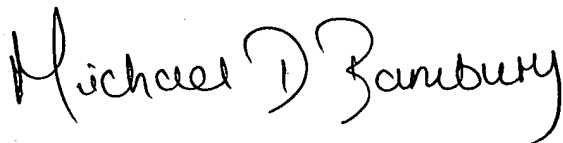
Directors' report

- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Directors' report continued

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are 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 company and to prevent and detect fraud and other irregularities.

By order of the Board



M Bambury

Company Secretary

7th February 2020

Business review

For the year ended 31 December 2019, the Company made a gross profit of \$76,361 (2018: \$30,168) after taking into account service fee income of \$1,139,501 (2018: \$581,052), service fee expense of \$1,046,904 (2018: \$534,390) and general and administrative costs of \$16,236 (2018: \$16,494). The increase in service fee income reflects the increase in gross written premium for contracts marketed for LICL.

Service fee income is charged to LICL for the provision of marketing services and the service fee expense is a recharge from LISL for the provision of physical infrastructure and associated support services. These services are provided in accordance with arm's length service agreements.

After taking into account foreign exchange gains, the Company made a net profit before tax of \$75,758 (2018: \$31,919) and a net profit after tax of \$60,942 (2018: \$26,010).

The effective tax rate for the year ended 31 December 2019 is 19.6% (2018: 18.5%).

LIMSL is not expected to be directly impacted by the UK's withdrawal from the European Union ("Brexit"). The Company provides marketing services to LICL in Bermuda using underwriting expertise in LUK. The directors of LUK have assessed the risk of Brexit on the company and concluded the risks not to be significant. Further information relating to LUK's strategy in dealing with the withdrawal from the EU can be found in the strategic report of LUK's financial statements for the year ended 31 December 2019.

Statement in accordance with section 172(1) Companies Act 2006

The Board of Directors consider that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its sole member and small number of stakeholders during the year ended 31 December 2019.

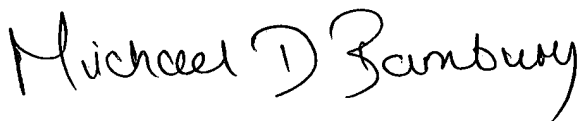
It is crucial to the Company's success that it positively engages with its key stakeholders such as brokers and service providers to provide a suitable service to LISL underwriters to enable them to provide the necessary insurance policies that are important to their clients in seeking to protect them and their business from risk events.

The Company also recognises the importance of an open and constructive relationship with government agencies and regulators and has developed a range of internal procedures and processes to establish a robust operating platform to ensure compliance with legal requirements and regulatory rules and standards.

Dividends

No interim dividend was paid during 2019 (2018: \$nil). The directors do not recommend the payment of a final dividend.

By order of the Board



M Bambury

Company Secretary

7th February 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE INSURANCE MARKETING SERVICES LIMITED

Opinion

We have audited the financial statements of Lancashire Insurance Marketing Services Limited ("the company") for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Shareholder's Equity, Statement of Cash Flows, and related notes, including the accounting policies.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit or the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Rajan Thakrar (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
15 Canada Square
London
E14 5GL

10 February 2020

Statement of comprehensive income

For the year ended 31 December 2019

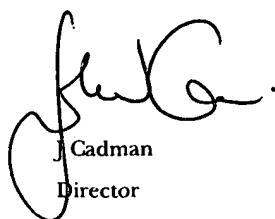
	Note	2019 \$	2018 \$
Service fee income	2, 14	1,139,501	581,052
Service fee expense	3, 14	(1,046,904)	(534,390)
Administrative expenses		(16,236)	(16,494)
Gross profit		76,361	30,168
Interest receivable and similar income		456	144
Unrealised foreign exchange (losses)/gains		(1,059)	1,607
Profit before tax	4	75,758	31,919
Tax charge	7	(14,816)	(5,909)
Profit attributable to equity shareholder		60,942	26,010

Statement of financial position

As at 31 December 2019

	Note	2019 \$	2018 \$
Assets			
Current assets			
Cash and cash equivalents	12	240,112	1,837,446
Trade and other receivables	13	1,992,988	850,058
Deferred tax asset	9b	11,276	9,441
Total assets		2,244,376	2,696,945
Liabilities			
Current liabilities			
Accrued expenses		8,042	11,102
Trade and other payables	8	1,482,173	2,009,229
Corporation tax liability	9a	23,838	7,233
Total liabilities		1,514,053	2,027,564
Net assets		730,323	669,381
Shareholder's equity			
Share capital	10	88,415	88,415
Contributed surplus	11	440,718	440,718
Retained earnings		201,190	140,248
Total shareholder's equity attributable to equity shareholder		730,323	669,381

Approved by the Board on 7th February 2020 and signed on its behalf by:



J. Cadman
Director

Statement of changes in shareholder's equity

For the year ending 31 December 2019

	Share capital	Contributed surplus	Retained profit	Total
	\$	\$	\$	\$
Balance at 31 December 2017	88,415	440,718	114,238	643,371
Total comprehensive income for the year	—	—	26,010	26,010
Balance at 31 December 2018	88,415	440,718	140,248	669,381
Total comprehensive income for the year	—	—	60,942	60,942
Balance at 31 December 2019	88,415	440,718	201,190	730,323

Statement of cash flows

For the year ended 31 December 2019

	Note	2019 \$	2018 \$
Cash flows from operating activities			
Profit before tax		75,758	31,919
Foreign exchange losses		1,059	—
Interest receivable		(456)	(144)
Changes in operational assets and liabilities:			
Trade and other receivables	13	(1,147,416)	(581,052)
Trade and other payables	8	(527,056)	568,037
Accrued expenses		(3,060)	(18,236)
Net cash flows from operating activities		(1,601,171)	524
Cash flows from investing activities			
Interest received		456	144
Net cash flows from investing activities		456	144
Net increase in cash and cash equivalents		(1,600,715)	668
Cash and cash equivalents at beginning of year		1,837,446	1,845,523
Effect of exchange rate fluctuations on cash and cash equivalents		3,381	(8,745)
Cash and cash equivalents at end of year	12	240,112	1,837,446

Accounting policies

For the year ended 31 December 2019

The Company is a limited liability company incorporated and domiciled in the United Kingdom (UK).

The principal accounting policies adopted in the preparation of these financial statements are set out below.

a) Basis of presentation

The financial statements have been prepared in accordance with accounting principles generally accepted under IFRS as adopted by the European Union.

All amounts are shown in United States dollars ("U.S.") dollars.

The statement of financial position is presented in order of descending liquidity.

b) Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported and disclosed amounts at the statement of financial position date and the reported and disclosed amounts of revenues and expenses during the reporting period. Actual results may differ materially from the estimates made.

c) Foreign currency translation

The functional currency for the Company is U.S. dollars. The Company's financial statements are presented in U.S. dollars. Items included in the financial statements of the Company are measured using the functional currency, which is the currency of the primary economic environment in which operations are conducted.

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are translated at year end exchange rates. The resulting exchange differences on translation are recorded in the statement of comprehensive income. Non-monetary assets and liabilities carried at historical cost denominated in a foreign currency are translated at historic rates.

d) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value added tax, rebates and discounts.

- I. Sales of services are recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service to be provided.
- II. Interest income is recognised on a time proportion basis using applicable interest rates.

e) Impairment of non-financial assets

Non-financial assets are reviewed for impairment losses 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 carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

f) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

g) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost and include cash at bank.

Interest income earned on cash and cash equivalents is recognised on the effective interest rate method. The carrying value of accrued interest income approximates fair value due to its short term nature.

h) Taxation

Income tax expense represents the sum of the tax currently payable and any deferred tax. The tax payable or receivable is calculated based on taxable profits or losses for the period. Taxable profits or losses for the period can differ from that reported in the statement of comprehensive income due to certain items which are not tax deductible or which are deferred to subsequent periods.

Deferred tax is recognised on temporary differences between the assets and liabilities in the statement of financial position and their tax base. Deferred tax assets or liabilities are accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Accounting policies

For the year ended 31 December 2019

i) Share capital

The Company is regulated by the Financial Conduct Authority and complies with prescribed minimum capital requirements.

Notes to the accounts

For the year ended 31 December 2019

1. RISK DISCLOSURES

The Company is exposed to currency risk to the extent its assets are denominated in different currencies from its liabilities. The Company monitors its currency position monthly and buys or sells currency in order to match its non U.S. dollar exposure enabling this risk to be mitigated.

The Company does not have significant exposure to liquidity and credit risk due to the short term nature of the financial assets and liabilities on its statement of financial position. The carrying amount of financial assets and liabilities approximates to their fair value due to the short term nature of the commitments.

At present all excess funds are held in cash and cash equivalents and the Company is therefore not subject to investment valuation risks.

2. SERVICE FEE INCOME

	2019	2018
	\$	\$
Service fee income - LICL	1,139,501	581,052

3. SERVICE FEE EXPENSE

	2019	2018
	\$	\$
Service fee expense - LISL	1,046,904	534,390

4. PROFIT BEFORE TAX

The following items have been included in arriving at profit before tax:

	2019	2018
	\$	\$
Audit of financial statements	19,633	8,843

5. REMUNERATION OF DIRECTORS

The directors of the Company did not receive any remuneration in respect of services to the Company.

The interests of R Worsley, M Connor, H Johnston and J Cadman in LHL are disclosed in the financial statements of LUK.

6. EMPLOYEE INFORMATION

The Company has no employees.

7. TAX

- a. Tax charged to statement of comprehensive income

	2019	2018
	\$	\$
Corporation tax payable	(14,394)	—
Group relief payable	—	(3,808)
Adjustments in relation to prior year group relief	(2,257)	2,789
Deferred tax charge for the current year	(238)	(2,310)
Adjustments in relation to prior year deferred tax	2,073	(2,580)
Tax charge	(14,816)	(5,909)

Notes to the accounts

For the year ended 31 December 2019

b. Tax reconciliation

The tax on the Company's profit before tax differs from the amount that would arise using the tax rate in the United Kingdom as follows:

	2019	2018
	\$	\$
Net profit before tax	75,758	31,919
Tax charge calculated at 19% (2018: 19%)	(14,394)	(6,064)
Adjustment in relation to prior year	(184)	209
Other expense permanent differences	(238)	(54)
Tax rate change adjustment	—	—
Tax charge for the year at an effective rate of 19.6% (2018: 18.5%)	(14,816)	(5,909)

8. TRADE AND OTHER PAYABLES

	2019	2018
	\$	\$
Payable within one year:		
Amount owed to LUK	159,787	133,745
Amount owed to LHL	6,880	6,880
Amount owed to LISL	1,315,506	1,868,604
	1,482,173	2,009,229

9. TAX ASSETS AND LIABILITIES

a. Corporation tax

	2019	2018
	\$	\$
Corporation Tax Payable	14,394	—
Group relief payable - LISL	838	815
Group relief payable - LIHUK ⁽¹⁾	247	240
Group relief payable - LHL	8,359	6,178
	23,838	7,233

(1) Lancashire Insurance Holdings (UK) Limited

b. Deferred tax asset

	2019	2018
	\$	\$
Timing difference on capital allowances	11,276	9,441

Although the Company transferred all of its fixed assets to LISL in January 2010, for tax purposes, a balance remains in the general pool for leasehold improvements following the disposal, for future capital allowances.

The UK corporation tax rate as at 31 December 2019 was 19 per cent. The UK government has passed legislation to reduce the rate of corporation tax to 17.0 per cent with effect from 1 April 2020. These rates have been reflected in the closing deferred tax position on the balance sheet.

Deferred tax assets are recognised to the extent that realisation of the related tax benefit through future taxable profits is likely.

Notes to the accounts

For the year ended 31 December 2019

c. Group relief

The Group surrenders tax losses for full consideration. During the year LHL surrendered losses of \$2,257 to the Company in respect of a prior year (Group relief 2018: \$3,808). Amounts owing to and from group companies for group relief at the year-end are disclosed in note 9a.

15. ULTIMATE HOLDING COMPANY

The Company's parent and ultimate holding company is Lancashire Holdings Limited, a company incorporated in Bermuda and whose registered office is Power House, 7 Par-La-Ville Road, Hamilton, HM 11, Bermuda.

Financial statements may be obtained from the registered office or viewed on Lancashire Holdings Limited's website at www.lancashiregroup.com.

Notes to the accounts

For the year ended 31 December 2019

10. ORDINARY SHARE CAPITAL

Details of the Company's ordinary share capital are as follows:

Authorised ordinary shares of £1 each	Number	£	
As at 31 December 2019 and 2018	50,000	50,000	

Allocated, called up and fully paid	Number	£	\$
As at 31 December 2019 and 2018	50,000	50,000	88,415

11. OTHER RESERVES

	2019	2018
	\$	\$
Contributed surplus	440,718	440,718

The Company is regulated by the Financial Conduct Authority. It must maintain a minimum capital of the higher of £5,000 or 2.5% of annual income. At 31 December 2019 the minimum capital the Company needed to hold was £21,747 (\$28,488 at a rate of exchange £1:\$1.31). At 31 December 2018 the minimum capital the Company needed to hold was £11,389 (\$14,526 at a rate of exchange £1:\$1.28).

12. CASH AND CASH EQUIVALENTS

	2019	2018
	\$	\$
Cash at bank	240,112	1,837,446

Cash and cash equivalents are carried in the statement of financial position at amortised cost and include cash at bank.

13. TRADE AND OTHER RECEIVABLES

	2019	2018
	\$	\$
Receivable within one year:		
Amounts due from LICL	1,989,561	850,058
Amounts due from LMSL ⁽¹⁾	3,427	—
	1,992,988	850,058

(1) LCM Marketing Services Limited

14. RELATED PARTY TRANSACTIONS

a. Service arrangement – LISL

LISL is a service Company set up to provide all employee contracts of service for the UK company directors and employees, in addition to holding operating leases to rent office accommodation on behalf of the Company.

Under the service arrangement with LISL, LISL provides the Company with staff and other support services to enable the Company to provide marketing services in respect of business which is underwritten by LICL. The Company pays for the cost of these services, at cost.

The cost of the service arrangements is shown in the statement of comprehensive income as service fee expense of \$1,046,904 (2018: \$534,390). The statement of financial position includes a credit balance of \$1,315,506 (2018: \$1,868,604) in relation to service fee's due to LISL.

b. Service arrangement – LICL

Under the service arrangement with LICL, the Company provides marketing services to LICL in respect of insurance business. LICL pays LMSL for the cost of all services plus an additional amount of 7%, except for the recharge of the cost of any warrants and options which are charged at cost.

The service fee income of \$1,139,501 (2018: \$581,052) for this arrangement is shown in the statement of comprehensive income. The statement of financial position includes \$1,989,561 (2018: \$850,058) in trade and other receivables in relation to service fee income due from LICL.