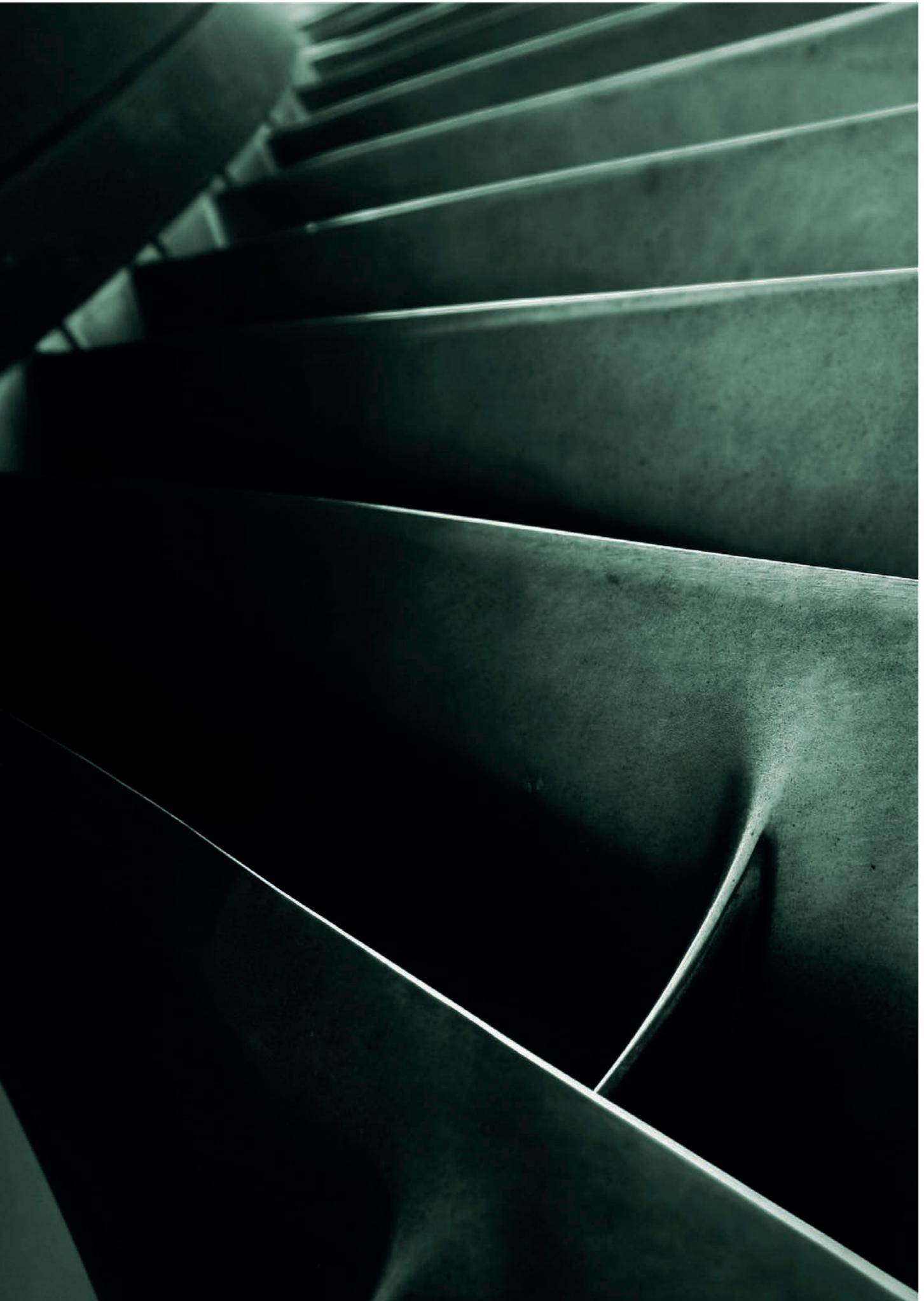




THE
Ardonagh
GROUP



ANNUAL REPORT & FINANCIAL STATEMENTS
FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2020



DISCLAIMER

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The information contained in the unaudited sections of this document has not been independently verified and some of that information is in summary form. No representation or warranty, express or implied, other than that implied or required by law is or will be made by any person as to, and no reliance should be placed on, the accuracy, fairness or completeness of the information or opinions expressed in such sections of this document. No responsibility or liability other than that implied by law is or will be accepted by Ardonagh, its shareholders, subsidiaries or affiliates or by any of their respective officers, Directors, employees or agents for any loss howsoever arising, directly or indirectly, from any use of this document or its contents or attendance at any presentation or question-and-answer session in relation to or in connection with this document.

Ardonagh cautions that this document may contain forward-looking statements in relation to certain of Ardonagh's business, plans and current goals and expectations, including, but not limited to, its future financial condition, performance and results. These forward-looking statements can be identified by the use of forward-looking terminology, including the words "aims", "believes", "estimates", "anticipates", "expects", "intends", "may", "will", "plans", "predicts", "assumes", "shall", "continue" or "should" or, in each case, their negative or other variations or comparable terminology or by discussions of strategies, plans, objectives, targets, goals, future events or intentions. Any projections or forward-looking information (including any underlying assumptions) contained herein are not to be viewed as facts and are subject to significant uncertainties and contingencies, many of which are beyond the control of Ardonagh. By their very nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Ardonagh's control, including but not limited to insurance pricing, interest and exchange rates, inflation, competition and market structure, acquisitions and disposals, and regulation, tax and other legislative changes in those jurisdictions in which Ardonagh, its subsidiaries and affiliates operate. In particular, the unprecedented and rapidly evolving nature of the global COVID-19 pandemic (including the short-term and long-term effects thereof) creates unprecedented and extraordinary uncertainties for most businesses including Ardonagh and its subsidiaries and affiliates. As a result, Ardonagh's actual future financial condition, performance and results of operations may differ materially from the plans, goals and expectations set out in any forward-looking statement made by Ardonagh. All subsequent written or oral forward-looking statements attributable to Ardonagh or to persons acting on its behalf should be interpreted as being qualified by the cautionary statements included herein. As a result, undue reliance should not be placed on these forward-looking statements.

The information and opinions contained in this document have not been audited (unless otherwise stated) or, other than the information contained in Section 2 (Audited Consolidated Financial Statements), necessarily been prepared in accordance with International Financial Reporting Standards and are subject to change without notice. The financial results in Sections 1 and 3 of this document include certain financial measures and ratios, including EBITDA and Adjusted EBITDA.

Adjusted EBITDA Pro Forma for Completed Transactions and certain other related measures are not presented in accordance with IFRS. 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.

This report comprises three sections and should be read in conjunction with the investor presentation, issued at the same time as this report and is available on the website <https://www.ardonagh.com/investors/financial-results>.

Section 1: Business review for the twelve months ended 31 December 2020. 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 disposal of the Commercial MGA business (completed 1 January 2019) and the disposal of the Milburn Insurance Brokers business (completed 1 November 2020), 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 31 January 2019), the acquisition of a business and certain assets of Rural Insurance Group Limited (completed 28 February 2020), the acquisition of the Nevada 5 Topco Limited group of businesses (including Arachas Topco Limited; completed 14 July 2020), the acquisition of the Nevada 4 Midco 1 Limited group of businesses (including Bravo Investment Holdings Limited; completed 14 July 2020), the acquisition of Thames Underwriting Limited (completed 12 August 2020), the acquisition of Guy Penn & Company Limited (completed 13 August 2020), the acquisition of Lloyd Latchford Group Limited (completed 30 September 2020), the acquisition of the marine and leisure business and certain assets from KGM Underwriting Services Limited (completed 1 November 2020) and the acquisition of the Robus Group Limited group of businesses (completed 1 December 2020). Refinancing transactions included in the Pro Forma relate to the Group refinancing completed on 14 July 2020.

Section 2: Audited consolidated financial statements for the twelve months ended 31 December 2020. 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 unaudited financial information provides detailed reconciliations between Reported and Pro Forma results and a glossary of terms.

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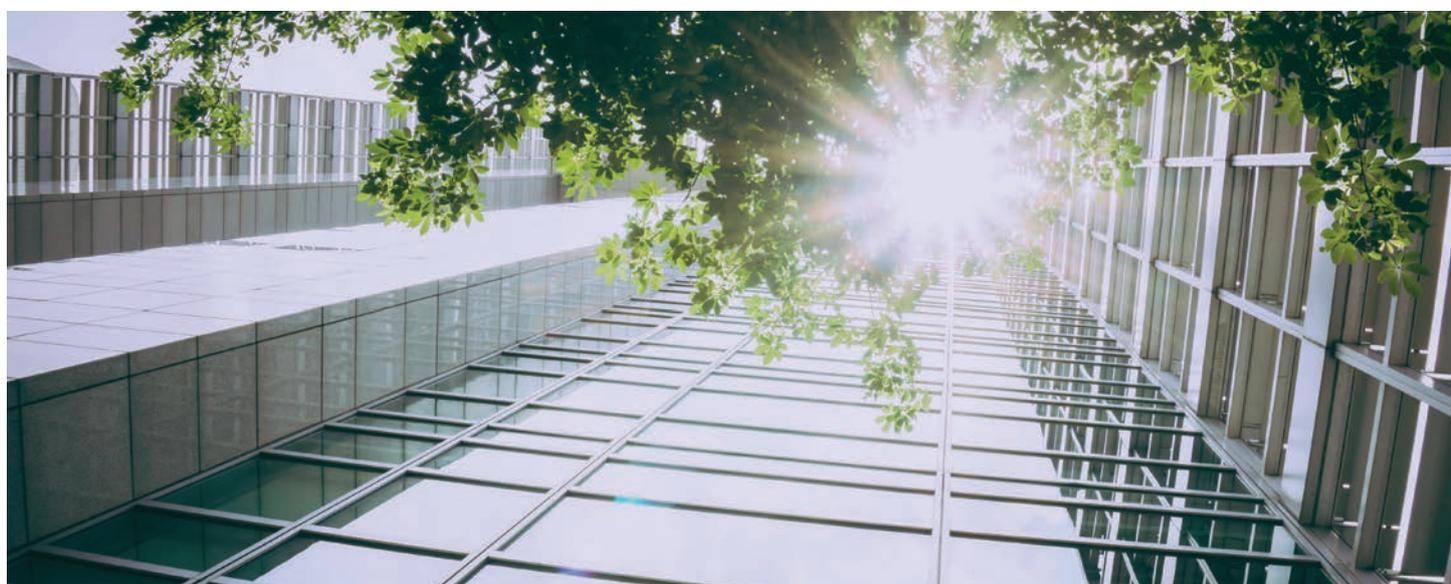
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Reconciliation of reported results to pro forma for completed transactions results for the year ended 31 December 2019

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Glossary of terms





**We are a leading
independent insurance
distribution platform
connecting clients
and premium to
global capital.**





DAVID ROSS
CEO of the Ardonagh Group

UNDERSTANDING ARDONAGH

We are a leading independent insurance distribution platform, connecting clients and premium to global capital.

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, in the UK, Ireland and broader international markets.

We have built a highly diversified platform through a combination of sustained focus on driving organic growth and a selective and disciplined acquisition programme.



Since our creation in 2017, we have built four industry-leading platforms which together trade with scores of leading brands. Ardonagh Advisory is an established commercial broking and advisory business, driving growth through trusted relationships to meet client needs. Our multi-brand Retail platform leverages advanced consumer data and pricing analytics. Our Specialty platform offers global distribution and builds on the heritage of the Price Forbes brand and expertise at Lloyd's, combined with leading specialist MGAs. The International platform is made up of our non-UK business, which as of 31 December 2020 comprised of Arachas, a leading insurance broker in Ireland, and in 2021 will house acquisitions made under the banner of Ardonagh Global Partners.

We continue to 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 provide customers with additional products and services at multiple stages across insurance distribution. The Portfolio Solutions function leads on the utilisation of Ardonagh's data assets to drive cohesion and enhanced income through new placement strategies and unique products for our expanding client base.

Our highly experienced senior management team have on average over 25 years of sector 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, qualified and committed colleagues across all of our support and corporate functions. Chief

Executive Officer, David Ross, has a successful track record in building and leading brokerage businesses, including leading transformative mergers and acquisitions in the insurance intermediary field.

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 95% and have significant investment experience in the insurance broking and underwriting market.

HPS is a global investment firm with approximately \$68 billion of assets under management as of January 2021. 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 eleven additional offices worldwide and has 152 investment professionals and over 380 employees globally as of January 2021.

MDP, based in Chicago, is a leading private equity investment firm. Since MDP's formation in 1992, the firm has raised seven funds with aggregate capital commitments of over \$26 billion and has completed investments in over 150 companies. MDP has five dedicated teams that have long and successful track records of investing in their respective sectors: Basic Industries; Business & Government Software and Services; Financial & Transaction Services; Healthcare; and Telecom, Media & Technology Services. Funds managed by MDP are a lead investor in NFP Corp., a US-based insurance broker/consultant, The Amynta Group, a leading provider of warranty and specialty insurance solutions in North America, and Navacord Inc., a Canadian based insurance and risk management brokerage firm.

Largest independent insurance broker in the UK

Our 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 approaching 7,000 professionals, the broad brand recognition for our portfolio of leading and niche insurance brands, and the scope of premium we place in the market.

We continue to make significant investments into our business to build scalable 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

We continue to make significant investments into our business to build our scalable efficient operating platforms, capable of on-boarding new business at low cost and with low integration risk.

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.

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. This mitigates risks related to over reliance on a single relationship and enables us to enhance our product offerings for clients. For the year ended 31 December 2020, no single carrier accounted for more than 10% of our total GWP, with the top five carriers in aggregate representing less than 30% of total GWP.

Market leader in numerous specialist niches

We have a depth of expertise in numerous specialist insurance lines, which has been built over decades of management experience. Niche specialty products are highly bespoke and require high levels of product expertise and strong insurance carrier relationships to develop and successfully take to market. Our leadership and frontline expertise developed over many years provides us with a strong competitive advantage both in terms of protecting our market share 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.

Growing, cash generative business model

The UK general insurance market continues to grow, thus validating our ongoing investment in new producers. We continue to realise additional cross-selling opportunities to drive incremental growth and to further streamline our operating model. 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 90% (actual operating cash conversion for Ardonagh for full year 2020 was 97%) and our business model aims to drive continued growth and organic de-leveraging in the future.



OUR BUSINESSES

Our businesses are organised into four operating segments that focus on distinct but complementary aspects of the insurance brokerage and services value chain: Ardonagh Advisory, Ardonagh Retail, Ardonagh Specialty and Ardonagh International which are detailed below.

ARDONAGH ADVISORY

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

TIB and Health and Protection products are sold mainly through face to face relationships via the Towergate brand. Riskline is a centre of excellence selling to micro small and medium enterprises (SME) and SME clients over the telephone and online. Footman James is a well-respected brand within the classic car insurance sector selling direct to consumers and, as such, aligns to our broader high net worth proposition across Advisory as a whole. Ethos and Networks provide insurance broking and member services with an SME focus via community broking offices and a network presence. As a member of the Worldwide Broker Network, TIB works with like-minded brokers around the world to deliver cross-border collaboration on behalf of its clients, giving us a global reach.

ARDONAGH RETAIL

Ardonagh Retail is comprised of: Swinton, Autonet, Carole Nash, Paymentshield, Healthy Pets and Lloyd Latchford. Swinton is one of the largest personal lines insurance brokers in the UK, with a well-recognised, heritage consumer brand. Autonet is 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 is a leading motorcycle and classic car insurance broker in the UK and Ireland, and a specialist brand renowned for quality and service. 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

Ardonagh Specialty is comprised of: Price Forbes, Bishopsgate and MGA. Price Forbes and Bishopsgate are both Lloyd's of London brokers which together provide

UK and international corporate clients with access to specialist sector insurance products covering a wide range of markets, including Energy, North American Property, Marine, Power, Aviation, Specie, Cargo, Mining and Terrorism. Price Forbes is a leading international wholesale insurance broker with a globally recognised brand that trades in major international insurance and reinsurance markets, including London, Bermuda and South Africa and Bishopsgate is a primarily UK and North American binding authority wholesale broking business. MGA primarily focuses on providing bespoke specialist insurance products and services for and on behalf of our strategic insurer partners. MGA is a full service managing general agency, with delegated underwriting authority from insurers while assuming no underwriting liability. MGA focuses on niche and specialty business, including agriculture, non-standard home and political violence, selling through brokers.

ARDONAGH INTERNATIONAL

Ardonagh International consists of primarily non-UK broking enterprises and related investments. At the year-end, it is comprised of the Arachas business, which is the largest SME-focused commercial insurance broker in Ireland, with specialised offerings and a nationwide reach that has allowed the business to quickly gain a leading position in its core markets. During February 2021, the group expanded into Australia with the acquisition of Resilium, Australia's largest independently owned intermediary network and a further investment in March 2021 into Hemsley Wynne Furlonge (HWF), a specialist M&A insurance broker with offices in London and Germany. HWF has advised on over 2,000 transactions spanning 51 countries, with deal values ranging from £5m to in excess of £8bn.

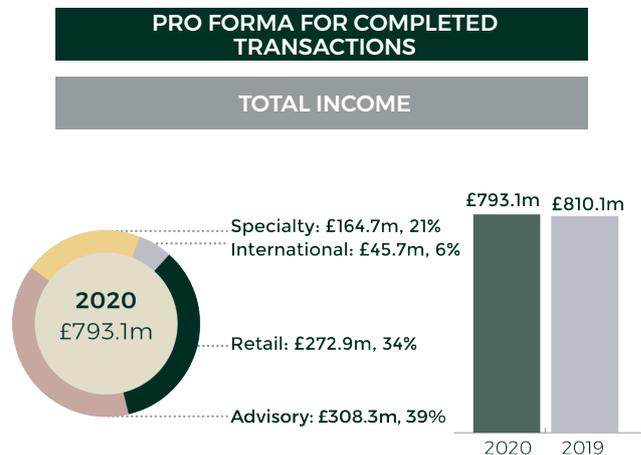
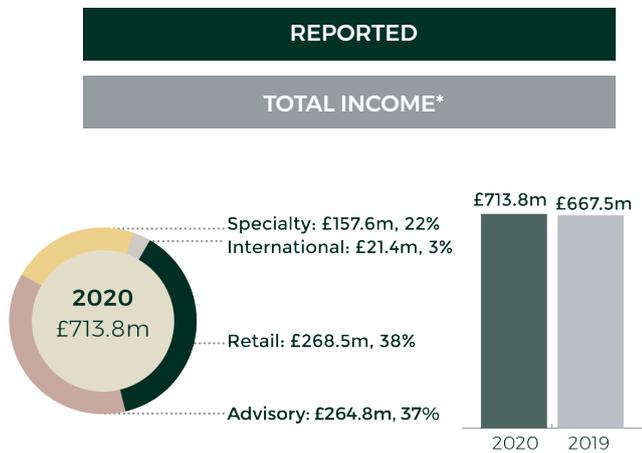
CORPORATE

The Group maintains a non-operating segment comprising central costs and income not allocated to the platforms. 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.

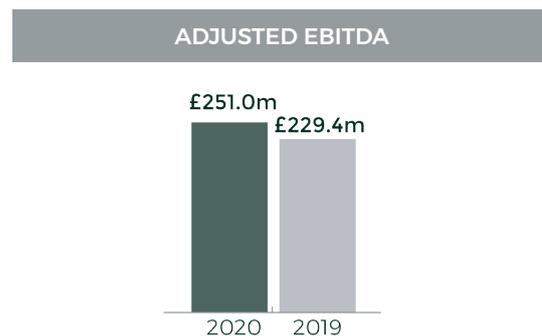
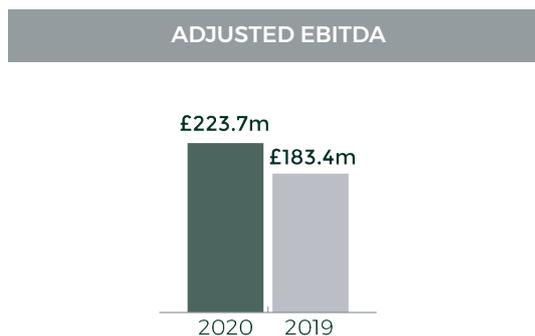


HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

FOR THE YEAR ENDED 31 DECEMBER 2020



* Includes Non-UK income of £135.2m (2019: £101.0m)



AVAILABLE LIQUIDITY
31 DECEMBER 2020: £596.0m

AVAILABLE LIQUIDITY
31 DECEMBER 2019: £181.7m

Pro Forma measures are used in addition to IFRS measures to improve comparability. Pro Forma for Completed Transactions as set out here includes the disposal of the Commercial MGA business (completed 1 January 2019) and the disposal of the Milburn Insurance Brokers business (completed 1 November 2020), the acquisition of the Nevada 3 businesses (acquisition of Minton House Group Limited (MHC), Health and Protection Solutions Limited (HIG) and Professional Fee Protection Limited (PFP), completed 31 January 2019), the acquisition of a business and certain assets of Rural Insurance Group Limited (completed 28 February 2020), the acquisition of the Nevada 5 Topco Limited group of businesses (including Arachas Topco Limited; completed 14 July 2020), the acquisition of the Nevada 4 Midco 1 Limited group of businesses (including Bravo Investment Holdings Limited; completed 14 July 2020), the acquisition of Thames Underwriting Limited (completed 12 August

2020), the acquisition of Guy Penn & Company Limited (completed 13 August 2020), the acquisition of Lloyd Latchford Group Limited (completed 30 September 2020), the acquisition of the marine and leisure business and certain assets from KCM Underwriting Services Limited (completed 1 November 2020) and the acquisition of the Robus Group Limited group of businesses (completed 1 December 2020).

Adjusted EBITDA is used by the business as an indication of the underlying profitability of the business. Certain items 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.



ARDONAGH PLATFORMS

ARDONAGH ADVISORY



ARDONAGH RETAIL



ARDONAGH SPECIALTY



ARDONAGH INTERNATIONAL





John Tiner
Chairman of the Ardonagh Group

CHAIRMAN'S REVIEW

In a year that has been marked by extraordinary change Ardonagh has risen to meet the huge operational challenges lockdown presented.

In reviewing the year, it seems inapt to talk about the performance of Ardonagh against the context of the extraordinary challenges, at both a personal and business level, faced by our clients and our colleagues. And yet, reflecting on the year, I am proud to do just that.

From the start of the pandemic it was clear that our clients across the board, from households to care homes and small businesses to major international transportation companies were facing into unforeseen and severe vulnerabilities. As their insurance broker, we planned our own response to the operational challenges thrown up by the national lockdown in a way which best enabled our colleagues to provide the support and guidance our clients required. Our colleagues stepped up wonderfully well and demonstrated the essence of Ardonagh: client focus, reliability and excellent communications and innovation.

We adapted our services to meet the needs of the moment by negotiating new insurance solutions for changed circumstances and we worked closely with our clients in the hospitality and leisure sector who were forced into closing their doors for several months during the year. The global pandemic did not prevent some major breakthrough engineering and technology projects coming to life and we were delighted to be able to support the launch of Australia's first commercial rocket into space.

Ardonagh's focus on clients and the resilience and determination of our people, together with excellent financial results, cash flow generation, strong underlying organic and inorganic growth and a refinanced balance sheet, including a substantial M&A facility, have once again validated the Group's business model and strategy.

Our Portfolio

Over the 12 months we have continued to selectively expand and strengthen our platforms.

Ethos Broking and Networks became part of the Advisory platform in July, when Bravo Investment Holdings was acquired bringing to the Ardonagh family the largest network of independent regional brokers with a highly successful hub-and-spoke acquisition strategy.

In Specialty, we maintained focus on specialist underwriting lines in our MGA with the acquisition of Rural, construction specialist Thames Underwriting, the marine and leisure division of KGM and insurance management, insurance-linked securities and captive specialist Robus. In the London Market we saw the benefit

of the global regional strategy with big client wins such as the Bogotá Metro and were one of the launch partners of Lloyd's first digital syndicate.

Dublin-based Arachas, the Republic of Ireland's largest and fastest growing brokerage, became the centrepiece of a fourth platform for Ardonagh – Ardonagh International and a significant step in the realisation of the Group's global ambitions.

These acquisitions have not only brought us a strong presence in strategic markets, but also further enhanced the depth and quality of our management team and I am delighted to welcome Conor Brennan, Des O'Connor, David Cahoon, Keith Syrett, Tony Harris, Richard Le Tocq and their colleagues to our Group.

Our Retail platform was named as Personal Lines Broker of the Year at the British Insurance Awards in recognition of its work to bring together Autonet, Carole Nash and Swinton as digital leaders with an expanded product set and broader insurer panel. The effective integration of these leading, trusted brands has been a hallmark of our Retail platform's performance.

In our community

As a Group we raised almost £150,000 for charity through our Go Green Day fundraising activities, supported by donations from partners, suppliers and financial advisers. Even in the absence of the usual bake sales and bucking bronco rides we raised a record amount across the Group in a single day from the sheer generosity of our people and their personally held desire to support their communities.

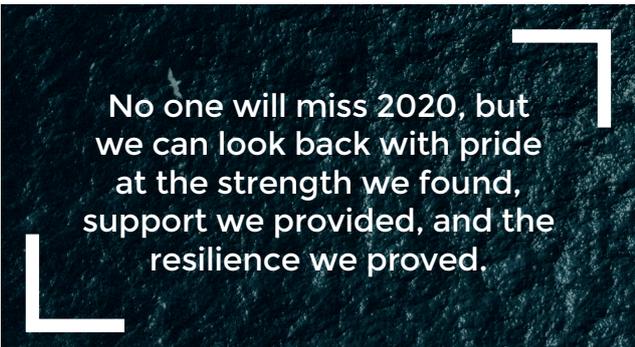
Alongside this, our charity, Ardonagh Community Trust (ACT), made grants to 30 small or local charities over the course of 2020, each one nominated by one of our colleagues, a total in excess of £130,000, a £50,000 uplift on the previous year. In addition, ACT brought to a close a fantastic two-year partnership with the mental health charity MIND, with a grand total of £200,000 raised.

One of the characteristics of Ardonagh that continues to stand out for me is the sense of individuality and community in what has grown to be a very large workforce. While we continued to devolve increased decision-making powers into the governing bodies of our platforms, it is striking how easily connections are made across the Group, including among those companies and teams who have joined us.

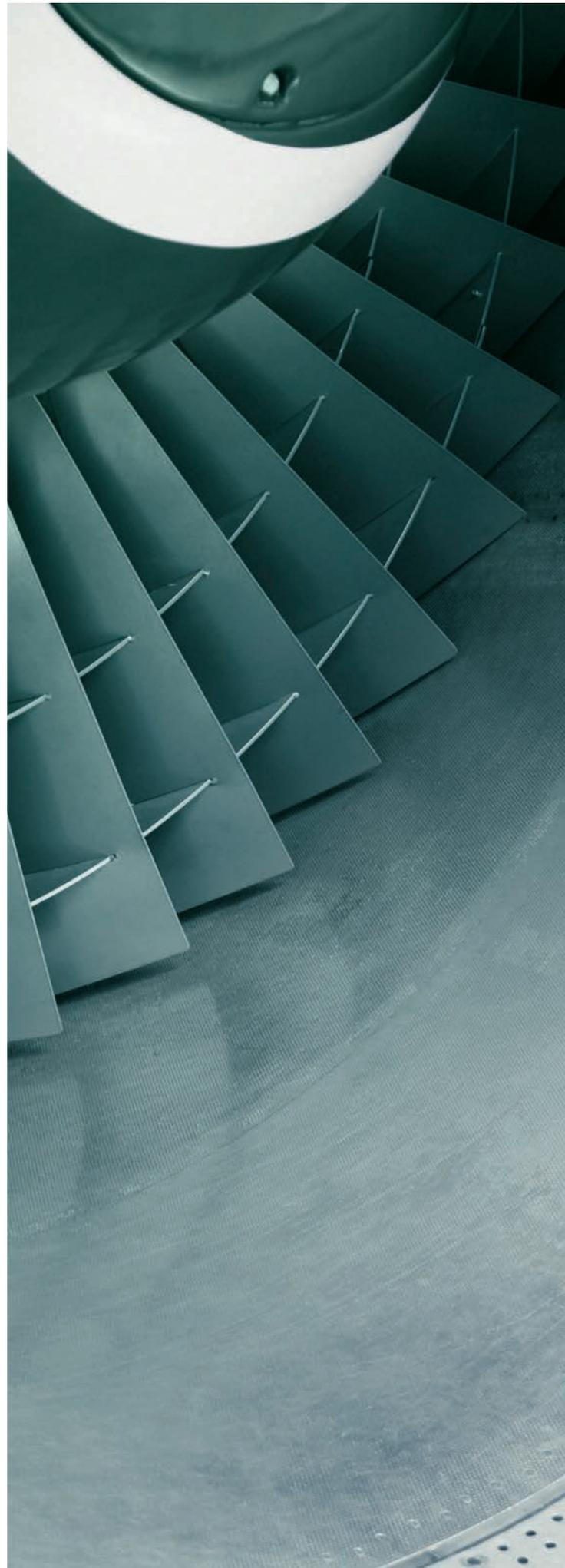
This Annual Report marks a milestone in our commitment to the UN Principles for Sustainable Insurance as we introduce the Ardonagh Sustainability Charter.

No one will miss 2020, but we can look back with pride at the strength we found, support we provided, and the resilience we proved.

Jon Tiner
Chairman of the Ardonagh Group



No one will miss 2020, but we can look back with pride at the strength we found, support we provided, and the resilience we proved.





David Ross
CEO of the Ardonagh Group

CHIEF EXECUTIVE'S REPORT

It is impossible to reflect on Ardonagh's year without acknowledging how quickly our lives became unrecognisable from what we knew as normal 12 months ago. The pandemic has changed the world in which we operate and presented a huge and sustained challenge to our people, partners and customers.

No one expected remote working would last a full calendar year. And yet at the time of publication we have completed a full annual cycle of renewing our clients, pursuing organic and acquisitive growth opportunities and bringing on board new talent from either lockdown or hybrid working environments.

The growth we report today is testament to our culture of resilience and resolve and we can feel very proud of how the group rallied around its clients and colleagues to provide certainty, professional advice and connection.

What carried us through?

We entered lockdown match fit and with momentum behind us, well-drilled in adaptation and the redeployment of resources in response to opportunities and issues. In this regard Covid-19 was just another challenge, albeit one of different magnitude.

Support and empowerment are a strong feature of our management culture. As a community of chief executives there was no single pressure point but rather a team of leaders that worked diligently and ensured the best ideas were shared.

Rallying round

Our first priority was to remobilise the Group to make sure our customers were taken care of. Within four weeks 90% of the workforce was set up working from home and able to continue to guide clients. In amongst the ordinary renewals new products were built by us, such as offering bespoke insurance solutions that allowed landlords to offer their properties to homeless tenants and NHS staff. We guided customers facing financial hardship to payment holidays and provided reliable and quality risk advice to businesses across the UK. Our specialty business delivered insurance programmes that enabled clinical trials to commence at record pace.

Lockdown changed so much about how our clients live, work and operate. But what hasn't changed is the need to protect the things they most highly value, which underlines the essential nature of the products we sell and the industry we work in.

Internally our community leaned into itself, supporting each other with local initiatives and as a Group with our new and award-winning Radio Ardonagh broadcasts. Our management and staff raised a record amount for local charities through the Ardonagh Community Trust funding projects including PPE for frontline workers and a minibus for a shelter for those fleeing domestic violence. It's somewhat ironic that an event

that scattered the workforce to kitchens and bedrooms ended up bringing us closer together as a team, validated with scores rising in our recent engagement survey across several measures.

Diverse and resilient

Over recent years Ardonagh has grown with purpose to become the most diverse insurance broker, with natural protection against volatility from any one product, sector of the economy or currency. Never has that strategy been more tested and never more has it been proven right.

In June we announced a powerful new capital structure and support from Ares Management Corporation which left us able to move at pace in response to the changed industry landscape.

Mergers, acquisitions and partners

Since the start of the year we have announced further acquisitions in Australia with Resilium, and in the UK and Germany with HWF. It marks a step change in our international strategy to provide firepower to organisations and management teams that are leaders in their fields. There are plenty of acquiring businesses in the market. Ardonagh isn't for sellers in search of a full stop in their story. It's a home for ambitious businesses that aren't done yet, and want to grow as we continue to, as part of a private enterprise of substantial ambition.

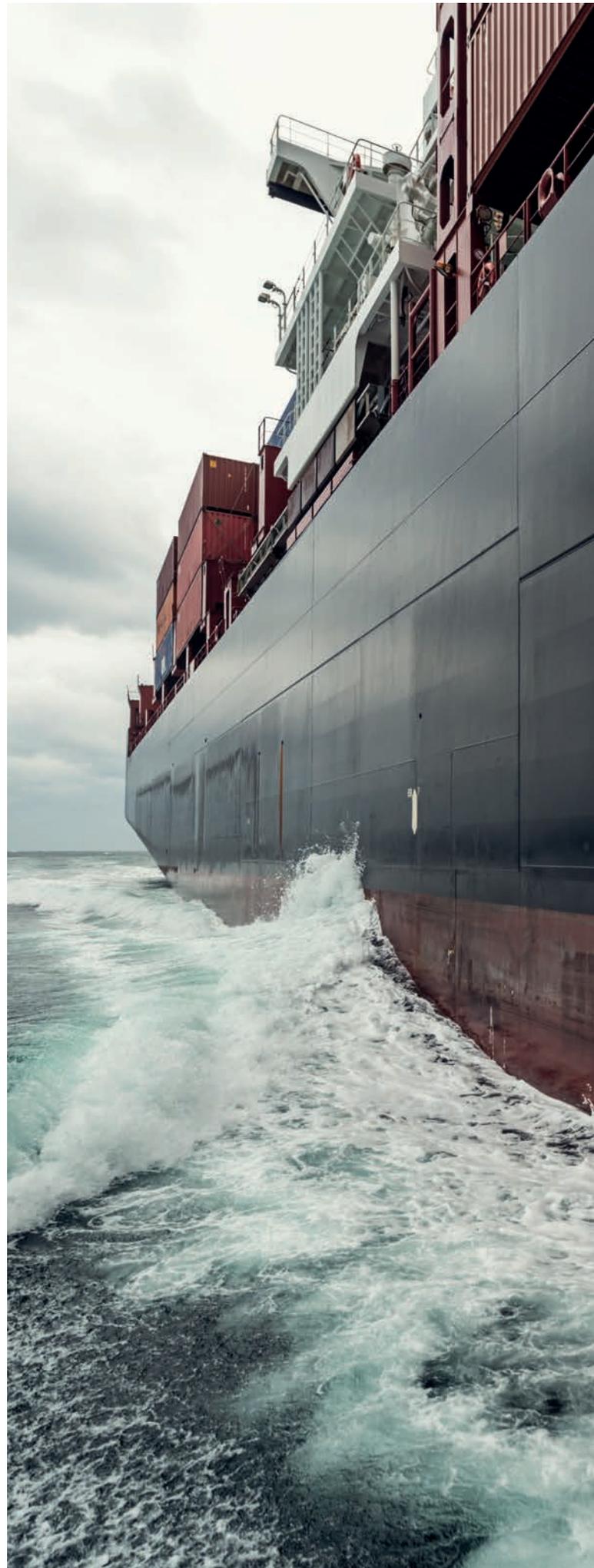
Future fit

As lockdown lifts and we emerge from those spare bedrooms to become reacquainted with our colleagues in 3D, we must carry with us what the experience taught us was possible. Enjoying extra time with our families should not be replaced by a return to a daily commute in the dark, but nor is permanent homeworking sustainable. We will work towards a working life which connects people wherever they are and which acknowledges the irreplaceable benefit of developing relationships with colleagues and clients.

We look with optimism to the ongoing rollout of vaccines and the lifting of lockdown restrictions, knowing we will not return to the way things were, but draw on the experience to become an even stronger business.

David Ross
CEO of the Ardonagh Group

The growth we report today is testament to our culture of resilience and resolve and we can feel very proud of how the group rallied around its clients and colleagues to provide certainty, professional advice and connection.





CHIEF FINANCIAL OFFICER'S REPORT

Financial Performance

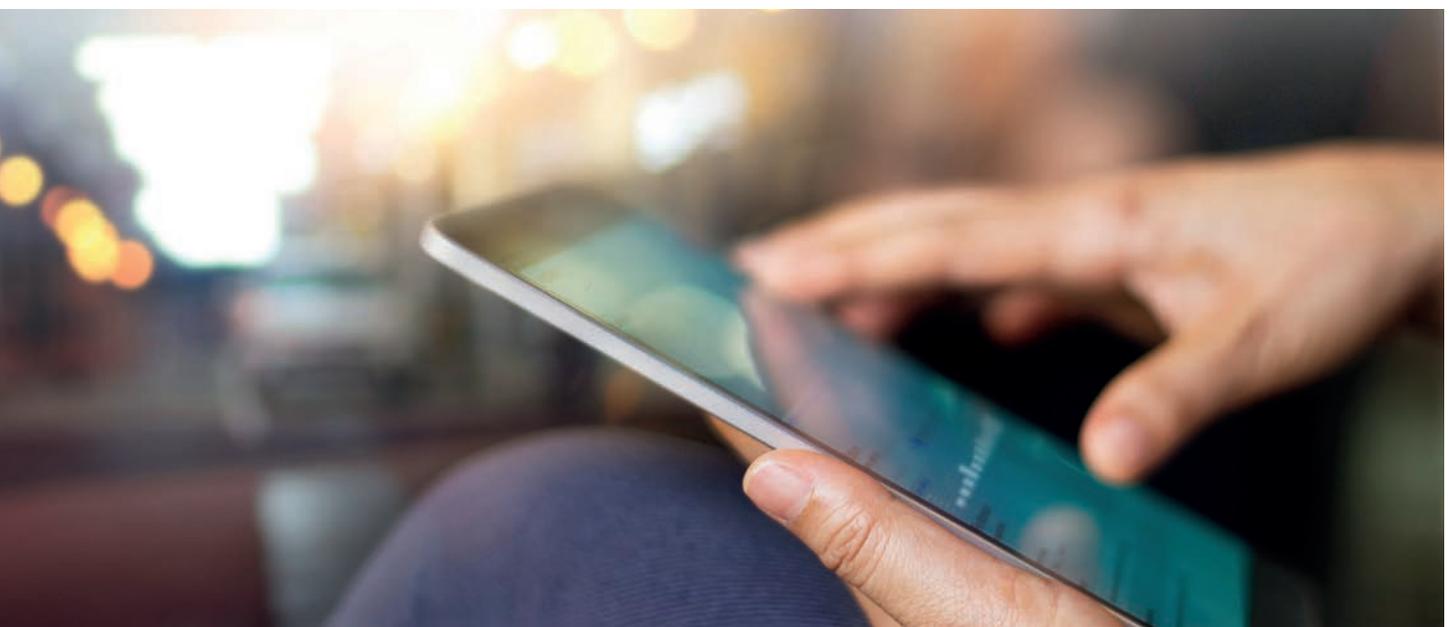
2020 has been a very successful year for the Group, with financial performance improving year on year across all our key metrics, reflecting the development of the Group through acquisitions and organic growth.

Reported EBITDA grew 31.4% and Reported Total Income grew by 6.9% with expansion in both existing and new markets and significant margin improvements which, against the backdrop of the Covid-19 pandemic, demonstrated the underlying strength and resilience which comes from a diversified and large scale Group.

The refinancing of our balance sheet brought greater financial flexibility, financed our two largest acquisitions to date in Bravo and Arachas and created a £300m committed Capex, Acquisition and Re-organisation (CAR) facility. We remain in a strong position to make further accretive additions to our platforms and will maintain a discipline and focus on the companies that we bring into the Group in line with our strategy.

The refinancing was a multi-jurisdictional transaction that even in normal times would have marked a significant moment in Ardonagh's journey. The ability to execute such a complex transaction three months into lockdown once again demonstrated the resilience of our Group and the attractiveness of our platform to international investors.

Year ended 31 December (£ million)	Reported			Pro Forma for Completed Transactions		
	2020	2019	Change	2020	2019	Change
Total Income	713.8	667.5	46.3	793.1	810.1	(17.0)
Adjusted EBITDA	223.7	183.4	40.3	251.0	229.4	21.6
EBITDA	151.5	115.3	36.2	177.6	154.5	23.1
Operating Profit	47.1	3.4	43.7	63.2	32.3	30.9
Loss for the year	(206.3)	(74.0)	(132.3)	(172.5)	(176.4)	3.9





Reported results

Total income increased by £46.3m to £713.8m (2019: £667.5m), and Adjusted EBITDA increased by £40.3m to £223.7m (2019: £183.4m). Growth has been driven by acquisitions, underlying organic growth and the Group continues to deliver significant cost savings in the organic business by leveraging scale, best practice and by delivering integration synergies in acquired businesses.

Acquisitions completed by the Group are included in the results from the date they were acquired. On 28 February 2020 the Group completed the acquisition of a business and certain assets of Rural Insurance Group Limited. On 14 July 2020 the Group acquired Arachas (the Nevada 5 Topco Limited group of businesses) and also Bravo (the Nevada 4 Midco 1 Limited group of businesses). On 12 August the Group completed the acquisition of Thames Underwriting Limited, on 30 September the acquisition of Lloyd Latchford Group Limited and on 1 December 2020 the Group completed the acquisition of the Robus Group Limited group of businesses. Impacting the prior comparable period from 31 January 2019, the Group completed the acquisition of Nevada Investment Holdings 2 Limited (Nevada 2). On acquisition, Nevada 2 was the holding company of Minton House Group Limited, Health and Protection Solutions Limited and Professional Fee Protection Limited.

Adjusted EBITDA excludes spend considered by management to be material and specific to the Group's significant transformation initiatives including transformational hires, business transformation, legacy costs and other costs. Transformational hires represent investment in teams and individuals to drive future transformational growth, primarily in the Specialty platform. This includes recruitment costs, sign-on fees, retention and other costs. Business Transformation represents costs to deliver benefits from ongoing transformation and cost reduction projects plus integration costs to realise synergy benefits from recent acquisitions. Legacy costs include costs associated with historical commercial disputes, write downs of legacy balances, adjustments to historic retention schemes, and the provision for obligations to make redress payments in respect of historical pension transfer advice (enhanced transfer values ("ETV")). Other costs relate to Covid-19 and share-based payment schemes.

EBITDA has increased by £36.2m to £151.5m (2019: £115.3m) driven by a £40.3m improvement in Reported Adjusted EBITDA with some offset from an increase in exceptional costs mainly as a result of acquisition and financing activities. Cost savings are expected to continue to deliver into underlying EBITDA as programmes continue across all our operating segments.

Operating profit improved by £43.7m to a profit of £47.1m (2019: £3.4m), primarily due to the impact of acquisitions combined with the delivery of cost savings.

Loss for the period increased by £(132.3)m to £(206.3)m (2019: £(74.0)m). Whilst the operating result improved by £43.7m, this has been offset by one-off costs of £81.6m relating to the July 2020 transaction, increased financing costs (see Borrowings note 29) and an increased tax charge for the year.

Pro Forma for Completed Transactions results

The Pro Forma results reflect any material acquisitions or disposals as if they had occurred on 1 January of the immediately preceding comparative period.

Total Income decreased by £17.0m to £793.1m (2019: £810.1m) after adjusting for completed acquisitions. Strong organic revenue growth has been recorded in Specialty and Advisory, which has been offset by an expected year on year decline in Retail as a result of the transition to a new premium financing commercial arrangement and the revenue impact of Covid-19 on the Group, predominantly in the second quarter of 2020, although this was largely offset by cost savings as noted below.

Adjusted EBITDA increased by £21.6m to £251.0m (2019: £229.4m) after adjusting for completed acquisitions. Organic growth has been seen in all platforms despite the backdrop of the Covid-19 pandemic through a mixture of direct and indirect cost reductions as a response to the pandemic and also through the delivery of significant cost savings through ongoing programmes.

EBITDA increased by £23.1m to £177.6m (2019: £154.5m) after adjusting for completed acquisitions, which reflects the Adjusted EBITDA performance.

Operating profit improved by £30.9m to £63.2m (2019: £32.3m) after adjusting for completed acquisitions. The improvement reflects the increased EBITDA, with a further benefit from the reduction in depreciation, amortisation and impairment of non-financial assets expenses.

Loss for the period improved by £3.9m to £(172.5)m (2019: £(176.4)m) after adjusting for completed acquisitions. This primarily reflects the £30.9m improvement in Pro Forma for Completed Transactions Operating Result, partially offset by a £17.6m tax charge in the year compared to a £30.2m tax credit in the prior year.

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

CHIEF FINANCIAL OFFICER'S REPORT

Financial Condition

The Group's Statement of Financial Position as at 31 December 2020 is presented below. Over the year the Group has reported an increase in net current assets and a decline in net assets due to the reported loss for the year:

Extracts from the statement of consolidated financial position	Year ended 31 December 2020 £ million	Year ended 31 December 2019 £ million
Intangible assets	1,635.3	1,112.2
Property, plant and equipment	27.1	26.2
Other non-current assets	87.5	94.8
Non-current assets	1,749.9	1,233.2
Cash and cash equivalents	585.6	410.9
Current assets - excluding cash and cash equivalents	284.7	192.8
Current liabilities	(716.3)	(578.2)
Net current assets	154.0	25.5
Non-current liabilities	(2,053.1)	(1,171.5)
Net (liabilities)/assets	(149.2)	87.1

Intangible assets increased by £523.1m during the year driven primarily by the acquisition of Arachas (£238.1m) and Bravo (£273.9m).

The £91.9m increase in current assets during the year, excluding cash and cash equivalents, is primarily driven by the inclusion of net assets acquired on the business combinations of Arachas and Bravo. There is also the addition of the Bennett's held for sale asset (£24.0m) partially offset by the disposal of previously held for sale assets.

Current liabilities have increased by £138.1m during the year, primarily driven by the inclusion of those acquired on the business combinations of Arachas and Bravo. These have been partially offset by a reduction in provisions largely due to continuing payments under the ETV redress programme.

The increase in non-current liabilities of £881.6m during the year is mainly due to the Group debt restructuring with the issuance of the new term facilities, payment-in kind ("PIK") toggle notes and CAR drawdown resulting in an increase to borrowings of £830.7m. The remainder of the increase is largely due to the inclusion of non-current liabilities following the acquisition of Arachas and Bravo and the PIK interest liability due in more than one year.



CHIEF FINANCIAL OFFICER'S REPORT

Liquidity and capital resources

Proactive and careful management of our liquidity continues to be a key priority for the Group, utilising both medium (12 months rolling) and short-term (13 weeks rolling) forecasts. This forecasting gives the Group 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 variability in terms of timing and amounts. The Group may also utilise its revolving credit facility ("RCF").

On 14 July 2020, the Group issued new borrowings, which it used to repay its existing borrowings and to fund acquisitions (see note 29). The existing borrowings included the existing senior secured notes and the revolving credit facility. The new borrowings include US\$500.0m payment-in-kind ("PIK") toggle notes due 2027 (for which payment-in-kind options

are expected to be utilised), a privately placed term loan facility due 2026 of £1,573.7m comprising £1,412.8m denominated in pounds sterling and €180.0m denominated in euro (for which payment-in-kind options are expected to be utilised), a £300.0m committed CAR facility due 2026, and a £191.5m RCF that is not drawn at the date of this report.

During the period the Group generated a positive cash inflow from operations. This was primarily offset by interest payments of £103.7m and the acquisition of businesses net of acquired cash of £102.4m.

The GBP (£) and Euro (€) privately placed term facility due 2026 and the USD (\$) PIK toggle notes due 2027 are reflected in these consolidated financial statements on an amortised cost basis (see note 29). The USD Notes have been converted to GBP at the 31 December 2020 foreign exchange rate of 1.36656 and the Euro Notes at a rate of 1.11852.

Gross secured debt

	Year end 31 December 2020 £ million	Year end 31 December 2019 £ million
GBP Notes due 2023 (redeemed 14 July 2020)	-	553.3
USD Notes due 2023 (redeemed 14 July 2020)	-	572.6
GBP 1,412.8m Term facility due 2026	1,412.8	-
EUR 180.0m Term facility due 2026	160.9	-
GBP 300.0m CAR facility due 2026	50.0	-
GBP 191.5m revolving credit facility due 2026	-	-
USD 500.0m PIK toggle Notes due 2027	365.9	-
Adjustment to debt carrying value	(105.4)	(34.2)
Total gross secured debt	1,884.2	1,091.7

Cash balances and available liquidity

	Year end 31 December 2020 £ million	Year end 31 December 2019 £ million
Own funds	140.8	48.2
Own funds - restricted	23.9	23.1
Own funds - ETV	13.8	13.5
Fiduciary	407.1	326.1
Total cash	585.6	410.9
Less fiduciary and restricted (excluding ETV)	(431.1)	(349.2)
Available cash	154.5	61.7
Available RCF	191.5	120.0
Available CAR	250.0	-
Available liquidity	596.0	181.7

As at 31 December 2020, the RCF of £191.5m was undrawn and is fully available as at the date of this report. A number of drawdowns on the CAR facility have been made to fund acquisitions and investments. On 22 October 2020 £50.0m was drawn, leaving £250.0m still available as at 31 December 2020. A further £50.0m was drawn on 25 January 2021 and £100.0m was drawn on 25 February 2021, leaving £100.0m of the CAR facility still available as of the date of this report.



Ardonagh operates a Risk Management Framework designed to identify, assess, manage, monitor and report on risks.

RISK MANAGEMENT

Risk Management Framework and risk appetite.

Ardonagh operates a Risk Management Framework. 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 parameters that have been set. Each area of risk has a Group owner responsible for managing the risk within appetite and ensuring that the controls designed to keep risks within appetite are appropriate.

Three lines of defence model

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

Governance

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



PRINCIPAL RISKS & UNCERTAINTIES

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

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

RISK	DESCRIPTION
Decline in economic conditions	<p>The Group is expanding internationally but 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. The Group's international expansion plans commencing with the 2020 acquisition of Arachas, the largest SME-focused commercial insurance broker in Ireland, will further diversify the Group and thus reduce its exposure to UK economic conditions.</p> <p>As explained in note 2, the Group has considered the wider operational consequences and ramifications of the Covid-19 pandemic. Although Covid-19 developments remain fluid, financial stress testing demonstrates the Group's financial resilience and operating flexibility.</p> <p>The Group has sufficient liquidity to withstand a period of potential poor trading resulting from a sustained impact of Covid-19, although this has not materialised to date with the income impacts predominantly limited to the second quarter of 2020 and substantially offset by additional cost savings. The Group had available liquidity of £596.0m at 31 December 2020 and closely monitors available liquidity on an ongoing basis.</p> <p>Insurance broking is a resilient and defensive market, which has historically had limited impact from past economic or capital market downturns. Ardonagh is highly diversified and not materially exposed to a single carrier, customer or market sector.</p>
Brexit	<p>Global political tensions have increased, such as related to Brexit, the US's approach to international trade and protectionism, and China tensions. As the Group expands internationally, they will be factored into investment decisions.</p> <p>Brexit affects the ability of businesses to passport from the UK into other EU states and likewise into the UK from the EU. The Group's plans always assumed a no deal, 'hard' Brexit and as such the Group was prepared for Brexit. The direct impact on the Group's UK businesses is not significant because they conduct only limited business within the EU and, importantly, because the operating segments have implemented mitigation strategies (e.g. gaining direct authorisation in certain EU member states) to reduce the risk. However, the loss of passporting rights may affect the insurance markets in which the Group operates, possibly reducing insurance capacity, competition and choice.</p> <p>Brexit could also extend the current Covid-19 induced general decline in economic conditions in the UK where the Group operates predominantly. The diversified business portfolio of the Group continues to mitigate the risk of a general decline in economic conditions and the Group's going concern stressed scenario modelling incorporates general economic declines, including from Brexit and Covid-19.</p>
Insurance market volatility	<p>Volatility or declines in premiums, as well as declines in commission rates, may seriously undermine our business and results of operations.</p> <p>We derive most of our revenue from commissions and fees for underwriting and broking services. Our commissions are generally based on insurance premiums, which are cyclical in nature and may vary widely based on market conditions. A significant reduction in commissions, along with general volatility or declines in premiums, could have a significant adverse effect on our business.</p> <p>On a longer time horizon, the insurance markets might be disrupted by new technologies, "open finance" or new distribution structures, which may give rise to both risks and opportunities for the Group.</p>
Breach of regulatory requirements	<p>If we fail to comply with regulatory requirements, we may not be able to conduct our business or may be subject to substantial fines or other sanctions that may have an adverse effect on our results of operations and financial condition. The Group operates a robust risk and control framework (underpinned by the three line of defence governance model set out on page 23) and closely monitors changes to the regulatory environment.</p>

PRINCIPAL RISKS & UNCERTAINTIES

RISK	DESCRIPTION
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 as well as a Senior Managers and Certification Regime (SMCR) for key control owners and our Senior Management team. In 2021 and 2022, changes to the regulation of general insurance pricing are due to come into effect. These regulatory interventions are anticipated to have a significant impact on the consumer general insurance market. As all participants will be impacted, including the Group's competitors, this is anticipated to give rise to both risks and opportunities for the Group. Moreover, outside of our Retail (consumer) segment, the implications of these regulatory changes are not expected to be significant.
Litigation	<p>We are subject to various actual and potential claims, lawsuits and other proceedings relating principally to alleged errors, omissions or unfair provisions in connection with the placement of insurance or the provision of financial services advice in the ordinary course of business.</p> <p>We maintain professional indemnity insurance for errors and omissions claims. The terms of this insurance vary by policy year and our ability to obtain professional indemnity insurance in the future may be adversely impacted by general developments in the market for such insurance, or by our own claims experience. If our insurance coverage proves inadequate or unavailable, there is an increase in liabilities for which we self-insure.</p>
Cyber-security and data protection	<p>Our computer systems store information about our customers and employees, some of which is sensitive personal data. Although we have taken reasonable and appropriate security measures to prevent unauthorised access to information stored in our databases and to ensure that our processing of personal data complies with the General Data Protection Regulations (GDPR), our technology may, on occasion, fail to adequately secure the private information we maintain in our databases and protect it from theft or inadvertent loss. Our systems, and the wider public infrastructure they rely on, may also be subject to attack preventing use and disrupting business operations.</p> <p>The Group has robust policies, business standards and control frameworks in place for both cyber security and data protection.</p> <p>Following the appointment of the Group CISO at 2019 year-end, a 3-year group-wide Cyber Resilience Strategy was established, with all major areas of the Group developing related cyber remediation roadmaps (with a particular focus on related IT control environments) where required, to further review and enhance the maturity and capability of cyber and information security processes and controls across the Group. Appropriate mechanisms have also been embedded to help effectively track and manage related cyber risk across the Group.</p> <p>The Group continues to have a cyber insurance policy in place to mitigate financial risks associated with data breaches and cyber-attacks.</p>
Technology - keeping pace with change	<p>If we are unable to apply technology effectively in driving value for our clients or in gaining internal efficiencies and effective internal controls, our client relationships, growth strategy, compliance programmes and operating results could be adversely affected.</p> <p>Interruption or loss of our information processing capabilities through loss of stored data, the failure of computer equipment or software systems, a telecommunications failure or other disruption could have a material adverse effect. All parts of the Group maintain effective business continuity plans and capabilities.</p>

PRINCIPAL RISKS & UNCERTAINTIES

RISK	DESCRIPTION
Retention and wellbeing of staff	<p>The loss of several senior management or a significant number of our client-facing employees could have a material adverse effect on our business. The inability to attract and retain qualified personnel could also have a material adverse effect on our business. Each part of the Group maintains appropriate performance management, remuneration, succession planning and other HR policies that are proportionate for their respective businesses.</p> <p>An emerging risk is the longer-term impact of Covid-19 from flexible working. Following the government guidance for office staff to work from home where possible, the Group has accelerated a permanent move to homeworking for some staff and this may be expanded, at least allowing homeworking on a part-time basis, even when a return to full-time office attendance is possible. There are data protection, health, health and safety, work monitoring, training and development, social, cultural, sustainability and other risks associated with such flexible working, which are assessed for each employee when such arrangements are considered.</p> <p>Business Continuity Plans are in place across each of the Group's operating segments, which include policies to manage employee absences, to ensure access to the wider network of offices, to maintain the efficiency and stability of the Group's infrastructure, and to facilitate home working for a significant portion of our employee base. Leadership teams and working groups led by senior managers are in place to support operational resilience and the taking of common-sense precautions with a view to ensuring the wellbeing of colleagues. We continue to review this approach in line with the latest developments and government guidance.</p>
Relationships with key suppliers, including outsource partners and insurers / other insurance intermediaries	<p>The Group constantly reviews its activities and engages with specialists to improve delivery to its clients and increase efficiencies. This can result in outsourcing certain functions and such transitions are managed by robust governance with senior management oversight. During the final quarter of 2020, Ardonagh Specialty entered a 10-year arrangement with a business process outsourcing services specialist to deliver a technology led transformation of its insurance broking services.</p> <p>If third-party brokers and mortgage intermediaries do not provide customers with competitive levels of service, or if a significant number of them choose not to distribute our products, the level of written premiums we place with customers may decline.</p> <p>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 impact our business performance.</p> <p>Capacity, business performance and distribution are kept under proactive management by each of the Group's businesses, as appropriate for their respective operations and needs.</p>
Integration of acquired businesses	<p>Our selective acquisition strategy exposes us to the risk that we may not be able to successfully integrate acquired businesses or that acquisitions may have liabilities that we are not aware of and may not be as profitable as we may have expected them to be. Due diligence in advance of an acquisition is thorough, managed by experienced teams and supported by independent third-party review where appropriate. Integration is subject to robust project planning, governance and continuous oversight through to completion.</p>
Debt and liquidity risk	<p>The Group requires significant amounts of cash to service its debt, thereby limiting the availability of funds for working capital, acquisitions, business opportunities and other general corporate purposes. There is a risk that the underlying business does not generate sufficient cash to meet its financial obligations as they fall due. Proceeds from debt are used to provide financing to fund the acceleration of strategic investments. This will support future generation of cash for reinvestment.</p> <p>The Group has an active cash management process and refinanced the Group in July 2020 with the Group's borrowings not maturing before 2026 at the earliest. The Group Treasury function undertakes cash flow forecasting and closely monitors and manages the Group's cash balances. Immediate liquidity is available from the revolving credit facility (£191.5m available at 31 December 2020) should any short-term financing be required.</p>

PRINCIPAL RISKS & UNCERTAINTIES

RISK	DESCRIPTION
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 and interest rate risk	<p>The Group is exposed to foreign currency risk and interest rate risk from its borrowings, and to foreign currency risk from its revenue, which it mitigates as follows:</p> <ul style="list-style-type: none">• Borrowings: The Group's borrowings include (a) a privately placed term facility due 2026 of £1,575m comprising £1,412.8m denominated in pounds sterling and €180m denominated in euros, (b) a £300.0m committed CAR facility due 2026, (c) a £191.5m RCF, and (d) US\$500.0m PIK toggle notes due 2027 (for which PIK options are expected to be utilised). The majority of the Group's borrowings are therefore in pounds sterling, thus limiting the Group's foreign currency exposure, and forward contracts (to which hedge accounting is applied) are in place to address its foreign currency exposure to the US\$ debt, whilst the euro borrowings are subject to a natural hedge against intragroup euro balances. The US\$ debt is at fixed rates, so does not give rise to interest rate exposure, whilst interest rate swaps have been taken out to address the interest rate exposure arising from the floating rates of interest (LIBOR and EURIBOR) applicable to the pound sterling and euro debt.• Revenue: Most of the Group's revenue is in pound sterling and thus not subject to foreign currency exposure. The Specialty segment has forward contracts to hedge 88% of its 2020 US\$ revenue and 80%, 65% and 50% of its forecast US\$ revenues for 2021, 2022 and 2023 respectively. Ardonagh International incurs both revenue and costs in euros and it is not considered necessary to hedge the net euro profit exposure.

The strategic report on pages 6 to 27 was approved by the Board and signed on its behalf by:



D Cougill
Director
24 March 2021



WATES PRINCIPLES

The Board consider that the Group has applied the Wates Principles, as explained below.



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

The purpose of the Ardonagh Group is to maintain and grow its position as a leading multi-channel, diversified platform that delivers world class products and services to meet customer' needs. This purpose is supported by the Group's strategy, values and culture. The Group and Segment Boards considered and approved the 5-year strategy in 2019. It was updated in 2020 to reflect the impact of the pandemic and in support of the planned refinancing, which although delayed due to Covid-19 was successfully completed in July 2020 and was integral to the Group realising its organic and inorganic growth objectives including the acquisitions of Arachas and Bravo. A refreshed 5 year plan that reflects the ambitions of the Group has been recently approved. The Ardonagh Group's values are set out in the Ardonagh code of conduct that embeds our expectations in respect to the treatment of our customers and colleagues, and our standards of professional integrity and personal performance. The code of conduct is supported by key initiatives, including annual all-employee mandatory training, ensuring discretionary annual bonus pools are subject to balanced scorecards that include a significant weighting to non-financial factors, such as conduct & behaviour and employee engagement. These scores are subject to review and challenge by the Group Risk Committee and each Segment's Remuneration Committee and ultimately approved by the Group Remuneration Committee. In addition, for those employees that have specific regulatory obligations under the FCA's Senior Managers & Conduct Regime (SMCR) there are additional training and controls in place as part of the Ardonagh Accountability Framework that ensure that this population of employees are 'fit and proper' to discharge their responsibilities. Our people and culture are essential factors in our success as further explained below in our proactive application of Principle 6.

The Ardonagh governance framework and organisation structure are designed to support effective decision making and rigorous oversight of business performance and risks to realise our purpose and strategic imperatives. They operate as follows:

The Group Board ("the Board")

The Board is accountable for the success of the Group for the benefit of its shareholders as a whole and for providing leadership within a framework of effective risk management and control. It sets strategic priorities and ensures that the Group is suitably resourced to achieve them and monitors the delivery of the 5 year plan. In doing so, it has regard to its responsibilities to the Group's stakeholders including our people, investors, customers, suppliers, regulators and the communities in which the Group operates. Other than such matters where responsibility is specifically defined and retained at Group-level, activity is managed by the Segment Boards which provide direct oversight of the Group's regulated businesses.

The Board delegates authority to the CEO who, through his Executive Committee, ensures that the collective vision, policies, culture and behaviour set by the Board are effectively communicated and embedded across the Ardonagh Group. This delegation from Board to individuals is set out in the Ardonagh Accountability Framework for the Group and each Segment. The Board places reliance on the Segment Boards to discharge detailed oversight and challenge over business performance and the management of risk, which enables the Board to focus on the efficient use and deployment of capital in addition to setting strategy and exercising oversight and challenge over Group performance and the management of Group risks.

The Board is 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 laws and regulations. In carrying out this responsibility it has regard to its duties to all stakeholders and maintaining the Group's reputation. The Group and Segment Boards and their Committees receive information that helps them oversee the culture and conduct within each business. This includes reviews by our second and third lines of defence functions, compliance monitoring reports, conduct risk reporting, compliance with Group Policies and Business Standards, and HR reports. Effective management information and accountability support the Group and Segment Boards in discharging, including evidencing thereof, their SMCR responsibilities as set out in the Ardonagh Accountability Framework.

The Board met nine times during 2020 and participated in three update calls. A number of sub-committee meetings were also held to discuss specific matters authorised by the Board. In addition, certain administrative matters were approved by written resolution. When a Director is unable to participate in a meeting either in person or remotely, the Chairman will solicit their views on key items of business prior to the meeting, in order that these can be presented at the meeting and be taken into account. Periodically, the Chairman holds discussion sessions with the Non-Executive Directors of the Group and Segment Boards without the Executive Directors being present.

The Composition of the Board during the year is on page 44.

Board Committees

The Group Board has delegated specific responsibilities to five standing Board Committees in order to consider and provide oversight over certain matters as set out below. Whilst the Board has made use of its Committees, it retains ultimate responsibility for the matters within their scope, which are set out in their terms of reference. Each Committee has an agenda plan which is reviewed and approved on an annual basis.

Audit Committee

The members of the Audit Committee at the year ended

WATES PRINCIPLES

31 December 2020 were Clive Bouch (Chair), Patrick Butler and Scot French. The Group Board is satisfied that the Committee has adequate recent and relevant financial and business experience to fulfil the roles as required. The purpose of the Committee is set out in the report from the Chair of the Audit Committee on pages 40 to 42. The Audit Committee met seven times in 2020 and also met in joint session with the Group Risk Committee to consider and approve the annual second and third-line plans and receive an annual whistleblowing report. The Committee periodically meets with the Group Head of Internal Audit and the External Auditor without management present.

Group Risk Committee

The members of the Group Risk Committee at the year ended 31 December 2020 were Patrick Butler (Chair), John Tiner, Clive Bouch and Scot French. The Group Board is satisfied that the Committee has relevant risk and compliance experience to fulfil its responsibilities.

The Group Risk Committee met five times in 2020 and also met in joint session with the Audit Committee as noted above. Periodically 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.

Remuneration Committee

The Remuneration Committee members at the year ended 31 December 2020 were John Tiner (Chair), Scot French, Vahe Dombalagian and Clive Bouch. The Chief Executive Officer, Chief Financial Officer and the Head of Reward attend Committee meetings, however they do not attend where their individual remuneration is discussed and no Director is involved in deciding their own remuneration. The Remuneration Committee met nine times during 2020.

Nomination Committee

The Nomination Committee members at the year ended 31 December 2020 were John Tiner (Chair) and Scot French. The Nomination Committee met once during 2020.

Investment Committee

The Investment Committee members at the year ended 31 December 2020 were John Tiner (Chair), Scot French, Patrick Butler, Vahe Dombalagian, David Ross (CEO) and Diane Cougill (CFO). The Investment Committee met four times in 2020 and made one approval by written resolution.

Segment Boards

Each of our Segments have a holding company Board ("Segment Board"). The composition of each Segment Board includes at least one independent director, a Group Board representative director and the Segment CEO and CFO as members. The Group Board places reliance on Segment Boards and their Committees to exercise oversight and challenge over the execution of the annual plan and the effective management of risk. Each Segment Board has established a Risk & Audit Committee and a Remuneration Committee. The Segment Boards and their Committees have all adopted common terms of references and operate

within clearly defined delegated authorities set out in the Delegated Authority Framework and also within a clear escalation policy that ensures material matters are escalated to the Group on a timely basis. Each Segment Board and Committee has an agenda plan which is reviewed and approved on an annual basis.

The Segment Boards and Risk & Audit Committees meet quarterly and on an ad-hoc basis when required. The Segment Remuneration Committees meet at least twice a year and as and when required to consider matters within their remit and make recommendations as appropriate to the Group Remuneration Committee.

Two-way dialogue between the Group and Segment Boards and Committees is key to the smooth operation of the governance framework. This communication is facilitated through Segment Board and Committee Chair memos issued after each meeting. In addition, standing agenda items allow escalation and discussion of matters to the Group Board by the Group representative directors. Segment executives periodically attend Group Board and Committee meetings and quarterly Ardonagh-wide iNED meetings (video conferences) are hosted by the Group Chairman. In addition, the Segment iNEDs have regular catch-up calls with the Segment CEOs and CFOs and meet with other members of senior management on an ad-hoc basis to ensure they have deep and ongoing knowledge of the business and the markets in which they operate.

Our Segment Boards and Committees regularly receive reports that together enable them to consider the culture within each business, including reviews by Compliance Assurance and Internal Audit, conduct risk reporting, compliance with Group Policies and Business Standards, Balanced Scorecards covering financial and non-financial metrics and HR reports. The activities of the Ardonagh Community Trust is an indirect example of how our values and culture are aligned.

To further support our culture and values, the Group has in place whistleblowing arrangements including a confidential phone line, email and interactive website managed and run by an independent third party. These arrangements support an open and honest culture where our employees feel valued and trusted to do the right thing. We have a positive commitment and open approach to speaking up, providing a safe working environment and treating customers fairly.

Impact of Covid-19

2020 has been a challenging year due to the impact of Covid-19, which has impacted the way in which the Group and Segment Boards discharge their obligations. Since March 2020, all our Boards have met virtually. There have been limited opportunities for our iNEDs to undertake site visits, however regular virtual meetings have been held between directors and the wider senior leadership teams. Further details on the focus areas of our Boards and Committees during 2020 are set out below.

WATES PRINCIPLES



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

In line with best practice, the role of Chair and CEO on the Group Board are separate and the Chairman was considered to be independent on appointment. The Group and Segment Boards periodically undertake a Board effectiveness review with the most recent review conducted in Q4 2019. This review highlighted that the Board considered itself to have the right balance of skills, experience and knowledge and that the Board and Committee chairs were effective in their role, however it was recognised that there is more to do in respect to diversity. As a result, The Board has instructed third party recruitment firms to include diversity as an important factor to consider when compiling long and short lists for Board vacancies.

The Group and Segment Boards and their Committees regularly receive deep-dive reports on areas of the business and specific risks. In addition, independent directors meet with management on a regular basis between scheduled meetings to discuss corporate issues and progress against agreed actions. Directors are also subject to mandatory online training on legal and compliance topics. All Board Directors are expected to be able to commit the time required to adequately fulfil their responsibilities.

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

The Wates Principles highlight the need for Boards to promote diversity and demonstrate that there has been a considered effort to establish an appropriate balance of expertise, diversity and objectivity. The Board has considered its own composition as part of its effectiveness review and diversity was a factor in the recruitment of independent non-executive directors to Segment Boards. The Group has in place an Equality and Diversity Policy and the Board believe that equality and diversity strengthen the Group, contribute to long-term business performance and support the Group as a destination of choice for key talent. This is an industry-wide challenge and our Boards consider diversity and inclusion as part of the Board recruitment and management succession process. Our Boards have taken time to consider management actions and initiatives regarding diversity and inclusion and these are set out in more detail under Principles 5 and 6 below.



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

The Group Board has delegated the day-to-day management of the Group to the CEO. The CEO has delegated authority to approve specific issues subject to financial limits. In turn, the CEO has delegated authority to his direct reports and these are set out in the Ardonagh Accountability Framework which evidences individual accountability under the FCA's Senior Managers and Certification Regime. The Ardonagh Accountability Framework is supported by the Group Policies and Business Standards that set out the key controls to mitigate risk and appropriate training, role profiles and an annual attestation process in respect to compliance with Group Policies and Business Standards by each member of the Group's SMCR population.

The core activities of the Board and its Committees are planned and approved on an annual basis. Meeting agendas are set in advance and take into account the planned activities and issues that fall within the scope and responsibilities of the Board, taking into account the matters reserved for the Board and the terms of reference of its Committees. The Chairman sets the agenda and ensures appropriate time is spent by the Board to consider and discuss strategic issues, deep dives to focus on specific areas of our business, performance and oversight and risk and regulatory matters. The 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. The Board receive regular reporting on the following topics; Business Performance against plan, Strategic issues (including new business initiatives and acquisition and disposal strategy), Financial Reporting, Enterprise Risk Framework, Corporate Governance, Legal and Regulatory matters (including financial crime) and a high-level view of operational matters, with more detailed reporting considered by Segment Boards. All Directors are able to make further enquiries of the Executive Directors or the wider 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.

A delegated authority matrix ("DAM") is in place which sets out the matters reserved to the Group Board and the delegated authorities from the Board to management and Segment Boards. The DAM was reviewed and updated by the Board during 2020 and is incorporated into the terms of reference for each Segment Board. The matters reserved for Group Board approval covers a wide range of matters which include changes to capital structure, M&A, Group policies, risk appetite and material contracts and financial matters over certain limits.

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The Wates Principles highlight the importance of directors maintaining objectivity in complex situations. Under the Companies Act 2006, all Directors have a duty to avoid conflicts of interest and disclose any interests and outside appointments. The Board has put in place procedures to resolve situations where a Director has a conflict of interest (which may include the need for conflicted Directors to recuse themselves from relevant Board discussions) and Directors have continuing obligations to update the Board on any changes to these conflicts. A record of actual and potential conflicts of interest is maintained by the Company Secretary and is subject to an annual review and attestation by each Director. No individual Director had a material interest at any time in any contract of significance with the Company or the Ardonagh Group other than their service contract or by virtue of their Investor Director status.



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

On 5 November 2020, the Board held a focus session to consider the Group's strategy and 5-year plan that sets out the opportunities to create sustainable organic growth over the long-term, which for 2020 included the Bravo Group and Arachas businesses for the first time. The 5-year plan also included areas of inorganic growth through potential investments. With the £300m committed Capex, Acquisition and Re-organisation facility now in place following the business' refinancing, the Board established new delegated authorities that require acquisitions up to £25m to be approved by the Management Investment Committee and relevant Segment Board. Larger acquisitions require approval by the Board Investment Committee, with acquisitions above £75m requiring approval by the Group Board and Shareholders. These new delegated authorities aim to balance the need to ensure appropriate oversight and scrutiny of new investments whilst freeing our businesses to maintain its entrepreneurial and opportunistic approach. The Group and Segment Boards all receive reporting on the M&A pipeline as a standing item.

The Board has developed an Enterprise-wide Risk Management ("ERM") approach that applies to the Ardonagh Group. The key pillars of the ERM are the Risk Framework, Conduct Risk Framework, Risk Appetite, Group Policies and Business Standards (which set out key controls) and the Ardonagh Accountability Framework. The Group Risk appetite is subject to annual review and the Group Board approved an enhanced risk appetite on 22 September 2020. The ERM aims to align strategy, capital, processes, people, technology and knowledge in order to evaluate and manage business opportunities, uncertainties and threats in a structured, disciplined and consistent manner. This approach seeks to ensure that the interests of customers and their treatment in our decision making and compliance with laws, regulation and our internal policies and business standards are paramount and consistently applied.

The Group and Segment Boards exercise oversight and challenge over performance against risk appetite and progress on completion of risk mitigation action plans. There is a clear Escalation policy which articulates the type and severity of risk events that require escalation to Segment and Group management and Boards.

The Risk Framework, Conduct Risk Framework, Risk Appetite and the Ardonagh Accountability Framework are flexible to enable our Segments to tailor them to their specific circumstances and markets. In 2020, each Segment Board approved their own risk appetite that aligns with the Group risk appetite but reflects more closely the risk areas of focus for their business. The Segments also implemented the Group conduct risk framework in 2020.

Risk management frameworks are designed to increase understanding of the risks, both inherent in the business and environmental, in order to improve decision-making, which includes accepting certain risks where they are understood and within risk appetite. The 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 Board. They are designed to identify and manage, rather than eliminate, risk and therefore provide reasonable and not absolute assurance against material misstatements or losses.

The risk management framework, the three lines of defence model and how the Board exercises oversight over the identification and mitigation of risks is set out in more detail on pages 23 to 27.



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

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

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

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

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

- Group-wide executive coaching and peer support programme for women leaders to encourage career progress, focus and accountability.
- Women in Leadership programme is attended by women from across the Ardonagh Group. Management are continuing to develop and grow our programmes to support the development of women leaders.
- Flexible and remote working have always been encouraged by management and became a necessity during 2020. A Group home working policy was introduced in 2020.
- The Group People Commitments have been revised and published
- Diversity and Inclusion eLearning module has been developed and launched on a Group-wide basis.
- Diversity and Inclusion forums have been set up across the Group.
- Review of policies such as recruitment and succession planning to ensure we are being as inclusive as possible.
- Engagement Survey undertaken to ensure comments are captured and actioned.



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

The Directors take seriously their obligations under s.172 (1) (a)-(f) of the Companies Act 2006 ("S.172 Duties") to act in a way they consider, in good faith, would be the most likely to promote the success of the Company for the benefit of its members as a whole and in doing so, have regard to; the likely consequences of any decision in the long-term, the interests of the Company's employees, the need to foster the Company's business relationships with suppliers, customers and others, the impact of the Company's operations on the community

and the environment, the desirability of the Company maintaining a reputation for high standards of business conduct and the need to act fairly as between members of the Company.

Whilst the Company, being a Jersey company, is not within scope of the reporting requirements of the Companies (Miscellaneous Reporting) Regulations 2018, a number of its larger UK subsidiaries trigger the requirement to disclose how their Boards have considered their s.172 Duties in their decision making. The Directors therefore believe it is important to voluntarily disclose how the Board has considered such duties in their decision making during 2020, which is incorporated in the explanation below of how the Group Board has applied Principle 6.

As explained under Principle 4 above, the Board considers the long-term consequences of its decisions. Having our two major shareholders represented on the Board means that shareholder engagement is strong, however all significant M&A decisions are discussed with minority shareholders to ensure their views are taken into account by the Board. Ongoing engagement with our shareholders and bondholders are primarily exercised through the use of investor presentations and quarterly bondholder calls. The Board has identified the following as our key stakeholders and how the Board engages with each stakeholder group is set out below.

In 2021, management will establish an ESG strategy that will articulate a clear set of intentions and goals and a scalable framework from which to start measuring milestones that will be reported in the 2021 Annual Report.

Employees

Our employees are central to the success of the Ardonagh Group and the remuneration structures across Ardonagh are designed to reward good performance at the individual and business level and support our culture and non-financial conduct. In addition, our businesses focus on providing working conditions that are Covid-19 safe and providing long-term career prospects for staff with opportunities to up-skill through training and study support and, if appropriate, movement across different Ardonagh businesses. Each of our Segment Boards have undertaken a review of management succession, including focus on improving diversity of our senior leaders over time. The Employee Group Plan is a new equity scheme established in 2020 to recognise the wider contribution of employees; identifying key talent and future leaders within the Group. The plan extends to 375 people and has created a more diverse group both in terms of age and gender that now hold equity.

As a Board we believe in the importance of communication and engagement with all employees and this has become increasingly important as the majority of our staff moved to homeworking in 2020. Our Businesses all undertake regular communication and other engagement activities, including Group initiatives, such as Radio Ardonagh that won the IC Brilliance award for top internal communications campaign. Other Group initiatives include 'applause' where employees can give a 'shout out' to their

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colleagues who have gone above and beyond. There are also weekly all-staff communications, messages from the CEO and our annual Spotlight Awards. In addition to Group initiatives, each Segment undertakes their own internal communications and pulse surveys.

Our second Group-wide employee pulse survey was undertaken in Q1 2021, which achieved an excellent 83% response rate from over 6,000 employees across the Group. The results have been promising with an overall positivity score of 74%. In February 2021 we considered the pulse survey scores across the businesses and the actions to be taken as a result of the survey, which included a series of commitments to our people that outline our ambition for a diverse and fair workforce and an inclusive culture. Our colleagues are looking more than ever to hold frank, straightforward conversations on topics such as well-being, diversity and inclusion and our two-way dialogue with our people has been warmly received. Management are taking actions to improve diversity and inclusion and these actions continue an ongoing process, supported by Segment employee forums that were established in 2020. Actions taken to date include mandatory all-staff unconscious bias training, extensive communications to promote awareness, education and allyship, including celebrating International Women's Day and Pride Month and executive members embracing personal objectives that support diversity and inclusion.

Customers

Seeking good customer outcomes is central to the success of the business. Management keep track of how customers perceive our businesses and products and services are periodically reviewed to ensure they continue to meet the needs of our customers. Each Business Segment also undertakes root cause analysis on complaints and errors & omission claims. Management also have in place robust controls regarding the management of actual and potential conflicts of interest. During 2020, our businesses

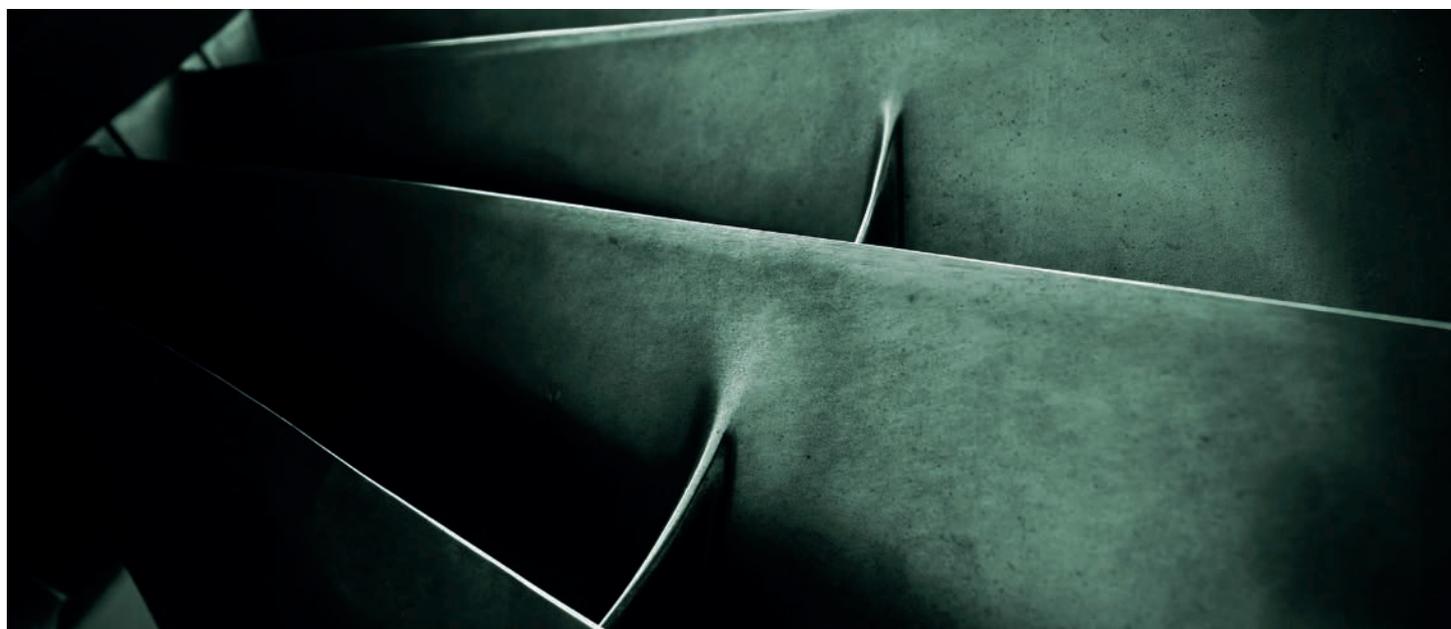
implemented an enhanced conduct risk framework and risk appetite that will support the Group and Segment Boards in discharging effective oversight over how well we perform against key customer related metrics and ensure the customer remains at the heart of our decision making. Our retail businesses have fully embraced and complied with the FCA guidance issued in 2020 on treating vulnerable customers and responding to customers under financial hardship due to Covid-19.

Regulatory relationships

The FCA is a key stakeholder and the Board prioritises positive, open and transparent engagement with the FCA and with all our regulatory relationships around the world by ensuring the right 'tone from the top', which starts with how the Board engages with regulators. The Group and Segment Boards also receive regular updates on regulatory interactions and FCA guidance and the business impact. We regularly participate in regulatory thematic reviews and believe that a strong relationship with our regulators is a source of competitive advantage.

Insurers

Our insurance partners are fundamental to the success of the business. Senior leaders regularly meet with our key insurance partners to discuss performance and ways in which we can enhance cover for customers and feedback on insurer relationships are reported to our Segment Boards. The Board receives reports on our insurer relationships. The Ardonagh Portfolio Solutions business continues to support the Group by fostering deeper and more long-term relationships across a more focussed number of insurers that will enable us to offer enhanced products and services to our customers.



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Our Suppliers

Our key suppliers are defined by the Group Outsourcing and Procurement Policy which ensures that all key suppliers are identified and subject to appropriate monitoring and engagement, the level of which is dependent on the size and critical nature of the services supplied. We also have minimum due diligence standards to be performed on key suppliers before they are engaged, which includes a requirement that suppliers have policies on CSR, bribery and corruption and modern slavery.

Community

Since the launch of the Group's UK registered charity, Ardonagh Community Trust (ACT) in 2017, significant progress has been made towards its mission of helping local communities become stronger, better and brighter through its community grant programme, match funding the efforts of Ardonagh employees and via the charity partnership with Mind.

ACT's quarterly community grant programme awards projects submitted by employees from across all Ardonagh businesses with up to £5,000 of funding. In 2020, the commitment was made to award more grants as a direct response to the pandemic and donations surpassed the previous year's total with an additional £50,000 awarded.

The £133,135 of funding granted across 30 projects helped get PPE to frontline workers outside the health sector, provide shelter from those fleeing domestic violence situations, support those in their final days and their families to cope with their loss, and give vital mental health support to those in need. The commitment is to continue to offer more projects and more funding into 2021 and beyond. Alongside the community grants, ACT boosts the giving of colleagues through match funding of up to £200 (increased to £500 for 2021 and beyond). With social distancing restrictions in place for most of the year and many planned events postponed, colleagues across the Group become more creative with their events. Through the match funding programme, £40,000 was raised for 34 individual charities with ACT contributing a further £14,000.

On top of this contribution, the focus of ACT's annual fundraising event - Go Green Day - was shifted away from fundraising for the charity itself and instead all offices were encouraged to choose a local charity to fundraise for, with ACT matching that amount. Over £146,000, including match funding was donated to 75 different charities across the UK and Ireland - as chosen by Ardonagh colleagues.

ACT has worked closely with Mind since 2018 to raise funds, awareness and reduce the stigma surrounding mental health. With 2020 bringing further challenges and impact on people's mental wellbeing, across the Ardonagh Group various avenues of support, training and resources were delivered to help people cope with the uncertain times. Over 420 colleagues attended mental health awareness sessions and a further 30 were trained as Mental Health First Aiders. Alongside continued education, and additional support, a further £47,000 was raised for ACT's charity partner Mind. The

partnership with Mind will be fulfilled in February 2021, with a grand total of £200,000 raised. Reflecting on a challenging year, the commitment to supporting mental health has never been more important. Because of this, our mental health training programme and network of First Aiders will continue to grow alongside a new partnership with a strong commitment to being there for those in need.

CASE STUDY IN CONSIDERING STAKEHOLDERS IN DECISION MAKING

There is no better example of our Group and Segment Boards considering our stakeholders than how we responded to Covid-19 and the various lockdowns imposed at national and local level.

Colleagues

As outlined above, our Boards focussed on staff well-being to ensure staff who could work from home had the equipment needed to perform their roles. In the Atlanta business alone, over 850 laptops were provided to staff in the opening weeks of the first lockdown. For those key staff who were needed in offices and call centres, the Boards discharged their oversight responsibilities to satisfy themselves that offices were operating appropriately and were compliant with Government guidance. Management ramped up internal communication and engagement at the local and Group level and mental health has been an area of particular focus. Staff also have access to an employee assistance programme which includes counselling services. The Segment Boards considered the implementation of the Government Furlough scheme, and subsequently the Job Support scheme introduced in November 2020 and the Board focussed on ensuring implementation was consistent across the Group and ensuring any differences in approach were justified.

Customers

Our Boards have overseen management taking actions to ensure customers had access to our services during lockdown. The Boards have been particularly focussed on how businesses are identifying and treating vulnerable customers and responding to customers under financial hardship due to Covid-19. Actions taken include working with premium credit partners to offer payment holidays and switches to lower cover options to reduce costs. Staff have received training to ensure customers receive proactive service with empathy during these unprecedented times. Our Businesses have supported and advised customers in respect to business interruption cover issues and are working with insurers and customers following the recent Supreme Court judgement that provides some clarity in respect to business interruption coverage and claims resulting from Covid-19.

Insurers

During the first lockdown in 2020, our Boards have overseen management working with insurer partners to provide sustainable benefits that deliver value to customers, for example, Atlanta Group negotiated with

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their insurer partners to provide free motor policy extensions to cover volunteers that were providing support services to the NHS and care homes.

Regulatory

The Group Risk Committee and Segment Risk & Audit Committees provided oversight over the impact of homeworking on the control environment and overall risk profile. Risk Committees requested management assessments of Covid-19 related impacts on the risk profile and control environment of each business. Some risks inevitably could not be fully mitigated in the short-term and had to be risk accepted. All these actions overseen by the Group and Segment Risk Committees were communicated to our regulators openly and transparently. The Committees were also made aware of general interactions with the FCA that were heightened due to Covid-19.

Suppliers

The Group Risk Committee and Segment Risk & Audit Committees ensured management undertook a review of key suppliers to ensure key services would not be disrupted either through service failure or lack of financial resilience.

Community

With 2020 bringing about additional challenges as a result of Covid-19, ACT's board of Trustees were keen to ensure an increase in funds awarded and ensuring the funds were directed towards those causes and charities impacted more acutely by the ongoing effects of the pandemic.

Sustainability – Streamlined Energy and Carbon Reporting

The Group recognises that we have a responsibility to the environment and endeavours to be as environmentally friendly as possible in its business activities.



ENVIRONMENTAL IMPACT OF OUR OPERATIONS

We recognise our responsibility to mitigate the impact of our operations on climate change and are taking steps to reduce this wherever possible. For the year ended 31 December 2020 as a result of the Covid-19 pandemic most of our offices have been closed for large periods of time. As such, our main focus this year has been on supporting our staff working remotely and ensuring that we can maintain customer service from such a base of operations.

Energy Use and Greenhouse Gas Emissions - UK Location Based

<u>For the financial year ended 31 December 2020</u>	<u>Energy Use kWh</u>	<u>Tonnes CO₂e</u>
Scope 1 energy use & emissions from stationery combustion - gas	2,528,199	464.86
Scope 1 energy use & emissions from business mileage	1,829,125	450.10
Scope 2 energy use & emissions from electricity	7,207,449	1,680.34
Total energy use & greenhouse emissions from Scope 1 & 2 emissions	11,564,773	2,595.30
Scope 1 & 2 Greenhouse gas emissions per full time employee		0.44
Scope 3 emissions from business travel		87.85
Total Greenhouse gas emissions for scope 1, 2 & 3 for the year		2,683.15

Scope 1 - fuel combustion, company vehicles and emissions

Scope 2 - purchased electricity, gas & steam

Scope 3 - purchased goods & services business travel and commuting, investments, leased assets and franchises, transportation and distribution

Our 2019 baseline for scope 1 & 2 energy use and greenhouse gas emissions was 17,511,549 kWh and 4274.08 tonnes CO₂e respectively reflecting both the significantly reduced business travel and change to the nature of operations in 2020 throughout our offices due to Covid-19.

Methodology

Our Scope 1, Scope 2 and Scope 3 energy use and greenhouse gas emissions data for 2020 has been independently produced from information provided by the Ardonagh Group to a specialist external consultancy.

To calculate the footprint, data was collated from across the Group and from our suppliers to identify the amount of energy used in our operations. The Ardonagh Group uses the most robust and accurate data source available for each component of its energy use and carbon emission calculations and assumptions.

To enable the Ardonagh Group to meet its internal reporting and investor requirements the footprint is largely calculated prior to the year end with actual data to 31 October 2020, with the final two months estimated from historical data.

Where actual emissions data from energy consumption is not available for an individual office, the Group has applied the average energy consumption per square foot for its offices for which full data is held to that office's square footage. We do not consider refrigerant losses on our air conditioning units to be material and as such these are not reported in our emissions data.

Greenhouse gas (GHG) emissions are calculated in line with the GHG Protocol - Corporate Accounting and Reporting Standard and reported in line with the UK Government's Guidance on Streamlined Energy and Carbon Reporting and mandatory GHG reporting guidance.

The boundary has been set based upon an operational control approach on our business activities and property portfolio. For scope 1 business mileage the company analyses mileage information from expense claims to establish the level of emissions. The scope 3 transport business travel emissions include air, rail and taxi emissions and are also drawn from company expense systems and supplier analysis.



The Ardonagh Group uses the most robust and accurate data source available for each component of its energy use and carbon emission calculations and assumptions.

ENVIRONMENTAL, SOCIAL & GOVERNANCE STRATEGY

Our Sustainability Goal is to be an Innovative and Responsible Industry Presence. From 2021 onwards, the Ardonagh Group will measure progress against this goal via the Ardonagh Sustainability Charter, outlined below.

Why Sustainability and ESG are key business issues for Ardonagh

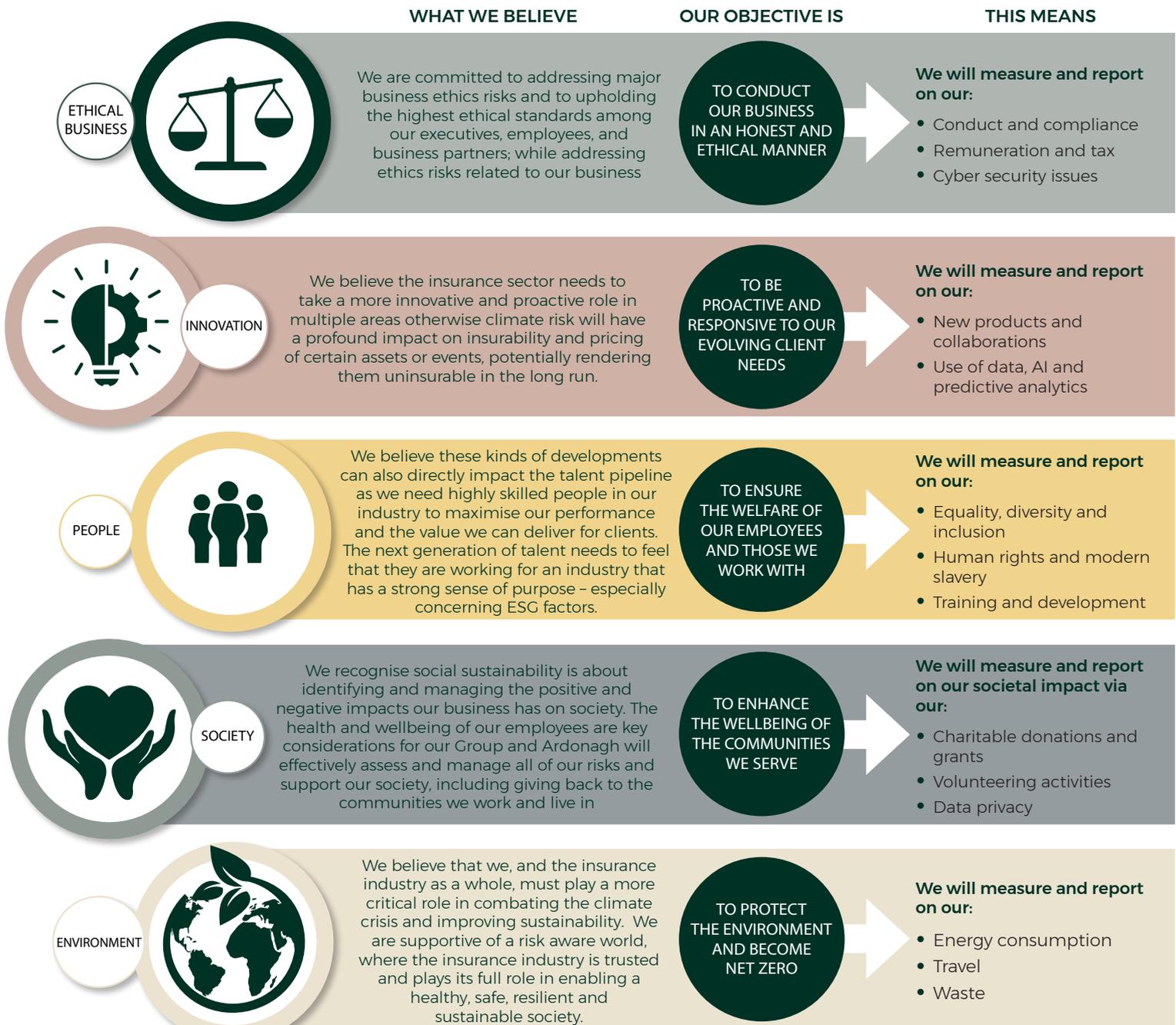
In the insurance industry and in the wider financial and business communities, the concept of sustainability is evolving. The Ardonagh Group is looking at it not just from the perspective of how environmental, social and corporate governance (ESG) issues impact insurance and investment portfolios, but also how insurance and investment portfolios impact the environment and society.

The Ardonagh Sustainability Charter identifies five key pillars which encompass the sustainability issues we feel are most important for our portfolio of companies. Through these five focus areas, Sustainability will form a fundamental thread throughout our conversations and business decisions, as well as being central to the culture of all our businesses.

Our Approach – Ardonagh Sustainability Charter

We are committed to our responsibility as a leader in this industry. Our approach to Sustainability is overseen by the Board and forms part of our governance framework. It is implemented via accountable leadership that sets clear expectations for our growing group of businesses across all our territories.

To support implementation across our portfolio, we have identified five Sustainability objectives:



ENVIRONMENTAL, SOCIAL & GOVERNANCE STRATEGY

Business Ethics

Ardonagh is committed to, adhering to, exemplary standards of business conduct and in 2021, will become a signatory in support of the four principles of the UN Principles for Sustainable Insurance. In doing so we will have aligned our operations with the UN PSI common framework with principles integrating ESG criteria into the insurance business and commit to integrating ESG criteria into our business and our stakeholder relationships:

- Principle 1: "We will embed in our decision-making environmental, social and governance issues relevant to our insurance business."
- Principle 2: "We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions."
- Principle 3: "We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues."
- Principle 4: "We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles."

Our primary policy for promoting ethical business conduct is the Ardonagh Group Code of Conduct. A dedicated Anti-Money Laundering and Anti-Bribery and Corruption programme is active across the Group. The programme includes due diligence on suppliers and vendors, annual training for all personnel, requisite compliance declarations from all associated persons and comprehensive 'whistleblowing' arrangements.

Innovation

We are acutely aware of the threats and opportunities that climate change and other associated risks (the environment, biodiversity, food crops, physical assets, human health, the economy, social issues, employment, wealth and inequality) poses to our industry and we believe that focusing on innovation is critical to unlocking potential growth and sustainability.

The digital revolution has affected everything – from politics and economics to health and communities. The world expects to receive its products and services in ever smarter, more efficient and more immediate ways. We believe the insurance industry must address those expectations through collaboration and become part of the solution.

People

Fair treatment of our employees and the people we work with is crucial to the future successful development of our business. We invest heavily in training and development and following the pandemic have focused our people efforts on their mental and physical wellbeing.

Ardonagh Group believes in treating all people with respect and dignity. We strive to create and foster a supportive and understanding environment in which all individuals realise their maximum potential within

the company, regardless of their differences. We are committed to employing the best people to do the best job possible, offering equal opportunities and fairness in the recruitment process. We recognise the importance of reflecting the diversity of our customers and markets in our workforce. The diverse capabilities that reside within our talented workforce fulfil the needs of our industry to provide a high-quality service.

Ardonagh works with hundreds of companies across its supply chain. We expect these suppliers to meet high standards in areas such as ethical conduct, human rights, workplace standards and the environment. We have established due diligence processes to help select suppliers who meet these high standards. This reduces the risks to us, our business and to our clients. We focus our supplier engagement on suppliers in high-risk countries or sectors, those with whom we have a direct commercial relationship and are committed to promoting and respecting human rights.

Society

We are committed to continually developing the scope of our community involvement through our charitable donations and volunteering and fundraising activities wherever we operate. We are passionate about having a positive impact on the communities in which we operate, empowering employees to support charities at a local level right through to national and Group-level charitable partnerships and projects. Our support is driven through our registered charity, Ardonagh Community Trust and a dedicated team across the Ardonagh Group. Their remit is to ensure that we not only spread our community support across the UK but that we work with the right projects and partners to have the biggest impact. This includes selecting the right charities to support in line with our core values and passions, promoting the local activities we are involved with across our regions.

Environment

At Ardonagh we strive to improve the health of the planet through environmentally conscious practices and programmes. We operate in a responsible manner and are committed to creating a global environment in which all people live healthy, productive lives.

We are committed to becoming Net zero and have developed a comprehensive environmental management programme to guide our efforts. Our goal is to continue to reduce our direct impact on the environment by actively managing our waste and use of natural resources. Our consumption of renewable energy is monitored and we are introducing a new benefit to enable employees to efficiently purchase electric cars for private and professional travel.

AUDIT COMMITTEE REPORT

The Committee remained focussed on the integrity of external financial reporting, rigour of external and internal audit processes and effectiveness of internal financial controls during 2020 as the Group responded to the pandemic, completed a major refinancing and was active in M&A.



Clive Bouch
Chair of the Audit Committee

I am pleased to report on the Audit Committee's (the Committee) 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 monitor the independence and effectiveness of our external auditor and the audit process. We also review the independence, effectiveness, resourcing, audit plans and work of the internal audit function.

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 keep abreast of developments. I provide regular updates to the Group Board on the key matters discussed at Audit Committee meetings.

Activities during 2020

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, including sensitivity analysis around management's forecast financial impact of Covid-19 on the business
- assessment of the external 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

AUDIT COMMITTEE REPORT

- matters raised in the external auditor's management letter and management's responses thereto
- the internal audit work-plan, including the re-prioritisation of reviews as a result of the impact of Covid-19 and the review of findings and management's responses thereto

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, the going concern basis of preparation and the clarity of disclosures made prior to their approval. The Committee challenged the judgements and estimates made by management and the assumptions on which they were based. Significant issues considered by the Committee included:

- Impairment of goodwill and other intangibles: the assessment of goodwill and other intangibles for impairment is disclosed in note 13. The Committee considered whether the matters taken into account were consistent with the plans and budgets for the Group, challenged key assumptions and management's findings, including Covid-19 and BREXIT considerations. The Committee also considered the procedures performed by the external auditors (see external auditor's report) and their findings. The Committee is satisfied with the process undertaken, conclusions drawn and related disclosures.
- Going concern: The Committee received management's projections in support of the decision to prepare the financial statements on a going concern basis. The Group has significant debt and is active in M&A. Significant progress has been made in settling the material exposure to redress liabilities in respect of past pensions transfer advice (ETV - see note 31). The critical assumptions made, stress tests performed and mitigation plans underpinning the going concern assessment were considered and challenged. The Committee considered management's assessment of how Covid-19 and BREXIT impact Group performance and preparations made, the Group's ability to meet interest payments as they fall due, management's assessment of compliance with financial covenants and the estimated quantum and timing of the remaining ETV obligations.
- The Committee also discussed the external auditor's procedures (see external auditor's report) and conclusions. The Committee is satisfied with the decision to prepare the accounts on a going concern basis and the disclosures made. Further details regarding the going concern basis of preparation are provided in note 2.
- Accounting for acquisitions: The Group continues to be active in M&A, the accounting for which involves key judgements and estimates including those in respect of the valuation of performance based consideration, identification of intangible assets and fair values of acquisition balance sheets, and classification of assets and liabilities as held

for sale. Details of the acquisitions and disposals are included in notes 16 and 11 respectively. The Committee received reports from management in respect of the key judgements and estimates, including the recommendations of third party experts engaged in respect of the identification and valuation of intangible assets acquired and challenged management on key assumptions made and the supporting analysis. The Committee also considered the procedures performed by the external auditors (see external auditor's report), including the involvement of their own valuation specialists and their findings. The Committee is satisfied with the key judgements made, the accounting and related disclosures as set out in the financial statements.

- Revenue recognition: The Committee challenged management on the application of the Group's revenue recognition policy and the basis of estimates underlying profit share arrangements, provisions for post placement service obligations and rights to variable consideration. The results of this work and the related disclosures in notes 4, 20, 21, 22 and 25 were reviewed and challenged. The Committee also considered the auditor's findings (see external auditor's report).
- Alternative performance measures: The Group presents a number of alternative performance measures in the Strategic Report. The Committee challenged management on achieving clarity in the APM definitions and reasons for their use and achieving equal prominence with regards to the IFRS results. The Committee also challenged management on the nature of and controls over identifying adjustments to the IFRS results and prominence of reconciliations between the statutory results and the APMs and considered the external auditor's feedback thereon (see external auditor's report).

Risk management and internal control

The Audit Committee and Group Risk Committee provide important contributions in overseeing the effectiveness of the Group's system of risk management and internal control. The Committees receive regular reports from management, external audit, internal audit, compliance and risk management functions, and Chairs of the Segments' Risk & Audit Committees. The Committees encourage and support continuous improvement in the effectiveness of the systems of risk management and internal control. Focus during the year included the impact of Covid-19 and rapid move to working from home, business continuity planning, SMCR and cyber security.

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 considers the organisation's governance and culture is conducive to supporting effective systems of internal control.

AUDIT COMMITTEE REPORT

Internal audit

The Internal Audit plan is based on a risk assessment of the business and its strategy, top risks, core systems and control assessments. Changes were made to the planned internal audit activity, early in the pandemic, to ensure appropriate focus. The internal audit plan was reviewed and adjusted to give priority to: completing audits that had started; areas of regulatory focus; the business responses to ensure continuing core operations; and areas of elevated risk. During the year internal audit reviews were undertaken in respect of the conduct risk framework implementation and operating effectiveness, the insurance distribution directive, financial crime, and cyber risk governance. Group Internal Audit also engaged with COVID-19 Bronze and Silver Steering Groups in connection to business continuity oversight.

External audit

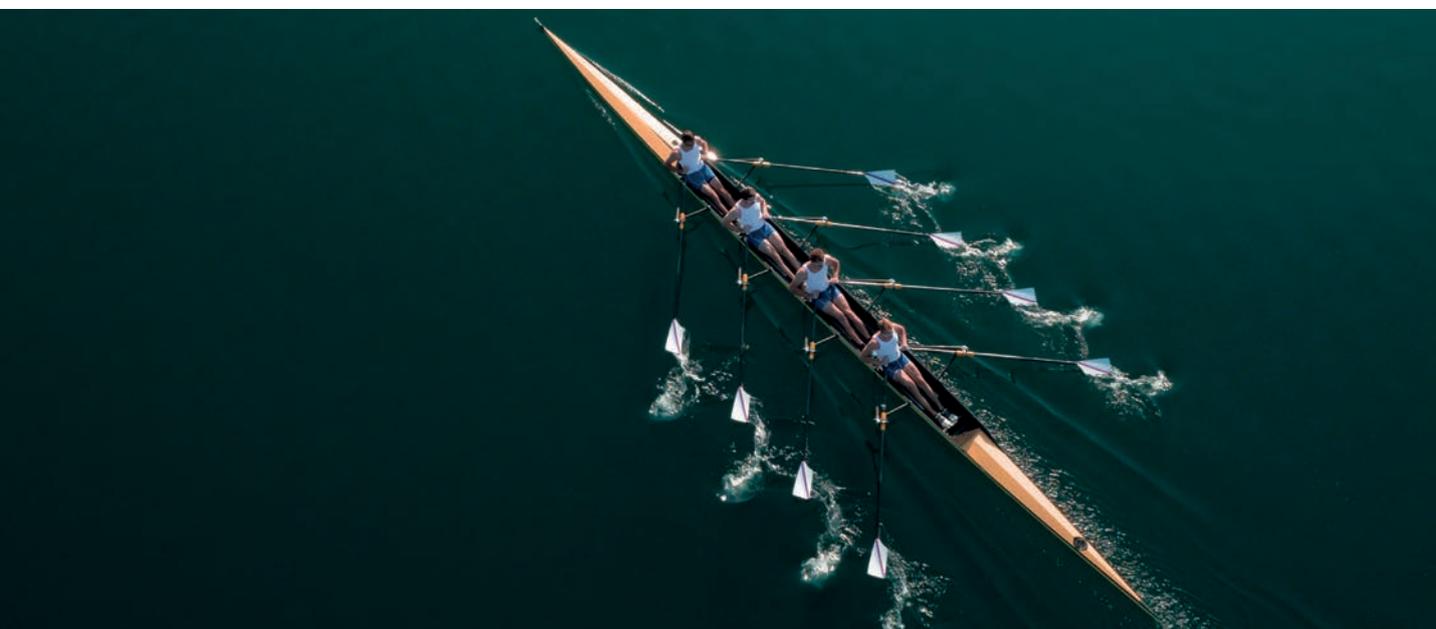
The audit engagement partner and senior members of the engagement team attended meetings during the year, providing detailed reports on the plans for the annual audit and reviews of quarterly results, engagement team, regulatory change, auditor independence, key audit risks, work performed and results 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. This also addressed quality of service delivery through periods of lock-down. Feedback is obtained from the Ardonagh Group's finance team on Deloitte's performance and from Deloitte on service delivery and how they have responded to matters highlighted in the Financial Reporting Council's Annual Quality Inspection reports. The conclusion of the Committee was that the 2020 audit has been 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 also satisfies itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditors and the Company that risk impairing independence and monitors the external auditor's compliance with relevant ethical and professional guidance.

During 2020 the level of non-audit services amounted to £8.0m, compared to Group audit fees of £2.4m. The non-audit services break down as follows: audit related assurance services 9.0%; corporate finance related 81.8%; and other 9.2%. The corporate finance services related to capital markets comfort letters and due diligence in support of reports to institutional lenders in respect of the offering memorandum issued in connection with the Group's re-financing during the year. Other services included quality assurance procedures in respect of the Group's ETV redress process. 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. During the year the Committee reviewed the impact of the new Ethical Standard on the scope of external audit services to ensure the new requirements are respected when considering Deloitte's engagement in non-audit services.

Clive Bouch
Chair of the Audit Committee





DIRECTORS' REPORT

The Directors have pleasure in presenting their Strategic Report, Directors' Report and the audited financial statements for the year ended 31 December 2020. The Corporate Governance Report on pages 28 to 45 forms part of this report.

General information and principal activities

The Ardonagh Group Limited (the Company) is a private company limited by shares with registered number 117710. It is incorporated and domiciled in Jersey. The address of its registered office is 3rd Floor, 44 Esplanade, St Helier, Jersey, JE4 9WG.

The Ardonagh Group Limited is a holding company which delivers central functions across the Group and, through its subsidiaries, operates primarily to distribute insurance products, to act as an underwriting agent and to provide third party policy administration and claims services for insurers, corporations, affinity partners and brokers. The Group does not take on any insurance risk.

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

Share capital and dividends

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

The Directors do not propose a dividend to equity shareholders (2019: £nil).

Financial risk management objectives and policies

Details of financial risk management objectives and policies can be found in the Strategic Report within the 'Principal risks and uncertainties' section on pages 24 to 27.

Directors

The Directors who held office during the year and up to the date of signing were as follows:

Clive Bouch
Pat Butler
Diane Cougill
Aurelio Cusaro (alternate director for Scot French)
Vahe Dombalagian
Scot French
Matthew Raino (alternate director for Vahe Dombalagian)
David Ross
John Tiner

All Directors benefit from qualifying third-party indemnity provisions in place during the financial year and at the date of this report. 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 5 Investor Directors in total) and may remove such Investor Directors appointed by them.

Employees

Details of how we engage with our employees is set out on pages 32 to 33.

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.

Engagement with suppliers, customers and others

Details of how the directors have had regard to the need to foster the Group's business relationships with suppliers, customer and others is set out on pages 33 to 35 of the Corporate Governance report.

Streamlined Energy and Carbon Reporting ("SECR")

For the year ended 31 December 2020 and in accordance with the 2018 Regulations, we have reported our energy use and greenhouse gas emissions on page 36 of the Corporate Governance report.

S.172 Disclosure

An explanation of how the Directors discharge their obligations under Section 172(l) (a)-(f) of the Companies Act 2006 is set out in the Corporate Governance Report on pages 32 to 35.

Research and development

The Group continues to build on its information technology systems to enhance performance and functionality and ensure that employees have access to the most innovative and effective trading platforms and management reporting tools.

Political contributions

The Group made no political contributions during the year (2019: £nil).

Subsequent events

Details of subsequent events can be found in note 37 to the Consolidated Financial Statements.

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.

Reappointment of Auditor

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.

Approved by the Board and signed on its behalf by:



D Cougill
Director
24 March 2021

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; and
- 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 (Jersey) Law 1991. 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. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.





THE ARDONAGH GROUP LIMITED

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ARDONAGH GROUP LIMITED

Report on the audit of the financial statements.

1. Opinion

In our opinion financial statements of The Ardonagh Group Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB); and
- 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 properly prepared in accordance with the Companies (Jersey) Law 1991.

We have audited the financial statements which comprise:

- the consolidated statement of profit and loss and other comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cashflows; and
- the related notes 1 to 37 and 1 to 11.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, and IFRSs as issued by the IASB. 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).

2. 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, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ARDONAGH GROUP LIMITED

3. Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • Going concern and impact of Covid-19; • Goodwill impairment; • Revenue recognition – Estimation of Variable Consideration reported in Commissions and fees and revaluation of the trail commission asset acquired with Swinton (“Swinton Monthly Products asset”) reported in Other income; • Presentation of Alternative Performance Measures (“APMs”); and • Enhanced Transfer Value (“ETV”) provision.
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Within this report, key audit matters are identified as follows:

- Increased level of risk
- Similar level of risk
- Decreased level of risk

Materiality	The materiality that we used for the group financial statements was £5.3m which was determined on the basis of Commissions and Fees.
Scoping	Scoping coverage included 9 components subject to full scope audits and a further 9 subject to the audit of specified account balances. These scoped in entities represent 92% of group commission and fee revenue and 90% of group total assets.
Significant changes in our approach	<p>There have been no significant changes to our audit approach compared to the prior year except for changes in key audit matters as described below.</p> <p>Key audit matters identified in the prior year (Assets under Construction, Broker Network (or “Bravo”) valuation of deferred proceeds financial liability and Deferred Tax Assets) have not been identified as key audit matters in the current year. These are no longer considered key audit matters due to the reduction in the Assets under Construction balance, the settlement of the Bravo deferred proceeds financial liability in 2020 and the amendment to the recognition of deferred tax assets in respect of Corporate Interest Restrictions was completed in 2019.</p>

4. Conclusions relating to going concern

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

Our evaluation of the directors’ assessment of the group’s and parent company’s ability to continue to adopt the going concern basis of accounting is discussed in section 5.1.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ARDONAGH GROUP LIMITED

5. 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.

5.1 Going Concern and impact of Covid-19

Key audit matter description	<p>Management makes an assessment of the group's ability to continue as a going concern, taking into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue. The Directors' concluded that it is appropriate to prepare the financial statements for the 12 months ended 31 December 2020 on a going concern basis.</p> <p>As at 31 December 2020 the group has debt (current and non-current) amounting to £1,969m (2019: £1,136m) following the issuance of two new tranches of debt. The new borrowings include \$500m payment-in-kind ("PIK") toggle notes due 2027, a privately placed term loan facility due 2026 of £1,575m and a £300m committed Capex, Acquisition and Re-organisation ("CAR") facility due 2026.</p> <p>Under the terms of the new debt arrangements the group also continues to benefit from the availability of a Revolving Credit Facility ("RCF").</p> <p>The group's finance costs on bank and other borrowings give rise to annual interest costs of £136.4m (2019: £78.8m), which are considered within year end forecast cash flows.</p> <p>As part of their going concern assessment, the Directors have considered the principal risks facing the group, including the potential financial and operational impacts of Covid-19, and its systems of risk management and internal control. In the light of the economic uncertainty caused by Covid-19 the Directors have considered key stress scenarios as follows:</p> <ul style="list-style-type: none"> • A shortfall in base case projected income throughout 2021 and 2022. • A deterioration in base case cash conversion rates over and above the fall in income. • A deterioration in the quantum of the estimate of the total ETV redress settlement costs. • Mitigating actions within management's control including delayed capital expenditure, a reduction in discretionary spend and some reduction in employee headcount and remuneration. <p>Auditing the going concern assessment involved subjective judgement and an increased extent of effort, including the need to make additional enquiries of management outside of the finance function.</p> <p>Refer to Note 2 to the financial statements for the basis of preparation.</p>
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ARDONAGH GROUP LIMITED

5. Key audit matters (cont)

5.1 Going Concern and impact of Covid-19 (cont) 	
<p>How the scope of our audit responded to the key audit matter</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> • We evaluated and challenged key assumptions underpinning cash flow forecasts, the stresses applied and the reverse stress test. In particular we compared market forecast assumptions for 2021 and 2022 with the actual performance in 2020 compared to the revised budgets developed in March 2020. • We challenged stresses applied to revenues; mitigating cost actions within management's control and tested the availability of the RCF and compliance with debt covenants; • We made enquiries of senior management in relation to their assessment of the continued operational impacts of Covid-19 on the group, including enquiries in relation to business resilience; • We performed an analysis of the group's financial performance in the first two months after the balance sheet date; • We inspected correspondence between the group and its regulators; and • We assessed 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.
<p>Key observations</p>	<p>We concur with the Directors' conclusion that it is appropriate to prepare the financial statements for the 12 months ended 31 December 2020 on a going concern basis.</p>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ARDONAGH GROUP LIMITED

5. Key audit matters (cont)

5.2 Goodwill Impairment 	
Key audit matter description	<p>Goodwill arising on business combinations is a significant asset on the balance sheet of the group £1,192.0m (2019: £732.5m). Goodwill increased significantly during 2020 following significant acquisitions. As required by IAS 36 Impairment of Assets, goodwill is tested for impairment at least annually. Management concluded no impairment was required.</p> <p>During 2020, the group's operating segments were aligned to its reporting segments. However, the group continued to monitor goodwill at the previous lower operating segment level (the "divisions") as this remained the lowest level of aggregation of cash generating units within the Group at which goodwill could be monitored for management purposes. Determining whether goodwill is impaired requires an estimation of the recoverable amount of each division, using the higher of value in use ("VIU") and fair value less costs to dispose ("FVLCD").</p> <p>The VIU amount is subjective and calculated using an impairment model underpinned by key assumptions including forecast cash flows, discount rates and long term growth rates.</p> <p>Management use a VIU approach to assess the recoverable amount of all divisions. A headroom calculation is performed as the amount of calculated VIU above the carrying value of the division. Divisions with less head room are at greater risk of impairment where the impairment model is sensitive to key assumptions.</p> <p>Refer to Note 4 to the financial statements (Key sources of estimation uncertainty) and Note 13 to the financial statements (Intangible assets).</p>
How the scope of our audit responded to the key audit matter	<p>We have gained an understanding of management's process for performing the annual impairment test and obtained an understanding of relevant controls.</p> <p>In addition we performed the following audit procedures:</p> <ul style="list-style-type: none"> • We challenged the assumptions used in the annual impairment review, in particular forecast growth rates applied to each of the divisions within the five year business plan through assessing segment strategies and planned business development; • We tested the accuracy of management's impairment model; • We performed an assessment of actual FY 2020 cash flows against prior period forecasts to assess the accuracy of management's forecasting; and • We involved our valuation specialists to assess and challenge the discount rate used.
Key observations	<p>We considered that management's conclusion that no impairment is required as of 31 December 2020 is reasonable.</p> <p>The forecasts used in the annual impairment exercise were consistent with the most recent financial forecasts approved by the Board.</p> <p>Key assumptions including discount rates and growth rates used within business forecasts are reasonable.</p> <p>We considered the financial statements disclosures in relation to the goodwill impairment test were appropriate and as required by IAS 36.</p>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ARDONAGH GROUP LIMITED

5. Key audit matters (cont)

5.3 Revenue recognition – Estimation of Variable Consideration reported in Commissions and fees and revaluation of the trail commission asset acquired with Swinton (“Swinton Monthly Products asset”) reported in Other income. 	
Key audit matter description	<p>In accordance with ISA 240, during the year ended 31 December 2020 we identified a risk of fraud in revenue recognition, in relation to two sources of material revenue within Commissions and Fees £689.1m (2019: £640.7m) and Other Income £22.7m (2019: £22.2m).</p> <p>Estimation of variable consideration – Components of the group recognise income from profit share arrangements and trading deals. Revenue recognised under these arrangements is dependent on satisfying performance obligations per underlying agreements and the amount and timing of revenue recognition is inherently uncertain. Management apply judgement in estimating the related variable consideration, which is measured on a best estimate basis through applying assumptions including loss ratios and claims handling costs; and</p> <p>Revaluation of Swinton monthly products asset – The Swinton business acquired on 31 December 2018 has significant trail commissions arising from certain products that renew monthly. Under acquisition accounting the amounts receivable were estimated and fair valued using a discounted cashflow model over the expected life of each type of product. At the year end, this receivable is revalued and any revaluation movements are recorded as Other income.</p> <p>Management applies judgement in calculating the present value of future cash flows, including past experience, a best estimate of any associated risks, product lifetime restrictions, expected customer cancellation profiles and potential persistency of products. We focus our testing on the most judgemental assumptions being the customer cancellation profiles and product lifetime restrictions.</p> <p>Refer to Note 3 to the financial statements (Accounting policies), Note 4 to the financial statements (Key sources of estimation uncertainty) and Note 5 to the financial statements (Segmental analysis).</p>
How the scope of our audit responded to the key audit matter	<p>We have gained an understanding of management’s process for recording revenue across the group’s components and obtained an understanding of relevant controls.</p> <p>In addition we performed the following audit procedures:</p> <p>Estimation of variable consideration:</p> <ul style="list-style-type: none"> • We evaluated corroborating and contradictory third party evidence to support revenue recognition and compared recorded revenues with the contractual agreements; • We tested the appropriateness of a sample of input data; • We assessed evidence after the balance sheet date to conclude on the reliability of the year end estimate; and • We tested the appropriateness of management’s assumptions in calculating the estimate. <p>Revaluation of Swinton monthly products asset:</p> <ul style="list-style-type: none"> • We built our own replicating model using management’s assumptions to recalculate the fair value of the Swinton monthly products asset and thus demonstrate the accuracy of the model used by management; • We tested the completeness and accuracy of data inputs into the model through agreement of a sample to policy documentation; and • We tested key assumptions included within the model, being: the product lifetime restrictions; and the customer cancellation profiles. We tested the accuracy of the 2020 customer cancellation forecast made at the end of 2019 with a hindsight analysis. • We involved our general insurance regulation specialists in order to assess the product lifetime restrictions given existing market practice and the potential impacts of the FCA market study into general insurance pricing practices.
Key observations	<p>Our testing of customer cancellation profiles, supported by retrospective analysis of the cancellation profiles forecast for 2020 did not identify any issues. We concluded that the expected product lifetimes used in the valuation are reasonable.</p>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ARDONAGH GROUP LIMITED

5. Key audit matters (cont)

5.4 Presentation of Alternative Performance Measures ("APMs") 	
Key audit matter description	<p>Adjusted EBITDA is a key metric that management use to assess the quality of the group's earnings. Management removes adjusting items ("Items excluded from Adjusted EBITDA"), being significant acquisition and disposal related items and other costs associated with the ongoing transformation of the group. Pro formas are presented as if the significant acquisition and disposal related transactions occurred on the first day of the comparative period.</p> <p>The group reports Items excluded from Reported Adjusted EBITDA of £72.2m (2019: £68.2m), and Adjusted EBITDA pro forma for completed transactions of £73.4m (2019: £74.9m) in the Annual Report.</p> <p>This measure and other such non-GAAP measures used are Alternative performance measures ("APMs"). An APM is defined by European Securities and Markets Authority ("ESMA") as "a financial measure of historical or future performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework (e.g. EU-adopted IFRS) applied by the entity".</p> <p>The group has in place adjusting items definitions (see Glossary in Section 3 of the Annual Report) and a risk exists that these are not consistently applied across the group. In addition, there is a risk that these adjusting items are not clearly disclosed and that undue prominence is given to APMs compared to the statutory results of the group within the Annual Report.</p> <p>Refer to section 1 of the Annual Report (Summary of group Financial Performance) and section 3 of the Annual Report (Other unaudited financial information).</p>
How the scope of our audit responded to the key audit matter	<p>We have gained an understanding of management's process for identifying adjusting items across the group and obtained an understanding of relevant controls.</p> <p>We performed the following procedures:</p> <ul style="list-style-type: none"> • We tested management's calculation and reporting for a sample of Items excluded from Adjusted EBITDA to assess consistency with the group's published definitions; • We assessed whether the use of APMs is consistent with the guidelines produced by regulators ESMA, and the FRC Alternative Performance Measures Thematic Review published in November 2017; • We assessed whether there is an appropriate balance between the use of statutory metrics, Pro Forma Adjusted EBITDA and other APMs, together with clear definitions and reconciliations; • We assessed the prominence given to Pro Forma Adjusted EBITDA and other APMs relative to the group's statutory results; and • We assessed whether Pro Forma Adjusted EBITDA and other APMs were consistently applied in the current year and as presented in the prior year.
Key observations	<p>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.</p> <p>We considered that the group's use and presentation of Alternative Performance Measures was acceptable and consistently applied.</p>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ARDONAGH GROUP LIMITED

5. Key audit matters (cont)

5.5. Enhanced Transfer Value ("ETV") provision. 	
Key audit matter description	<p>Following the 2014 Financial Conduct Authority (FCA) review of the suitability of bulk pension transfer advice by financial advisors where employers offered an enhancement on the value of their defined benefit fund to transfer out, the group has an obligation to provide customer redress in respect of the ETV pension advice given to customers of the Towergate Financial business. At 31 December 2020 management estimated the total cost of the ETV settlements as £70m (2019: £63.5m) with a net provision remaining of £18.9m (2019: £47.6m).</p> <p>Through 2020 management continued to review a significant population within the overall active population of cases to identify a "causal link" between the advice given when the product was sold and the actions of the customer under guidelines provided by the FCA. As of 31 December 2020 the review of this population was materially complete.</p> <p>Key assumptions within the provision estimate are:</p> <ul style="list-style-type: none"> • the assumed rate of redress across the population based on management's reviews carried out to date; and • the estimate of average redress per customer where it is concluded a case is due redress. <p>In determining the average redress per customer, management engaged an actuarial expert approved by the FCA.</p> <p>The related ETV disclosures provide the key assumptions that underpin the provision estimate and the sensitivity of the provision to these key assumptions.</p> <p>Refer to Note 4 to the financial statements (Key sources of estimation uncertainty) and Note 31 to the financial statements (Provisions).</p>
How the scope of our audit responded to the key audit matter	<p>We have gained an understanding of the end to end ETV provision calculation process and obtained an understanding of relevant controls.</p> <p>In addition we performed the following audit procedures:</p> <ul style="list-style-type: none"> • We made enquiries of management to understand how they determined the various components and key assumptions included within the provision estimate, including: <ul style="list-style-type: none"> ◦ the total redress case population and disaggregation into populations of similar attributes; ◦ the identification of cases concluded as requiring redress for each population; and ◦ the estimate of average customer redress based on assumptions applied to each population. • We inspected correspondence with the FCA to identify regulatory observations in relation to the ETV redress process; • We tested the completeness and accuracy of data inputs into the provision calculation through agreeing customer file conclusions to calculation inputs; • We assessed management's assumptions for customer opt-ins based on subsequent events through 2021; • We assessed the output of the separate Deloitte LLP Reasonable Assurance engagement performed by regulatory specialists over management's causal link assessment of requirement to redress; • We performed subsequent events testing to evaluate whether settlement offers and payments made after the balance sheet date were consistent with the provision; • We evaluated the competence, capabilities and objectivity of the expert; and • We assessed management's financial statement disclosure for appropriate presentation of key assumptions and the uncertainties in the determination of the ETV provision.
Key observations	<p>We concluded that the ETV provision recorded by management is reasonable and the key assumptions used in the underlying valuation are also reasonable.</p> <p>We considered that the disclosures in relation to the ETV provision in Notes 4 and 31 to the financial statements are appropriate.</p>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ARDONAGH GROUP LIMITED

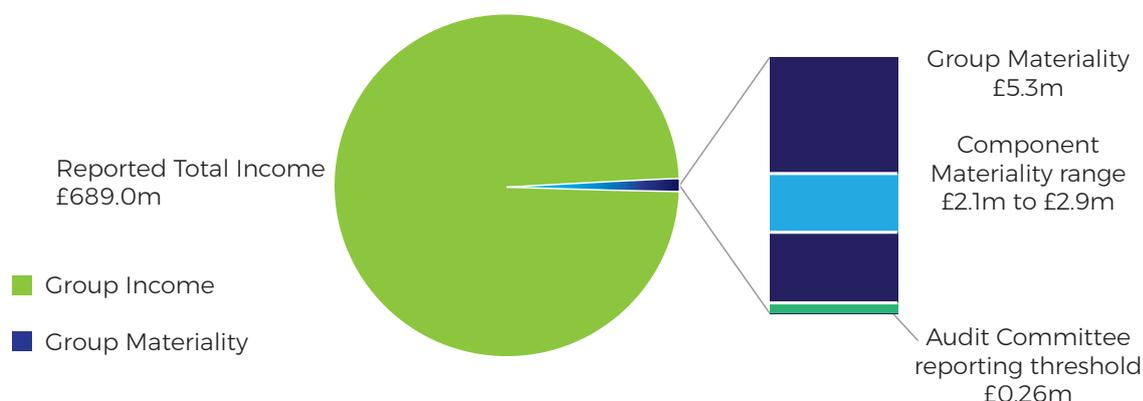
6. Our application of materiality

6.1. Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£5.3m (2019: £5.2m)	£5.2m (2019: £5.1m)
Basis for determining materiality	0.77% Commissions and fees (2019: 0.76% of Reported Total Income of the group).	0.65% (2019: 0.73%) of Parent company Net Assets. We apply a materiality cap for the parent company to be lower than the group.
Rationale for the benchmark applied	Commissions and fees was determined to be the key driver behind the performance of the group going forward and is therefore of key interest to the shareholders.	Net assets is determined to be the materiality benchmark given the activities of the company. A non-trading holding company with principle activities being to hold intercompany subordinated debt and investment in subsidiaries.



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	55% (2019: 60%) of group materiality	55% (2019: 60%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered factors including: our risk assessment, including our assessment of the group's overall control environment and that we did not consider it appropriate to rely on controls over a number of business processes; and the level of corrected and uncorrected misstatements in the prior year. We have lowered our performance materiality percentage compared to 2019 in response to the general risks posed by Covid-19 to the current control environment.	

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ARDONAGH GROUP LIMITED

6. Our application of materiality (cont)

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £260k (2019: £255k), 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.

7 An overview of the scope of our audit

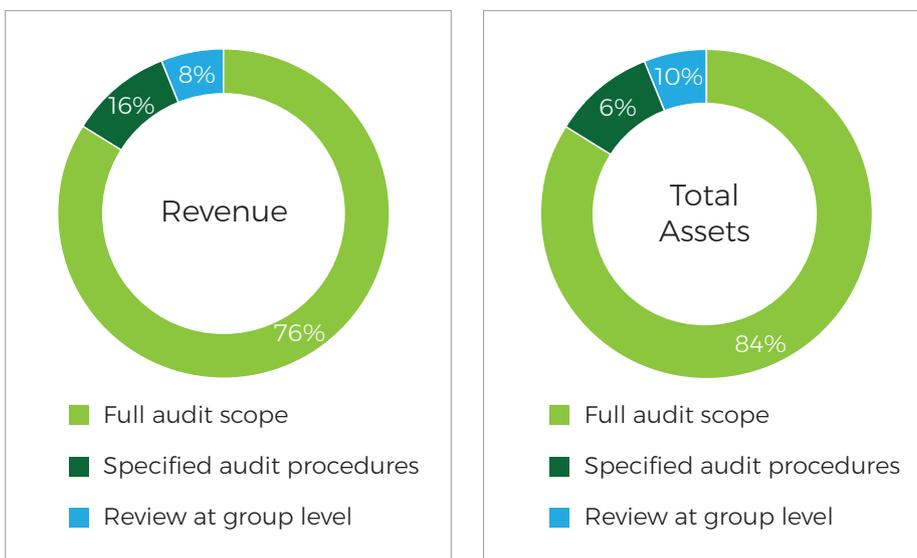
7.1 Identification and scoping of components

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

Given the number of components and operating locations within the group, we assessed the extent of audit work required to be performed to give appropriate coverage for the purposes of the group financial statement audit. Our approach considered revenue contribution to the group result as primary measure of financial significance and scope. Coverage obtained on this basis was 92% of revenue and 90% of total assets.

Of the group's 18 significant components, 9 were subjected to full scope audits of the financial information of the component and 9 subjected to an audit of one or more account balances, classes of transactions or disclosures. Those subjected to an audit of one or more account balances, classes of transactions or disclosures are not individually financially significant enough to require full scope audit of the financial information of the component for group purposes, but did present specific areas of risk which needed to be addressed.

At the group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit.



7.2 Working with other auditors

Work on a single component, Arachas (which comprises the Ardonagh International segment), was undertaken by a Deloitte overseas component audit team. We directed and supervised the Irish component team in the performance of their work through providing detailed instructions setting out the work to be performed, having regular conference calls with the team throughout the audit and by performing a review of their audit working papers over a video conference.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ARDONAGH GROUP LIMITED

8. Other information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. 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.

10. 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ARDONAGH GROUP LIMITED

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

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

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, valuations, IT, and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud including those areas identified as key audit matters. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context being the UK and Jersey Companies Acts.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's FCA permissions and compliance with FCA client assets regulations.

11.2 Audit response to risks identified

As a result of performing the above, we identified Revenue recognition – Estimation of Variable Consideration reported in Commissions and fees and revaluation of the Swinton Monthly Products asset reported in Other income and Presentation of APMs as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ARDONAGH GROUP LIMITED

Report on other legal and regulatory requirements

12. Matters on which we are required to report by exception

12.1 Adequacy of explanations received and accounting records

Under the Companies (Jersey) Law, 1991 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
- proper accounting records have not been kept by the parent company, or proper 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.

13. Use of our report

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. 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

For and on behalf of Deloitte LLP
London, United Kingdom
24 March 2021

THE ARDONAGH GROUP LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Commission and fees	5	689,083	640,662
Other income	5	22,704	22,168
Investment income	5	787	2,657
Salaries and associated costs	5	(346,307)	(321,556)
Other operating costs	5	(212,337)	(231,655)
Impairment of financial assets	5	(10,571)	(14,465)
Depreciation, amortisation and impairment of non-financial assets	5	(96,177)	(95,713)
Fair value loss on derivatives	5	(2,136)	(604)
Share of profit from joint venture	18	1,417	1,680
Share of profit from associate	18	608	217
Operating profit		47,071	3,391
Adjustment to gain on disposal of associate	5	-	1,750
(Loss)/gain on disposal of subsidiary or business	11	(1,665)	2,244
Finance costs	8	(235,330)	(113,606)
Finance income	8	1,227	2,003
Loss before tax		(188,697)	(104,218)
Tax (expense)/credit	12	(17,562)	30,216
Loss for the year		(206,259)	(74,002)
Attributable to:			
Owners of the parent		(209,912)	(77,826)
Non-controlling interests		3,653	3,824
Loss for the year		(206,259)	(74,002)

The notes on pages 68 to 166 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 2020

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Loss for the year	(206,259)	(74,002)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(3,572)	318
Change in costs of hedging reserve	(4,789)	(2,153)
Change in cash flow hedging reserve	(4,385)	11,493
Income tax relating to these items	1,704	(1,588)
Loss on financial assets at fair value through other comprehensive income	(5,176)	-
Other comprehensive (expense)/income for the year	(16,218)	8,070
Total comprehensive loss for the year	(222,477)	(65,932)
Attributable to:		
Owners of the parent	(226,130)	(69,756)
Non-controlling interests	3,653	3,824
Total comprehensive loss for the year	(222,477)	(65,932)

The notes on pages 68 to 166 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	31 December 2020 £000	31 December 2019 £000
Non-current assets			
Intangible assets	13	1,635,322	1,112,194
Property, plant and equipment	14	27,110	26,168
Right-of-use assets	15	41,052	36,209
Investment in associates and joint ventures	18	8,759	7,420
Financial assets at fair value through other comprehensive income	25	285	271
Trade and other receivables	20	24,183	15,756
Contract assets	21	2,663	1,708
Other assets	22	10,049	9,037
Deferred tax asset	30	-	22,687
Derivatives	26	446	1,709
		1,749,869	1,233,159
Current assets			
Cash and cash equivalents	19	585,637	410,903
Trade and other receivables	20	219,318	155,573
Derivatives	26	3,098	4,532
Contract assets	21	11,482	9,801
Other assets	22	25,439	19,098
Financial assets at fair value through profit or loss	25	14	36
Current tax asset	30	1,145	-
Assets held for sale	11	24,146	3,735
		870,279	603,678
Current liabilities			
Trade and other payables	27	(594,694)	(428,287)
Borrowings	29	(46,909)	(44,149)
Lease liabilities	15	(12,997)	(10,084)
Premium financing liabilities	28	-	(4,341)
Derivatives	26	(508)	(1,970)
Contract liabilities	21	(30,856)	(26,829)
Provisions	31	(28,359)	(60,651)
Current tax liability	30	(1,978)	(130)
Liabilities held for sale	11	-	(1,754)
		(716,301)	(578,195)
Net current assets		153,978	25,483
Non-current liabilities			
Trade and other payables	27	(17,367)	(11,156)
Borrowings	29	(1,922,353)	(1,091,689)
Lease liabilities	15	(36,882)	(33,021)
Derivatives	26	(50,735)	(19,730)
Contract liabilities	21	(1,288)	(1,471)
Provisions	31	(13,863)	(14,457)
Deferred tax liability	30	(10,589)	-
		(2,053,077)	(1,171,524)
Net (liabilities)/assets		(149,230)	87,118

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	31 December 2020 £000	31 December 2019 £000
Capital and reserves attributable to the Group's shareholders			
Share capital	32	8,593	7,331
Share premium	32	991,771	740,886
Retained losses		(994,952)	(656,383)
Hedging reserves		(5,664)	1,806
Treasury share reserve		(136,005)	(11,015)
Foreign currency translation reserve		(3,268)	304
Shareholders' equity		(139,525)	82,929
Non-controlling interest		(9,705)	4,189
Total equity		(149,230)	87,118

The Group subsumed its non-controlling interest reserve, which was previously presented separately, within retained losses. The amount subsumed was £7.4m at 31 December 2019.

The notes on pages 68 to 166 form an integral part of these consolidated financial statements.

This set of consolidated financial statements was approved by the Board of Directors on 24 March 2021 and was signed on its behalf by:



D Cougill
Director

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital £000	Share premium £000	*Retained losses £000	Hedging reserves £000
At 1 January 2020	7,331	740,886	(656,383)	1,806
(Loss)/profit for the period	-	-	(209,912)	-
Other comprehensive expense	-	-	(5,176)	(7,470)
	7,331	740,886	(871,471)	(5,664)
Share based payment scheme	-	-	1,357	-
Purchase of own shares	-	-	-	-
Issue of share capital	1,547	319,917	-	-
Cancellation of treasury shares	(394)	(82,343)	(16,272)	-
Distribution to non-controlling interests	-	-	-	-
Transactions with non-controlling interests	109	13,311	(108,566)	-
Disposal of subsidiary	-	-	-	-
At 31 December 2020	8,593	991,771	(994,952)	(5,664)

	Treasury share reserve £000	Foreign currency translation reserve £000	Total shareholders' equity £000	Non- controlling interest £000	Total equity £000
At 1 January 2020	(11,015)	304	82,929	4,189	87,118
(Loss)/profit for the period	-	-	(209,912)	3,653	(206,259)
Other comprehensive expense	-	(3,572)	(16,218)	-	(16,218)
	(11,015)	(3,268)	(143,201)	7,842	(135,359)
Share based payment scheme	(217,009)	-	(215,652)	-	(215,652)
Purchase of own shares	(6,990)	-	(6,990)	-	(6,990)
Issue of share capital	-	-	321,464	-	321,464
Cancellation of treasury shares	99,009	-	-	-	-
Distribution to non-controlling interests	-	-	-	(120)	(120)
Transactions with non-controlling interests	-	-	(95,146)	(18,577)	(113,723)
Disposal of subsidiary	-	-	-	1,150	1,150
At 31 December 2020	(136,005)	(3,268)	(139,525)	(9,705)	(149,230)

* The Group subsumed its non-controlling interest reserve, which was previously presented separately, within retained losses. The amount subsumed was £7.4m at 31 December 2019.

The notes on pages 68 to 166 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

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

	Share capital £000	Convertible equity certificates £000	Share premium £000	*Restated retained losses £000	Hedging reserves £000
Restated at 1 January 2019	6,826	-	674,391	(571,495)	(5,946)
Transition to IFRS 16**	-	-	-	59	-
Adjusted at 1 January 2019	6,826	-	674,391	(571,436)	(5,946)
(Loss)/profit for the period	-	-	-	(77,826)	-
Other comprehensive income	-	-	-	-	7,752
	6,826	-	674,391	(649,262)	1,806
Share based payment scheme	-	-	-	256	-
Purchase of own shares	-	-	-	-	-
Issue of convertible equity certificates	-	67,000	-	-	-
Convertible equity certificates converted to shares	505	(67,000)	66,495	-	-
Transactions with non-controlling interest	-	-	-	-	-
At 31 December 2019	7,331	-	740,886	(649,006)	1,806

	Treasury share reserve £000	Non-controlling interest reserve £000	Foreign currency translation reserve £000	Total shareholders' equity £000	Non-controlling interest £000	Total equity £000
Restated at 1 January 2019	(102)	(2,495)	(14)	101,165	392	101,557
Transition to IFRS 16**	-	-	-	59	42	101
Adjusted at 1 January 2019	(102)	(2,495)	(14)	101,224	434	101,658
(Loss)/profit for the period	-	-	-	(77,826)	3,824	(74,002)
Other comprehensive income	-	-	318	8,070	-	8,070
	(102)	(2,495)	304	31,468	4,258	35,726
Share based payment scheme	-	-	-	256	-	256
Purchase of own shares	(10,913)	-	-	(10,913)	-	(10,913)
Issue of convertible equity certificates	-	-	-	67,000	-	67,000
Convertible equity certificates converted to shares	-	-	-	-	-	-
Transactions with non-controlling interest	-	(4,882)	-	(4,882)	(69)	(4,951)
At 31 December 2019	(11,015)	(7,377)	304	82,929	4,189	87,118

* The Group subsumed its share-based payment reserve, which was previously presented separately, within retained losses. The amount subsumed was £0.2m at 31 December 2018. The Group also reclassified amounts that relate to the purchase of own shares from retained losses to a treasury share reserve. The amount of the reclassification is £0.1m at 31 December 2018. The Group also subsumed its non-controlling interest reserve, which was previously presented separately, within retained losses. The amount subsumed was £2.5m at 1 January 2019. For the taxation restatement see note 12.

** The amounts presented above as IFRS 16 adjustments to the opening balance of equity are those reported in the Group's 31 December 2019 financial statements. The amounts included in the 30 September 2019 interim financial statements were subsequently revised from the initial adjustment.

The notes on pages 68 to 166 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Cash flows from operating activities			
Net cash inflow from operations	23	140,469	98,419
Finance income and investment income received		2,014	4,658
Income from associate and joint venture		1,715	1,400
Tax (paid)/received		(3,907)	1,090
Settlement of forward contracts		(529)	(3,484)
Net cash inflow from operating activities		139,762	102,083
Cash flows from investing activities			
Acquisition of businesses net of cash acquired		(102,422)	8,827
Purchase of property, plant, equipment and intangible assets		(24,836)	(17,971)
Proceeds on disposal of property, plant and equipment		1,207	3,003
Purchase of financial asset		(4,995)	(1,483)
Disposal of business		-	28,699
Disposal of businesses net of cash disposed		(31)	-
Contingent consideration received		-	673
Contingent consideration paid		(8,818)	(1,712)
Lease incentives received		-	1,566
Repayment of lease receivable		199	519
Issue of loan		(32,411)	-
Net cash (outflow)/inflow from investing activities		(172,107)	22,121
Cash flows from financing activities			
Interest paid on borrowings		(103,747)	(95,242)
Repayments of premium financing		(4,341)	(67,731)
Debt transaction costs		(48,295)	(7,012)
Sundry loans issued		-	(8,347)
Repayment of lease liabilities		(12,949)	(16,075)
Transactions with non-controlling interests		(6,530)	(4,304)
Early termination of cross currency swaps		22,611	-
Settlement of shareholder loan notes		-	(4,589)
Purchase of own shares		(1,541)	(9,514)
Proceeds from issue of shares		14,624	-
Proceeds from borrowings		2,033,747	-
Repayment of borrowings		(1,684,119)	-
Net cash inflow/(outflow) from financing activities		209,460	(212,814)
Net increase/(decrease) in cash and cash equivalents		177,115	(88,610)
Cash and cash equivalents at the beginning of the year	19	410,903	504,956
Cash disclosed as held for sale at the beginning of the year		799	-
Effect of movements in exchange rates on cash held		(3,180)	(5,443)
Cash and cash equivalents at the end of the year	19	585,637	410,903

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

The notes on pages 68 to 166 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The Ardonagh Group Limited (the Company) is a private company limited by shares with registered number 117710. It is incorporated and registered in Jersey. The address of its registered office is 3rd Floor, 44 Esplanade, St Helier, Jersey, JE4 9WG. 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 (Jersey) Law 1991 applicable to companies reporting under IFRS.

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

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

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

The Directors have considered the guidance of the UK Financial Reporting Council and events relating to the spread of coronavirus (Covid-19) in preparing these financial statements.

Going concern

The financial statements of the Group set out on pages 61 to 67 have been prepared on a going concern basis. At 31 December 2020, the Group had net liabilities of £149.2m (31 December 2019: net assets of £87.1m) and net current assets of £154.0m (31 December 2019: £25.5m). The Group reported an operating profit of £47.1m for the year ended 31 December 2020 (31 December 2019: £3.4m), net cash inflows from operating activities of £139.8m (31 December 2019: £102.1m) and cash inflows of £177.1m (31 December 2019: outflow £(88.6)m). Operating cash conversion of 97% (2019: 80%) and available cash of £154.5m was reported at 31 December 2020 (2019: £61.7m).

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 change in the Group's capital structure, operations and liquidity following the 14 July 2020 issuance of new borrowings, which the Group used to repay its existing borrowings and to fund acquisitions (see Business Review: Liquidity and Capital Resources). These are reflected in the adjusted base case and stressed cash flow forecasts over the calendar years 2021 and 2022.
- Adjustments included for the forecast cashflows from the material acquisitions completed at the date of finalisation of the Group's base case budget and impact on available and forecast liquidity of subsequent acquisitions completed and planned.
- The principal risks facing the Group, including the potential financial and operational impacts of Covid-19, and its systems of risk management and internal control.
- Actual trading and cashflows that arose in 2020 and the first two months of 2021, which are ahead of prior year and 2021 plan.

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

- Following the 14 July 2020 issuance of new borrowings, which the Group used to repay its existing borrowings and to fund acquisitions: (a) the Group will continue to benefit from a £191.5m Revolving Credit Facility that is not drawn at the date of this report, and (b) payment-in-kind interest options are utilised.
- Following the commencement of the main settlement of the ETV liabilities during the third quarter of 2019, the Group materially completes the settlement during the second quarter of 2021.
- Client retention and renewal rates continue to be robust, despite the current economic uncertainty, as the 2020 trading performance has demonstrated resilience across the Group.

Key stress scenarios that the Directors have considered include cumulative stresses to the base plan as a result of:

- Shortfalls in base case projected income throughout 2021 and 2022.
- Deterioration in base case cash conversion rates over and above the shortfalls in income and a 5% deterioration in the quantum of the estimate of the total ETV redress settlement costs (see note 31).
- Mitigating actions within management control including delayed capital expenditure, a reduction in discretionary spend and some reduction in employee headcount and remuneration.

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2 Basis of preparation (cont.)

Going concern (cont.)

The Directors have also modelled reverse stress scenarios, including assessing those that result in a default on our term debt facilities that would require a technical repayment obligation and those that would exhaust available liquidity. The stresses needed for these outcomes to happen significantly exceed the key stress scenarios above and the Directors consider such conditions to be a remote possibility. Other mitigations which may be possible in the stress scenarios but have not been included in the analysis include seeking shareholder support, securitising premium receivables and further incremental and more prolonged cost reductions.

The Directors continue to consider the wider operational consequences and ramifications of the Covid-19 pandemic. In particular:

- The Group has demonstrated the efficiency and stability of the Group's infrastructure and the ability for home working for a significant portion of our employee base.
- Insurance broking is a resilient and defensive market, which has historically had limited impact from past economic or capital market downturns. The Group is highly diversified and not materially exposed to a single carrier, customer or market sector.
- Although Covid-19 developments remain fluid, the stress testing demonstrates the Group's financial resilience and operating flexibility.
- As explained in the Chief Financial Officer's Report in section 1, the impact of Covid-19 on the Group has been very limited.

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

3 Accounting policies

The accounting policies adopted are consistent with those of the previous financial year with the exception of new standards effective from 1 January 2020 as described in 'Application of new and revised International Financial Reporting Standards' (section (r) below). Additional accounting policies have been incorporated in 2020 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 assumed 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.

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3 Accounting policies (cont)

Accounting for business combinations (cont)

Some acquisitions involve a put and call option. The Group grants the seller a put option which gives the seller the right to require the Group to acquire its shareholdings in the acquiree at future date. The Group is granted a call option under which the Group has the right to require the seller to sell its shareholdings in the acquiree to the Group, exercisable within a specific period following the expiry of the put option. The exercise price of the options is based on a multiple of EBITDA, net of the net debt of the acquiree for the financial year that immediately precedes the financial year when either option is exercisable. The Group recognises a financial liability at an amount corresponding to the present value of the option price (the redemption amount), and that liability is classified as 'Share buyout' in the financial statements.

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

Disposal of subsidiaries

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

Goodwill

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

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

Transactions with non-controlling interests

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

(b) Investments in associates and joint ventures

Associates

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

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

Joint arrangements

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

(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 5 and 10 years, which is estimated by reference to the history of the relationships and levels of attrition.

FINANCIAL STATEMENTS

3 Accounting policies (cont)

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 1 and 10 years, which considers the Group's track record of retaining brands and experience of the insurance broking market.

Computer software

Computer software is recognised when purchased separately or is recognised on a business combination. The fair value is calculated by reference to the net book value acquired or the depreciated replacement cost. These assets are amortised on a straight-line basis over their estimated useful life of 4 years.

Internally-generated computer software and assets under construction

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

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

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

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

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

Internally-generated intangible assets are not amortised in the period subsequent to initial recognition but before they are ready for use. Amortisation commences when they are ready for use as intended by management. They are then reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Internally-generated intangible assets are amortised on a straight-line basis over their estimated useful life of 4 years.

Intellectual property

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

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.

FINANCIAL STATEMENTS

3 Accounting policies (cont)

Impairment of assets

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

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

(d) Depreciation

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

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

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

(e) Leases

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

Right-of-use assets

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

Lease liabilities

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

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

FINANCIAL STATEMENTS

3 Accounting policies (cont)

Leases of low value assets

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

Subleases

The Group does not undertake arrangements as a lessor other than as a sublessor. When the Group is a sublessor, it classifies the sublease as a finance lease if the sublease transfers substantially all the risks and rewards incidental to ownership of the asset that is the subject of the sublease, namely the right-of-use asset arising from the head lease. The sublease is otherwise classified as an operating lease.

(f) Financial instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument, and they are measured initially at fair value. Transaction costs arising on the issue of a financial asset or financial liability are accounted for as follows:

- Transaction costs are added to or deducted from the fair value of the financial asset or financial liability if they are directly attributable to the acquisition of the financial asset or financial liability, respectively, and if the financial asset is measured at fair value through other comprehensive income or if the financial asset or financial liability, respectively, is measured at amortised cost.
- Transaction costs are recognised immediately in profit or loss if they are directly attributable to the issue of a financial asset or financial liability at fair value through profit or loss, or if they are not directly attributable to the issue of a financial asset or financial liability.

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 equity is not reclassified to profit or loss but is included in 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

3 Accounting policies (cont)

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), advances to related parties, cash and cash equivalents and certain other financial assets.

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

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

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

Financial assets classified as FVTOCI

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

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

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

Financial assets classified as FVTPL

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

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

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

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3 Accounting policies (cont)

Financial assets classified as FVTPL (cont)

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

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

Foreign exchange gains and losses

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

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

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition. They would only be reclassified if the Group were to change its business model for managing its financial assets, in which case the affected financial assets would be reclassified 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 versus current conditions and the Group's view of economic conditions over the expected lives of the receivables, including the time value of money where appropriate. Scalar factors are typically based on GDP and unemployment rate forecasts.

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

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

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

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

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

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

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3 Accounting policies (cont)

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.

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 deferred consideration, contingent consideration or a share buyout balance 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 Groups financial liabilities include borrowings, trade and other payables, derivatives, deferred consideration, contingent consideration and a share buyout balance.

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.

FINANCIAL STATEMENTS

3 Accounting policies (cont)

Derivative financial instruments

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

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

Deferred consideration, contingent consideration and share buyout balance

The Group is party to consideration arrangements in the form of deferred consideration, contingent consideration and a share buyout balance. Deferred consideration represents fixed amounts payable at a specified date in the future. Contingent consideration is consideration that is contingent on the future performance of acquired businesses. Share buyout comprises put options held by minority shareholders of acquired businesses. These liabilities are recognised initially at their discounted present value and are remeasured at each reporting date. The discount unwind and the remeasurement of these liabilities are recognised in profit or loss as finance cost.

Cash flow hedges

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

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

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

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

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

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.

FINANCIAL STATEMENTS

3 Accounting policies (cont)

Derivatives hedging borrowings

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

For the cross currency swaps (before they were all settled) and the forward contracts hedging borrowings, the Group separates the foreign currency basis spread and forward points from the derivative and excludes it from the designation of that financial instrument as the hedging instrument. The fair value changes in the currency basis spread and forward points are separately accounted for as a cost of hedging in other comprehensive income and recognised in the costs of hedging reserve within equity. Such costs of hedging are amortised (i.e. reclassified to profit or loss) over the life of the hedged borrowings (or when the hedge is de-designated). The treatment for the currency basis element and forward points 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 derivatives 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 the derivatives 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.

Derivatives hedging revenue

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

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

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

- The effect of the counterparty and the Group's own credit risk on the fair value of the forward contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates;
- The use of different discounting curves for the hedged item and the hedging instrument, because for the derivatives 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 hedging revenue, the Group designates the entire hedging instrument (i.e. the currency forward inclusive of the forward element). 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.

FINANCIAL STATEMENTS

3 Accounting policies (cont)

Finance income and finance costs

The Group's finance income and finance costs include:

- Interest income
- Interest expense
- Unwind of discount on provisions
- Unwind of discount on financial assets or liabilities, including on lease liabilities and lease receivables
- Unwind of discount and fair value remeasurement of deferred consideration, contingent consideration and the share buyout balance
- The net gain or loss reclassified from other comprehensive income to profit or loss in relation to hedging instruments

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

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

(g) Provisions for liabilities and charges

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

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

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

(h) Share capital

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

(i) Revenue

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

Commission and fees

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

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

Post-placement performance obligations

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

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

FINANCIAL STATEMENTS

3 Accounting policies (cont)

Variable consideration

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

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

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

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

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

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

- *Cancellation rights:*

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

- *Rolling contracts:*

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

Other income

Other income includes;

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

FINANCIAL STATEMENTS

3 Accounting policies (cont)

(j) Contract costs

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

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

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

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

(k) Operating segments

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

(l) Employee benefits

Pension costs

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

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

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

Long-Term Incentive Plans

The Group operates a number of Long Term Incentive Plans (LTIPs), under which the Group receives services from employees as consideration for cash settled incentives which vest over a number of years based on achievement against certain performance measures and/or service conditions. The incentives are earned by participants in the relevant performance and/or service period (the performance period), and 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 or prepayment (there will be a prepayment during the clawback period if an interim payment has been made) as relevant.

FINANCIAL STATEMENTS

3 Accounting policies (cont)

Share-based payments

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

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

(m) Foreign currencies

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

Foreign currency transactions and balances

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

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

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

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

Foreign operations

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

(n) Taxation

Current tax

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

Deferred tax

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

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

FINANCIAL STATEMENTS

3 Accounting policies (cont)

(o) Dividend distribution

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

(p) Discontinued operations

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

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

Discontinued operations, if there are any, 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.

(q) Held for sale

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

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

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

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

Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7

In September 2019, the IASB issued 'Interest Rate Benchmark Reform' (Amendments to IFRS 9, IAS 39 and IFRS 7), which was effective from 1 January 2020. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms. The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures.

The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness is to be recorded in the income statement. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present.

Other standards, amendments to standards and interpretations

Several amendments to standards are mandatorily effective for annual periods beginning on 1 January 2020. None of these had a material effect on the Group's financial statements.

There are no standards, amendments to standards or interpretations which are not yet effective and that are expected to materially impact the Group's financial statements, with one exception. In August 2020, the IASB issued 'Interest Rate Benchmark Reform - Phase 2' (Amendments to IFRS 5, IFRS 7, IFRS 9, IFRS 16 and IAS 39), which is effective from 1 January 2021. These amendments add a practical expedient to enable the impact of IBOR reform on a financial instrument to be accounted for by updating the effective interest rate, they enable and require hedge accounting to continue in circumstances where IBOR reform would otherwise have resulted in the discontinuance of hedge accounting, and they require disclosures about the impact of IBOR reform.

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Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying accounting policies

Accounting for the investment in Bennetts Motorcycling Services Limited

On 7 August 2020, the Group completed the purchase of the entire issued share capital of Bennetts Motorcycling Services Limited (Bennetts). The consideration paid for the share capital was £1.3m cash. Additionally, all the existing borrowings of the acquiree were settled. The Group exchanged contracts to acquire Bennetts on 17 February 2020 and Ardonagh voluntarily notified the merger to the Competitions and Markets Authority (CMA). Following its Phase 1 investigation, the CMA announced on 16 September 2020 that it would refer the merger for an in-depth Phase 2 investigation unless the Group offered suitable undertakings to address the CMA's concerns. In response, the Group offered to divest Bennetts. The CMA announced on 30 September 2020 that it believes that the offer should, in principle, be capable of remedying the competition concerns and issued a notice of consultation on 14 October 2020. The Group has not reported this interest as a business combination as it has been determined that it does not control Bennetts. This interest in the share capital of Bennetts has been recognised as a financial asset measured at fair value through other comprehensive income and is shown as an asset held for sale.

Key sources of estimation uncertainty

Leases – determination of the discount rate

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

The discount rate is the interest rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to a right-of-use asset, and it is applied to new leases and certain modifications to existing leases.

For the first half of 2020, the Group used an average discount rate of 11.7%. From 14 July 2020, following changes to the Group's borrowing arrangements, the Group used an average discount rate of 9.5%.

Deferred tax assets

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

The deferred tax asset as at 31 December 2020 is £60.6m (2019: £80.5m).

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Critical accounting judgements and key sources of estimation uncertainty (cont)

Revenue recognition – variable consideration

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

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

In making the estimate, the Group uses historical, current and forecast information that is reasonably available to it. A higher constraint (in some cases, full constraint) 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 2020, a loss corridor liability of £5.0m is included within trade and other payables and a variable profit commission of £6.8m is included within contract assets.

Fair value gains and losses on financial assets at FVTPL are recognised on a business combination in relation to the Group's right to variable consideration on rolling contracts with customers for which the performance obligation was satisfied prior to the acquisition. The fair value of the Swinton rolling contract (a closed book of business) is a level 3 valuation, in accordance with IFRS 13 'Fair Value Measurement', the key assumptions of which are (a) the product lifetime restrictions of 12, 24 and 36 months for the Home Emergency Cover, Swinton Breakdown Insurance, and Personal Accident products, (b) the discount rate, which is based on the Ardonagh weighted average cost of capital (WACC) and (c) the lapse rate curves, which are estimated based on historical experience. A one-year increase in the product lifetime restrictions across all six products would give rise to a £6.8m increase in other income in 2020. A 1% increase in the discount rate would give rise to a £0.3m decrease in other income in 2020. The financial asset corresponding to the Swinton rolling contract is £24.8m as at 31 December 2020 (2019: £32.4m).

Enhanced Transfer Values (ETV) provision

Certain subsidiaries within the Group have obligations to make redress payments in respect of historical pension transfer advice. The programme of redress commenced during the third quarter of 2019.

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

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

Impairment of assets

The Group tests annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may exceed its recoverable amount. The last annual impairment test was performed as at 1 October 2020.

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

Goodwill arising from a new business combination is, for the purposes of impairment testing, allocated to those cash-generating units that are expected to benefit from the goodwill that was acquired. Impairment testing is performed at the level of the smallest groups of cash-generating units at which goodwill is monitored, known as the "divisions".

FINANCIAL STATEMENTS

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

Impairment of assets (cont)

Forecast cash flows used in the value in use calculation were determined by considering historic business performance, by overlaying it with assumptions to reflect areas where growth or income improvement was expected, and by taking into account the expected results of cost management programmes to which the Group was committed. These forecasts were extrapolated to subsequent years using a steady growth rate being the CPI inflation rate of 1.7% (2019: 1.9%), and a terminal value was calculated using the perpetual growth model. The discount rate of 9.84% (2019: 9.3%) that was applied to the forecasts was a market participant weighted average cost of capital calculated by reference to the Capital Asset Pricing Model.

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

5 Segmental analysis

Descriptions of the Group's operating segments can be found in Section 1 – Our businesses.

Under IFRS 8 'Operating Segments', the Group determines its operating segments based on the information that is provided to the Group Executive Committee, which is the Group's chief operating decision maker. During the period, the Group revised the presentation of its operating segments and restated the comparative segment information to reflect the new structure of the Group and the creation of the Ardonagh International operating segment as a result of the acquisition of the Arachas business. The new operating segments are Ardonagh Advisory, Ardonagh Retail, Ardonagh Specialty and Ardonagh International.

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 operating segments based on an Adjusted EBITDA measure. The presentation of the segment information reflects that. 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 segmental analysis.

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

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.

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5 Segmental analysis (cont.)

31 December 2020	Ardonagh Retail £000	Ardonagh Advisory £000	Ardonagh Specialty £000	Ardonagh International £000	Corporate £000	Total £000
Commission and fees	246,740	263,263	156,657	21,422	1,001	689,083
Other income	21,679	880	140	-	5	22,704
Investment income	13	2	473	-	299	787
Salaries and associated costs	(88,277)	(131,284)	(94,494)	(9,011)	(23,241)	(346,307)
Other operating costs	(83,610)	(57,859)	(45,964)	(3,818)	(21,086)	(212,337)
Impairment of financial assets	(10,621)	(299)	394	(45)	-	(10,571)
Depreciation, amortisation and impairment of non-financial assets	(36,508)	(30,501)	(20,889)	(3,989)	(4,290)	(96,177)
Fair value loss on derivatives	-	-	-	-	(2,136)	(2,136)
Share of profit from joint venture	1,417	-	-	-	-	1,417
Share of profit from associate	-	-	608	-	-	608
Operating profit/(loss)	50,833	44,202	(3,075)	4,559	(49,448)	47,071
(Loss)/gain on disposal of subsidiary or business	-	(1,827)	162	-	-	(1,665)
Finance costs	(2,067)	(1,007)	(1,599)	(185)	(230,472)	(235,330)
Finance income	57	611	305	-	254	1,227
Profit/(loss) before tax	48,823	41,979	(4,207)	4,374	(279,666)	(188,697)
Tax charge						(17,562)
Loss for the year						(206,259)
Finance costs						235,330
Tax charge						17,562
Depreciation						19,763
Amortisation and impairment of non-financial assets						76,414
Fair value loss on derivatives						2,136
Loss on disposal of non-financial assets						5,648
Foreign exchange movements						873
Transformational hires						4,028
Business transformation costs						27,683
Legacy costs						8,404
Other costs						8,708
Regulatory costs						8,550
Acquisition and financing costs						13,175
Loss on disposal of business						1,665
Adjusted EBITDA						223,680

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5 Segmental analysis (cont.)

31 December 2019	Ardonagh Retail £000	Ardonagh Advisory £000	Ardonagh Specialty £000	Ardonagh International £000	Corporate £000	Total £000
Commission and fees	272,728	224,823	140,319	-	2,792	640,662
Other income	19,217	(40)	172	-	2,819	22,168
Investment income	30	10	1,617	-	1,000	2,657
Salaries and associated costs	(98,145)	(109,651)	(88,201)	-	(25,559)	(321,556)
Other operating costs	(103,747)	(58,891)	(37,572)	-	(31,445)	(231,655)
Impairment of financial assets	(10,593)	(557)	(3,315)	-	-	(14,465)
Depreciation, amortisation and impairment of non-financial assets	(47,390)	(23,692)	(19,591)	-	(5,040)	(95,713)
Fair value loss on derivatives	-	-	-	-	(604)	(604)
Share of profit from joint venture	1,680	-	-	-	-	1,680
Share of profit from associate	-	-	217	-	-	217
Operating profit/(loss)	33,780	32,002	(6,354)	-	(56,037)	3,391
Adjustment to gain on disposal of associate	-	-	-	-	1,750	1,750
Gain on disposal of business	-	-	2,244	-	-	2,244
Finance costs	(4,813)	(2,051)	(1,717)	-	(105,025)	(113,606)
Finance income	303	39	900	-	761	2,003
Profit/(loss) before tax	29,270	29,990	(4,927)	-	(158,551)	(104,218)
Tax credit						30,216
Loss for the year						(74,002)
Finance costs						113,606
Tax credit						(30,216)
Depreciation						20,071
Amortisation and impairment of non- financial assets						75,642
Fair value loss on derivatives						604
Loss on disposal of non-financial assets						6,794
Foreign exchange movements						2,769
Transformational hires						6,047
Business transformation costs						39,455
Legacy costs						6,179
Regulatory costs						13,971
Acquisition and financing costs						6,498
Adjustment to gain on disposal of associate						(1,750)
Gain on disposal of business						(2,244)
Adjusted EBITDA						183,424

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5 Segmental analysis (continued)

Revenue from external customers has been identified based on the location of the insured for insurance business and the location of the reinsurance company for reinsurance business.

The Group's revenue disaggregated by primary geographical markets is as follows:

	31 December 2020 £000	31 December 2019 £000
United Kingdom	576,573	561,858
Europe	31,379	10,522
North America	71,433	57,735
Other countries	32,402	32,715
	711,787	662,830

The Group's non-current assets by geographical region have not been disclosed as this information is not readily available.

6 Profit or loss items

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

	31 December 2020 £000	31 December 2019 £000
Amortisation of intangible fixed assets		
Software costs	17,318	22,607
Other intangible assets	59,108	52,171
Depreciation on property, plant and equipment	10,077	9,937
Depreciation of right-of-use assets	9,686	10,134
Impairment of right-of-use assets	(12)	864
	96,177	95,713

7 Investment income

	31 December 2020 £000	31 December 2019 £000
Interest income – fiduciary funds	787	2,657
	787	2,657

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 £337.2m (2019: £298.5m) which were denominated principally in sterling. The average return for 2020 was 0.2% (2019: 0.9%).

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Finance income and finance costs

	31 December 2020 £000	31 December 2019 £000
Financial assets measured at amortised cost		
Interest income: own funds	536	1,778
Interest income: discount unwind	74	154
Interest income: other	617	71
Financial liabilities measured at amortised cost		
Unwinding of transaction costs and discount on financial liabilities	(10,112)	(8,848)
Interest expense: bank and other borrowings*	(136,421)	(78,488)
Interest expense: commitment and other fees	(1,515)	(1,625)
Interest expense: shareholders' loans	-	(166)
Interest expense - other loans	(563)	-
Interest on premium financing liabilities	(223)	(2,786)
Remeasurement of borrowings due to early repayment	(82,206)	-
Other finance income/(costs)		
Amounts reclassified from the cash flow hedging reserve for derivatives	(2,754)	(14,970)
Amortisation of costs of hedging	(1,163)	(144)
Early termination of hedges	4,281	-
Write off of contingent consideration	841	-
Effective interest on lease liabilities	(5,757)	(6,258)
Hedge ineffectiveness	261	(282)
Unwinding of discount on provisions	1	(39)
Net finance costs	(234,103)	(111,603)
Analysed as:		
Finance income	1,227	2,003
Finance costs	(235,330)	(113,606)
Net finance costs	(234,103)	(111,603)

* The £136.4m (2019: £78.5m) interest expense on bank and other borrowings includes foreign currency translation differences arising on the borrowings and, when it is considered together with the £3.3m (2019: £15.0m) amount reclassified from the cash flow hedging reserve for derivatives as a result of applying hedge accounting, the hedged interest expense on bank and other borrowings is determined to be £139.2m (2019: £93.5m).

During the year, the coupon interest expense on the Group's borrowings totalled £135.7m (2019: £92.5m). A further £10.1m (2019: £8.8m) of interest expense was recognised during the year relating to the unwind of the discount on these instruments as part of accounting for them at amortised cost using the effective interest rate, of which £32.7m was charged due to the early redemption of the senior secured notes.

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9 Employee information

Salaries and associated expenses

	31 December 2020 £000	31 December 2019 £000
Wages and salaries	298,110	274,732
Share-based payment costs	3,204	3,252
Social security costs	31,134	30,217
Other pension costs	13,859	13,355
	346,307	321,556

Analysis of employees

	31 December 2020	31 December 2019
Average monthly number of Group employees during the year		
Administration	2,838	2,610
Sales	3,601	3,282
Management	528	331
	6,967	6,223

Key management compensation

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

	31 December 2020 £000	31 December 2019 £000
Fees, salaries and other short-term benefits	8,240	7,573
Share-based payment costs	520	65
Post-employment benefits	1	16
	8,761	7,654

Directors' remuneration

	31 December 2020 £000	31 December 2019 £000
Aggregate emoluments	4,399	3,782
	4,399	3,782

The aggregate emoluments of the highest paid Director were £3.1m (2019: £2.5m) and company pension contributions of £nil (2019: £nil) were made to a money purchase pension scheme on their behalf.

For the year ended 31 December 2020, no directors exercised share options (2019: zero) and 5 directors (2019: 5) were in receipt of share options under long term incentive schemes.

No Directors are accruing retirement benefits in money purchase schemes (2019: zero).

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

Long-term incentives

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

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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 exclusive of irrecoverable VAT:

	31 December 2020 £000	31 December 2019 £000
Fees payable for the audit of the parent company and of the consolidated financial statements	255	350
Fees payable for other services		
Audit of subsidiaries pursuant to legislation	2,164	1,407
Audit related assurance services	725	420
Services relating to corporate finance transactions*	6,557	905
All other services	741	750
	10,442	3,832

* The auditor provided £6.6m (2019: £0.9m) of other services during the year relating to vendor assistance and due diligence.

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11 Disposals and assets held for sale

Disposals

On 17 June 2020 the Group disposed of its controlling interest in its subsidiary Solis Re Agency Inc (Solis Re), which forms part of the Ardonagh Specialty operating segment, reducing its stake from 50.1% to 35.0%. Post disposal the Group holds significant influence over Solis Re and accounts for its investment under the equity method of accounting. As part of the disposal, the Group also exchanged its loans to Solis Re for redeemable preference shares that do not hold any voting rights. The retained investments were recognised at fair value on the date of partial disposal.

On 1 November 2020, the Group sold its Milburn Insurance Brokers business and assets, which was part of the Ardonagh Advisory segment. The consideration received was cash of £0.1m, deferred consideration of £0.3m and contingent consideration with a fair value of £1.8m.

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

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

	Year end 31 December 2020 £000	Year end 31 December 2019 £000
Non-current assets		
Intangible assets	4,000	-
Property, plant and equipment	-	60
	4,000	60
Current assets		
Trade and other receivables	2,389	-
Cash and cash equivalents	31	-
Right-of-use assets	596	-
Contract assets	64	-
Assets held for sale	-	26,754
	3,080	26,754
Current liabilities		
Trade and other payables	(1,644)	-
Lease liabilities	(514)	-
Deferred tax liability	(79)	-
Liabilities held for sale	-	(1,976)
	(2,237)	(1,976)
Total net assets	4,843	24,838
Satisfied by:		
Proceeds - initial and deferred consideration	2,132	31,000
Investment in associate	1,014	-
Other non-current financial assets (preference shares)	920	-
Non-controlling interest	(1,150)	-
Proceeds - extra consideration	-	367
Costs to sell	262	(4,285)
	3,178	27,082
Loss/(gain) on disposal	1,665	(2,244)
Total net assets	4,843	24,838

FINANCIAL STATEMENTS

11 Disposals and assets held for sale (cont)

Details of cash and cash equivalents disposed of are set out in the table below:

	31 December 2020 £000	31 December 2019 £000
Own funds	104	-
Fiduciary funds	(73)	-
	31	-

Assets and disposal groups held for sale

As at 31 December 2020, the Group classified the following as held for sale;

- Property which forms part of the Ardonagh Retail operating segment;
- Bennetts Motorcycling Services Limited

As at 31 December 2019 the Group also classified its subsidiary Solis Re Agency Inc, which formed part of the Ardonagh Specialty operating segment, as held for sale, given its intention to dispose of its controlling interest in (albeit retain significant influence over) that subsidiary. This disposal was completed on 17 June 2020.

The figures shown in the table below reflect the carrying amount of the assets and liabilities to be derecognised on disposal. The Group recognised no impairment loss to reduce the carrying amount of the assets held for sale to their fair value less costs to sell.

31 December 2020	Swinton Properties £000	Bennetts Motorcycling Services Limited £000	31 December 2020 £000
Right-of-use assets	146	-	146
Trade and other receivables	-	24,000	24,000
Total assets classified as held for sale	146	24,000	24,146

31 December 2019	Swinton Properties £000	Solis Re £000	31 December 2019 £000
Property, plant and equipment	1,543	595	2,138
Trade and other receivables	-	798	798
Cash and bank balances - fiduciary	-	799	799
Total assets classified as held for sale	1,543	2,192	3,735
Trade and other payables	-	(1,754)	(1,754)
Total liabilities classified as held for sale	-	(1,754)	(1,754)
Net assets classified as held for sale	1,543	438	1,981

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12 Income and deferred tax

	31 December 2020 £000	31 December 2019 £000
Deferred tax – current year	(13,636)	29,099
Corporation tax – current year	486	(511)
Deferred tax – adjustment in respect of prior year	(1,819)	494
Corporation tax – adjustment in respect of prior year	(2,593)	1,134
Income tax (expense)/credit	(17,562)	30,216

	31 December 2020 £000	31 December 2019 £000
Items that may be reclassified to profit or loss		
<u>Cash flow hedge reserve</u>		
Income tax on effective portion of changes in fair value	468	701
Income tax on net amount reclassified to profit or loss	343	(2,654)
<u>Costs of hedging reserve</u>		
Income tax on net change in fair value due to currency basis spread	1,114	390
Income tax on net amount reclassified to profit or loss	(221)	(25)
Deferred tax through Other Comprehensive Income	1,704	(1,588)

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% (2019: 19%) to the consolidated losses of the Group, as follows:

	31 December 2020 £000	31 December 2019 £000
Loss before taxation on continuing operations	(188,697)	(104,218)
Tax calculated at UK corporation tax rate of 19% (2019: 19%)	35,852	19,802
Expenses not deductible for tax purposes	(8,034)	276
Effects of income taxed at rates other than the UK corporation tax rate	1,147	-
Revaluation of brought forward deferred tax assets	(22,632)	-
Brought forward deferred tax assets recognised	-	10,810
Tax losses for which no deferred tax asset is recognised	(19,611)	-
Deferred tax charge/(credit) regarding changes in tax rates or laws	128	(399)
Tax adjustment in respect of prior years	(4,412)	1,628
Other	-	(1,901)
Income tax (expense)/credit on continuing operations	(17,562)	30,216

Future tax impacts

In the March 2021 Budget, it was announced that the UK Corporation Tax Rate will rise from its current rate of 19% to 25% with effect from April 2023. UK deferred tax balances as at 31 December 2020 continue to be measured at a rate of 19% as this was the substantively enacted rate at that date. The estimated impact of increasing the rate to 25% with effect from April 2023 will be to increase net deferred tax liabilities by £1.0m.

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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 2020.

2020 Cost	Goodwill £000	Customer relationships £000	Distribution network £000	Assets under construction £000
Beginning of year	818,889	353,447	102,602	7,705
Additions	-	6,799	-	4,862
Business combinations	465,903	118,186	-	-
Disposals	(3,584)	(217)	(200)	(5,116)
Transfer between classes	-	32	-	1,290
Transfer to property, plant and equipment	-	-	-	(48)
Foreign exchange movement	(2,806)	(875)	-	-
End of year	1,278,402	477,372	102,402	8,693

2020 Cost	Brand £000	Computer software £000	Intellectual property £000	Total £000
Beginning of year	51,673	66,873	2,254	1,403,443
Additions	-	8,263	-	19,924
Business combinations	7,306	1,345	-	592,740
Disposals	-	(6,710)	-	(15,827)
Transfer between classes	-	(1,322)	-	-
Transfer to property, plant and equipment	-	-	-	(48)
Foreign exchange movement	(54)	-	-	(3,735)
End of year	58,925	68,449	2,254	1,996,497

During 2020, the Group recognised an additional £2.0m as intangible assets related to internally generated software.

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13 Intangible assets (cont)

2020 Amortisation	Goodwill £000	Customer relationships £000	Distribution network £000	Assets under construction £000
Beginning of year	86,400	100,021	48,528	-
Charge for year	-	42,632	10,251	-
Disposals	-	-	-	-
Foreign exchange movement	-	(4)	-	-
End of year	86,400	142,649	58,779	-

2020 Amortisation	Brand £000	Computer software £000	Intellectual property £000	Total £000
Beginning of year	30,067	25,073	1,160	291,249
Charge for year	5,662	17,318	563	76,426
Disposals	-	(6,496)	-	(6,496)
Foreign exchange movement	-	-	-	(4)
End of year	35,729	35,895	1,723	361,175

2020 Net book value (NBV)	Goodwill £000	Customer relationships £000	Distribution network £000	Assets under construction £000
Cost at end of year	1,278,402	477,372	102,402	8,693
Amortisation at end of year	(86,400)	(142,649)	(58,779)	-
End of year	1,192,002	334,723	43,623	8,693

2020 Net book value (NBV)	Brand £000	Computer software £000	Intellectual property £000	Total £000
Cost at end of year	58,925	68,449	2,254	1,996,497
Amortisation at end of year	(35,729)	(35,895)	(1,723)	(361,175)
End of year	23,196	32,554	531	1,635,322

Included within computer software NBV as at 31 December 2020 was internally generated software NBV of £5.8m.

FINANCIAL STATEMENTS

13 Intangible assets (cont)

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

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

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

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

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13 Intangible assets (cont)

2019 Amortisation	Goodwill £000	Customer relationships £000	Distribution network £000	Assets under construction £000
Beginning of year	86,400	65,687	38,275	-
Charge for year	-	34,334	10,253	-
Disposals	-	-	-	-
End of year	86,400	100,021	48,528	-

2019 Amortisation	Brand £000	Computer software £000	Intellectual property £000	Total £000
Beginning of year	23,047	39,218	596	253,223
Charge for year	7,020	22,607	564	74,778
Disposals	-	(36,752)	-	(36,752)
End of year	30,067	25,073	1,160	291,249

2019 Net book value (NBV)	Goodwill £000	Customer relationships £000	Distribution network £000	Assets under construction £000
Cost at end of year	818,889	353,447	102,602	7,705
Amortisation at end of year	(86,400)	(100,021)	(48,528)	-
End of year	732,489	253,426	54,074	7,705

2019 Net book value (NBV)	Brand £000	Computer software £000	Intellectual property £000	Total £000
Cost at end of year	51,673	66,873	2,254	1,403,443
Amortisation at end of year	(30,067)	(25,073)	(1,160)	(291,249)
End of year	21,606	41,800	1,094	1,112,194

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

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13 Intangible assets (cont)

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

	Goodwill 31 December 2019 £m	Acquisitions and disposals £m	Interdivision reclassifications £m	Foreign Exchange £m	Goodwill 31 December 2020 £m
Retail	168	11	-	-	179
Paymentshield	84	-	-	-	84
Insurance Broking	250	239	29	-	518
Schemes & Programmes	69	-	(28)	-	41
MGA	54	28	(1)	-	81
Arachas	-	184	-	(3)	181
Specialty & International	108	-	-	-	108
	733	462	-	(3)	1,192

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

Note: 'Interdivision reclassifications' arise from the reclassification of goodwill (and profits) across divisions. 'Foreign exchange' includes adjustments to goodwill that arose from the acquisition of a foreign operation to retranslate that goodwill into GBP using the exchange rate at the reporting date.

Goodwill is tested for impairment annually, and whenever there is an indication that it may be impaired. The annual impairment test is performed as at 1 October 2020 and as at 30 September 2019 in the prior year. An impairment, if any, that results from that annual impairment test would be reflected in the 31 December financial statements.

Goodwill is, for the purposes of impairment testing, allocated to CGUs or groups of CGUs expected to benefit from the business combination associated with that goodwill, where a CGU is the smallest identifiable group of assets that generate independent cash inflows. Management reviewed business performance, as at 1 October 2020 (and 30 September 2019), based on the CGUs or groups of CGUs that are divisions. The divisions represented the lowest level within the Group at which goodwill was monitored for internal management purposes, so the annual impairment test was performed by reference to the divisions.

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13 Intangible assets (cont)

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

The impairment test of the divisions as at 1 October 2020 (and 30 September 2019) did not result in an impairment charge to goodwill. The key data is summarised in the following tables:

Table 1	Goodwill 30 September 2019 £m	Acquisitions and disposals £m	Interdivision reclassifications £m	Goodwill 1 October 2020 £m
Retail	168	11	-	179
Paymentshield	84	-	-	84
Insurance Broking	250	234	29	513
Schemes & Programmes	69	-	(28)	41
MGA	53	29	(1)	81
Arachas	-	184	-	184
Specialty & International	108	-	-	108
	732	458	-	1,190

Table 2 1 October 2020	FVLCD £m	VIU £m	Recoverable amount £m
Retail	756	858	858
Paymentshield	283	321	321
Insurance Broking	1,241	1,408	1,408
Schemes & Programmes	143	163	163
MGA	189	215	215
Arachas	306	348	348
Specialty & International	662	751	751
	3,580	4,064	4,064

Table 3 1 October 2020	Goodwill £m	Carrying amount £m	Recoverable amount £m	Headroom £m
Retail	179	325	858	533
Paymentshield	84	113	321	208
Insurance Broking	513	846	1,408	562
Schemes & Programmes	41	60	163	103
MGA	81	126	215	89
Arachas	184	279	348	69
Specialty & International	108	181	751	570
	1,190	1,930	4,064	2,134

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13 Intangible assets (cont)

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

Note: 'Other adjustments' include adjustments to goodwill in respect of prior years and reclassification of the MGA commercial lines goodwill to held for sale.

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

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

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13 Intangible assets (cont)

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

Goodwill

The 'Interdivision reclassifications' column in table 1 reflects the impact on goodwill of the reclassification of certain businesses between divisions during the 12 month period presented.

The 'Acquisitions and disposals' column in table 1 reflects the impact on goodwill of the acquisitions by the Group during the 12 month period to 1 October 2020 of a business and certain assets of Rural Insurance, the goodwill of which is included in the MGA division, of the share capital of Nevada 4 Midco 1 Limited, the goodwill of which is included in the Insurance Broking division, of the share capital of Nevada 5 Topco Limited, the goodwill of which is included in the Arachas division, of the share capital of Nevada 4 Midco 1 Limited, the parent of Bravo Investment Holdings Limited, the goodwill of which is included in the Insurance Broking division, of the share capital of Thames Underwriting Limited, the goodwill of which is included in the MGA division, of the share capital of Lloyd Latchford Group Limited, the goodwill of which is included in the Retail division, and of various other individually immaterial businesses (2019: The 'Acquisitions and disposals' column in table 1 reflects the impact on goodwill of the acquisition by the Group during the 12 month period to 30 September 2019 of the share capital of Swinton (Holdings) Limited, the goodwill of which is included in the Retail division, and of the share capital of Nevada Investment Holdings 2 Limited, the goodwill of which is included in the Insurance Broking and MGA divisions given that it is attributed to its subsidiaries at the time of the acquisition, namely Health and Protection Solutions Limited, Minton House Group Limited and Professional Fee Protection Limited).

The term 'Adjusted' has been used to describe goodwill as at 1 October 2020 in table 1 because it reflects the disposal by the Group of Milburn Insurance Brokers even though those disposals occurred after 1 October 2020. This was to ensure that the goodwill and thus the carrying amount as at 1 October 2020 was determined in a way that was consistent with their recoverable amount as at 1 October 2020, which was based on forecasts that reflected the disposals as if they had already occurred.

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

Carrying amount

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

Value in use

The 'VIU' column in table 2 includes the present value of future cash flows of the divisions together with an allocation of the cash flows of the Corporate non-operating division, where the cash flows are based on the most recent five-year forecast for Adjusted EBITDA as approved by management, pro forma for completed transactions as at 1 October 2020 (2019: 30 September 2019). These forecasts were determined by considering historic business performance, by overlaying it with assumptions to reflect areas where growth or income improvement is expected, and by taking into account the expected results of cost management programmes to which the Group is committed. The 2025 forecast (2019: 2024 forecast) is extrapolated to subsequent years using a steady growth rate being the CPI inflation rate of 1.7% per annum (2019: CPI inflation rate of 1.9% per annum), and a terminal value is calculated using the perpetual growth model. The discount rate of 9.84% (2019: 9.31%) 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.

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13 Intangible assets (cont)

Fair value less costs of disposal (FVLCD)

The 'FVLCD' column in table 2 is determined by reference to the fair value of the Group, which is calculated based on multiples of forecast 2021 (2019: forecast 2020) Adjusted EBITDA and on information provided by external advisors. The fair value of a CGU is estimated using a valuation technique that makes use of level 3 inputs, in accordance with IFRS 13 Fair Value Measurement, specifically by apportioning the fair value of the Group between the divisions based on the VIU of each division. The estimated costs of disposal, which are assumed based on market experience to be 1.5% (2019: 1.5%) of the fair value of the division, are then deducted to determine the FVLCD of the division.

Recoverable amount

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

The key assumption to which the VIU and thus the recoverable amount is most sensitive is the five-year forecast for Adjusted EBITDA. If the five-year forecast for Adjusted EBITDA were to be decreased by 20.16%, there would be an impairment to the Arachas division. If the forecast were to instead be decreased by 40.42% (2019: 63.1%), there would also be an impairment to the Insurance Broking division. If the forecast were to instead be decreased by 41.91% (2019: 51.7%), there would also be an impairment to the MGA division. No further reasonably possible change in this assumption alone would result in an impairment to any other CGU.

14 Property, plant and equipment

The tables below provide a schedule of the movements in the carrying amount of property, plant and equipment held on the statement of financial position at 31 December 2020.

	Freehold property £000	Leasehold improvements £000	Assets under construction £000	Furniture and office equipment £000
2020 Cost				
Beginning of year	4,193	11,557	97	1,523
Additions	-	1,274	312	179
Business combinations	-	302	-	942
Disposals	(1)	(4,206)	-	(1,249)
Transfer between classes	-	-	185	(129)
Transfer from intangible assets	-	-	-	25
Foreign exchange movement	-	-	-	(34)
End of year	4,192	8,927	594	1,257

	Computer equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
2020 Cost				
Beginning of year	23,851	5,169	80	46,470
Additions	5,327	416	-	7,508
Business combinations	3,176	118	5	4,543
Disposals	(1,133)	(710)	(47)	(7,346)
Transfer between classes	(296)	240	-	-
Transfer from intangible assets	21	2	-	48
Foreign exchange movement	(80)	(2)	-	(116)
End of year	30,866	5,233	38	51,107

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14 Property, plant and equipment (cont)

	Freehold property £000	Leasehold improvements £000	Assets under construction £000	Furniture and office equipment £000
2020 Depreciation				
Beginning of year	935	1,886	-	431
Charge for year	110	2,495	-	462
Disposals	-	(3,326)	-	(1,219)
Transfer between classes	-	-	-	(123)
Foreign exchange movement	-	-	-	(23)
End of year	1,045	1,055	-	(472)

	Computer equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
2020 Depreciation				
Beginning of year	16,133	884	33	20,302
Charge for year	5,771	1,226	13	10,077
Disposals	(1,138)	(643)	(32)	(6,358)
Transfer between classes	106	17	-	-
Foreign exchange movement	-	(1)	-	(24)
End of year	20,872	1,483	14	23,997

	Freehold property £000	Leasehold improvements £000	Assets under construction £000	Furniture and office equipment £000
2020 Net book value (NBV)				
Cost at end of year	4,192	8,927	594	1,257
Depreciation at end of year	(1,045)	(1,055)	-	472
NBV at end of year	3,147	7,872	594	1,729

	Computer equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
2020 Net book value (NBV)				
Cost at end of year	30,866	5,233	38	51,107
Depreciation at end of year	(20,872)	(1,483)	(14)	(23,997)
NBV at end of year	9,994	3,750	24	27,110

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14 Property, plant and equipment (cont)

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

2019 Cost	Freehold property £000	Leasehold improvements £000	Assets under construction £000	Furniture and office equipment £000
Beginning of year	8,591	17,191	263	2,798
IFRS 16 transition adjustment	(262)	-	-	-
Additions	-	3,719	97	309
Business combinations	-	-	-	114
Disposals	(2,739)	(9,360)	(30)	(1,661)
Transfer from/(to) intangible assets	-	7	(233)	(37)
Assets classified as held for sale	(1,397)	-	-	-
End of year	4,193	11,557	97	1,523

2019 Cost	Computer equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Beginning of year	25,859	8,403	181	63,286
IFRS 16 transition adjustment	-	-	-	(262)
Additions	1,739	1,496	11	7,371
Business combinations	226	53	25	418
Disposals	(4,640)	(4,783)	(137)	(23,350)
Transfer from/(to) intangible assets	667	-	-	404
Assets classified as held for sale	-	-	-	(1,397)
End of year	23,851	5,169	80	46,470

FINANCIAL STATEMENTS

14 Property, plant and equipment (cont)

2019 Depreciation	Freehold property £000	Leasehold improvements £000	Assets under construction £000	Furniture and office equipment £000
Beginning of year	825	3,819	-	1,647
Charge for year	110	3,016	-	429
Disposals	-	(4,949)	-	(1,645)
End of year	935	1,886	-	431

2019 Depreciation	Computer equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Beginning of year	15,415	4,455	117	26,278
Charge for year	5,256	1,094	32	9,937
Disposals	(4,538)	(4,665)	(116)	(15,913)
End of year	16,133	884	33	20,302

2019 Net book value (NBV)	Freehold property £000	Leasehold improvements £000	Assets under construction £000	Furniture and office equipment £000
Cost at end of year	4,193	11,557	97	1,523
Depreciation at end of year	(935)	(1,886)	-	(431)
NBV at end of year	3,258	9,671	97	1,092

2019 Net book value (NBV)	Computer equipment £000	Fixture and fixings £000	Motor Vehicles £000	Total £000
Cost at end of year	23,851	5,169	80	46,470
Depreciation at end of year	(16,133)	(884)	(33)	(20,302)
NBV at end of year	7,718	4,285	47	26,168

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15 Leases

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

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

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

The table below provides a schedule of the movements in the carrying amount of the right-of-use assets and lease liabilities (when the Group acts as a lessee) that are held on the statement of financial position during the year ended 31 December 2020.

	Right-of-use assets			Lease liabilities £000
	Property £000	Non-property £000	Total £000	
As at 1 January 2020	35,528	681	36,209	(43,105)
Additions	3,233	2,719	5,952	(5,404)
Business combinations	9,864	711	10,575	(11,499)
Terminations/modifications	(1,927)	(109)	(2,036)	2,829
Depreciation	(8,847)	(839)	(9,686)	-
Impairment	12	-	12	-
Interest expense	-	-	-	(5,757)
Lease payments	-	-	-	12,949
Foreign exchange movements	26	-	26	108
As at 31 December 2020	37,889	3,163	41,052	(49,879)
Current				(12,997)
Non-current				(36,882)
				(49,879)

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15 Leases (cont)

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

	Right-of-use assets			Lease liabilities £000
	Property £000	Non-property £000	Total £000	
As at 1 January 2019	64,015	338	64,353	(71,145)
Additions	5,294	890	6,184	(8,509)
Business combinations	694	-	694	-
Terminations/modifications	(23,225)	(58)	(23,283)	26,138
Depreciation	(9,691)	(443)	(10,134)	-
Impairment	(818)	(46)	(864)	-
Interest expense	-	-	-	(6,256)
Lease payments	-	-	-	16,073
Classified as held for sale	(741)	-	(741)	594
As at 31 December 2019	35,528	681	36,209	(43,105)
Current				(10,084)
Non-current				(33,021)
				(43,105)

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

	31 December 2020 £000	31 December 2019 £000
Variable lease payments expensed (presented within other operating expenses and mainly relates to service charges)	3,180	3,778
Expense relating to irrecoverable VAT on rent payments and business rates (presented within other operating costs)	6,275	6,646
Net profit on termination of leases (presented within other income)	(782)	(2,992)
Finance income on finance subleases (presented within finance income)	(85)	(153)
Income from operating subleases (presented within other income)	(188)	(390)
	8,400	6,889

During the year ended 31 December 2020, the estimated total cash outflows for leases (excluding cash inflows for sub-leases and lease incentives), constituting rent payments (excluding VAT, whether recoverable or not) and variable lease payments (that do not form part of the lease liability - mainly service charges), was £16.1m (2019: £19.9m).

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15 Leases (cont)

Maturity analysis

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

	31 December 2020 £000	31 December 2019 £000
Within one year	13,949	10,963
In one to five years	42,185	39,779
In over 5 years	12,990	13,194
Total undiscounted value	69,124	63,936

FINANCIAL STATEMENTS

16 Business combinations

The Group made the acquisitions below during the year ending 31 December 2020. The principal reason for these business combinations was to complement existing operations and to expand the geographical footprint of the Ardonagh Group.

July 2020 Transaction

The “July 2020 Transaction” comprises of the 14 July 2020 refinancing (see note 29, which provides further detail on how the Group issued new borrowings, which it used to repay its existing borrowings and to fund acquisitions) and three acquisitions, as set out in the Ardonagh Offering Memorandum dated 22 June 2020, and as summarised below.

- On 14 July 2020, the Group purchased the entire issued share capital of Nevada 5 Topco Limited, of which Arachas Topco Limited is an indirect subsidiary. The consideration paid was €135.8m cash. Additionally, all the existing borrowings of the acquiree group were settled. The acquisition has been included in the Ardonagh International operating segment.
- On 14 July 2020, the Group purchased the entire issued share capital of Nevada 4 Midco 1 Limited, the parent of Bravo Investment Holdings Limited. The consideration for the share capital was £39.8m cash. Additionally, all the existing borrowings of the acquiree group were settled. The acquisition has been included in the Ardonagh Advisory operating segment.
- On 7 August 2020, the Group completed the purchase of the entire issued share capital of Bennetts Motorcycling Services Limited (Bennetts). The consideration paid for the share capital was £1.3m cash. Additionally, all the existing borrowings of the acquiree were settled. The Group exchanged contracts to acquire Bennetts on 17 February 2020 and Ardonagh voluntarily notified the merger to the Competitions and Markets Authority (CMA). Following its Phase 1 investigation, the CMA announced on 16 September 2020 that it would refer the merger for an in-depth Phase 2 investigation unless the Group offered suitable undertakings to address the CMA’s concerns. In response, the Group offered to divest Bennetts. The CMA announced on 30 September 2020 that it believes that the offer should, in principle, be capable of remedying the competition concerns and issued a notice of consultation on 14 October 2020. The Group has not reported this interest as a business combination as it has been determined that it does not control Bennetts. This interest in the share capital of Bennetts has been recognised as a financial asset measured at fair value through other comprehensive income and is shown as an asset held for sale (see note 11).

Other 2020 Acquisitions

- On 28 February 2020, the Group purchased a business and certain assets of Rural Insurance. The consideration paid was £23.5m cash. The acquisition has been included in the Ardonagh Specialty operating segment.
- On 12 August 2020, the Group purchased the entire share capital of Thames Underwriting Limited for £9.7m cash and deferred contingent consideration with a fair value of £3.3m. The acquisition has been included in the Ardonagh Specialty operating segment.
- On 30 September 2020, the Group purchased the entire share capital of Lloyd Latchford Group Limited for a consideration of £12.7m cash and B ordinary shares with a fair value of £2.8m (over which a put and call option exists) in a company that is a member of the Group. The acquisition has been included in the Ardonagh Retail operating segment.
- Individually immaterial business combinations for which the total consideration paid was £10.5m cash and deferred contingent consideration with a fair value of £3.5m. These acquisitions have been included in the Ardonagh Advisory and Ardonagh Specialty operating segments.

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16 Business combinations (cont)

	A rural insurance business £000	Nevada 5 Topco Limited (Arachas) £000	Nevada 4 Midco 1 Limited (Bravo) £000	Thames Underwriting Limited £000	Lloyd Latchford Group Limited £000	Aggregated immaterial business combinations £000	Total £000
Purchase consideration							
Cash paid	23,500	123,264	39,794	9,740	12,483	8,758	217,539
Contingent consideration	-	-	-	3,300	-	3,475	6,775
Share buy out	-	-	-	-	2,752	-	2,752
Other creditors	-	-	-	-	243	1,660	1,903
Deferred tax	-	-	-	-	-	144	144
Minority interest	-	(11,858)	(3,588)	-	-	-	(15,446)
Total purchase consideration	23,500	111,406	36,206	13,040	15,478	14,037	213,667

Assets and liabilities as a result of the acquisitions

	£000	£000	£000	£000	£000	£000	£000
Non-current assets							
Property, plant and equipment	-	3,296	1,025	-	141	81	4,543
Right-of-use assets	-	3,573	5,276	43	240	1,443	10,575
Investments	-	1	12	-	-	1	14
Other assets	-	-	25,300	-	-	1	25,301
Current assets							
Cash and cash equivalents	-	31,001	72,286	2,518	6,468	2,844	115,117
Trade and other receivables	-	11,749	29,095	405	2,396	1,527	45,172
Other assets	-	127	-	53	-	-	180

FINANCIAL STATEMENTS

16 Business combinations (cont)

	A rural insurance business £000	Nevada 5 Topco Limited (Arachas) £000	Nevada 4 Midco 1 Limited (Bravo) £000	Thames Underwriting Limited £000	Lloyd Latchford Group Limited £000	Aggregated immaterial business combinations £000	Total £000
Current liabilities							
Trade and other payables	(90)	(26,976)	(80,099)	(1,603)	(6,904)	(2,300)	(117,972)
Lease liabilities	-	-	(15)	(33)	(90)	(112)	(250)
Provisions	-	(80)	-	-	-	(10)	(90)
Contract liabilities	-	(1,669)	(2,651)	-	-	(52)	(4,372)
Non-current liabilities							
Trade and other payables	-	-	(13,753)	-	-	(229)	(13,982)
Lease liabilities	-	(4,388)	(5,405)	(10)	(117)	(1,329)	(11,249)
Provisions	-	(81)	(943)	(3)	(85)	(279)	(1,391)
Borrowings	-	(143,231)	(267,821)	-	-	-	(411,052)
Deferred tax	-	-	-	-	(27)	(18)	(45)
Net assets acquired	(90)	(126,678)	(237,693)	1,370	2,022	1,568	(359,501)
Net identifiable intangible assets acquired	4,887	53,744	37,134	1,884	3,672	5,944	107,265
Goodwill	18,703	184,340	236,765	9,786	9,784	6,525	465,903
Total purchase consideration	23,500	111,406	36,206	13,040	15,478	14,037	213,667

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16 Business combinations (continued)

The above table reflects the impact of measurement period adjustment. The significant measurement period adjustments are listed below:

- Acquisition of Edward and Swan Insurance Brokers Limited – A measurement period adjustment was recorded on 30 November 2020 to allocate the intangibles recognised on acquisition from customer relationships (£0.65m) to goodwill £0.5m and deferred tax £0.1m.
- Acquisition of Thames Underwriting Limited – A measurement period adjustment was recorded on 30 November 2020 to adjust the debtors and creditors balances in respect of inconsistent accounting treatment of £2.3m. Consolidated goodwill recognised has decreased by £1.5m in comparison to what was previously reported. This is due to a discount unwind of £2.4m and a revision in the allocation of intangibles of £0.5m customer relationship.
- Acquisition of Arachas Corporate Brokers – A measurement period adjustment was recorded on 31 December 2020 to adjust the classification of the right of use liability between over and under one year. This has resulted in a £0.5m adjustment.
- Acquisition of Nevada 4 Midco 1 Limited – Measurement period adjustments at 31 December 2020 include: (a) a £1.8m reclassification of the lease liability from current and non-current (b) opening balance adjustments that decrease trade and other payables and trade and other receivables by £0.9m and £1.0m respectively, (c) an accounting policy alignment adjustment that resulted in a £17.2m increase in short term liabilities trade and other payables and an £18.2m decrease in long term liabilities trade and other payables. In total, including other smaller adjustments, there has been a decrease in net assets of £0.8m which has increased the consolidated goodwill recognised on acquisition.
- Acquisition of Guy Penn Community Insurance Brokers – A measurement period adjustment was recorded on 31 December 2020 to adjust the consideration paid by £0.1m due to a late purchase price accounting adjustment. This adjustment along with various immaterial net asset adjustments resulted in a change to consolidated goodwill. A final purchase price accounting report received in December 2020 resulted in the recognition of intellectual property of £0.65m, with the amount recognised in consolidated goodwill reducing by £0.9m in comparison to the previous reported period as a result of this adjustment and an immaterial reallocation to deferred tax, brand and customer relationship.
- Acquisition of Lloyd Latchford – A measurement period adjustment was recorded on 31 December 2020 to reclassify the intangible recognised on acquisition between intellectual property and computer software of £0.5m.

Acquisition costs of £2.1m arose as a result of these transactions. These have been recognised as part of other operating costs in the statement of comprehensive income.

The acquisitions were accounted for under IFRS 3 'Business Combinations', which requires that the identifiable assets acquired, and the liabilities assumed are measured at their acquisition date fair value. Goodwill is calculated as the difference between (a) the acquisition consideration plus the amount of any non-controlling interest, and (b) the acquisition date fair value of the net assets/(liabilities) acquired.

The amounts recognised in the year end consolidated financial statements are provisional and adjustment may occur during the remainder of the measurement period.

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17 Transactions with non-controlling interests

On 6 March 2020, the Group purchased from non-controlling interests A shares in Atlanta Investment Holdings 3 Limited (Atlanta), representing 10.8% of the total A and B ordinary shares in Atlanta. The shares were purchased in exchange for £8.0m in cash (advanced in the fourth quarter of 2019) and 9,355,019 ordinary shares in the Company.

On 19 May 2020, the Group has completed its purchase from non-controlling interests of 1,500,000 A ordinary shares of £0.04 each (representing 3.55% of the interest) and 45,833 C ordinary shares of £0.01 each in Nevada Investments 1 Limited, for a consideration of 1,519,512 ordinary shares and 2,842 MIP shares in the Company. Following the purchase, the Group owns 100% of Nevada Investments 1 Limited and its subsidiaries.

On 29 July 2020, the Group completed the purchase of Atlanta MIP shares in Atlanta Investment Holdings 3 Limited, comprising 95,441 C shares, 144,362 D shares, 100,000 E1 shares and 349,999 E2 shares, the consideration for which was 20,922,182 new The Ardonagh Group Limited (TAGL) B ordinary shares with a fair value of £44,016,084.

On 29 July 2020, the Group completed the purchase of Specialty Wholesale Equity Plan (WEP) shares in Ardonagh Specialty Holdings Limited comprising 99,254 C shares and 10,000 D shares, the consideration for which was 14,012,132 new TAGL B ordinary shares with a fair value of £29,478,717.

On 10 August 2020, the Group completed the purchase of 878,448 Atlanta A ordinary shares in Atlanta Investment Holdings 3 Limited, the consideration for which was 2,851,982 new TAGL B ordinary shares with a fair value of £6,000,000.

On 10 August 2020, the Group completed the purchase of 350,000 Bravo C ordinary shares in Bravo Investment Holdings Limited, the consideration for which was £1,333,087 comprising £1,246,071 cash and £87,016 in settlement of loans that had previously been made to the minority shareholders.

On 10 August 2020, the Group completed the purchase of 38,850 Bravo D MIP shares in Bravo Investment Holdings Limited, the consideration for which was 4,151,916 new TAGL B ordinary shares with a fair value of £8,734,801.

The effect on the equity attributable to the owners of the Group during the year is summarised as follows:

	Atlanta Investment Holdings 3 Limited £000	Nevada Investments 1 Limited £000	Ardonagh Specialty Holdings Limited £000	Bravo Investment Holdings Limited £000	Total £000
31 December 2020					
Carrying amount of non-controlling interests purchased	4,661	1,041	-	(2,729)	2,973
Fair value of consideration paid to non-controlling interests:					
Cash	(8,000)	-	-	(1,246)	(9,246)
Reduction in debtor	-	-	-	(87)	(87)
Shares in the Company	(60,807)	(2,630)	(29,480)	(8,735)	(101,652)
Transaction costs	(343)	(14)	(147)	(50)	(554)
Excess of consideration paid/ payable recognised in the transactions with non-controlling interests reserve within equity	(64,489)	(1,603)	(29,627)	(12,847)	(108,566)

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17 Transactions with non-controlling interests (cont)

31 December 2019	Ardonagh Specialty Holdings Limited £000
Consideration paid/payable to non-controlling interests	(4,936)
Excess of fair value of consideration paid/payable recognised within equity	(4,936)

18 Investment in associates and joint ventures

Associates

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

Sino Insurance Brokers Limited is incorporated in Hong Kong with a registered office address of: Room 2501, Singga Commercial Centre, 144-151 Connaught Road West, Hong Kong.

On 17 June 2020 the Group disposed of its controlling interest in its subsidiary Solis Re Agency Inc, following which the Group holds it as an associate (see note 11).

Solis Re Agency Inc is incorporated in the USA with a registered office address of: c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808.

	31 December 2020 £000	31 December 2019 £000
Investment in associates		
Start of the year	3,800	-
Addition	1,014	3,583
Foreign exchange movement	15	-
Share of profit for the year	608	217
Dividend received	(313)	-
End of the year	5,124	3,800

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18 Investment in associate and joint venture (cont)

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

	31 December 2020 £000	31 December 2019 £000
Investment in associates		
Non-current assets	1,345	135
Current assets	3,422	15,048
Current liabilities	(535)	(4,931)
Equity attributable to the owners of the parent	4,232	10,252

	31 December 2020 £000	31 December 2019 £000
Investment in associates		
Revenue	3,843	924
Profit after tax	1,383	426

Joint ventures

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

	31 December 2020 £000	31 December 2019 £000
Investment in joint ventures		
Start of the year	3,620	3,340
Share of profit for the year	1,417	1,680
Dividend received	(1,402)	(1,400)
End of the year	3,635	3,620

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

	31 December 2020 £000	31 December 2019 £000
Investment in joint ventures		
Net current assets	4,588	4,745
Equity attributable to the owners of the parent	4,588	4,745

	31 December 2020 £000	31 December 2019 £000
Investment in joint ventures		
Revenue	2,859	3,676
Profit after tax	1,689	2,145

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19 Cash and cash equivalents

	31 December 2020 £000	31 December 2019 £000
Own funds	140,780	48,192
Own funds - restricted	37,752	36,604
Fiduciary funds	407,105	326,107
	585,637	410,903

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

Restricted own funds comprise:

- £13.8m as at 31 December 2020 (2019: £13.5m) of restricted cash kept in segregated accounts for claim settlements in relation to the disposal of the Towergate Financial business by Ardonagh Services Limited, an intermediate holding company within the Group.
- £23.9m as at 31 December 2020 (2019: £23.1m) 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.

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.

20 Trade and other receivables

The Group had exposures at 31 December 2020 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 2020 £000	31 December 2019 £000
Trade receivables	140,680	85,331
Less: expected credit loss allowance	(9,512)	(10,789)
Trade receivables - net	131,168	74,542
Prepayments	19,848	22,469
Accrued income	14,992	10,782
Other receivables	43,957	32,133
Other debtors	29,777	24,020
Related party debtors	1,413	7,104
Deferred and contingent consideration receivable	2,346	279
	243,501	171,329
Current	219,318	155,573
Non-current	24,183	15,756
	243,501	171,329

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21 Contract balances

	31 December 2020 £000	31 December 2019 £000
Contract assets	14,145	11,509
Current	11,482	9,801
Non-current	2,663	1,708
Contract liabilities		
Post-placement performance obligations	(8,107)	(6,548)
Other deferred income	(24,037)	(21,752)
	(32,144)	(28,300)
Current	(30,856)	(26,829)
Non-current	(1,288)	(1,471)
	(32,144)	(28,300)

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 increase to the contract assets balance during the year ending 31 December 2020 reflects the impact of a new acquisition (£1.7m) in addition to increased profit commission in the period. The estimated revenue relating to profit commission that was recognised in 2020 on policies incepted prior to 2020 amounts to £6.4m (2019: £4.8m related to policies incepted prior to 2019). This is generally due to re-estimation of amounts previously recognised and relaxation of the constraint on revenue as amounts become more certain.

Contract liabilities represent the Group's obligation to transfer services to customers for which the Group has received the consideration (or the amount is due) from the customer. During the year ended 31 December 2020, the Group recognised revenue amounting to £26.8m (2019: £15.4m) that was included in the opening balance of contract liabilities. Contract liabilities increased during the year ending 31 December 2020 mainly due to the impact of the acquisition of the Bravo Group (£1.3m) and the Arachas Group (£1.0m) in the period.

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 £8.1m (2019: £6.5m). This amount is expected to be recognised as revenue as follows:

	31 December 2020 £000	31 December 2019 £000
Within 12 months of the reporting date	7,409	5,685
Between 12 and 24 months of the reporting date	679	435
More than 24 months after the reporting date	19	428
	8,107	6,548

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22 Other assets

	31 December 2020 £000	31 December 2019 £000
Costs to fulfil contracts with customers	7,738	7,254
Costs to obtain contracts with customers	27,750	20,881
	35,488	28,135
Current	25,439	19,098
Non-current	10,049	9,037
	35,488	28,135

The Groups cost 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 the profit or loss when the Group recognises the related revenue from those contracts, which is usually after the reporting date (1-3 months). The net impact on profit or loss for the year ending 31 December 2020 was a decrease in staff costs of £0.1m (2019: £0.5m).

Costs to obtain include incremental fees paid to aggregator websites for obtaining new business and are amortised, on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates, over the average life of the relationship with the customer.

Amortisation amounting to £21.3m was recognised in the profit or loss during the year ending 31 December 2020 (2019: £21.7m).

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23 Cash generated from operations

	31 December 2020 £000	31 December 2019 £000
Cash flows from operating activities		
Loss for the year after tax	(206,259)	(74,002)
Depreciation of property, plant and equipment and right-of-use assets	19,763	20,071
Amortisation	76,426	74,778
Loss on disposal and impairment of non-financial assets	5,636	7,658
Impairment of financial asset	3,411	-
Other losses/(gains)	310	(1,206)
Adjustment to gain on disposal of associate	-	(1,750)
Loss/(gain) on disposal of business	1,665	(2,244)
Transaction costs on completed and aborted acquisitions accrued in the year	3,324	1,185
Transaction costs on completed and aborted acquisitions paid in the year	(2,737)	(5,705)
Finance costs - net of finance income	234,103	111,603
Investment income	(787)	(2,657)
Share of profit from associate and joint venture	(2,025)	(1,897)
Tax expense/(credit)	17,562	(30,216)
Fair value loss on derivatives	2,136	604
Recycling to income statement from cash flow hedging reserve on revenue hedges	(280)	645
(Increase)/decrease in trade and other receivables	(16,513)	105,910
Increase/(decrease) in trade and other payables	45,541	(87,956)
(Increase)/decrease in contract assets	(1,415)	1,084
Increase in other assets	(7,235)	(8,065)
(Decrease)/increase in contract liabilities	(527)	10,342
Effect of movements in exchange rates on cash held	3,180	5,443
Hedge ineffectiveness	(123)	-
Decrease in provisions	(34,687)	(25,206)
Net cash inflow from operations	140,469	98,419

FINANCIAL STATEMENTS

Reconciliation of liabilities to cash flows arising from financing activities

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	Premium financing liabilities £000	Trade and other net payables £000	Borrowings £000	Lease liabilities £000	Financing cash flows relating to equity transactions £000	Other financial liabilities - derivatives £000	Total £000
Year ended 31 December 2020							
At the beginning of the year	4,341	(8,317)	1,135,838	43,105	-	-	1,174,967
Interest paid on borrowings	-	(1,480)	(102,267)	-	-	-	(103,747)
Repayment of borrowings	-	-	(1,684,119)	-	-	-	(1,684,119)
Net interest receipt from cross currency swaps	-	-	-	-	-	22,611	22,611
Net repayments from premium financing	(4,341)	-	-	-	-	-	(4,341)
Proceeds from borrowings	-	-	2,033,747	-	-	-	2,033,747
Debt transaction costs	-	-	(48,295)	-	-	-	(48,295)
Repayment of lease liabilities	-	-	-	(12,949)	-	-	(12,949)
Transactions with non-controlling interests	-	-	-	-	(6,530)	-	(6,530)
Proceeds from share issue	-	-	-	-	14,624	-	14,624
Purchase of own shares	-	-	-	-	(1,541)	-	(1,541)
	(4,341)	(1,480)	199,066	(12,949)	6,553	22,611	209,460
Non-cash changes:							
Acquisitions and disposals	-	-	411,052	11,499	-	-	422,551
Effect of changes in foreign exchange rates	-	-	(4,476)	(108)	-	-	(4,584)
Interest expense	-	1,515	135,740	5,757	-	-	143,012
Unwind of discount	-	-	92,318	-	-	-	92,318
Accrued transaction costs	-	8,347	(276)	-	-	-	8,071
New leases/lease modifications	-	-	-	2,575	-	-	2,575
At the end of the year	-	65	1,969,262	49,879	6,553	22,611	2,048,370

FINANCIAL STATEMENTS

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

	Premium financing liabilities £000	Trade and other net payables £000	Borrowings £000	Lease liabilities £000	Financing cash flows relating to equity transactions £000	Total £000
Year ended 31 December 2019						
At the beginning of the year	72,072	440	1,144,352	71,145	-	1,288,009
Interest paid on borrowings	(2,535)	(2,035)	(90,671)	-	-	(95,241)
Net repayments from premium financing	(67,731)	-	-	-	-	(67,731)
Debt transaction costs	-	-	(7,012)	-	-	(7,012)
Sundry loans issued	-	(8,347)	-	-	-	(8,347)
Interest paid on lease liabilities	-	-	-	(6,256)	-	(6,256)
Repayment of lease liabilities	-	-	-	(9,817)	-	(9,817)
Transactions with non-controlling interests	-	-	-	-	(4,304)	(4,304)
Settlement of shareholder loan notes	-	-	(4,589)	-	-	(4,589)
Purchase of own shares	-	-	-	-	(9,514)	(9,514)
	(70,266)	(10,382)	(102,272)	(16,073)	(13,818)	(212,811)
Non-cash changes:						
Effect of changes in foreign exchange rates	-	-	(19,368)	-	-	(19,368)
Interest expense	2,535	1,625	104,595	6,256	-	115,011
Accrued transaction costs	-	-	8,531	-	-	8,531
New leases/lease modifications	-	-	-	(17,629)	-	(17,629)
Amounts classified as held-for-sale	-	-	-	(594)	-	(594)
Equity related	-	-	-	-	13,818	13,818
At the end of the year	4,341	(8,317)	1,135,838	43,105	-	1,174,967

FINANCIAL STATEMENTS

25 Financial instruments

Financial instruments classification

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

Financial assets - 2020	Derivatives used for hedging £000	FVTPL £000	Amortised cost £000	FVTOCI £000	Total £000
Unlisted investments	-	-	-	285	285
UCIS assets	-	14	-	-	14
Trade receivables excluding prepayments	-	-	131,168	-	131,168
Other receivables	-	28,657	61,482	-	90,139
Contingent and deferred consideration	-	2,057	289	-	2,346
Cash and cash equivalents	-	-	585,637	-	585,637
Derivatives	3,544	-	-	-	3,544
Held for sale trade and other receivables	-	-	24,000	-	24,000
At 31 December 2020	3,544	30,728	802,576	285	837,133

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

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25 Financial instruments (cont)

	FVTPL £000	Amortised cost £000	Derivatives used for hedging £000	Total £000
Financial liabilities - 2020				
Borrowings	-	(1,969,262)	-	(1,969,262)
Trade and other payables, excluding deferred income	-	(500,345)	-	(500,345)
Contingent consideration	(21,114)	-	-	(21,114)
Derivative liabilities	-	-	(51,243)	(51,243)
At 31 December 2020	(21,114)	(2,469,607)	(51,243)	(2,541,964)
	FVTPL £000	Amortised cost £000	Derivatives used for hedging £000	Total £000
Financial liabilities - 2019				
Borrowings	-	(1,135,838)	-	(1,135,838)
Trade and other payables, excluding deferred income	-	(344,789)	-	(344,789)
Contingent consideration	(3,167)	-	-	(3,167)
Deferred proceeds	(15,000)	-	-	(15,000)
Derivative liabilities	-	-	(21,700)	(21,700)
At 31 December 2019	(18,167)	(1,480,627)	(21,700)	(1,520,494)

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25 Financial instruments (cont)

Fair value measurement

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

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

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

31 December 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit or loss				
UCIS recovered assets	-	-	14	14
Trade and other receivables	-	-	28,657	28,657
Contingent consideration	-	-	2,057	2,057
Derivatives hedging forecast revenue	-	3,544	-	3,544
Financial assets at fair value through other comprehensive income				
Unlisted investments	-	-	285	285
Total financial assets at fair value	-	3,544	31,013	34,557
Contingent consideration payable	-	-	(21,114)	(21,114)
Derivatives hedging borrowings	-	(51,243)	-	(51,243)
Total financial liabilities at fair value through profit or loss	-	(51,243)	(21,114)	(72,357)
Net fair value at 31 December 2020	-	(47,699)	9,899	(37,800)

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25 Financial instruments (cont)

31 December 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<u>Financial assets at fair value through profit or loss</u>				
UCIS recovered assets	-	-	36	36
Trade and other receivables	-	-	32,412	32,412
Cross-currency swaps used in cash flow hedges	-	3,063	-	3,063
Forward contracts used in cash flow hedges	-	3,178	-	3,178
<u>Financial assets at fair value through other comprehensive income</u>				
Unlisted investments	-	-	271	271
Total financial assets at fair value	-	6,241	32,719	38,960
<u>Contingent consideration payable</u>				
Deferred proceeds	-	-	(3,167)	(3,167)
Forward contracts used in cash flow hedges	-	(289)	-	(289)
Cross-currency swaps used in cash flow hedges	-	(21,411)	-	(21,411)
Total financial liabilities at fair value through profit or loss	-	(21,700)	(18,167)	(39,867)
Net fair value at 31 December 2019	-	(15,459)	14,552	(907)

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

Derivative financial instruments (Level 2)

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

UCIS recovered assets (Level 3)

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

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

Trade and other receivables include contingent consideration receivable with a fair value of £2.3m (2019: £0.3m) arising from the sale of URIS Group's claims business in 2018 and from the sale of the Milburn Insurance Brokers business and certain assets in 2020. This is categorised within level 3 of the fair value hierarchy with the valuation based on management's best estimate of the probability of the successful completion of the requirements set out in the sale and purchase agreement.

Also included in trade and other receivables at 31 December 2020 were assets at fair value through profit or loss that were recognised on a business combination in relation to the Group's right to variable consideration on rolling contracts with customers for which the performance obligation was satisfied prior to the acquisition. The fair value is a level 3 valuation and is calculated as the present value of future cash flows where those cash flows take into account expected cancellation rates and the life of the underlying insurance product.

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25 Financial instruments (cont)

Contingent consideration, share buyout and deferred proceeds (Level 3)

Trade and other payables as at 31 December 2020 £nil (2019: £15.0m) of deferred proceeds, which are measured as financial liabilities at fair value through profit or loss. The 31 December 2020 contingent consideration includes amounts arising from the acquisitions in 2020 of Nevada 4 Midco 1 Limited, Thames Underwriting Limited, a number of individually immaterial businesses, and from the acquisition in 2019 of an associate interest in Sino Insurance Brokers Limited. The 31 December 2020 share buyout liability arises from the acquisitions in 2020 of Lloyd Latchford Group Limited and Nevada 4 Midco 1 Limited. The 31 December 2019 contingent consideration also arises from the acquisition of the associate interest in Sino Insurance Brokers Limited, and the deferred proceeds balance arises from the sale in 2018 of the Group's 19.9% interest in Bravo. These balances are categorised within level 3 of the fair value hierarchy.

Share buyout is the liability arising from put options granted by the Group to minority shareholders of certain consolidated subsidiaries, giving the holders the right to sell all of their interest in those subsidiaries to the Group. The fair value of the share buyout payments is determined based on the forecast option strike price (a fixed multiple of forecast EBITDA of the acquired entity less net debt), discounted using the Group WACC as the discount rate.

Contingent consideration payments are generally contingent on the post-acquisition performance of the acquired business and achievement of certain performance thresholds. The fair value of contingent consideration is determined based on actual and forecast business performance of the acquired business, discounted using the Group WACC as the discount rate.

Financial liabilities in respect of contingent consideration will only be written back if the Group receives confirmation from the vendor that there is no liability outstanding.

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

Unlisted investments are categorised within level 3 of the fair value hierarchy. The valuation technique applied, except where specific market price information is available, is cost less any provision for impairment.

Reconciliation of recurring fair value measurements within level 3

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

	Financial liabilities at FVTPL £000	Financial assets at FVTPL £000	Financial assets at FVTOCI £000	Total £000
As at 1 January 2020	(18,167)	32,448	271	14,552
Gains and losses	1,866	19,482	-	21,348
Additions	(8,395)	-	-	(8,395)
Business combinations & disposals	(14,433)	16,779	14	2,360
Settlements	3,015	(24,029)	-	(21,014)
Movement to reserves	15,000	(14,872)	(1,310)	(1,182)
Investment in associate	-	920	-	920
Acquisition of unlisted investment	-	-	1,310	1,310
At 31 December 2020	(21,114)	30,728	285	9,899

FINANCIAL STATEMENTS

25 Financial instruments (cont)

Reconciliation of recurring fair value measurements within level 3 (cont)

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

Gains and losses on the above instruments that are recognised in profit or loss are classified within other income and other operating costs respectively.

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 fair value through profit or loss 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 were initially held as long-term strategic investments that were 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 (2019: £nil).

As at 31 December 2020, trade and other receivables include a £24.8m (2019: £32.4m) asset classified at FVTPL that was recognised on a business combination in relation to the Group's right to variable consideration on rolling contracts with customers for which the performance obligation was satisfied prior to the acquisition date.

Financial 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 and interest rate risk.

Foreign currency risk

The Group's main exposure to foreign currency risk arises from: (1) its USD borrowings, and (2) the settlement in foreign currency, principally USD, of brokerage and fees relating to the placement of insurance business originating overseas. The Group uses derivatives, specifically forward contracts and previously cross-currency swaps, to mitigate its foreign currency risk.

The Group's forward contracts, and previously its cross-currency swaps, mitigate its exposure to foreign currency risk on its USD borrowings. The Group defers payment of interest on its USD borrowings, and the forward contracts hedge the eventual repayment of the principal and accumulated interest.

The Group's forward contracts mitigate its exposure to foreign currency risk on its USD revenue arising on the placement of premiums denominated in USD, which is not the presentation nor functional currency of the Group. Based on forecast transactions, the Group effectively sells USD revenue by reference to individual brokerage transactions.

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

Interest rate risk

The Group also has USD500.0m of PIK toggle notes, but that is at fixed interest rates and thus does not give rise to interest rate risk. The Group's main exposure to interest rate risk arises from its £1,592.8m IBOR-based senior secured term loan. The Group uses derivatives, specifically interest rate swaps, to mitigate its interest rate risk.

The Group is also exposed to changes in interest rates through its secured revolving credit facility borrowings at variable interest rates. However, these borrowings were undrawn as at 31 December 2020.

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25 Financial instruments (cont)

Credit risk analysis

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

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

	31 December 2020 £000	31 December 2019 £000
Cash and cash equivalents	585,637	410,903
Trade and other receivables excluding prepayments	223,653	150,965
Contract assets	14,145	11,509
Financial assets at fair value through profit or loss	2,071	36
	825,506	573,413

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 2020 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.

Expected credit losses

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

- GDP: A 147.89% increase in the growth in GDP is expected, from (10.65)% in 2020 to 5.1% in 2021, which indicates that historical credit loss experience should be decreased (2019: a 16.67% decrease in the growth in GDP was expected, from 1.35% in 2019 to 1.13% in 2020, which indicated that historical credit loss experience should be increased); and
- Unemployment rate: A 12.61% increase in unemployment rates is expected, from 5.95% in 2020 to 6.7% in 2021, which indicates that historical credit loss experience should be increased (2019: a 4.46% increase in unemployment rates was expected, from 3.93% in 2019 to 4.1% in 2020, which indicated that historical credit loss experience should be increased).

The net impact of the above scalar factors is to indicate that historical credit loss experience should be decreased (2019: increased). Historical credit loss experience was not therefore changed (2019: was, where appropriate, therefore increased) 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.

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25 Financial instruments (cont)

Expected credit losses (cont)

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

Lifetime ECL	Not credit impaired		Credit impaired £000	Total £000
	Collectively assessed £000	Individually assessed £000		
Balance at 1 January 2020	(8,281)	(2,460)	(48)	(10,789)
Amounts written off	3,248	5,422	48	8,718
Amounts recovered	1,014	12	-	1,026
Change in loss allowance due to new trade receivables net of those derecognised for settlement	(3,176)	(4,973)	-	(8,149)
Foreign exchange gains and losses	158	(134)	-	24
Acquisition of companies	(42)	(300)	-	(342)
Balance at 31 December 2020	(7,079)	(2,433)	-	(9,512)

The Group has credit risk exposure on balances on loans due, but the ECL on these is not material.

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

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

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25 Financial instruments (cont)

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 2020:

	Expected credit loss rate %	Estimated total gross carrying amount at default £000	Lifetime ECL £000	Total £000
Not past due	0.3	34,498	(119)	34,379
Past due:				
- not more than three months	3.1	65,802	(2,009)	63,793
- more than three months but not more than six months	3.2	11,521	(363)	11,158
- more than six months but not more than a year	5.4	12,665	(687)	11,978
- more than a year	39.1	16,194	(6,334)	9,860
At 31 December 2020	6.8	140,680	(9,512)	131,168

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

	Expected credit loss rate %	Estimated total gross carrying amount at default £000	Lifetime ECL £000	Total £000
Not past due	0.7	27,247	(193)	27,054
Past due:				
- not more than three months	5.7	39,135	(2,222)	36,913
- more than three months but not more than six months	8.1	6,399	(520)	5,879
- more than six months but not more than a year	14.0	4,615	(645)	3,970
- more than a year	90.9	7,935	(7,209)	726
At 31 December 2019	12.6	85,331	(10,789)	74,542

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25 Financial instruments (cont)

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 revolving credit facility (RCF) 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 2020.

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

	Carrying amount £000	Undiscounted amount £000	Within 12 months £000	Within 1-2 years £000	Within 2-5 years £000	More than 5 years £000
31 December 2020						
Term facilities due 2026	1,495,003	1,573,765	-	-	-	1,573,765
USD 500.0m PIK toggle notes due 2027	348,125	365,882	-	-	-	365,882
GBP 300.0m CAR facility due 2026	41,061	50,000	-	-	-	50,000
Trade and other payables	612,061	612,061	594,846	10,874	6,341	-
At 31 December 2020	2,496,250	2,601,708	594,846	10,874	6,341	1,989,647
	Carrying amount £000	Undiscounted amount £000	Within 12 months £000	Within 1-2 years £000	Within 2-5 years £000	More than 5 years £000
31 December 2019						
Senior secured notes	1,091,689	1,125,920	-	-	1,125,920	-
Senior secured loans and other borrowings	-	-	-	-	-	-
Premium financing liabilities	4,341	4,341	4,341	-	-	-
Trade and other payables	439,443	439,443	428,287	11,156	-	-
At 31 December 2019	1,535,473	1,569,704	432,628	11,156	1,125,920	-

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26 Hedge accounting

See note 25 with respect to the Group's exposure to foreign currency risk and interest rate risk, and how the Group mitigates those risks. Further details are provided below.

Derivatives

The Group has economic hedge relationships that mitigate foreign exchange risk arising from its USD borrowings and USD revenue. The Group also has economic hedge relationships that mitigate interest rate risk arising from its IBOR-based senior secured term loan that was entered into in July 2020. The Group applies hedge accounting for those hedge relationships that meet the hedge accounting criteria detailed in note 3. The Group manages all other risks associated with these exposures, such as credit risk, but it does not apply hedge accounting for those risks.

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

	31 December 2020 £000	31 December 2019 £000
Non-current assets		
Derivatives hedging forecast revenue	446	1,635
Derivatives hedging borrowings	-	74
Current assets		
Derivatives hedging forecast revenue	3,098	1,543
Derivatives hedging borrowings	-	2,989
Current liabilities		
Derivatives hedging forecast revenue	-	-
Derivatives hedging borrowings	(508)	(1,970)
Non-current liabilities		
Derivatives hedging forecast revenue	-	(289)
Derivatives hedging borrowings	(50,735)	(19,441)
Net derivative financial instrument liabilities	(47,699)	(15,459)

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

Derivatives hedging borrowings

The Group has foreign currency fixed rate notes in issue for funding purposes. In accordance with its risk management strategy, the Group had until June 2020 held 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 borrowings. These instruments had been entered into to match the maturity profile of estimated repayments of the Group's borrowings. Under those arrangements, the Group received a USD coupon matching its interest obligations under the USD borrowings, and it paid a fixed GBP coupon at specified half-yearly intervals (January and July). The Group had designated the cross-currency swaps as cash flow hedge relationships to hedge against movements in USD.

During June 2020, the Group made the following changes to its hedging instruments, given the Group's plan (which was subsequently executed) to repay its existing borrowings and issue new borrowings in July 2020 (see note 29):

- The Group terminated its existing cross-currency swaps in June 2020, while deferring the settlement of a portion thereof to match the expected repayment of the existing borrowings in July 2020, such that this portion acted as a forward contract. Where derivatives were terminated without deferred settlement, hedge accounting was discontinued in June 2020 and the related cash flow hedging reserve was reclassified to profit or loss, whereas this discontinuance and reclassification was applied in July 2020 for those derivatives terminated with deferred settlement; and
- Entered into new USD forward contracts to hedge the foreign currency risk on \$677.0m payments of principal and interest relating to USD 500.0m PIK toggle notes due 2027 that were subsequently issued in July 2020 (see note 29).

FINANCIAL STATEMENTS

26 Hedge accounting (cont)

Hedge accounting was applied to all of the existing USD borrowings prior to the above derivative transactions, to all except \$177.0m of the existing USD borrowings after the above transactions, and to all of the new USD borrowings once issued in July 2020.

The Group entered into interest rate swaps that were designated as hedging instruments against the IBOR-based senior secured term loan (see note 29). The interest rate swaps exchange a floating interest rate with a fixed interest rate and apply to interest incurred from 14 January 2021.

Derivatives hedging forecast revenue

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

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

Cash flow hedging reserves

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

	Cash flow hedging reserve £000	Cost of hedging reserve £000
31 December 2020		
At 1 January 2020	1,128	678
Changes in fair value recognised via other comprehensive income		
Foreign currency risk – derivatives hedging forecast revenue	(1,283)	-
Foreign currency risk – derivatives hedging borrowings	(331)	(5,497)
Interest rate risk - derivatives hedging borrowings	(964)	(455)
Amounts reclassified to profit or loss		
Foreign currency risk – derivatives hedging forecast revenue	(280)	-
Foreign currency risk – derivatives hedging borrowings	(1,527)	1,163
	(4,385)	(4,789)
Tax on movements on reserves	811	893
At 31 December 2020	(2,446)	(3,218)

FINANCIAL STATEMENTS

26 Hedge accounting (cont)

31 December 2019	Cash flow hedging reserve £000	Cost of hedging reserve £000
At 1 January 2019	(8,411)	2,465
<u>Changes in fair value recognised via other comprehensive income</u>		
Foreign currency risk – derivatives hedging forecast revenue	3,735	-
Foreign currency risk – derivatives hedging borrowings	(7,857)	(2,297)
<u>Amounts reclassified to profit or loss</u>		
Foreign currency risk – derivatives hedging forecast revenue	645	-
Foreign currency risk – derivatives hedging borrowings	14,970	144
	11,493	(2,153)
Tax on movements on reserves	(1,954)	366
At 31 December 2019	1,128	678

The gain/(loss) included in the income statement during the period ending 31 December 2020 in relation to items designated as hedging instruments, including hedge ineffectiveness, were as follows:

31 December 2020	<u>Derivatives hedging foreign currency risk</u>	
	<u>Forecast revenue £000</u>	<u>Borrowings £000</u>
<u>Amounts reclassified from other comprehensive income to profit or loss</u>		
Commission and fees	280	-
Finance costs – interest expense and foreign exchange differences	-	(2,754)
Finance costs – costs of hedging	-	(1,163)
Finance costs – termination of hedge	-	4,281
<u>Amounts recognised directly in profit or loss</u>		
Other operating costs – foreign exchange differences	1,287	-
Other operating costs – ineffectiveness	123	-
Other operating costs – amounts excluded from hedge accounting	-	(1,766)
Finance costs – ineffectiveness	-	261
	1,690	(1,141)

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26 Hedge accounting (cont)

31 December 2019	Derivatives hedging foreign currency risk	
	Forecast revenue £000	Borrowings £000
<u>Amounts reclassified from other comprehensive income to profit or loss</u>		
Commission and fees	(694)	-
Other operating costs	49	-
Finance costs – interest expense and foreign exchange differences	-	(15,114)
<u>Amounts recognised directly in profit or loss</u>		
Other operating costs - ineffectiveness	(2)	-
Finance costs - ineffectiveness	-	(282)
	(647)	(15,396)

The Group is exposed to interest rates, which are determined by reference to LIBOR and EURIBOR, to which it applies hedge accounting. The Group has applied the amendments to IFRS 9 which allow the Group to continue hedge accounting during the period of uncertainty arising from IBOR reforms. In assessing whether the hedge is expected to be highly effective on a forward-looking basis, the Group has therefore assumed that the cash flows of the interest rate swaps and the hedged debt instruments are not altered by IBOR reform. The Group has considered an IBOR transition plan.

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

31 December 2020	Carrying amount £000	Total £000	One to six months £000	Six to twelve months £000	One to two years £000	More than two years £000
Net settled Derivatives						
Derivatives hedging borrowings (interest rate swaps) - net cash (outflows)	(1,417)	(1,640)	-	(544)	(1,096)	-
Gross settled Derivatives						
Derivatives hedging borrowings (currency swaps) - cash inflows	-	493,848	-	-	493,848	-
Derivatives hedging borrowings (currency swaps) - cash (outflows)	-	(547,706)	-	-	(547,706)	-
Derivatives hedging borrowings (currency swaps) - net cash (outflows)	(49,826)	(53,858)	-	-	(53,858)	-
Derivatives hedging revenue (currency swaps) - cash inflows	-	120,276	34,615	44,439	22,787	18,435
Derivatives hedging revenue (currency swaps) - cash (outflows)	-	(116,890)	(33,306)	(42,681)	(22,583)	(18,320)
Derivatives hedging revenue (currency swaps) - net cash inflows	3,544	3,386	1,309	1,758	204	115
	(47,699)	(52,112)	1,309	1,214	(54,750)	115

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26 Hedge accounting (cont)

31 December 2019	Carrying amount £000	Total £000	One to six months £000	six to twelve months £000	One to two years £000	More than two years £000
Gross settled Derivatives						
Derivatives hedging borrowings (currency swaps) - cash inflows	-	656,248	24,564	66,118	565,566	-
Derivatives hedging borrowings (currency swaps) - cash (outflows)	-	(679,303)	(23,516)	(66,590)	(589,197)	-
Derivatives hedging borrowings (currency swaps) - net cash (outflows)/inflows	(18,348)	(23,055)	1,048	(472)	(23,631)	-
Derivatives hedging revenue (currency swaps) - cash inflows	-	160,502	36,876	44,572	79,054	-
Derivatives hedging revenue (currency swaps) - cash (outflows)	-	(156,835)	(36,039)	(43,466)	(77,330)	-
Derivatives hedging revenue (currency swaps) - net cash inflows	2,889	3,667	837	1,106	1,724	-
	(15,459)	(19,388)	1,885	634	(21,907)	-

At the reporting date the Group hedged its USD denominated borrowings using forward contracts. Consequently, there is no net exposure to currency risk on USD borrowings.

The Group also entered into forward contracts on its USD forecast revenue. A 10% strengthening (weakening) of the GBP against the USD at the reporting date would have the following impact on the Group's equity:

	31 December 2020 £000	31 December 2019 £000
Derivatives hedging revenue		
10% strengthening	10,614	14,104
10% weakening	(12,972)	(17,238)

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27 Trade and other payables

	31 December 2020 £000	31 December 2019 £000
Insurance creditors	433,928	312,201
Social security and other taxes	10,878	10,906
Other creditors	37,692	32,588
Contingent consideration payable	14,819	1,062
Share buyout	13,530	-
Share based payment liabilities	4,123	-
Deferred proceeds	-	15,000
Deferred income	365	377
Accruals	79,359	56,153
Total current liabilities	594,694	428,287
Contingent consideration payable	6,295	2,105
Share buyout	2,753	-
Share based payment liabilities	685	-
Other financial liabilities	-	30
Other creditors	7,634	9,021
Total non-current liabilities	17,367	11,156

Insurance creditors include an amount of £5.0m which provides for the estimated losses recoverable by the insurer for net premiums earned to date on those schemes with loss corridor arrangements. The estimated adjustment to revenue relating to the loss corridor that was recognised in 2019 on policies inception prior to 2019 amounts to £1.0m debit. This is due to re-estimation of amounts previously recognised.

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

28 Premium financing liabilities

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

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

The premium financing liability was classified as a current liability as the underlying insurance policies were for a 12-month term. The premium financing liability was £nil as at 31 December 2020 as the arrangement was an interim one and was in place for new insurance policies sold in the first 4 months of 2019, after which time the financial institution started to provide financing to the customer directly.

	31 December 2020 £000	31 December 2019 £000
Total premium financing liabilities	-	4,341

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29 Borrowings

	31 December 2020 £000	31 December 2019 £000
Interest payable	46,909	44,149
Total current borrowings	46,909	44,149
Interest payable	38,164	-
Term facilities due 2026	1,495,003	-
USD 500.0m PIK toggle notes due 2027	348,125	-
GBP 300.0m CAR facility due 2026	41,061	-
Senior secured notes	-	1,091,689
Total non-current borrowings	1,922,353	1,091,689

The borrowings comprise the following (excluding interest payable):

Date Issued	Currency	Nominal interest rate*	Year of maturity**	31 December 2020		31 December 2019	
				Face value EUR/ USD/£000	Carrying amount £000	Face value USD/£000	Carrying amount £000
26.06.2017	GBP	8.375%	2023	-	-	400,000	393,081
26.06.2017	USD	8.625%	2023	-	-	520,000	387,941
20.12.2017	GBP	8.375%	2023	-	-	55,000	53,940
18.11.2018	USD	8.625%	2023	-	-	235,000	159,000
08.06.2018	GBP	8.375%	2023	-	-	98,300	97,727
14.07.2020	GBP	7.500%	2026	1,412,838	1,342,120	-	-
14.07.2020	EUR	7.500%	2026	180,000	152,883	-	-
14.07.2020	USD	11.500%	2027	500,000	348,125	-	-
22.10.2020	GBP	7.500%	2026	50,000	41,061	-	-
Total					1,884,189		1,091,689

*The nominal interest rates stated are the margins, which exclude payment in kind premiums on the borrowings (that are enacted at the request of the borrower) and LIBOR (floors of 0.75% for the GBP borrowings and 1.00% for the EUR borrowings). At year end it was the intention of Management to enact the payment in kind option meaning the carrying amount of borrowings have taken this into account when calculating the effective interest rate, and in January 2021 the options were exercised.

** The Notes that were due to mature in 2023 were repaid and cancelled on 14 July 2020.

Interest is payable on the notes in January and July of each year, but payment may be deferred for those borrowings issued in 2020 if all the payment in kind options are exercised.

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29 Borrowings (cont)

The fair value of the Term facilities due 2026 and USD 500.0m PIK toggle notes due 2027 as at 31 December 2020, and of the redeemed senior secured notes as at 31 December 2019, which is categorised within level 2 of the fair value hierarchy and is given for disclosure purposes only, is estimated as follows:

	Carrying amount £000	Fair value £000
Borrowings at 31 December 2020		
GBP 1,412.8m Term facility due 2026	1,342,120	1,511,736
EUR 180.0m Term facility due 2026	152,883	172,192
USD 500.0m PIK toggle notes due 2027	348,125	391,494
GBP 300.0m CAR facility due 2026	41,061	53,500
	1,884,189	2,128,922
Borrowings at 31 December 2019	1,091,689	1,117,571

On 14 July 2020, the Group issued new borrowings, which it used to repay its existing borrowings and to fund acquisitions. The existing borrowings included the existing senior secured notes and the revolving credit facility, the repayment of which released the Group from the associated security and resulted in an early repayment charge of £49.3m. The new borrowings include full drawdowns on USD 500.0m payment-in-kind (PIK) toggle notes due 2027 and a privately placed term loan facility due 2026 of £1,575.0m comprising £1,412.8m denominated in pound sterling and €180.0m denominated in euro. A £300.0m Capex, Acquisition and Re-organisation (CAR) facility due 2026 and a £191.5m revolving credit facility (RCF) due 2026 were also issued on 14 July 2020. During October, £50.0m was drawn on the CAR facility to fund acquisitions, which left £250.0m of the CAR facility still available at 31 December 2020 and a further £150.0m has since been drawn to fund further acquisitions at the date of this report. The RCF is not drawn at the date of this report.

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. This letter of credit facility was reduced to £28.0m on 8 September 2020 as a result of outstanding ETV liabilities having reduced as ETV settlements have been made. See note 31 for further information relating to ETV redress liabilities.

30 Current tax and deferred tax

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

	31 December 2020 £000	31 December 2019 £000
Corporation tax payable	(1,978)	(130)
Overseas Corporation tax receivable	1,145	-
	(833)	(130)

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30 Current tax and deferred tax

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

	Net balance at 1 January £000	Recognised in profit or loss £000	Recognised in OCI £000	Acquired in business combination	Net balance at 31 December £000	Deferred tax assets £000	Deferred tax liabilities £000
31 December 2020 - Temporary difference							
Property, plant and equipment	25,616	5,577	-	-	31,193	31,193	-
Tax losses	23,878	(13,427)	-	-	10,451	10,451	-
Interest restriction	22,452	(5,775)	-	-	16,677	16,677	-
Derivatives	(321)	-	1,704	-	1,383	1,383	-
Intangible assets	(55,477)	3,796	-	(19,525)	(71,206)	-	(71,206)
Other	6,539	(5,626)	-	-	913	913	-
	22,687	(15,455)	1,704	(19,525)	(10,589)	60,617	(71,206)

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30 Current tax and deferred tax (cont)

	Net balance at 1 January £000	Recognised in profit or loss £000	Recognised in OCI £000	Acquired in business combination	Net balance at 31 December £000	Deferred tax assets £000	Deferred tax liabilities £000
31 December 2019 - Temporary difference	21,951	3,665	-	-	25,616	27,658	(2,042)
Property, plant and equipment	10,477	13,401	-	-	23,878	23,878	-
Tax losses	21,933	519	-	-	22,452	22,452	-
Interest restriction	1,267	-	(1,588)	-	(321)	-	(321)
Derivatives	(61,205)	10,029	-	(4,301)	(55,477)	-	(55,477)
Intangible assets	4,559	1,980	-	-	6,539	6,560	(21)
Other	(1,018)	29,594	(1,588)	(4,301)	22,687	80,548	(57,861)

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30 Current tax and deferred tax (cont)

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.

In the March 2021 Budget, it was announced that the UK Corporation Tax Rate will rise from its current rate of 19% to 25% with effect from April 2023. UK deferred tax balances as at 31 December 2020 continue to be measured at a rate of 19% as this was the substantively enacted rate at that date. The estimated impact of increasing the rate to 25% with effect from April 2023 will be to increase net deferred tax liabilities to £ 11.6m.

The Group did not recognise deferred income tax assets of £50.6m (2019: £18.7m) in respect of deductible temporary differences.

	31 December 2020 £000	31 December 2019 £000
Fixed assets	3,738	1,842
General provisions	2,352	553
Tax losses	44,466	16,303
Unrecognised deferred tax assets	50,556	18,698

The Group had carried forward unrecognised tax losses of £234.0m (2019: £95.9m).

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31 Provisions

The Group held the following provisions as at 31 December 2020:

	ETV £000	Run-off £000	LTIP £000	Litigation matters £000
At 1 January 2020	47,572	2,269	312	4,591
Additional provisions made during the year	6,998	1,455	668	1,404
Transferred from/(to) other debtors/creditors	-	-	201	-
Business combinations	-	-	217	-
Utilised during the year	(35,645)	(2,953)	-	(2,579)
Unused amounts reversed during the year	-	-	(43)	(396)
Unwind of discount	-	-	-	-
Foreign exchange movement	-	-	-	-
At 31 December 2020	18,925	771	1,355	3,020

	Future renewal scheme £000	Property £000	Branch closure £000	Other £000	Total £000
At 1 January 2020	7,381	10,589	564	1,830	75,108
Additional provisions made during the year	125	862	-	899	12,411
Transferred from/(to) other debtors/creditors	(930)	(346)	-	(8)	(1,083)
Business combinations	-	1,183	-	81	1,481
Utilised during the year	-	(1,362)	(301)	(1,510)	(44,350)
Unused amounts reversed during the year	-	(712)	(116)	(75)	(1,342)
Unwind of discount	-	(1)	-	-	(1)
Foreign exchange movement	-	(1)	-	(1)	(2)
At 31 December 2020	6,576	10,212	147	1,216	42,222

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

	31 December 2020 £000	31 December 2019 £000
Analysis of total provisions		
Non-current - to be utilised in more than one year	13,863	14,457
Current - to be utilised within one year	28,359	60,651
	42,222	75,108

FINANCIAL STATEMENTS

31 Provisions (cont)

Enhanced Transfer Values (ETV) and run off costs provision

Certain subsidiaries within the Group have obligations to make redress payments in respect of past pension transfer advice for which the total cost of redress was estimated to be £70.0m at 30 September 2020 (£63.5m at 31 December 2019), which remains the current assessment of the Directors. The redress is now substantially complete with approximately 94% of the cases in the population having been closed although case settlements continue to run through the first half of 2021. Total redress payments to the reporting date of £51.1m leave a provision of £18.9m at 31 December 2020 (£47.6m at 31 December 2019) and since then further payments of £13.4m have been made.

In view of the near conclusion of the programme the uncertainties impacting the provisioning assumptions are reduced but not fully eliminated. These assumptions include average redress costs, changes in the ETV population, the proportion of cases where advice was found to be unsuitable, variations in redress methodology and economic inputs, and the impact of the recent FCA announcement on the inflation measure to apply to the calculation of redress. Therefore, the Directors will continue to update the provision based upon actual experience and have retained a 5% deterioration sensitivity for the total ETV redress cost estimate in their "going concern" assessment.

The costs of the review activities are provided for separately within the run-off provision. The balance of the run-off provision as at 31 December 2020 is £0.8m (31 December 2019: £2.3m).

Long-term incentive provision

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

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

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

Property provision

Onerous lease £0.1m

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

Dilapidations £10.1m

This provision provides for the estimated amounts payable for dilapidations on each property at the end of the lease term.

Future renewal scheme

The provision for the future renewal scheme was recognised as part of the acquisition of Nevada Investment Holdings 2 Limited in 2019. It represents the estimated costs to be paid to appointed representatives that meet certain eligibility criteria under a contract termination scheme introduced by the acquiree and is based on the amount that would be receivable by each appointed representative in respect of their portfolio if they remain active as an appointed representative.

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

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

Branch closure

This provision relates to the cost of closing branches by The Swinton Group, excluding rent costs (which are subject to lease accounting).

Other provision

The other provision balance at 31 December 2020 includes a £1.1m restructuring provision for onerous contracts.

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32 Share capital and share premium

	Number of shares authorised (thousands)	Number of shares issued (thousands)	Ordinary shares £000	Share premium £000	Total £000
At 1 January 2020	880,000	732,985	7,331	740,886	748,217
At 31 December 2020	1,950,000	859,261	8,593	991,771	1,000,364
At 1 January 2019	880,000	682,495	6,826	674,391	681,217
At 31 December 2019	880,000	732,985	7,331	740,886	748,217

On 29 July 2020, the Group modified The Ardonagh Group Limited Management Incentive Plan (MIP) by exchanging MIP shares held by employees for a new class of share, B ordinary shares (B Shares). In introducing the modification, the Group has acquired all the MIP shares previously held by employees in exchange for issuing a total of 105,877,264 B Shares, which hold no voting rights and their value is impacted by leaver provisions that are attached to them.

There are a number of other transactions with minority shareholders that also impact the share capital of the Company (see note 17).

The consolidated statement of changes in equity includes, during the year, an other capital reserve of £15.0m as a component of equity. This represented 7,142,857 ordinary shares of £0.01 each that had not been issued but which had been promised to Nevada 4 Midco 1 Limited. The fair value of an ordinary share was £2.10 on the date this commitment was made. This commitment to issue share capital was subsequently cancelled on 14 July 2020 as a result of the acquisition of Nevada 4 Midco 1 Limited.

FINANCIAL STATEMENTS

33 Share-based payments

Equity-settled share-based payment schemes:

The Group operated the 'Ardonagh MIP' and 'Atlanta MIP' in 2019 and through part of 2020, which were equity-settled share-based payment arrangements. These were exchanged for B ordinary shares of the Company in 2020, which are accounted for as an equity-settled share-based payment arrangement that modifies the existing arrangements and results in no incremental fair value at the modification date. The Ardonagh new MIP, comprising the Employee Growth Plan (EGP) scheme and Tier 1 arrangements, were also issued in 2020, both of which are equity-settled share-based payment schemes.

The fair value of the services received in exchange for the grant of the shares is recognised as an expense, measured based on the grant date fair value of the shares and recognised on a straight-line basis over the vesting period.

The B ordinary shares and various MIP shares have no dividend or voting rights and cannot be sold. The Ardonagh and Atlanta MIP shares were granted in exchange for the nominal subscription price of £0.01 per share, whilst the subsequent EGP and Tier 1 arrangements were granted at fair value. 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 shares if an employee leaves the Group prior to the occurrence of a crystallisation event, for an amount that depends on whether the employee is a 'good leaver' or 'bad leaver'.

The number of shares held by employees or third parties under equity-settled share-based payment arrangements is as follows:

Number of shares 2020	1 January 2020	Granted	Forfeited	Bought back	31 December 2020
Ardonagh MIP	117,820	2,842	3,239	(123,901)	-
Atlanta MIP C shares	95,441	-	-	(95,441)	-
Atlanta MIP D shares	55,487	-	-	(55,487)	-
Ordinary B Shares	-	105,877,264	-	(40,347,539)	65,529,725
Deferred shares	-	124,970	-	-	124,970
EGP shares	-	2,503,512	-	-	2,503,512
Tier 1 shares	-	76,811	-	-	76,811

Number of shares 2019	1 January 2019	Granted	Forfeited	Bought back	31 December 2019
Ardonagh MIP	99,712	18,668	(335)	(225)	117,820
Atlanta MIP C shares	102,000	-	(6,559)	-	95,441
Atlanta MIP D shares	59,250	-	(3,763)	-	55,487

FINANCIAL STATEMENTS

33 Share-based payments (cont)

The grant date fair value of the scheme is calculated using a Black Scholes model, which includes discounts for the opportunity cost of equity and lack of control. The weighted-average fair value of shares granted during the period and the significant inputs used in the measurement of fair value were as follows:

Grant date fair value	Ardonagh MIP		Atlanta MIP C shares		Atlanta MIP D shares	
	2020	2019	2020	2019	2020	2019
Weighted average fair value (per share)	n/a	£51.19	n/a	n/a	n/a	n/a
Significant inputs:						
Equity value of issuing entity (£m)	n/a	1,189	n/a	n/a	n/a	n/a
Time discount	n/a	15%	n/a	n/a	n/a	n/a
Volatility	n/a	26%	n/a	n/a	n/a	n/a

Shares fair value	Ordinary B shares		EGP shares		Tier 1 shares	
	2020	2019	2020	2019	2020	2019
Weighted average fair value (per share)	£2.10	n/a	£0.02	n/a	£20.86	n/a
Significant inputs:						
Equity value of issuing entity (£m)	1,852	n/a	1,852	n/a	1,852	n/a
Time discount	n/a	n/a	0.05%	n/a	0.05%	n/a
Volatility	n/a	n/a	23%	n/a	23%	n/a

The total expense recognised for share-based payments is £3.2m (2019: £3.3m), comprising £1.4m (2019: £0.4m) in relation to equity-settled share-based payment schemes and £1.8m (2019: £2.9m) in relation to cash-settled share-based payment schemes.

Cash-settled share-based payment schemes:

The Group operates cash-settled share-based payment schemes under which employees hold shares in some of the Group's subsidiaries that entitle them to put those shares back to the Group for a cash amount that is based on the value of the shares. The shares track the value of certain businesses in the Group within the Ardonagh Specialty operating segment. The fair value of the liability is estimated based on multiples of forecast Adjusted EBITDA of the businesses whose values the shares track.

The number of shares held by employees under these schemes are as follows:

	Number of shares
Outstanding at 1 January 2020	50,000
Granted during the year	20,000
Outstanding at 31 December 2020	70,000

The Group recognises a liability, measured at fair value as at the reporting date, for its obligation to settle these share-based payments in cash. In the year ending 31 December 2020, the Group recognised an employee expense and a liability amounting to £1.8m (2019: £2.9m). No portion of the liability is considered to be fully vested as at 31 December 2020.

FINANCIAL STATEMENTS

34 Contingent liabilities, assets and commitments

Guarantees

On 14 July 2020, the Group issued new borrowings, with Ardonagh Midco 2 Plc issuing \$500.0m payment-in-kind (PIK) toggle notes due 2027, and Ardonagh Midco 3 Plc entering into a privately placed term loan facility due 2026 of £1.575 billion comprising £1.413 billion denominated in pound sterling and €180.0m denominated in euro. A £300.0m CAR facility due 2026 and a £191.5m RCF due 2026 were also issued on 14 July 2020. On 22 October 2020, £50.0m was drawn on the CAR facility to fund acquisitions, which left £250.0m of the CAR facility still available at 31 December 2020 and a further £150.0m has since been drawn to fund further acquisitions at the date of this report. The RCF is not drawn at the date of this report.

The Group utilised the new borrowings to repay its existing borrowings, the repayment of which released Ardonagh Midco 3 plc from its obligations under those borrowings, including the existing RCF, and the Group then issued 7.500% and 11.500% notes, which were guaranteed and secured by Ardonagh Midco 2 plc, the immediate parent company of Ardonagh Midco 3 plc, and by all its material and certain other subsidiaries. The settlement of the existing borrowings resulted in an early repayment charge of £49.3m.

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. This letter of credit facility was reduced to £28.0m on 8 September 2020 as a result of outstanding ETV liabilities having reduced as ETV settlements have been made. See note 31 for further information relating to ETV redress liabilities.

On 1 October 2020, the Group entered into a binding commitment to grant a loan facility on arm's length commercial terms of up to £13.0m and associated commitments to a related party of the Group to fund a business combination to be made by that related party. This loan facility was granted subsequently on 23 February 2021.

The following list of companies are those Group companies that are the Guarantors under both the £1.575 billion Senior Facilities Agreement and the \$500m Senior Unsecured Notes:

Arachas Corporate Brokers Limited

Ardonagh Midco 3 Plc (Issuer of the private debt; only a guarantor under the \$500m public notes)

Ardonagh Advisory Holdings Limited

Ardonagh Finco Plc

Ardonagh Services Limited

Ardonagh Specialty Holdings Limited

Atlanta 1 Insurance Services Limited

Bishopsgate Insurance Brokers Limited

Bravo Investment Holdings 3 Limited

Bravo Investment Holdings 4 Limited

Carole Nash Insurance Consultants Limited

Finch Commercial Insurance Brokers Limited

Geo Underwriting Services Limited

Hawkwood Investment Holdings Limited

Health and Protection Solutions Limited

Paymentshield Limited

Price Forbes & Partners Limited

Swinton Group Limited

The Broker Network Limited

Towergate Underwriting Group Limited

URIS Group Limited

Verulam Holdings Limited

FINANCIAL STATEMENTS

34 Contingent liabilities, assets and commitments (cont)

Contractual obligations

The following table summarises material commitments as of 31 December 2020 that are not recognised as a liability in the statement of financial position:

	Less than one year £000	One to five years £000	More than five years £000	Total £000
Contractual commitments	3,689	-	-	3,689
	3,689	-	-	3,689

The total contractual commitments in the above table relates to capital expenditure on intangible assets.

The Group has no contingent liabilities as at 31 December 2020.

35 Related party transactions

During the year, the Group purchased shares from non-controlling interests (see note 17).

The business combinations via which the Group purchased Nevada 4 Midco 1 Limited and Nevada 5 Topco Limited (see note 16) were transacted with related parties. There were numerous sellers, but the ultimate controlling parties of the purchased companies are also the ultimate controlling parties of the Group.

Directors' loans

Loans to directors of £7.2m were brought into the Group as a result of the purchase of Nevada Investment Topco Limited (Nevada) on 22 June 2017. This balance consisted of four individual loans of which three were forgivable over differing periods to 2020.

At the date of acquisition of Nevada, the forgivable loans had a fair value of zero as it is the intention of the Directors to forgive these loans in line with the terms of the individual agreements. The carrying amount of the Directors' loans held on the Group's balance sheet at 31 December 2020 was £1.2m (2019: £1.2m).

A £0.3m loan made by Nevada 4 Midco 1 Limited (the holding company of the Bravo group of businesses) in November 2019 to a business controlled by one of the directors was repaid following the acquisition of Nevada 4 Midco 1 Limited by the Group on 14 July 2020.

Ultimate parent company

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

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36 Group undertakings

The following were Group undertakings at 31 December 2020. Unless otherwise shown, the capital of each company is wholly-owned ordinary shares and the principal country of operation is the country of incorporation/registration.

Company	Share-holding	Registered office address	Country of incorporation	Nature of holding
Ainsbury (Insurance Brokers) Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Alan B. Kidd & Company Limited	100%	9 Eastgate Avenue, Eastgate Business Park, Little Island Co Cork, Little Island, Cork, T45 YN92	Ireland	Ordinary
Andinsure Limited	92%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Antur (West Wales) Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Antur Insurance Services Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary & preference
Arachas Bidco Designated Activity Company	100%	9 Eastgate Avenue, Eastgate Business Park, Little Island Co Cork, Little Island, Cork, T45 YN92	Ireland	Ordinary
Arachas Corporate Brokers Limited	100%	9 Eastgate Avenue, Eastgate Business Park, Little Island Co Cork, Little Island, Cork, T45 YN92	Ireland	Ordinary
Arachas Midco Designated Activity Company	100%	9 Eastgate Avenue, Eastgate Business Park, Little Island Co Cork, Little Island, Cork, T45 YN92	Ireland	Ordinary
Arachas Topco Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Ardonagh Advisory Holdings Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Ardonagh Finco plc	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Ardonagh Investments 2 Limited	100%	22 Grenville Street, St. Helier, Jersey, JE4 8PX	Jersey	Ordinary
Ardonagh Investments Limited	100%	22 Grenville Street, St. Helier, Jersey, JE4 8PX	Jersey	Ordinary
Ardonagh Midco 1 Limited	100%	44 Esplanade, St. Helier, Jersey, JE4 9WG	Jersey	Ordinary
Ardonagh Midco 2 plc	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary

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36 Group undertakings (cont)

Ardonagh Midco 3 plc	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Ardonagh Overseas Investments Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Ardonagh Services Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary & deferred
Ardonagh Specialty Europe N.V.	100%	Bastion Towers, 5 Place du Champ du Mars, Brussels 1050, Belgium	Belgium	Ordinary
Ardonagh Specialty Holdings Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Arista Insurance Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Arthur Marsh & Son Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Aspalls Investment Holdings Limited	70%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Atlanta 1 Insurance Services Limited	92%	Autonet Insurance, Nile Street,, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Atlanta Investment Holdings 2 Limited	92%	Autonet Insurance, Nile Street,, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Atlanta Investment Holdings 3 Limited	92%	Autonet Insurance, Nile Street,, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Atlanta Investment Holdings A Limited	92%	Autonet Insurance, Nile Street,, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Atlanta Investment Holdings B Limited	92%	Autonet Insurance, Nile Street,, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Atlanta Investment Holdings C Limited	92%	Autonet Insurance, Nile Street,, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Atlanta Investment Holdings D Limited	92%	Autonet Insurance, Nile Street,, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Atlanta Investment Holdings D1 Limited	92%	Autonet Insurance, Nile Street,, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Atlanta Investment Holdings Limited	92%	Autonet Insurance, Nile Street,, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Atlanta Investment Holdings Midco B Limited	92%	Autonet Insurance, Nile Street,, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary

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36 Group undertakings (cont)

Autonet Law LLP	69%	PM House, 250 Shepcote Lane, Sheffield, S9 1TP	England	LLP
B.I.B. (Darlington) Acquisitions Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
B.I.B. (Darlington) Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
B.I.B. Underwriters Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
B.I.B.U. Acquisitions Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
BC Health and Safety Ltd	68%	Gloucester House, Church Walk, Burgess Hill, West Sussex, RH15 9AS	England	Ordinary
BC UW Ltd	68%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Bennett Christmas Group Ltd	68%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Bennett Christmas Insurance Brokers Ltd	68%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Bennett Christmas Partners Ltd	68%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Berkeley Alexander Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Bernard Saxon General Insurance Services Limited	90%	30 Acorn Road, Jesmond, Newcastle Upon Tyne, NE2 2DJ	England	Ordinary
Berry Investment Holdings Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Bishop Skinner Acquisitions Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Bishop Skinner Insurance Brokers Holdings Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Bishop Skinner Insurance Brokers Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Bishopsgate Energy Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Bishopsgate Insurance Brokers Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary

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36 Group undertakings (cont)

Bishopsgate North American Binders Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Box Investment Holdings Limited	68%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Boyd & Company Limited	100%	5 Mill Street, Paisley, Renfrewshire, PA1 1LY	England	Ordinary
Bravo Investment Holdings 2 Ltd	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Bravo Investment Holdings 3 Ltd	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Bravo Investment Holdings 4 Ltd	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Bravo Investment Holdings Ltd	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Broker Network (MGA) Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Broker Network Holdings Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Broker Network Insurance Brokers Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary & preference
Burgess Thompson & Richardson Limited	80%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
C & M Insurance Services Limited	100%	22 High Street, Saffron Walden, Essex, CB10 1AX	England	Ordinary
C&N Investment Holdings Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
C.B. Hughes Limited	100%	3 Links House, Dundas Lane, Portsmouth, PO3 5BL	England	Ordinary
Capital Cover Group Limited	100%	9 Eastgate Avenue, Eastgate Business Park, Little Island Co Cork, Little Island, Cork, T45 YN92	Ireland	Ordinary
Carole Nash Insurance Consultants (Ireland) Designated Activity Company	92%	Ulysses House, 22/24 Foley St, Mountjoy, Dublin	Ireland	Ordinary
Carole Nash Insurance Consultants Limited	92.06%	Trafalgar House, 110 Manchester Road, Altrincham, Cheshire, WA14 1NU	England	Ordinary & deferred
Carole Nash Legal Services LLP	46%	Helmont House, Churchill Way, Cardiff, CF10 2HE	Wales	LLP

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36 Group undertakings (cont)

Cassidy Davis Underwriting Agency Limited	100%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
CCG Financial Services Limited	78%	2 Minster Court, London, EC3R 7PD	England	Ordinary
CCV Risk Solutions Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
CFN Insurance Services Ltd	100%	53a Crockhamwell Road, Woodley, Reading, Berkshire, RG5 3JP	England	Ordinary
Charles Hurst Insurance Services Limited	50%	Elizabeth House First Floor, 116-118 Holywood Road, Belfast, BT4 1NU	Northern Ireland	Ordinary
Chase Templeton Group Limited	100%	First Floor, Millennium House, Victoria Road, Douglas, Isle of Man, IM2 4RW	Isle of Man	Ordinary
Chase Templeton Holdings Limited	100%	First Floor, Millennium House, Victoria Road, Douglas, Isle of Man, IM2 4RW	Isle of Man	Ordinary
Chase Templeton Limited	100%	Unit 5 Arkwright Court, Blackburn Interchange, Darwen, Lancashire, BB3 OFG	England	Ordinary
Christmas Insurance Brokers Limited	68%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Colonnade Insurance Brokers Limited	92%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Compass Broker Holdings Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Compass Broker Networks Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Compass Broker Services Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Compass London Markets Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Corporate Risk Management Limited	100%	17 Herbert Place, Dublin 2, Dublin	Ireland	Ordinary
Countrywide Insurance Management Ltd	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Cover Centre insurance Limited	100%	9 Eastgate Avenue, Eastgate Business Park, Little Island Co Cork, Little Island, Cork, T45 YN92	Ireland	Ordinary
Cullum Capital Ventures Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary

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36 Group undertakings (cont)

Dawson Pennington & Company Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Dawson Whyte Limited	100%	116-118 Holywood Road, Belfast, BT4 1NU	Northern Ireland	Ordinary
Direct Creditor Administration Limited	100%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
Direct Warranty Administration Limited	100%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
Eddie Investment Holdings Limited	70%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Edwards & Swan Insurance Brokers Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
EIBL Limited	92%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
EIBL Management Limited	92%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Equinox Underwriting North America Inc	100%	2711 Centerville Road, Suite 400, Wilmington, DE 19808	USA	Ordinary
Ethos Partner Holdings Ltd	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
F.C.I.B. (Holdings) Ltd	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Fairfield Insurance Services Limited	92%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Farmer Insurance Agency Ltd	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Finch Commercial Insurance Brokers Ltd	100%	53a Crockhamwell Road, Woodley, Reading, Berkshire, RG5 3JP	England	Ordinary
Four Counties Insurance Brokers Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Fusion Insurance Services Scandinavia Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Geo Europe B.V.	100%	Weena 505, 17de verdieping, Rotterdam, 3013AL	Netherlands	Ordinary
Geo Service Solutions Limited	100%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary

FINANCIAL STATEMENTS

36 Group undertakings (cont)

Geo Specialty Group Holdings Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Geo Specialty Liability Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Geo Specialty Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Geo Underwriting Europe B.V.	100%	Weena 505, 17de verdieping, Rotterdam, 3013AL	Netherlands	Ordinary
Geo Underwriting Services Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Guy Penn & Company Limited	100%	PO BOX 26 Coverpoint House, St Davids Road, South And Hove Road, Lytham St Annes, FY8 1RP	England	Ordinary
Hawkwood Investment Holdings Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Health and Protection Solutions Limited	100%	West Park House, 23 Cumberland Place, Southampton, SO15 2BB	England	Ordinary
Healthy Pets Limited	100%	6 Ridgeway Office Park, Bedford Road, Petersfield, Hampshire, GU32 3QF	England	Ordinary
HJB Investment Holdings Limited	92%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
HS 428 Limited	100%	15 Canada Square, London, E14 5GL	England	Ordinary
Hugh J. Boswell Limited	92%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Ink Investment Holdings Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Its4Me Limited	92%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
JIB Insurance Brokers Ltd	80%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Johnstone Insurance Brokers Limited	80%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
KDB Medicals Limited	92%	Autonet Insurance, Nile Street,, Burslem, Stoke-on-Trent, ST6 2BA	England	Ordinary
Knighthood Corporate Assurance Services Limited	100%	Knighthood House, Imberhome Lane, East Grinstead, West Sussex, RH19 1LB	England	Ordinary

FINANCIAL STATEMENTS

36 Group undertakings (cont)

Links Investment Holdings Limited	80%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Lloyd Latchford Group Limited	100%	3 Redman Court, bell Street, Princes Risborough, Buckinghamshire, HP27 0AA	England	Ordinary
Lockyer Commercial Ltd	90%	Unit 7 The Office, Village Silkwood Park, Wakefield, West Yorkshire, WF5 9TJ	England	Ordinary
Lunar 101 Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Lutine Assurance Services Limited	100%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
M2 Financial Fees Limited	85%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Malt House Holdings Limited	100%	53a Crockhamwell Road, Woodley, Reading, Berkshire, RG5 3JP	England	Ordinary
Managing Agents Reference Assistance Services Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Martinez and Partners Limited	100%	53a Crockhamwell Road, Woodley, Reading, Berkshire, RG5 3JP	England	Ordinary
Mastercover Insurance Services Limited	100%	2 Oaks Court, Warwick Road, Borehamwood, Hertfordshire, WD6 1GS	England	Ordinary
MCM Group Limited	70%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
McMorrow Murphy Limited	70%	611 Stretford Road, Old Trafford, Manchester, M16 0QA	England	Ordinary
Midas Underwriting Ltd	82%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
Millennium Insurance Brokers Limited	100%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
Minton House Group Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Moffatt & Co Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Morgan Law (Holdings) Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Morgan Law Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary

FINANCIAL STATEMENTS

36 Group undertakings (cont)

Murray & Spelman (Kildare) Limited	100%	9 Eastgate Avenue, Eastgate Business Park, Little Island Co Cork, Little Island, Cork, T45 YN92	Ireland	Ordinary
Murray & Spelman Limited	100%	9 Eastgate Avenue, Eastgate Business Park, Little Island Co Cork, Little Island, Cork, T45 YN92	Ireland	Ordinary
Mustang Bidco Pty Ltd	100%	Dentons Australia Limited, Level 1, 19 Gouger Street SA 5000, Australia	Australia	Ordinary
Mustang Midco Pty Ltd	100%	Dentons Australia Limited, Level 1, 19 Gouger Street SA 5000, Australia	Australia	Ordinary
Mustang Topco Pty Ltd	100%	Dentons Australia Limited, Level 1, 19 Gouger Street SA 5000, Australia	Australia	Ordinary
Network Protect Limited	100%	First Floor, Millennium House, Victoria Road, Douglas, Isle of Man, IM2 4RW	Isle of Man	Ordinary
Nevada 4 Midco 1 Limited	100%	89 Nexus Way, Camana Bay, Grand Cayman, Cayman Islands, KY1-1104	Cayman Islands	Ordinary
Nevada 5 Midco 2 Limited	100%	PO BOX 309, Ugland House, Grand Cayman, Cayman Islands, KY1-1104	Cayman Islands	A Ordinary
Nevada 5 Midco Limited	100%	PO BOX 309, Ugland House, Grand Cayman, Cayman Islands, KY1-1104	Cayman Islands	Ordinary
Nevada 5 Topco Limited	100%	PO BOX 309, Ugland House, Grand Cayman, Cayman Islands, KY1-1104	Cayman Islands	Ordinary
Nevada Investment Holdings 3 Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Nevada Investment Holdings 5 Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Nevada Investment Holdings 6 Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Nevada Investment Holdings 7 Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Nevada Investments 1 Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Nevada Investments 2 Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Nevada Investments 3 Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Nevada Investments 4 Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary

FINANCIAL STATEMENTS

36 Group undertakings (cont)

Nevada Investments 5 Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Nevada Investments 6 Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Nevada Investments 7 Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Nevada Investments Holdings Limited	100%	PO BOX 309, Ugland House, Grand Cayman, Cayman Islands, KY1-1104	Cayman Islands	Ordinary
Nevada Investments Topco Limited	100%	PO BOX 309, Ugland House, Grand Cayman, Cayman Islands, KY1-1104	Cayman Islands	Ordinary
Nevada Investorco Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Nevada Management (Nominees) Limited	100%	PO BOX 309, Ugland House, Grand Cayman, Cayman Islands, KY1-1104	Cayman Islands	Ordinary
O'Driscoll O'Neill	100%	17 Herbert Place, Dublin 2, Dublin	Ireland	Ordinary
O'Driscoll O'Neill (Group) Limited	100%	17 Herbert Place, Dublin 2, Dublin	Ireland	Ordinary
Oyster Property Insurance Specialists Limited	75%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Oyster Risk Solutions Limited	88%	2 Minster Court, London, EC3R 7PD	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 Life Underwriting Services Limited	100%	Paymentshield House, Wight Moss Way, Southport, Merseyside, PR8 4HQ	England	Ordinary
Paymentshield Limited	100%	Paymentshield House, Wight Moss Way, Southport, Merseyside, PR8 4HQ	England	Ordinary
Paymentshield Services Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Perry Appleton Private Clients Limited	70%	The Elms, 3 Newbold Road, Rugby, Warwickshire CV21 2LQ	England	Ordinary
Perry Appleton Risk Services Ltd	70%	2 Minster Court, London, EC3R 7PD	England	Ordinary

FINANCIAL STATEMENTS

36 Group undertakings (cont)

PFIH Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
PFP Tax Services Limited	100%	5 Sylvan Way, Southfields Business Park, Basildon, SS15 6TH	England	Ordinary
Plaice Thompson & Richardson Limited	80%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
PNA Limited	92%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Portishead Insurance Management Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Price Forbes & Partners (Bermuda) Limited	100%	Butterfield Bank Building, 6th Floor, 65 Front Street, Hamilton, HM 12	Bermuda	Ordinary
Price Forbes & Partners Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Price Forbes (PTY) Limited	100%	1st Floor, Block A, Kingsley Office Park, 85 Protea Road, Chislehurst, Johannesburg	South Africa	Ordinary
Price Forbes DMCC	100%	1004, JBC4, Cluster N, Jumeirah Lake Towers, United Arab Emirates	Dubai	Ordinary
Price Forbes Group Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Price Forbes Holdings Limited	100%	89 Nexus Way, Camana Bay, Grand Cayman, KY1-90009	Cayman Islands	Ordinary
Price Forbes Hong Kong Limited	100%	2nd Floor, 625 King's Road, Tsz Tsz Mui, Hong Kong	Hong Kong	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 Risks Solutions Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Professional Fee Protection Limited	100%	5 Sylvan Way, Southfields Business Park, Basildon, SS15 6TH	England	Ordinary
Professional Financing Limited	100%	5 Sylvan Way, Southfields Business Park, Basildon, SS15 6TH	England	Ordinary
Protectagroup Acquisitions Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Protectagroup Holdings Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary

FINANCIAL STATEMENTS

36 Group undertakings (cont)

Purely Insurance Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
RDG Midas Holdings (NI) Limited	82%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary & preference
Robus Corporate Services (Guernsey) Limited	100%	Town Mills, Rue de Pre, St Peter Port, GY1 6HS	Guernsey	Ordinary
Robus Group Limited	100%	Town Mills, Rue de Pre, St Peter Port, GY1 6HS	Guernsey	Ordinary
Robus Insurance (Guernsey) ICC Limited	100%	Town Mills, Rue de Pre, St Peter Port, GY1 6HS	Guernsey	Ordinary
Robus Insurance PCC Limited	100%	Town Mills, Rue de Pre, St Peter Port, GY1 6HS	Guernsey	Ordinary
Robus Risk Services (Gibraltar) Limited	100%	5/5 Crutchett's Ramp, Gibraltar, GX11 1AA	Gibraltar	Ordinary
Robus Risk Services (Guernsey) Limited	100%	Town Mills, Rue de Pre, St Peter Port, GY1 6HS	Guernsey	Ordinary
Robus Risk Services (Malta) Limited	100%	Triq Sant'Andrija, San Gwann, Office W302, The Hub Work Space, SGN 1612	Malta	Ordinary
Rock Overseas Investment Holdings Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Rockford Group Limited	92%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Rockford Insurance Brokers Limited	92%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Roundcroft Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Saffron Finance Limited	100%	22 High Street, Saffron Walden, Essex, CB10 1AX	England	Ordinary
Saffron Group Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Saffron Insurance Holdings Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Saffron Insurance Services Limited	100%	22 High Street, Saffron Walden, Essex, CB10 1AX	England	Ordinary
Sea Investment Holdings Ltd	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	B Ordinary

FINANCIAL STATEMENTS

36 Group undertakings (cont)

Shene (Insurance) Ltd	100%	53a Crockhamwell Road, Woodley, Reading, Berkshire, RG5 3JP	England	Ordinary
Spotlight Insurance Services Limited	51%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Stamford Investment Holdings Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Suddards Davies & Associates Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Swinton (Holdings) Limited	92%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Swinton Group Limited	92%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Swinton Properties Limited	92%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Deferred
Taylor Dix Ltd	100%	53a Crockhamwell Road, Woodley, Reading, Berkshire, RG5 3JP	England	Ordinary
Thames Underwriting Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
The Ardonagh Nominee Company Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
The Broker Network Ltd	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Thompson & Richardson (Lincoln) Ltd	80%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Thompson & Richardson Limited	80%	Monument House Southgate, Sleaford, Lincolnshire, NG34 7RL	England	Ordinary
Towergate Financial (East) Holdings Limited	85%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Towergate Financial (East) Intermediate Limited	85%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Towergate Financial (East) Limited	85%	2 Minster Court, London, EC3R 7PD	England	Ordinary & preference
Towergate Financial (Group) Limited	86%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Towergate Financial (Huddersfield) Intermediate Limited	78%	2 Minster Court, London, EC3R 7PD	England	Ordinary

FINANCIAL STATEMENTS

36 Group undertakings (cont)

Towergate Financial (Huddersfield) Limited	78%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Towergate Financial (London) Limited	74%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Towergate Financial (North) Holdings Limited	78%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Towergate Financial (North) Limited	78%	2 Minster Court, London, EC3R 7PD	England	Ordinary & preference
Towergate Financial (Scotland) Holdings Limited	86%	150 St Vincent Street, Glasgow, G2 5NE	Scotland	Ordinary
Towergate Financial (Scotland) Limited	86%	150 St Vincent Street, Glasgow, G2 5NE	Scotland	Ordinary
Towergate Financial (West) Holdings Limited	86%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Towergate Financial (West) Limited	86%	2 Minster Court, London, EC3R 7PD	England	Ordinary & preference
Towergate FJC Limited	86%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Towergate Risk Solutions Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Towergate Underwriting Group Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Townfrost Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
URIS Central Administration Limited	100%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
URIS Group Limited	100%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
URIS Holdings Limited	100%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary
URIS Investment Limited	100%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary, deferred & preference
URIS Topco Limited	100%	Quay Point, Lakeside Boulevard, Doncaster, South Yorkshire, DN4 5PL	England	Ordinary & preference
Verulam Holdings Limited	100%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary

FINANCIAL STATEMENTS

36 Group undertakings (cont)

Walmsleys Insurance Brokers Limited	92%	Embankment West Tower, 101 Cathedral Approach, Salford, M3 7FB	England	Ordinary
Waveney Group Schemes Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Waveney Insurance Brokers (Commercial) Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Waveney Insurance Brokers Limited	100%	2 Minster Court, London, EC3R 7PD	England	Ordinary
Weald Broking Management Ltd	70%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Weald Insurance Brokers Limited	70%	Falcon House, Black Eagle Square Westerham, Kent, TN16 1SE	England	Ordinary
Woodland Investment Holdings Limited	70%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary
Yale Investment Holdings Limited	90%	Hexagon House, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ	England	Ordinary

37 Subsequent events

On 4 January 2021, the Group completed the purchase of the entire issued share capital of Headley Holdings Limited for £9.4m cash and contingent consideration with a fair value of £2.4m.

On 14 January 2021, the Group completed the purchase of the entire issued share capital of MCM Insurance Brokers Limited for €2.18m cash and contingent consideration with a fair value of €1.06m.

On 15 February 2021, the Group completed the purchase of the entire issued share capital of Resilium Pty Limited for A\$9.84m cash, an A\$10m loan note in Mustang TopCo Pty Limited and shares with a fair value of A\$14.5m in Mustang Bidco Pty Limited (both subsidiaries of the Group).

On 23 February 2021, the Group granted a loan facility on arm's length commercial terms of up to £13.0m and associated commitments to a related party of the Group to fund a business combination to be made by that related party. In connection with the agreement to grant the loan facility, the Group also entered into an agreement to provide indemnity coverage in respect of certain costs and liabilities for which the related party may become liable in relation to that investment or otherwise incur in connection with the business combination, although these are not expected to arise on the basis of due diligence and the business plan for the relevant business.

On 1 March 2021, the Group has exchanged contracts (but not yet completed) in relation to its intention to purchase, subject to regulatory conditions, the business and assets held by Hemsley Wynne Furlonge LLP, a specialist M&A insurance broker with offices in London and Germany.

On 2 March 2021, the Group completed the purchase of the entire issued share capital of Hera Indemnity Limited for £18m cash and contingent consideration with a fair value of £2.4m.

On 12 March 2021, the Group completed the purchase of the entire issued share capital of Orange Bear Consulting Limited for €4.0m cash and contingent consideration with a fair value of €3.0m.

THE ARDONAGH GROUP LIMITED

COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020



FINANCIAL STATEMENTS

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	31 December 2020 £000	31 December 2019 £000
Non-current assets			
Investment in subsidiary	4	812,252	709,655
		<u>812,252</u>	<u>709,655</u>
Current assets			
Current tax asset		183	183
Other receivables	5	38,708	29,305
		<u>38,708</u>	<u>29,305</u>
Total assets		851,143	739,143
Current liabilities			
Other payables	6	(44,165)	(39,818)
		<u>(44,165)</u>	<u>(39,818)</u>
Total assets less current liabilities		806,978	699,325
Non-current liabilities			
Other payables	6	(2,743)	-
		<u>(2,743)</u>	<u>-</u>
Net assets		804,235	699,325
Capital and reserves			
Share capital	7	8,593	7,331
Share premium	7	991,771	740,886
Treasury share reserve		(136,005)	(11,015)
Retained losses	8	(60,124)	(37,877)
		<u>(60,124)</u>	<u>(37,877)</u>
Total equity		804,235	699,325

The Company reported a loss for the year ended 31 December 2020 of £7.0m (2019: £4.2m).

This set of financial statements was approved by the Board of Directors on 24 March 2021 and was signed on its behalf by:



D Cougill
Director

The notes on pages 170 to 175 form an integral part of these financial statements.

FINANCIAL STATEMENTS

COMPANY STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2020

	Share capital £000	Share premium £000	Treasury share reserve £000	Retained losses £000	Total Shareholders' equity £000
At 1 January 2020	7,331	740,886	(11,015)	(37,877)	699,325
Loss for the year	-	-	-	(6,982)	(6,982)
Other comprehensive income	109	13,311	-	-	13,420
	7,440	754,197	(11,015)	(44,859)	705,763
Purchase of own shares	-	-	(6,990)	-	(6,990)
Share issue	1,547	319,917	-	-	321,464
Convertible equity certificates converted to shares	-	-	-	-	-
Cancellation of treasury shares	(394)	(82,343)	99,009	(16,272)	-
Share-based payment scheme	-	-	(217,009)	1,007	(216,002)
At 31 December 2020	8,593	991,771	(136,005)	(60,124)	804,235

	Share capital £000	Share premium £000	Treasury share reserve £000	Retained losses £000	Total Shareholders' equity £000
At 1 January 2019	6,826	674,391	(104)	(33,899)	647,214
Loss for the year	-	-	-	(4,234)	(4,234)
Purchase of own shares	-	-	(10,911)	-	(10,911)
Convertible equity certificates converted to shares	505	66,495	-	-	67,000
Share-based payment scheme	-	-	-	256	256
At 31 December 2019	7,331	740,886	(11,015)	(37,877)	699,325

The notes on pages 170 to 175 form an integral part of these financial statements.

FINANCIAL STATEMENTS

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Authorisation of financial statements and statement of compliance

The Ardonagh Group Limited (the Company) is domiciled and was incorporated in Jersey on the 4 February 2015 as a private company limited by shares with registered number 117710. The financial statements for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 24 March 2021 and the statement of financial position was signed on the Board's behalf by Diane Cougill.

2 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to each of the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and were authorised for issue by the Board on 24 March 2021.

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

The financial statements have been prepared on a historical cost basis, as modified to use a different measurement basis where necessary to comply with FRS 101.

2.2 Summary of disclosure exemptions

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the European Union (EU Adopted IFRS) and the Companies (Jersey) Law 1991, but it takes advantage of certain disclosure exemptions from IFRS that are permitted by FRS 101 as described below.

The Company has taken advantage of the following disclosure exemptions under FRS 101 where relevant:

- (a) the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-Based Payments because the arrangement concerns its own equity instruments and its separate financial statements are presented alongside the consolidated financial statements of the Group;
- (b) the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64 (q)(ii), B66 and B67 of IFRS 3 Business Combinations which includes among other exemptions the requirement to include a comparative period reconciliation for goodwill;
- (c) the requirements of paragraph 33(c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the cash flows of discontinued operations;
- (d) the requirements of IFRS 7 'Financial Instruments: Disclosures';
- (e) the requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement';
- (f) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a), to (c), 120 to 127 and 129 of IFRS 15 'Revenue from Contracts with Customers';
- (g) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to provide comparative period reconciliations in respect of outstanding shares, property, plant and equipment and intangible assets;
- (h) the requirements in paragraph 10(d) of IAS 1 Presentation of Financial Statements to prepare a cash flow statement and the requirements in IAS 7 Statement of Cash Flows regarding the same;
- (i) the requirements in paragraph 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 'Presentation of Financial Statements', which include the need to provide details on capital management;
- (j) the requirements of paragraphs 30 and 31 in IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', regarding disclosure of new IFRS standards not yet effective at the reporting date and their potential impact;
- (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);

FINANCIAL STATEMENTS

2 Accounting policies (cont)

- (l) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 'Impairment of Assets' which include disclosure of valuation techniques, assumptions on which projections used in an impairment review are based and a sensitivity analysis thereon.
- (m) the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16.

Equivalent disclosures are included in the Group's consolidated financial statements as required by FRS 101 where exemptions have been applied.

As permitted by s408 of the Companies Act 2006, no separate profit or loss account or statement of comprehensive income is presented in respect of the parent Company. The loss attributable to the Company is disclosed in the footnote to the Company's balance sheet.

The auditor's remuneration for audit and other services is disclosed in note 10 to the consolidated financial statements.

2.3 Going concern

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 change in the Group's capital structure, operations and liquidity following the 14 July 2020 issuance of new borrowings, which the Group used to repay its existing borrowings and to fund acquisitions (see Business Review: Liquidity and Capital Resources). These are reflected in the adjusted base case and stressed cash flow forecasts over the calendar years 2021 and 2022.
- Adjustments included for the forecast cashflows from the material acquisitions completed at the date of finalisation of the Group's base case budget and impact on available and forecast liquidity of subsequent acquisitions completed and planned.
- The principal risks facing the Group, including the potential financial and operational impacts of Covid-19, and its systems of risk management and internal control.
- Actual trading and cashflows that arose in 2020 and the first two months of 2021, which are ahead of prior year and 2021 plan.

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

- Following the 14 July 2020 issuance of new borrowings, which the Group used to repay its existing borrowings and to fund acquisitions: (a) the Group will continue to benefit from a £191.5m Revolving Credit Facility that is not drawn at the date of this report, and (b) payment-in-kind interest options are utilised.
- Following the commencement of the main settlement of the ETV liabilities during the third quarter of 2019, the Group materially completes the settlement during the second quarter of 2021.
- Client retention and renewal rates continue to be robust, despite the current economic uncertainty, as the 2020 trading performance has demonstrated resilience across the Group.

Key stress scenarios that the Directors have considered include cumulative stresses to the base plan as a result of:

- Shortfalls in base case projected income throughout 2021 and 2022.
- Deterioration in base case cash conversion rates over and above the shortfalls in income and a 5% deterioration in the quantum of the estimate of the total ETV redress settlement costs (see note 31).
- Mitigating actions within management control including delayed capital expenditure, a reduction in discretionary spend and some reduction in employee headcount and remuneration.

The Directors have also modelled reverse stress scenarios, including assessing those that result in a default on our term debt facilities that would require a technical repayment obligation and those that would exhaust available liquidity. The stresses needed for these outcomes to happen significantly exceed the key stress scenarios above and the Directors consider such conditions to be a remote possibility.

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

FINANCIAL STATEMENTS

2 Accounting policies (cont)

The Directors continue to consider the wider operational consequences and ramifications of the Covid-19 pandemic. In particular:

- The Group has demonstrated the efficiency and stability of the Group's infrastructure and the ability for home working for a significant portion of our employee base.
- Insurance broking is a resilient and defensive market, which has historically had limited impact from past economic or capital market downturns. The Group is highly diversified and not materially exposed to a single carrier, customer or market sector.
- Although Covid-19 developments remain fluid, the stress testing demonstrates the Group's financial resilience and operating flexibility.
- As explained in the Chief Financial Officer's Report in section 1, the impact of Covid-19 on the Group has been very limited.

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

2.4 Taxation

Current tax

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

Deferred tax

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

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

2.5 Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

2.6 Financial assets

The Company's financial assets include intragroup receivables and other assets. They are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortised cost.

2.7 Financial liabilities

The Company's financial liabilities includes payables. They are initially measured at fair value less directly attributable transaction costs. The Company's financial liabilities are trade and other payables.

Trade and other payables represent amounts due to related parties. They are stated at cost.

2.8 Share capital

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

FINANCIAL STATEMENTS

3 Employee information

The Company had no employees in the current year or the preceding year. All administration is performed by employees of the Group for which no recharge is made.

4 Investment in subsidiaries

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Cost		
At 1 January	709,655	642,391
Additions	102,597	134,264
Disposals	-	(67,000)
At 31 December	812,252	709,655
Net book value		
At 1 January	709,655	642,391
At 31 December	812,252	709,655
Shares in Group undertakings		
	Shareholding %	Principal activity
Ardonagh Midco 1 Limited	100	Holding company

The registered office of Ardonagh Midco 1 Limited is 3rd Floor, 44 Esplanade, St Helier, Jersey, JE4 9WG.

5 Other receivables

	31 December 2020 £000	31 December 2019 £000
Amounts owed by Group companies	36,873	28,319
Prepayments	19	550
Other assets	1,816	436
	38,708	29,305

FINANCIAL STATEMENTS

6 Other payables

	31 December 2020 £000	31 December 2019 £000
Current		
Amounts owed to Group companies	37,501	38,469
Accruals	1,201	29
Other liabilities	5,463	1,320
	44,165	39,818
Non-current		
Other liabilities	2,743	-
	2,743	-

7 Share capital and premium

	31 December 2020 £000	31 December 2019 £000
Allotted, called up and fully paid shares		
Ordinary shares of £0.01 each	8,593	7,331

	Number of shares authorised (thousands)	Number of shares (thousands)	Ordinary shares £000	Share premium £000	Total £000
At 1 January 2020	880,000	732,985	7,331	740,886	748,217
At 31 December 2020	1,950,000	856,680	8,593	991,771	1,000,364
At 1 January 2019	880,000	682,495	6,826	674,391	681,217
At 31 December 2019	880,000	732,985	7,331	740,886	748,217

8 Reserves

	31 December 2020 £000	31 December 2019 £000
Retained losses		
At 1 January	(37,877)	(33,899)
Loss for the year	(6,982)	(4,234)
Share-based payment	1,007	256
Cancellation of shares	(16,272)	-
At 31 December	(60,124)	(37,877)

FINANCIAL STATEMENTS

9 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

The aggregate emoluments of the highest paid Director were £3.1m (2019: £2.5m) and company pension contributions of £nil (2019: £nil) were made to a money purchase pension scheme on their behalf.

Retirement benefits are accruing in money purchase schemes for no Directors (2019: none).

	31 December 2020 £000	31 December 2019 £000
Aggregate emoluments	4,399	3,782
	4,399	3,782

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

10 Ultimate parent company

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

11 Subsequent events

On 4 January 2021, the Group completed the purchase of the entire issued share capital of Headley Holdings Limited for £9.4m cash and contingent consideration with a fair value of £2.4m.

On 14 January 2021, the Group completed the purchase of the entire issued share capital of MCM Insurance Brokers Limited for €2.18m cash and contingent consideration with a fair value of €1.06m.

On 15 February 2021, the Group completed the purchase of the entire issued share capital of Resilium Pty Limited for A\$9.84m cash, an A\$10m loan note in Mustang TopCo Pty Limited and shares with a fair value of A\$14.5m in Mustang Bidco Pty Limited (both subsidiaries of the Group).

On 23 February 2021, the Group granted a loan facility on arm's length commercial terms of up to £13.0m and associated commitments to a related party of the Group to fund a business combination to be made by that related party. In connection with the agreement to grant the loan facility, the Group also entered into an agreement to provide indemnity coverage in respect of certain costs and liabilities for which the related party may become liable in relation to that investment or otherwise incur in connection with the business combination, although these are not expected to arise on the basis of due diligence and the business plan for the relevant business.

On 1 March 2021, the Group has exchanged contracts (but not yet completed) in relation to its intention to purchase, subject to regulatory conditions, the business and assets held by Hemsley Wynne Furlonge LLP, a specialist M&A insurance broker with offices in London and Germany.

On 2 March 2021, the Group completed the purchase of the entire issued share capital of Hera Indemnity Limited for £18m cash and contingent consideration with a fair value of £2.4m.

On 12 March 2021, the Group completed the purchase of the entire issued share capital of Orange Bear Consulting Limited for €4.0m cash and contingent consideration with a fair value of €3.0m.

THE ARDONAGH GROUP LIMITED

INTRODUCTION TO OTHER UNAUDITED FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2020

INTRODUCTION TO OTHER UNAUDITED FINANCIAL INFORMATION

Information in this section is provided to show readers the full reconciliation between Reported results disclosed in section 2, which include acquisitions, disposals and financing transactions from the date they occur, and the alternative performance measures. The alternative performance measures comprise the Pro Forma results, which present material acquisitions, disposals and financing transactions as if they had occurred on the first day of the prior year, and EBITDA and Adjusted EBITDA measures presented within the Pro Forma results.

OTHER UNAUDITED INFORMATION

RECONCILIATION OF REPORTED RESULTS TO PRO FORMA FOR COMPLETED TRANSACTIONS RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

31 December 2020	Ardonagh Group audited GAAP £000	Pro Forma disposal adjustments £000	Pro Forma acquisition adjustments £000	Pro Forma debt adjustments £000	Pro Forma Ardonagh Group £000
Commission and fees	689,083	(1,783)	77,599	-	764,899
Other income	22,704	-	3,061	-	25,765
Investment income	787	-	4	-	791
Salaries and associated costs	(346,307)	741	(43,374)	-	(388,940)
Other operating costs	(212,337)	126	(15,837)	3,476	(224,572)
Impairment of financial assets	(10,571)	-	(225)	-	(10,796)
Depreciation, amortisation and impairment of non-financial assets	(96,177)	-	(7,645)	-	(103,822)
Fair value loss on derivatives	(2,136)	-	-	-	(2,136)
Share of profit from joint venture	1,417	-	-	-	1,417
Share of profit from associate	608	-	-	-	608
Operating profit	47,071	(916)	13,583	3,476	63,214
Gain/(loss) on disposal of business	(1,665)	1,827	-	-	162
Finance costs	(235,330)	-	(9,947)	30,880	(214,397)
Finance income	1,227	-	462	-	1,689
(Loss)/profit before tax	(188,697)	911	4,098	34,356	(149,332)
Tax expense	(17,562)	-	(5,562)	-	(23,124)
(Loss)/profit for the year	(206,259)	911	(1,464)	34,356	(172,456)
Eliminate: Items excluded from EBITDA					
Finance costs	235,330				214,397
Tax expense	17,562				23,124
Depreciation, amortisation and impairment of non-financial assets	96,177				103,822
Fair value loss on derivatives	2,136				2,136
Loss from disposal of assets	5,648				5,710
Foreign exchange movements	873				873
EBITDA	151,467				177,606
Eliminate: Items excluded from Adjusted EBITDA					
Transformational hires	4,028				4,028
Business transformation costs	27,683				29,542
Legacy costs	8,404				8,404
Other costs	8,708				9,156
Regulatory costs	8,550				8,550
Acquisition and financing costs	13,175				13,848
Loss/(Gain) on disposal of business	1,665				(162)
Adjusted EBITDA	223,680				250,972

OTHER UNAUDITED INFORMATION

RECONCILIATION OF REPORTED RESULTS TO PRO FORMA FOR COMPLETED TRANSACTIONS RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

31 December 2019	Ardonagh Group audited GAAP £000	Pro Forma disposal adjustments £000	Pro Forma acquisition adjustments £000	Pro Forma debt adjustments £000	Pro Forma Ardonagh Group £000
Commission and fees	640,662	(1,985)	141,393	-	780,070
Other income	22,168	-	2,613	-	24,781
Investment income	2,657	-	-	-	2,657
Salaries and associated costs	(321,556)	1,408	(77,025)	-	(397,173)
Other operating costs	(231,655)	216	(23,341)	-	(254,780)
Impairment of financial assets	(14,465)	-	(471)	-	(14,936)
Depreciation, amortisation and impairment of non-financial assets	(95,713)	-	(13,895)	-	(109,608)
Fair value loss on derivatives	(604)	-	-	-	(604)
Share of profit from joint venture	1,680	-	-	-	1,680
Share of profit from associate	217	-	-	-	217
Operating profit	3,391	(361)	29,274	-	32,304
Adjustment to gain on disposal of associate	1,750	(1,750)	-	-	-
Gain on disposal of business	2,244	(2,244)	-	-	-
Finance costs	(113,606)	-	(18,779)	(106,648)	(239,033)
Finance income	2,003	-	592	-	2,595
(Loss)/profit before tax	(104,218)	(4,355)	11,087	(106,648)	(204,134)
Tax credit/(expense)	30,216	-	(2,483)	-	27,733
(Loss)/profit for the year	(74,002)	(4,355)	8,604	(106,648)	(176,401)
Eliminate: Items excluded from EBITDA					
Finance costs	113,606				239,033
Tax credit	(30,216)				(27,733)
Depreciation, amortisation and impairment of non-financial assets	95,713				109,608
Fair value loss on derivatives	604				604
Loss from disposal of assets	6,794				6,592
Foreign exchange movements	2,769				2,769
EBITDA	115,268				154,472
Eliminate: Items excluded from Adjusted EBITDA					
Transformational hires	6,047				6,047
Business transformation costs	39,455				43,159
Legacy and other costs	6,179				6,189
Regulatory costs	13,971				13,971
Acquisition and financing costs	6,498				5,533
Adjustment to gain on disposal of associate	(1,750)				-
Gain on disposal of business	(2,244)				-
Adjusted EBITDA	183,424				229,371

GLOSSARY OF TERMS

Acquisition and Financing Costs

Costs associated with acquiring businesses, with disposing of parts of the business, with raising additional financing (legal and accounting advisors, rating agencies, etc.), and with a change in the value of contingent consideration (after the measurement period has ended).

Adjusted EBITDA

EBITDA after adding back Management Reconciling Items.

Adjusted EBITDA Margin

Adjusted EBITDA divided by Total Income.

Available CAR

Total undrawn CAR facility (£300.0m facility available for expenditure on capex, acquisition and re-organisation facility).

Available Cash

Total unrestricted own funds plus ETV restricted funds.

Available Liquidity

Available Cash plus Available RCF (Revolving Credit Facility) plus Available CAR facility (£300.0m facility available for expenditure on capex, acquisition and re-organisation facility).

Available RCF

Available and undrawn RCF.

Business Transformation Costs

Costs (other than restructuring costs) incurred in transforming the legacy Towergate business, in realising synergy benefits from acquired businesses by reorganising management and business structures and by implementing new systems and processes, in reorganising group structures, in transforming business processes, in terminating contractual arrangements, and in driving a cost base that is the right size for the Group.

Cash Generating Unit (CGU)

The smallest group of assets that independently generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Discontinued Operation

A CGU or group of CGUs that has either: (a) been disposed of, or (b) is available for immediate sale in its present condition and its sale is highly probable.

EBITDA

Earnings after adding back finance costs (including effective interest on lease liabilities), tax, depreciation (including depreciation of lease right-of-use assets), amortisation, impairment of non-financial assets, profit/loss on disposal of non-financial assets (except for right-of-use assets in the year of transition to IFRS 16) and foreign exchange movements.

EBITDA Margin

EBITDA divided by Total Income.

Foreign Exchange Movements

Gains/losses arising on the revaluation of monetary items (debtors, creditors, cash, etc.) and on derivatives to which hedge accounting has not been applied.

IAS 34

International Accounting Standard 34 'Interim Financial Reporting'. This standard applies when an entity prepares an interim financial report.

IFRS

International Financial Reporting Standards.

Key Performance Indicators

Measures agreed by the Board to determine underlying business performance (Total Income, Adjusted EBITDA, EBITDA, Operating Loss, Loss for the Year).

GLOSSARY OF TERMS

Legacy Costs

Non-repeatable costs arising from pre-2016 retention plan payments to key staff so as to provide long-term stability to the business, from insurer loss ratio performance for legacy (to 2018 underwriting years inclusive) underwriting disciplines and decision making, from settlement of historic enhanced transfer value liabilities, and from write down of legacy IBA balances and other receivable balances whilst enhanced processes are being embedded.

Management Reconciling Items

- Discontinued Operations
- Restructuring Costs
- Transformational Hires
- Business Transformation Costs (other than Restructuring Costs)
- Regulatory Costs
- Acquisition and Financing Costs
- Profit/loss on disposal of a business and investments (unless a discontinued operation)
- Legacy Costs
- Other Costs

Non-organic Growth

Growth arising from acquisitions of books of business, trades and assets, and companies.

Operating Cash Conversion

Operating and investing cash flow (as further defined as Adjusted EBITDA less working capital movement and maintenance capital expenditure), over Adjusted EBITDA.

Operating Segments

A component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group Executive Committee to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Organic Growth

Growth adjusted to remove the impact of acquisitions, disposals, FX, hedges, back-books, accounting changes and certain one-off and distorting items.

Other Costs

- Costs incurred in 2020 and 2021 that are directly attributable to the coronavirus pandemic in that they would not otherwise have been incurred;
- The expense arising from equity-settled and cash-settled share-based payment schemes; and
- Non-repeatable costs arising from external reviews, from commercial disputes, from a cyber incident (net of insurance recoveries received), and from other one-off events.

Pro Forma for Completed Transactions

IFRS numbers which have been adjusted to: (a) include the results of new acquisitions from the first day of the immediately preceding comparative year, (b) remove the results and gain or loss on disposal of discontinued operations, and of other business disposals from the current and prior year, where they have occurred prior to the end of the reporting period, and (c) reflect financing transactions as if they had occurred on the first day of the prior year.

Regulatory Costs

Costs associated with one-off regulatory reviews and with changes in the regulatory and compliance environments.

Reported

Numbers disclosed within section 2 of this document (prepared in accordance with IFRS).

Restructuring Costs

Direct expenditures associated with a programme that is planned and controlled by management and that materially changes either: (a) the scope of a business undertaken by Ardonagh, or (b) the manner in which that business is conducted.

GLOSSARY OF TERMS

Total Income

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

Transformational Hires

- Sign-on bonuses and other non-discretionary bonuses; and
- Net losses associated with new joiners hired to drive transformational business growth to whom a capacity restriction (no insurer to underwrite policies) or restrictive covenant applies. The net losses are calculated as the recruitment costs, sign-on bonuses, costs of retention and salary ('salary-related costs') incurred during the period of the capacity restriction or covenant, or during the one year period after the capacity restriction or covenant has ended, less the income generated by those new joiners during that period. (If the net losses become negative, so that income generated exceeds salary-related costs, this is no longer a Management Reconciling Item).

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