MINOVA
INSURANCE

Minova Insurance Holdings Limited

Report and Accounts

31 December 2018

Registered No: 1494399

Registered No: 1494399

Directors

C J Hopton (Chairman) (Non-executive)
D J Douetil (Chief Executive Officer)
N J E Cook
J Kelly (Non-executive)
A N McMellin
J Morley (Non-executive)
P J Vincent
I Waterston

Secretary

S K Bryant

Auditor

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Registered Office

One America Square
London
EC3N 2LS

Chairman's report

The Group continued to make good progress in 2018 with turnover increasing by 15% to £129m and operating profit up by £10.2m to £12.5m. BMS broking businesses were particularly successful achieving turnover of £100m and an operating profit of £24.2m (up 23% and 77% respectively). However, their strong growth was in contrast to an operating loss of £2.0m at Pioneer as poor underwriting conditions held back its performance.

Our broking business demonstrated the effectiveness of the strategy it has been pursuing over recent years of building high quality teams of specialist brokers through selective hiring. During 2018 the established Global Reinsurance, US Reinsurance and Global Risks divisions, in particular, delivered impressive growth. Newer hires, into our international teams as well as into the Energy team, have bedded in well and are now positioned to drive future growth.

At the year end we brought the UK and US broking businesses together under the leadership of Nick Cook. We are confident this will enable them better to exploit their respective strategic and business development skills.

We undertook an in-depth strategic re-evaluation of the Pioneer business in the first half of the year. It has many strengths but was being let down by poor underwriting performance in a handful of risk classes. We therefore made the decision to exit those classes and to build on areas of strength. We hired Andrew McMellin as CEO to develop and to execute the strategy. He joined in October and has made a fast start. He has also joined the Minova Board.

This year our reported profit before tax has been impacted by significant fair value losses (the reverse of last year) and foreign exchange impact on our US Dollar borrowings. These factors caused us to report a loss before tax of £22.0m.

The Board remains confident of the Group's potential for continued success. On behalf of my fellow Directors, I would like to thank all of our colleagues for their hard work and commitment.

Christopher Hopton

Chairman

Chief Executive Officer's report

As we close the 2018 year and rollout our plans for 2019 it is with mixed emotions. BMS Broking operations have had an outstanding year with revenue exceeding £100m up 23% from last year. Whilst at Pioneer, although writing similar Gross Written Premium of £315m to the previous year, its booked revenue reduced to £29.6m due to negative profit commissions due to poor underwriting results.

Our underlying measure of performance – EBITDA – increased by 136% to £26.2m, BMS's strong EBITDA growth of 67% to £28.8m partially being offset by Pioneer's under- performance.

At Pioneer, we have made some fundamental changes to the business including strengthening the management team under the leadership of Andrew McMellin – Pioneer's new CEO, exiting a number of classes of business and from 2019 no longer providing capital to the 1980 syndicate.

2018 was again a challenging year for the insurance market on a number of fronts. It was another above average year for natural catastrophes losses, making 2017 and 2018 the worst back to back years on record. For the second year in a row both the US P&C and Lloyd's combined ratio will be in excess of 100%. There were continued heightened political tensions and escalating trade wars across the world, combined with the continuing uncertainties around Brexit meant yet again currencies remained volatile.

The Group is well prepared (although at a cost) for any Brexit outcome; with Pioneer opening an office in Belgium whilst BMS will utilise its existing Spanish regulated business.

We continued to invest in the businesses throughout the year and much was accomplished, which included, but was not limited to:

- BMS launching an Energy division which now numbers a team of highly experienced industry practitioners as well as the BMS Innovation Lab and the BMS Partner network.
- BMS opening an office in Brisbane as it continued to roll out its product offerings across Australia.
- BMS winning the Insider's Broker of the Year award which was an external endorsement of its success in delivering first class customer solutions.
- Pioneer set up a Brussels subsidiary for European business post Brexit.
- Pioneer launching an E&S property division out of Atlanta.

Our plans for 2019 again remain ambitious and we expect to achieve double digit revenue growth. We were pleased during 2018 to welcome 72 new colleagues to the Group and we are absolutely focussed on ensuring that we continue to be the "go to" independent destination for the very best talent in our industry.

Our global reach, independence, specialisms and inclusive culture are all critical ingredients in why we believe we are in an excellent position to deliver on our clients' requirements. During 2019 we intend to make absolutely certain that continues to be the case.

Dane Douetil

Chief Executive Officer

Financial review

Overview

2018 was again a year of mixed fortunes for the Minova group. BMS broking operations produced excellent growth and profitability and are extremely well placed for future growth. Pioneer business' fixed income streams grew but its variable income streams of profit commission and underwriting results were materially impacted by reserve deterioration which caused us to record an overall loss at the Pioneer level. Notwithstanding the disappointing Pioneer results our underlying EBITDA has grown by 136% to £26.2m.

During 2018 the Group generated operating cash of £18m and at the year end the Group had a strong cash position of £23m supported by other net current assets of £17m.

Revenue

During 2018 we grew our revenue by 15.4%, to £128.9m. Across both BMS broking businesses, revenue was up 23% to £100m. Of particular note, the London Wholesale business had strong growth of 33%, International grew by 26% and Reinsurance revenues grew by 24%. In Pioneer the GWP underwritten of £315m was broadly in line with 2017. Pioneer's revenue related to GWP increased by 9% to £37.0m. The impact of reserve deterioration has led to negative profit commission for the year of £8.2m.

Our revenue was split as follows:

	2018	**2017**
Reinsurance	34%	33%
London Wholesale	26%	23%
International	8%	8%
Specialist Insurance	9%	9%
BMS Broking	77%	73%
Pioneer	23%	27%
Total	**100%**	**100%**

Financial review

Profitability

Operating profit is calculated after trading expenses including variable remuneration, exceptional costs, amortisation, share option charges and unrealised foreign exchange gains or losses on the trading assets (primarily brokerage and profit commission that is due). The key components of operating profit by business were as follows:

£'m	**2018**	**2017**
BMS Broking	24.2	13.7
Pioneer	(2.0)	2.1
Central costs	(2.7)	(3.1)
Operating profit - trading level	**19.5**	**12.7**
Exceptional costs/amortisation	(4.6)	(3.0)
Share option charges	(2.9)	(3.9)
Unrealised foreign exchange gains/(losses)	0.5	(3.5)
Total operating profit	**12.5**	**2.3**

At the BMS broking level operating profit improved by 77%. The negative profit commission caused Pioneer's operating result to deteriorate from an operating profit of £2.1m to an operating loss of £2.0m. Overall Minova operating profit at a trading level grew 53% to £19.5m.

Exceptional costs and amortisation were £1.6m higher. Share option charges reduced in relation to certain Pioneer earnout arrangements in line with reserve movements.

At the group level the major other movement in operating profit was on unrealised foreign exchange losses/gains on our trading assets where we had an unrealised gain on trading assets of £0.5m following dollar strengthening compared to prior year end position.

Underlying EBITDA was £26.2m (2017:£11.1m) a 136% increase on 2017. The BMS broking businesses' underlying EBITDA improved by 67% to £28.8m. Pioneer recorded an underlying EBITDA of £0.9m as it was impacted by the combined effects of prior year adjustments and current year events on Profit Commission. This measure excludes Pioneer's participation in its underwriting which has been discontinued. Note 25 provides further detail.

Our results are prepared under the accounting standard FRS102 which has introduced substantial volatility into the Group's results. We are required to account for fair value and unrealised foreign exchange adjustments on the financial instruments held by the Group. Fair value losses on the warrant component of the Capital Z instrument are generated as the group becomes more valuable. Further detail is set out in note 19.

The financial impact can be summarised as a fair value loss of £15.3m (2017: £11.1m gain). In addition as highlighted above, the weaker sterling to the dollar rate of exchange led to unrealised foreign exchange loss of £4.5m (2017: £6.6m gain) on our debt instruments. Neither of these fair value or foreign exchange losses affects our underlying economic position. In addition in 2018 we incurred £6.3m (2017: £6.2m) of interest charges primarily on our preference share dividend (classified as interest) and our term debt.

Financial review

After taking all the non-cash, non-recurring charges, fair value charges and the interest into account, we recorded an accounting loss before tax of £22.0m.

Pensions

The accounting value of our pension scheme deficits declined by £0.3m during 2018. A loss of £4m on our investment portfolio following the general decline in the market was broadly offset by an increase in gilt yields that reduced the value of our liabilities.

Net assets, cash and liquid resources

The net current assets at the year end were £40m and total assets less current liabilities were £56m. After the pension deficit of £28m and long-term liabilities of £88m, accounting net liabilities were £61m. Within long term liabilities are the Capital Z preference shares which mature in May 2022 and the Pricoa term debt which matures in May 2023.

During the year we had a cash outflow of £8.8m to recapitalise the Guernsey ICC. Our year end cash position was £22.6m and in addition we have an undrawn $8.25m facility from Pricoa. At the year end the net debt for covenant purposes was £26.5m.

The net debt is 1 times underlying EBITDA which is significantly lower than our covenant threshold within our banking facilities.

Foreign exchange

The US dollar is the dominant currency for our revenue and we have continued to protect the sterling value of our revenue. Our dollar portfolio currently stands at $169m which represents just under 2 years of the expected 2019 dollar net revenue.

Paul Vincent

Finance Director

Strategic report

The Directors present their Strategic Report for the year ended 31 December 2018.

Business Review

The principal activity of the Company is to be the holding company of the Minova Insurance Group. The principal activities of the Group (comprising the Company and its subsidiaries) have been, throughout the year and continue to be, to operate as specialist insurance and reinsurance brokers, and to act as an insurance general agent.

The loss before tax was £22.0m (2017: profit £6.9m). The loss attributable to shareholders amounted to £22.0m (2017: profit £3.6m).

A more detailed review of the Group's financial performance during the year is set out in the Financial Review. A review of the Group's activities during the year and its future goals is set out in the Chairman's and Chief Executive Officer's Reports.

The Directors continue to adopt the going concern basis in preparing the annual report and accounts, which is discussed further in note 1.

Principal Risks and Uncertainties

A review of the principal risks and uncertainties faced by the Group, and how it mitigates against them, is set out in the Directors' Report.

Approved by the Board of Directors on 1 April 2019 and signed on its behalf.

S K Bryant
Company Secretary
1 April 2019

One America Square
London
EC3N 2LS

Directors' report

The Directors present their Annual Report together with the financial statements and auditor's report for the year ended 31 December 2018.

Directors

The current Directors of the Company are set out on page 1. The Directors of the Company who served during the year and up to the date of this report were:

C J Hopton (Chairman) (Non-executive)
D J Douetil (Chief Executive Officer)
N J E Cook
D P Doherty (resigned 23 February 2018)
J Kelly (Non-executive)
A N McMellin (appointed 8 October 2018)
J Morley (Non-executive)
P J Vincent
I Waterston

Directors' liabilities

The Group has granted an indemnity to all of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act. Such qualifying third-party indemnity provision remains in force as at the date of approving the Directors' Report.

Significant changes in fixed assets

Details of changes in fixed assets are disclosed in notes 10 to 14 to the accounts. During the year, we transferred BMS US Holdings Inc and Minova Management Services Limited, which were owned directly by the Company, to BMS Investment Holdings Limited. As a result BMS Investment Holdings Limited issued £32.2m of shares to the Company. This reorganisation was the driver of the profit at the Company only level but has no impact on the consolidated profit. In addition, $24.0m of loans to BMS US Holdings Inc were novated to BMS Investment Holdings Ltd and an equivalent loan was put in place between BMS Investment Holdings Ltd and the Company.

For information on the research and development activities that occurred in the year refer to note 10.

Employees

The Group is committed to creating a working environment in which all employees are treated with dignity and respect at work and in any work-related setting. No form of intimidation, bullying or harassment will be tolerated. Individual differences and the contributions of all our staff are recognised and valued. We seek to eliminate discrimination and encourage diversity amongst our workforce, to provide equality and fairness for all in our employment and not to discriminate on grounds of gender, marital status, race, ethnic origin, colour, nationality, national origin, disability, sexual orientation, religion or age. We oppose all forms of unlawful and unfair discrimination.

All employees, whether part-time, full-time or temporary, will be treated fairly and with respect. Selection for employment, promotion, training or any other benefit will be on the basis of aptitude and ability. All employees will be helped and encouraged to develop their full potential and the talents and resources of the workforce will be fully utilised to maximise the efficiency of the organisation.

The Group seeks to achieve a common awareness among the staff of the financial and economic factors affecting the business by a comprehensive system of employee communication.

Directors' report (continued)

Principal risks and uncertainties

The management of the Group's business and the execution of its strategy are subject to a number of risks and uncertainties, which can be categorised broadly into "business risks" and "financial risks".

Business Risks

The key business risks and uncertainties affecting the Group are considered to relate to:

- competition from insurance, reinsurance brokers and managing agents;
- recruitment and retention of staff; and
- substantial changes in the premium rating environment;

The business is focused on specific sectors in which it believes it can successfully compete. Our inclusive culture, the reward strategy and development opportunities offered to staff are designed to mitigate the risk of losing or failing to attract staff.

UK Exit from the EU

In respect of Brexit, Minova's subsidiary entities have planned and made changes to corporate and operational structures to mitigate the risk of a 'hard' Brexit. The Group has considered the implications of leaving the EU and does not believe it will have a material impact to the ongoing operations of the business. The changes and structure are disclosed in the Chief Executive Officer's report.

Financial Risks

The key financial risks affecting the Group are underwriting risk, currency risk, credit risk, liquidity risk and pension risk.

The Group manages its financial risks through a framework of policies and procedures approved by the Board.

Underwriting risk

A Group subsidiary in 2018 and prior has had capital supporting a quota share reinsurance contract that is at risk if the portfolio of insurance policies it underwrites incurs losses from catastrophe or other insurance claims that exceed the premium. In addition the Group makes financial provisions for outstanding claims, incurred but not reported claims and related expenses, and there is a possibility that these provisions may be inadequate. In addition the Group earns profit commission income which will be impacted by the level of claims costs.

Currency risk

The Group is exposed to currency risk in respect of its income denominated in currencies other than pounds sterling. The most significant currencies to which the group is exposed are the US dollar and the Canadian dollar. The Group seeks to mitigate the risk through a programme of forward currency sales in the principal foreign currencies in which it earns its income.

The Group hedges a proportion of its projected foreign exchange exposure to the US dollar for up to three years ahead to reduce the volatility of the mismatch between the currency of a material percentage of its expenses (which are in pounds sterling) and the currency of its main income (US dollar). Other currencies are less significant, but a similar hedging programme is used for Canadian dollars. These derivative financial instruments are detailed in note 19.

Directors' report (continued)

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- amounts due from clients for the Group's income; and
- funding of amounts due to third parties before such amounts have themselves been received by the Group.

The Group's credit control procedures are designed to collect amounts due from clients promptly in accordance with terms of trade. The Group's operating procedures are designed to minimise the above credit risks from occurring in the first place and to recover funds promptly where this has occurred.

Liquidity and cash flow risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board closely monitors cash flow and cash flow projections.

Pension risk

The Group is exposed to a risk of adverse movement in the value of its pension scheme assets and liabilities. The value of liabilities is driven by annual assumptions notably on mortality and the discount rate. The investment strategy is reviewed by the Board. The Board and the pension scheme trustee take appropriate advice from actuaries and investment advisers.

Auditor Information

Each Director at the date of approval of this report confirms that:

- so far as he is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- he has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Directors' report (continued)

Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the auditor's statement of the respective responsibilities of directors and auditor set out on the following pages, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and the auditor with regard to the financial statements.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), included FRS102 the Financial Reporting Standard applicable in the UK and the Republic of Ireland. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group, and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board of Directors on 1 April 2019 and signed on its behalf.

S K Bryant
Company Secretary

1 April 2019

Independent auditor's report

to the shareholders of Minova Insurance Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Minova Insurance Holdings Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Independent auditor's report (continued)

to the shareholders of Minova Insurance Holdings Limited

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditor's report (continued)

to the shareholders of Minova Insurance Holdings Limited

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

AKi

Adam Knight FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

1st April 2019

Consolidated profit and loss account

for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Turnover	3	**128,875**	111,631
Administrative expenses		**(118,030)**	(110,489)
Other operating income	5	**1,610**	1,139
Operating profit	4	**12,455**	2,281
Share of loss from discontinued insurance undertaking	13	**(8,915)**	(7,388)
Profit/(loss) on ordinary activities before other income and interest payable		**3,540**	(5,107)
Net (loss)/gain on financial assets and liabilities at fair value through profit and loss	19	**(15,320)**	11,050
Net (loss)/gain from foreign exchange translation of financial assets and liabilities	19	**(4,535)**	6,573
Other income	6	**673**	593
Interest payable and similar charges	7	**(6,323)**	(6,244)
(Loss)/profit on ordinary activities before taxation		**(21,965)**	6,865
Tax on (loss)/profit on ordinary activities	9	**(57)**	(3,308)
(Loss)/profit attributable to shareholders		**(22,022)**	3,557

All operations other than the share of the discontinued loss from insurance undertaking relate to continuing activities.

The accompanying notes form an integral part of the financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Note	2018 £000	2017 £000
(Loss)/profit for the financial year		**(22,022)**	**3,557**
Currency translation difference on retranslation of subsidiary undertakings		**(509)**	555
Remeasurement loss recognised on defined benefit pension schemes	24	**(339)**	(4,918)
Tax relating to components of other comprehensive income		**58**	836
Other comprehensive loss		**(790)**	(3,527)
Total comprehensive (loss)/income		**(22,812)**	30
Total comprehensive (loss)/income for the year attributable to equity shareholders of the Company		(22,812)	30

Consolidated and company balance sheet

as at 31 December 2018

	Notes	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Fixed assets					
Intangible assets	10	**5,207**	5,823	–	–
Tangible assets	11	**5,650**	5,908	–	–
Loans to subsidiary undertakings	12	–	–	**18,844**	12,181
Investment in subsidiary undertakings	12	–	–	**102,986**	82,653
Investment in insurance undertakings	13	**4,731**	4,081	–	–
Other investments	14	**401**	513	–	–
		15,989	16,325	**121,830**	94,834
Current assets					
Debtors					
– due within one year	15	**50,611**	57,808	**25,928**	23,279
– due after one year	15	**9,119**	12,294	**3,035**	3,022
Cash at bank and in hand including short-term deposits		**22,587**	20,061	**8,958**	11,055
		82,317	90,163	**37,921**	37,356
Creditors: due within one year	16	**(42,056)**	(41,725)	**(3,400)**	(809)
Net current assets		**40,261**	48,438	**34,521**	36,547
Total assets less current liabilities		**56,250**	64,763	**156,351**	131,381
Creditors: due after one year	17	**(88,350)**	(78,886)	**(84,130)**	(75,041)
Total net (liabilities)/assets before pension liability		**(32,100)**	(14,123)	**72,221**	56,340
Pension liability	24	**(28,493)**	(28,200)	**(17,458)**	(17,294)
Total net (liabilities)/assets		**(60,593)**	(42,323)	**54,763**	39,046
Capital and reserves					
Called up share capital	20	**12**	12	**12**	12
Share premium account	20	**3,208**	3,208	**3,208**	3,208
Capital redemption reserve		**990**	990	**-**	–
Profit and loss account	20	**(64,749)**	(46,533)	**51,597**	35,826
		(60,539)	(42,323)	**54,817**	39,046
Investment in own shares	21	**(54)**	-	**(54)**	-
Equity shareholders' (deficit)/funds		**(60,593)**	(42,323)	**54,763**	39,046

The accompanying notes form an integral part of the financial statements for Minova Insurance Holdings Limited, company number 1494399, which were approved by the Board of Directors on 1 April 2019 and signed on its behalf.

P J Vincent

P J Vincent
Finance Director

Consolidated statement of changes in equity

as at 31 December 2018

Group

	Called-up Share Capital	Share Premium	Capital Redemption Reserve	Reserve For Own Shares	Profit and Loss Account	Total Equity / (Deficit)
	£000	£000	£000	£000	£000	£000
At 1 January 2016	10	3,208	990	(3,983)	(29,788)	**(29,563)**
Loss for the year	–	–	–	–	(10,615)	**(10,615)**
Other comprehensive loss	–	–	–	–	(6,057)	**(6,057)**
Total comprehensive loss for the year	–	–	–	–	(16,672)	**(16,672)**
Employee benefit trust movement	–	–	–	1,159	(1,777)	**(618)**
Currency translation difference on acquisition consideration	–	–	–	–	437	**437**
Shares issued	2	–	–	–	–	**2**
Share based payment transactions	–	–	–	–	2,378	**2,378**
At 31 December 2016	**12**	**3,208**	**990**	**(2,824)**	**(45,422)**	**(44,036)**
Profit for the year	–	–	–	–	3,557	**3,557**
Other comprehensive loss	–	–	–	–	(3,527)	**(3,527)**
Total comprehensive income for the year	–	–	–	–	30	**30**
Employee benefit trust movement	–	–	–	2,824	(3,725)	**(901)**
Settlement of share based payment	–	–	–	–	(333)	**(333)**
Share based payment transactions	–	–	–	–	2,917	**2,917**
At 31 December 2017	**12**	**3,208**	**990**	**–**	**(46,533)**	**(42,323)**
Loss for the year	–	–	–	–	**(22,022)**	**(22,022)**
Other comprehensive loss	–	–	–	–	**(790)**	**(790)**
Total comprehensive loss for the year	–	–	–	–	**(22,812)**	**(22,812)**
Employee benefit trust movement	–	–	–	**(54)**	**354**	**300**
Share based payment transactions	–	–	–	–	**4,242**	**4,242**
At 31 December 2018	**12**	**3,208**	**990**	**(54)**	**(64,749)**	**(60,593)**

Company statement of changes in equity

as at 31 December 2018
Company

	Called-up Share Capital	Share Premium	Reserve For Own Shares	Profit and Loss Account	Total Equity
	£000	£000	£000	£000	£000
At 1 January 2016	10	3,208	(3,983)	41,206	**40,441**
Profit for the year	–	–	–	6,929	**6,929**
Other comprehensive loss	–	–	–	(3,481)	**(3,481)**
Total comprehensive income for the year	–	–	–	3,448	**3,448**
Employee benefit trust movement	–	–	1,159	(1,777)	**(618)**
Shares issued	2	–	–	–	**2**
Share based payment transactions -	–	–	–	(444)	**(444)**
At 31 December 2016	12	3,208	(2,824)	42,433	**42,829**
Profit for the year	–	–	–	820	**820**
Other comprehensive loss	–	–	–	(3,851)	**(3,851)**
Total comprehensive loss for the year	–	–	–	(3,031)	**(3,031)**
Employee benefit trust movement	–	–	2,824	(3,725)	**(901)**
Share based payment transactions	–	–	–	149	**149**
At 31 December 2017	**12**	**3,208**	–	**35,826**	**39,046**
Profit for the year	–	–	–	**15,564**	**15,564**
Other comprehensive income	–	–	–	**6**	**6**
Total comprehensive income for the year	–	–	–	**15,570**	**15,570**
Employee benefit trust movement	–	–	**(54)**	**54**	-
Share based payment transactions	–	–	-	**147**	**147**
At 31 December 2018	**12**	**3,208**	**(54)**	**51,597**	**54,763**

Consolidated cash flow statement

for the year ended 31 December 2018

	Notes	Group 2018 £000	Group 2017 £000
Net cash inflow from operating activities	26	**18,382**	22,347
Returns on investments and servicing of finance			
Income from unlisted investments		**25**	18
Interest paid		**(3,160)**	(5,632)
Tax received/(paid)		**73**	(4,671)
Net cash outflow from returns on investment, servicing of finance and taxation		**(3,062)**	(10,285)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(1,894)**	(1,964)
Purchase of intangible fixed assets		**(480)**	(59)
Purchase of other fixed asset investments		**(28)**	-
Purchase of investment in insurance undertaking		**(8,752)**	(126)
Disposal of fixed asset investment		**278**	812
Net cash outflow from capital expenditure and financial investment		**(10,876)**	(1,337)
Net cash inflow before financing		**4,444**	10,725
Financing			
Sale of own shares		**4,136**	280
Purchase of own shares		**(4,235)**	(1,181)
Floating rate revolving notes repaid		-	(3,101)
Term notes received		-	24,806
Term notes repaid		**(1,819)**	-
Preference shares redeemed		-	(17,752)
Net cash (outflow)/inflow from financing		**(1,918)**	3,052
Increase in cash at bank and in hand		**2,526**	13,777
Cash and cash equivalents at beginning of year		**20,061**	6,284
Cash and cash equivalents at end of year		**22,587**	20,061

Notes to the accounts

for the year ended 31 December 2018

1. Accounting policies

The principal accounting policies are summarised below.

General information and basis of accounting

Minova Insurance Holdings Limited ("the Company") is incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1.

The accounts are prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of the Group is considered to be pounds sterling because that is the currency of the primary economic environment in which the Group operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

Minova Insurance Holdings Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to share-based payments, financial instruments, presentation of a cash flow statement and remuneration of key management personnel, as these additional disclosures not required under previous UK GAAP are not relevant to the users of the financial statements.

Basis of consolidation

The group accounts comprise the accounts of Minova Insurance Holdings Limited, its subsidiary undertakings, its associated undertakings, and the assets and liabilities of its two employee benefit trusts (EBTs).

The EBTs have both been treated as an extension of the Company, and their assets and liabilities are included within the Company's assets and liabilities. The accumulated assets of the trusts are included within shareholders' funds. The Minova Insurance Holdings Limited shares in the EBTs are shown as a deduction from shareholders' funds.

Business combinations are accounted for under the purchase method. All intra-group transactions, balances, income and expenses are eliminated on consolidation. In accordance with Section 35 of FRS 102, Section 19 of FRS 102 has not been applied in these financial statements in respect of business combinations effected prior to the date of transition.

In accordance with the exemption allowed by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. Of the consolidated profit and loss for the financial year, a profit of £15.6m (2017: £0.8m) has been reported within these accounts of the parent company.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Report, Chief Executive Officer's Report and the Financial Review. In addition, details of the Group's financial instruments and hedging activities are disclosed in note 19 and other principal risks and uncertainties to the Group are disclosed in the Strategic Report. After making enquiries, the directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Notes to the accounts
for the year ended 31 December 2018

1. Accounting policies (continued)

Turnover

Turnover consists principally of brokerage, commissions and fees associated with the placement of insurance and reinsurance contracts, net of commissions payable to other directly involved parties and overider and profit commission in our underwriting businesses. The Group recognises income when earned with profit commission recognised when the amount can be reliably estimated with a reasonable degree of certainty. Commission is recognised at the later of the policy inception date or when the policy placement has been completed and confirmed, with a proportion of income deferred over the period of the underlying contracts to recognise the on-going contractual obligations of maintaining and servicing the contracts over that period.

Intangible Assets

The Group's policy is to capitalise intangible assets and amortise them in equal monthly instalments over their estimated useful lives. For the major classes of assets, amortisation periods are as follows:

Goodwill	10 to 20 years
Development costs	5 years

Intangible assets are subject to an impairment review at the end of the first full financial year following acquisition. Subsequent impairment reviews are performed when there are indicators of impairment. When assets are disposed of, the profit or loss arising is calculated by including the attributable amount of the asset not previously charged in the profit and loss account.

Goodwill is created when the Group acquires other business undertakings. The purchase price will normally exceed the fair value of the net assets acquired. This excess is referred to as goodwill and represents the income-generating potential of an experienced management team and an established customer base.

In accordance with Section 35 of FRS 102, the Group has elected not to apply Section 19 Business Combinations and Goodwill to business combinations that were effected before the date of transition to FRS 102. No adjustment has been made to the carrying value of goodwill and intangible assets subsumed within goodwill have not been separately recognised.

Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

The results of overseas operations are translated at the average rates of exchange and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results from overseas operations are reported in other comprehensive income.

Depreciation of tangible assets

Where the Group expects to use certain assets in its operations for more than one year, the cost of these assets is spread over a number of years.

The method the Group uses to do this is to estimate the useful life of the asset and the realisable value at the end of that time. The profit and loss account is then charged with an equal monthly amount so that by the end of its estimated useful life, the cost or valuation of the asset has been written down to its estimated realisable value. Depreciation commences once the asset is brought into use. The carrying value of the tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Notes to the accounts
for the year ended 31 December 2018

1. Accounting policies (continued)

Depreciation of tangible assets (continued)

For the major classes of assets, annual depreciation rates are as follows:

Leasehold improvements	9 to 20%
Fixtures, fittings and equipment	10% to 20%
Computer hardware	25%
Computer software	25%

Rental income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Leasing

Operating lease receivables and costs are credited and charged to the profit and loss account in equal annual instalments over the lives of the leases. Lease incentives are recognised on a straight-line basis over the lease term.

Pensions

Employees are eligible, subject to certain qualification criteria, to become members of a group pension scheme. In respect of other employees, employer contributions are made to relevant state pension plans.

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

For defined benefit schemes (which were closed to new members in 2000 and closed to future accrual in January 2010), the amounts charged to operating profit are the past service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account. The net interest cost on the net defined benefit liability is charged to profit or loss and included within interest payable and similar costs.

Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method. The actuarial valuations are obtained at least triennially and updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately on the face of the balance sheet.

Other long-term employee benefits are measured at the present value of the benefit obligation at the reporting date.

Notes to the accounts

for the year ended 31 December 2018

1. Accounting policies (continued)

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Investment in subsidiary undertakings

The investment in subsidiary undertakings is stated in the parent company balance sheet at the cost of shares less any provision for impairment.

Own shares and reserves

Shares purchased by the EBTs are valued at acquisition cost. Disposals are valued at average cost.

Realised gains and losses arising on transactions in own shares are recorded as a movement in reserves.

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

The capital redemption reserve is non-distributable. It relates to retained reserves within a subsidiary company which have been converted to share capital.

The reserves of the Group include the accumulated net assets of the EBTs of £0.0m (2017: £0.0m) and the group pension deficit of £28.5m (2017: £28.2m).

Notes to the accounts

for the year ended 31 December 2018

1. Accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group has adopted the disclosure and presentation requirements of Sections 11 and 12 of FRS 102.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

(a) Returns to the holder are (i) a fixed amount; or (ii) a fixed rate of return over the life of the instrument; or (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate; or (iv) some combination of such fixed rate and variable rates, providing that both rates are positive.
(b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
(c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in relevant taxation or law.
(d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

If the above conditions are not met, debt instruments that are classified as payable or receivable within one year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Notes to the accounts

for the year ended 31 December 2018

1. Accounting policies (continued)

Financial instruments (continued)

(ii) Investments

Investments in non-convertible preference shares and non-puttable ordinary or preference shares (where shares are publicly traded or their fair value is reliably measurable) are measured at fair value through profit or loss. Where fair value cannot be measured reliably, investments are measured at cost less impairment.

Except as stated below, investments are stated at cost less any required impairments. In the consolidated accounts, shares in associated undertakings are accounted for using the equity method. Interest on deposits and interest bearing investments is credited as it is earned.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(iv) Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the profit or loss account immediately.

(v) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

Share-based payment

The Group issues equity and cash settled share-based payments to certain employees.

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Cash settled share-based payments have their fair value reassessed every year within the vesting period.

The fair value is expensed over the vesting period, subject to revaluation at the end of each year. Any changes in the fair value are recognised in the profit and loss account.

The Directors use a valuation model based upon an historical weighted average five year earnings per share multiple to measure the fair value of a share.

Notes to the accounts

for the year ended 31 December 2018

1. Accounting policies (continued)

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash-generating units of which the goodwill is a part. Any impairment loss in respect of a CGU (cash generating unit) is allocated first to the goodwill attached to that CGU, and then to other assets within that CGU on a pro-rata basis.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. Where a reversal of impairment occurs in respect of a CGU, the reversal is applied first to the assets (other than goodwill) of the CGU on a pro-rata basis and then to any goodwill allocated to that CGU.

Financial assets

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Notes to the accounts

for the year ended 31 December 2018

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

Turnover and deferred income

Commission is recognised at the later of the policy inception date or when the policy placement has been completed and confirmed, with a proportion of income deferred over the period of the underlying contracts to recognise the on-going contractual obligations of maintaining and servicing the contracts over that period. The determination of the proportion of income deferred is calculated annually based on management's estimate of staff costs spent on servicing contracts as well as an estimation of average length of period required to service contracts based on historical information.

Impairment of assets

The Group tests annually whether goodwill and other assets have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investment, including factors such as industry and sector performance and operational and financing cash flows.

Profit commission

Profit commissions are a type of contingent commission whereby the commission paid from the risk carrier or underwriter (typically the insurer) to the broker or managing general agent, depending on the defined profitability calculation of a specific book of business over a fixed period of time.

Profit commission in the underwriting business is recognised on best estimate ultimate loss ratios which are reassessed each quarter as part of the actuarial reserving process.

Underwriting Risk

A Group subsidiary has capital supporting a quota share reinsurance contract (for the 2014 to 2018 years) that is at risk if the portfolio of insurance policies it underwrites incurs losses from catastrophe or other insurance claims that exceed the premium. In addition the Group makes financial provisions for outstanding claims, incurred but not reported claims and related expenses, and there is a possibility that these provisions may be inadequate.

Financial Instruments

The fair value of the Capital Z instrument and Pricoa warrants were determined using inputs estimated by management. Details on the key sources of estimation uncertainty used in their valuation can be found in note 19.

Notes to the accounts
for the year ended 31 December 2018

3. Turnover

	2018 £000	2017 £000
Geographical analysis of turnover by source of contract		
North America	**77,317**	66,699
Rest of the World	**37,473**	30,433
United Kingdom	**14,085**	14,499
	128,875	111,631

The business activities of the Group are primarily based in the United Kingdom, and this is where the group's operating profits are generated and its net assets are held. The turnover principally arises from insurance and reinsurance broking, and managing general agent activities.

4. Operating profit

	2018 £000	2017 £000
Operating profit is stated after charging/(crediting):		
Staff costs including directors' emoluments:		
Salary and performance bonus	**68,929**	63,385
Social security costs	**4,933**	4,541
Other pension costs – defined benefit past service cost (note 24)	**275**	246
– defined contributions (note 24)	**2,671**	2,334
Share-based payment charge	**2,930**	3,924
Other staff costs	**3,316**	2,887
	83,054	77,317
Depreciation of tangible fixed assets (note 11)	**2,152**	2,298
Amortisation of intangible fixed assets (note 10)	**1,351**	1,217
Operating lease rentals	**4,653**	4,237
Auditor's remuneration – audit fee, including company (2018: £25,000; 2017: £25,000)	**434**	410
Auditor's remuneration – tax services	**141**	168
Auditor's remuneration – other services	**90**	288
Unrealised foreign exchange (gain)/loss	**(487)**	3,453

	2018 No.	2017 No.
The average number of employees during the year was	**510**	465

5. Other operating income

	2018 £000	2017 £000
Bank interest receivable	**852**	382
Rental income receivable	**758**	757
	1,610	1,139

Notes to the accounts

for the year ended 31 December 2018

6. Other income

	2018 £000	2017 £000
Income from unlisted investment	**25**	18
Gain on disposal of associate undertaking	**-**	575
Gain on disposal of unlisted investment	**176**	-
Gain on disposal of a book of business	**472**	-
	673	593

7. Interest payable and similar charges

	2018 £000	2017 £000
Interest charges on Term Notes	**3,160**	2,849
Interest charges on Capital Z instrument	**2,484**	2,783
Net interest on defined benefit liability (note 24)	**679**	612
	6,323	6,244

8. Directors

	2018 £000	2017 £000
Remuneration of directors of the Company included in staff costs	**4,356**	4,516

The company contributions payable to the defined contribution pension scheme in respect of Directors amounted to £31,050 (2017: £31,050). During the year, there were no Directors (2017: none) who were members of the defined benefit schemes and one Director (2017: one) who was a member of the defined contribution schemes. Also during the year, two Directors (2017: two) were granted options under the Unapproved Share Option Plan.

The emoluments payable to the highest paid Director were £1,393,931 (2017: £1,493,820). Contributions to the defined contribution scheme for the highest paid Director were £nil (2017: £nil). There was no further remuneration or emoluments relating to the highest paid Director.

Notes to the accounts

for the year ended 31 December 2018

9. Tax on (loss)/profit on ordinary activities

	2018 £000	2017 £000
The taxation charge comprises:		
Current tax on (loss)/profit on ordinary activities		
Corporation tax at 19% (2017: 19.25%)	**1,669**	1,728
Adjustments in respect of prior years	**(77)**	118
Total current tax	**1,592**	1,846
Deferred tax		
Origination and reversal of timing differences	**(1,598)**	1,664
Prior years' over provision	**(83)**	(154)
Pension fund deferred tax charge	**8**	18
Rate difference	**138**	(66)
Total deferred tax	**(1,535)**	1,462
Total tax on (loss)/profit on ordinary activities	**57**	3,308

Factors affecting tax charge for the year

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax 19% to the profit before tax are as follows:

	2018 £000	2017 £000
(Loss)/profit on ordinary activities before tax	**(21,965)**	6,865
	(21,965)	6,865
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	**(4,173)**	1,322
Effects of:		
Expenses not deductible for tax purposes	**2,287**	2,707
Share options adjustment	**324**	374
Adjustment for losses/(profits) from overseas subsidiaries	**1,642**	(991)
Defined benefit pension schemes adjustment	**(1)**	(2)
Prior years'(over)/under provision – current tax	**(77)**	118
Prior years' over provision – deferred tax	**(83)**	(154)
Effect of tax rate on deferred tax	**138**	(66)
Total tax charge for the year	**57**	3,308

The UK Government has enacted reductions in the main tax rate to 17% from 1 April 2020. At the balance sheet date the deferred tax asset has been provided for at rates at which management believe the assets will be utilised.

Notes to the accounts
for the year ended 31 December 2018

10. *Intangible fixed assets*

Group

	Goodwill		Development costs		Total	
	2018	2017	**2018**	2017	**2018**	2017
	£000	£000	**£000**	£000	**£000**	£000
Cost						
At 1 January	**8,298**	9,656	**2,883**	2,373	**11,181**	12,029
Additions	**–**	–	**480**	510	**480**	510
Foreign exchange retranslation	**255**	(503)	**–**	–	**255**	(503)
Adjustment to consideration	**–**	(855)	**–**	–	**–**	(855)
At 31 December	**8,553**	8,298	**3,363**	2,883	**11,916**	11,181
Amortisation						
At 1 January	**3,792**	3,109	**1,566**	1,032	**5,358**	4,141
Charged in the year	**710**	683	**641**	534	**1,351**	1,217
At 31 December	**4,502**	3,792	**2,207**	1,566	**6,709**	5,358
Carrying value						
At 31 December	**4,051**	4,506	**1,156**	1,317	**5,207**	5,823

All acquisitions were accounted for using the acquisition method.

Goodwill was calculated as the value of consideration and expenses of acquisition less the fair value of net assets acquired.

Development costs have been capitalised in accordance with FRS 102 Section 18 Intangible Assets other than Goodwill and are therefore not treated, for dividend purposes, as a realised loss.

The Advocate acquisition in 2016 contained an element of contingent consideration and an amount held in escrow which was reassessed at 31 December 2017. This resulted in a reduction on the goodwill from the transaction.

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for the year ended 31 December 2018

11. Tangible fixed assets

Group

	Leasehold property improvements	Fixtures, fittings and equipment	Computer software and hardware	Total
	£000	£000	£000	**£000**
Cost				
At 1 January 2018	10,568	4,427	14,449	29,444
Additions	370	27	1,497	1,894
At 31 December 2018	**10,938**	**4,454**	**15,946**	**31,338**
Accumulated depreciation				
At 1 January 2018	8,635	3,526	11,375	23,536
Charged in year	515	116	1,521	2,152
At 31 December 2018	**9,150**	**3,642**	**12,896**	**25,688**
Net book value at 31 December 2018	**1,788**	**812**	**3,050**	**5,650**
Net book value at 31 December 2017	1,933	901	3,074	5,908

12. Loans and investment in subsidiary undertakings

Company

	Long term shares		Loans		Total	
	2018	2017	**2018**	2017	**2018**	2017
	£000	£000	**£000**	£000	**£000**	£000
Cost						
At 1 January	**85,174**	84,202	**15,181**	15,181	**100,355**	99,383
Additions	**32,189**	-	**3,663**	-	**35,852**	-
Retranslation of investment	**735**	972	**-**	-	**735**	972
Disposals	**(15,112)**	-	**-**	-	**(15,112)**	-
At 31 December	**102,986**	85,174	**18,844**	15,181	**121,830**	100,355
Provision for impairment **At 1 January and 31 December**	-	2,521	-	3,000	-	5,521
Carrying value **At 31 December**	**102,986**	82,653	**18,844**	12,181	**121,830**	94,834

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for the year ended 31 December 2018

12. Loans and investment in subsidiary undertakings (continued)

Details of the principal subsidiary undertakings at 31 December 2018 all of which are consolidated are:

Name	Principal activity	Company	Percentage held by subsidiaries
		%	%
BMS Capital Advisory Inc	Broker Dealer	–	100
BMS Group Limited	Reinsurance and insurance broking	–	100
BMS Intermediaries Inc	Reinsurance broking	–	100
BMS Risk Solutions Limited	Reinsurance and insurance broking	–	60
BMS Risk Solutions Pty Limited	Reinsurance and insurance broking	–	100
BMS Canada Risk Services Limited	Reinsurance and insurance broking	–	100
BMS US Holdings Inc	Corporate investment	–	100
BMS Investment Holdings Limited	Corporate investment	100	–
Minova Management Services Limited	Service Company	–	100
Pioneer North America PL Limited	Insurance underwriting agency	–	63
Pioneer Service Company Limited	Service Company	–	100
Pioneer Special Risk Insurance Services Inc	Insurance underwriting agency	–	100
Pioneer Underwriting Guernsey ICC Limited	Insurance services	–	100
Pioneer Underwriting Holdings Limited	Corporate investment	100	–
Pioneer Underwriting Holdings Inc	Corporate investment	–	100
Pioneer Underwriting Holdings Guernsey Limited	Corporate investment	–	100
Pioneer Underwriting Limited	Insurance underwriting agency	–	100
BMS Latin America LLC	Reinsurance and insurance broking	–	100

All the above companies are registered and operate in England and Wales except as follows:

	Country
BMS Capital Advisory Inc	USA
BMS Intermediaries Inc	USA
BMS Risk Solutions Pty Limited	Australia
BMS Canada Risk Services Limited	Canada
BMS US Holdings Inc	USA
Pioneer Special Risk Insurance Services Inc	USA
Pioneer Underwriting Guernsey ICC Limited	Guernsey
Pioneer Underwriting Holdings Guernsey Limited	Guernsey
Pioneer Underwriting Holdings Inc	USA
BMS Latin America LLC	USA

The Group accounts for all subsidiaries as wholly owned. For those companies not wholly owned, agreements are in place to purchase the minority interests, which are accounted for in accordance with FRS102 section 26, Share-based Payment accounting, rather than as a minority interest.

Notes to the accounts

for the year ended 31 December 2018

13. Investment in insurance undertakings

	2018	2017
	£000	£000
At 1 January	**4,081**	13,600
Net investment in insurance undertaking	**8,752**	126
Share of insurance undertaking loss in year	**(8,915)**	(7,388)
Impairment of staff investment	**(179)**	(1,889)
Unrealised foreign exchange gain/(loss)	**992**	(368)
At 31 December	**4,731**	4,081

During 2014 a Group subsidiary established a reinsurance incorporated cell company to facilitate capital participation on an underwriting portfolio. The investment supports a quota share reinsurance contract and any profits or losses arising on that contract will be treated as an addition or a deduction from the investment. The reinsurance contract ceased on 31 December 2018. The Group will not participate in any new insurance undertakings.

At 31 December 2018 the amount of £4.7m comprises cash of £22.7m offset by a provision for the corporate share of losses. Staff have an effective interest in 2% of the cash balance as staff participate in notional underwriting capital and the staff element is offset by an equivalent creditor.

14. Other investments

Group

Listed investments

	2018	2017
	£000	£000
At 1 January	-	196
Disposals in the year	-	(196)
At 31 December	-	-

Notes to the accounts
for the year ended 31 December 2018

14. Other investments (continued)
Unlisted investments

	2018	2017
	£000	£000
At 1 January	**513**	600
Additions in year	**28**	-
Disposals in year	**(102)**	(41)
Amortisation of debentures	**(38)**	(46)
At 31 December	**401**	513
Total other investments	**401**	513

The Group's investment in Prime Holdings Insurance Services, Inc. and Subsidiaries was sold in January 2018 for $383k, generating a gain of $206k.

The Group's only listed investment was United Insurance Holdings Corp. which is listed on the NASDAQ stock exchange, and therefore the Group is required under FRS 102 to value this investment at fair value through profit or loss. This investment was sold at book value in April 2017.

The Group's investment in Arium Limited was sold in January 2017 for £616k generating a gain of £575k.

15. Debtors

	Group		Company	
	2018	2017	2018	2017
	£000	£000	£000	£000
Amounts falling due within one year:				
Net Insurance assets	**26,325**	24,558	-	-
Amount due from subsidiary undertakings	-	-	**24,822**	22,416
Other debtors	**3,190**	3,690	**593**	189
Prepayments and accrued income	**19,982**	27,807	**513**	674
Derivative financial assets	-	1,092	-	-
Taxation	-	240	-	-
Deferred tax (note 18)	**1,114**	421	-	-
At 31 December	**50,611**	57,808	**25,928**	23,279
Amounts falling due after more than one year:				
Deferred tax (note 18)	**9,119**	8,237	**3,035**	3,022
Derivative financial assets	-	4,057	-	-
At 31 December	**9,119**	12,294	**3,035**	3,022
Additional debtor disclosure:				
Total derivative financial assets (note 19)	-	5,149	-	-

Notes to the accounts
for the year ended 31 December 2018

16. Creditors: amounts falling due within one year

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Floating Rate Senior Secured Term Notes	**1,378**	-	**1,378**	-
6% Fixed Term Notes	**1,181**	-	**1,181**	-
Taxation	**1,465**	-	-	-
Accruals and deferred income	**11,586**	11,472	**841**	809
Advance commission	**24,565**	28,983	-	-
Other derivative financial liabilities (note 17)	**343**	-	-	-
Other creditors	**1,538**	1,270	-	-
At 31 December	**42,056**	41,725	**3,400**	809

17. Creditors: amounts falling due after one year

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Floating Rate Senior Secured Term Notes	**25,073**	25,872	**25,073**	25,872
6% Fixed Term Notes	**21,491**	22,176	**21,491**	22,176
Pricoa Warrants	**1,351**	875	**1,351**	875
Capital Z instrument	**34,973**	24,872	**34,973**	24,872
Other creditors	**2,110**	5,091	**1,242**	1,246
Other derivative financial liabilities	**3,352**	-	-	-
At 31 December	**88,350**	78,886	**84,130**	75,041

Additional creditor disclosure:

The aggregate group other derivative financial liabilities are as follows:

	Group	
	2018	2017
	£000	£000
Due within one year (note 16)	**343**	-
Due after one year (note 17)	**3,352**	-
Total other derivative financial liabilities (note 19)	**3,695**	-

The group borrowings and derivatives are repayable as follows:

	Group	
	2018	2017
	£000	£000
Repayable less than one year	**2,559**	-
Repayable between one and five years	**82,888**	28,872
Repayable greater than five years	-	48,923
At 31 December	**85,447**	73,795

Notes to the accounts

for the year ended 31 December 2018

17. Creditors: amounts falling due after one year (continued)

Pricoa debt arrangement

In 2014, the Company entered into a Securities Purchase Agreement with The Prudential Insurance Company of America and the Prudential Retirement Insurance and Annuity Company ("Pricoa"), for the issue of the following issued Notes:

- US$ 8.25m Floating Rate Senior Secured Revolving Notes Due 31 October 2020
- US$ 24.75m Series A Floating Rate Senior Secured Term Notes Due 31 October 2020
- US$ 8.25m Series B 12% Senior Secured Term Notes Due 31 October 2022

Interest due on the Revolving Notes and Series A Notes is calculated at 4.5% above LIBOR (minimum 1%), with non utilised amounts under the Revolving Notes charged at 1.5%.

In May 2017 the Company agreed the terms of a refinancing with Pricoa. The notes have been restructured as follows:

- US$ 8.25m Floating Rate Senior Secured Revolving Notes Due 5 May 2023
- US$ 35m Floating Rate Senior Secured Term Notes Due 5 May 2023
- US$ 30m 6% Fixed Term Notes Due 5 May 2023

Interest due on the Revolving Notes and Floating Notes is calculated at 4% above LIBOR (minimum 1%), with non utilised amounts under the Revolving Notes charged at 0.75%.

Pursuant to the Securities Purchase Agreement with Pricoa dated 16 October 2014, warrants were issued to Pricoa which entitle the holder to subscribe for a maximum of 1,906 B ordinary shares.

Capital Z instrument

On 30 May 2014, 500 preference shares were issued to Capital Z Partners Co-Invest (BMS), L.P. ("Capital Z") on completion of their capital investment in the Group, pursuant to the Investment Agreement dated 20 May 2014. On 1 January 2015, convertible loan notes which were issued to Capital Z on completion of their capital investment, together with accrued interest, were converted into an additional 106 preference shares which rank pari passu in all respects with those already in issue. The preference shares are redeemable on 30 May 2022, or earlier on the occurrence of certain events as set out in the Articles of Association. Following the completion of the Pricoa debt refinancing in May 2017, 271 preference shares were redeemed. The preference shares accrue a 10% dividend which can be paid or rolled forward with the capital.

The holders of the preference shares are not entitled to vote at the general meetings of the Company but are entitled to dividends, provided that such amount shall not exceed the redemption premium of the preference shares, and upon winding up, an amount equal to the full amount which would have been paid if the preference shares had been redeemed on such date.

Also on completion of the Capital Z instrument, warrants were issued to Capital Z which entitles the holder to subscribe for 29,202 B ordinary shares. In addition, further contingent warrants were issued to Capital Z which would entitle the holder to subscribe to further B ordinary shares, but only on the occurrence of certain realisation events. The number of contingent warrants that will be issued is based upon the financial performance against an agreed level of internal rate of return on the Capital Z instrument.

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for the year ended 31 December 2018

18. Deferred taxation

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Capital allowances:				
At 1 January	**211**	212	-	1
Credit/(charge) in the year	**108**	(1)	-	-
At 31 December	**319**	211	-	1
Other timing differences:				
At 1 January	**8,447**	9,076	**3,021**	2,245
Credit/(charge) in the year	**1,467**	(629)	**14**	776
At 31 December	**9,914**	8,447	**3,035**	3,021
Deferred tax asset:				
At 31 December	**10,233**	8,658	**3,035**	3,022

Additional deferred tax disclosure:

The aggregate group deferred tax assets are as follows:

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Due within one year (note 15)	**1,114**	421	-	-
Due after one year (note 15)	**9,119**	8,237	**3,035**	3,022
At 31 December	**10,233**	8,658	**3,035**	3,022

A deferred tax asset of £3.2m (2017: £3.4m) is recognised for losses incurred in overseas subsidiaries as management are confident that these will be used in the medium term. Additionally a deferred tax asset of £1.0m has not been recognised for other subsidiaries that are currently loss making. Upon the Group becoming sufficiently confident that any of the remaining losses will be utilised, a deferred tax asset will be recognised.

At 31 December 2018, the Group expects capital losses of £0.9m (2017: £0.9m) to be available to relieve against future capital gains generated within the Group. The related tax value of the loss, if fully utilised, is £0.2m (2017: £0.2m).

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19. Financial instruments

The Group uses financial instruments to manage its currency exposures. Our income is mainly in US dollars and a material percentage of the costs are mainly in pounds sterling. This mismatch is managed by our foreign exchange hedging program. If the year end dollar rate falls relative to the average hedged rate of our non sterling income then this fair value "accounting loss" is recognised immediately in the profit and loss account. This is a timing matter rather than a change to the performance or economics of the business.

In addition our principle trading assets (brokerage, overrider and profit commissions that are due) are primarily denominated in US dollars. To provide a natural hedge we have arranged our financing in US dollars. Movements in the year end US dollar rate create unrealised gains and losses on both our trading assets and our financing liabilities. Movements in trading assets are credited or charged in operating profit whereas movements in financing are credited or charged as a separate item on the face of the profit and loss. Economically we aim to minimise the net movement on these two unrealised items.

The Capital Z financing is a combination of preference shares and warrants that are financially interlinked. Under the accounting standards, notwithstanding the fact that the warrants are expected to result in the issue of B ordinary shares to Capital Z, we are required (because of the underlying terms of the instrument) to treat the warrant as a debt item. This is aggregated with the preference share component. This balance is expected to grow over time as the value of the business and therefore the value of the warrants grows as they get closer to maturity in 2022.

The carrying values of the Group's financial assets and liabilities are summarised by category below:

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for the year ended 31 December 2018

19. Financial instruments (continued)

	2018 £000	2017 £000
Financial assets		
Measured at fair value through profit or loss		
• Derivative financial assets (note 15)*:		
o Forward foreign currency contracts and swaps	-	5,149
Measured at cost less impairment		
• Investment in insurance undertakings (note 13)	**4,731**	4,081
• Other unlisted investments (note 14)	**401**	513
At 31 December	**5,132**	9,743

	2018 £000	2017 £000
Financial liabilities		
Measured at fair value through profit or loss		
• Derivative financial liabilities (note 17)*:		
o Forward foreign currency contracts and swaps	**3,695**	-
Measured at fair value through profit or loss		
• Capital Z instrument (note 17)*	**34,973**	24,872
• Pricoa Warrants (note 17)*	**1,351**	875
Measured at amortised cost		
• Loans payable (note 17)	**49,123**	48,048
At 31 December	**89,142**	73,795

* These instruments are all derivative financial instruments.

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for the year ended 31 December 2018

19. Financial instruments (continued)

Capital Z instrument
The aggregate fair value was determined through a weighted scenario-based valuation model using inputs developed from internal financial performance forecasts and future cash flows, discounted by the Group's best estimate of cost of capital. Other key assumptions applied are the weightings on each scenario based on historical accuracy of the Group's internal financial performance forecasts.

Pricoa warrants

The fair value of the Pricoa warrants was determined through a weighted scenario-based valuation model using inputs developed from internal financial performance forecasts and future cash flows, discounted by the Group's best estimate of cost of capital. Other key assumptions applied are the weightings on each scenario based on historical accuracy of the Group's internal financial performance forecasts.

Listed investments
The fair value of listed investments, which are all traded in active markets, was determined with reference to the quoted market price at the reporting date.

Derivative financial assets and liabilities

The Group's derivative assets and liabilities include forward foreign currency contracts and foreign currency swaps, which are valued using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Notes to the accounts
for the year ended 31 December 2018

19. Financial instruments (continued)

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

	2018 £000	2017 £000
(i) Interest income and expense		
Interest expense for financial liabilities (note 7)	**5,644**	5,632
(ii) Fair value gains and losses		
On financial liabilities (including derivatives) measured at fair value through profit or loss	**(15,320)**	11,050
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	**(15,320)**	11,050
(iii) Foreign exchange gains and losses		
On financial liabilities (including derivatives) measured at fair value through profit or loss	**(4,535)**	6,573
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	**(4,535)**	6,573

Notes to the accounts

for the year ended 31 December 2018

20. Called up share capital and reserves

	2018 £	2017 £
Allotted and fully paid:		
740 (2017 – 740) A ordinary shares of 5p each - non equity	**37**	37
227,142 (2017 – 216,509) B ordinary shares of 5p each - equity	**11,357**	10,825
1,007,270 (2017 – 1,007,270) D ordinary shares of 0.1p each - equity	**1,007**	1,007
335 (2017 – 335) preference shares of $1 each – non equity	**202**	202
	12,603	12,071

The holders of the A ordinary shares are entitled to vote at the general meetings of the Company but are not entitled to any dividends and are only entitled to the paid up amount upon winding up.

The holders of the B and D ordinary shares are not entitled to vote at the general meetings of the Company but are entitled to dividends and any surplus upon winding up in proportions determined by the value of the surplus assets as set out in the Articles.

During the year, 10,633 new B ordinary shares (2017: 11,385) were issued.

The Group and Company's other reserves are as follows:

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

The profit and loss reserve represents cumulative profits or losses net of share based payment charges, employee trust amouts, and other adjustments.

21. Investment in own shares

The investment in 'own shares' is deducted from shareholders' funds in the balance sheets.

The amount represents the deduction in arriving at net equity for the consideration paid for the Group's shares purchased by the EBTs which had not vested unconditionally in employees at the reporting date.

Group and Company

	2018 £000	2017 £000
At 31 December	**54**	-

Notes to the accounts

for the year ended 31 December 2018

22. Commitments

Lease agreements

The Group, as part of its normal trading activities, has entered into certain lease agreements for the provision of office accommodation and office equipment. These agreements impose a commitment on the Group to pay the lease rents for the period of the lease.

Total future minimum lease payments under non cancellable operating leases are set out below.

	2018 £000	2017 £000
Commitments expiring:		
Within one year	**217**	73
Between one and five years	**3,355**	4,309
After more than five years	**20,806**	21,450
	24,378	25,832

23. Share-based payments

Share Options

The Company operates a number of plans for the granting options over B ordinary shares for the purposes of retention and incentivisation of Group employees, including executive directors. None of the plans are HMRC approved. Options granted under the plans are at nil-cost, and may be subject to both time and performance-based vesting conditions. 5,470 (2017: 9,852) were exercisable at 31 December.

	2018 Number of shares	2017 Number of shares
Outstanding as at 1 January	**13,568**	43,737
Granted during the year	**966**	1,242
Forfeited during the year	**(130)**	(17)
Exercised during the year	**(5,093)**	(33,394)
	9,311	13,568

Earnouts and Management Incentive Awards

The Company has established earnout arrangements for management and a number of its businesses. At the end of the relevant earnout period, which currently range in duration from two to six years and the last of which ends on 31 December 2022, payment will be made based on the financial performance of the team in question, either in B ordinary shares, cash, or a combination of both, depending on specific agreements. The number of B ordinary shares to be issued cannot be determined until conclusion of the relevant earnout period.

The Group recognised total charge of £2.9m and £3.9m related to share-based payment transactions in 2018 and 2017 respectively.

With regard to the cash-settled share-based payment schemes, the carrying value of the associated liability was £0.7m at 31 December 2018 and £2.0m at 31 December 2017.

Notes to the accounts

for the year ended 31 December 2018

24. Pensions

The Group operates three defined contribution pension schemes, the assets being held separately from the Group in independently administered funds. The employer contributions are charged direct to the profit and loss account.

In addition, the Group operates two defined benefit pension schemes, both of which are closed to new employees and closed to future accrual.

The defined benefit schemes provide benefits linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier). The Board of Corporate Trustee is are responsible for running these Schemes in accordance with the respective Scheme's Trust Deed and Rules, which sets out its powers.

The present value of the defined benefit obligation and the pension costs relating to the schemes are assessed in accordance with the advice of independent actuaries using the projected unit method. The schemes are funded schemes.

The Trustee is required to carry out an actuarial valuation of both Schemes every 3 years. The last actuarial valuation of both Schemes was performed by their Scheme Actuary for the Trustees as at 31 December 2016.

The Pension and Assurance Scheme of BMS Associates Limited (BMS Associates)

At the last actuarial valuation at 31 December 2016 the Scheme had a shortfall of £0.7m (prior triennial valuation at 31 December 2013: shortfall of £1.4m).

The main actuarial assumptions were that the annual compound rate of return on investment would be 4.55% and that the annual increase in pensions would be 2.7%. The assessed value of the assets at the date of the latest actuarial valuation for funding purposes amounted to £48.9m and the actuarial value of the assets was sufficient to cover 99% of the value of the benefits that had accrued to members on the basis of pensionable earnings and service at the date of the valuation on an on-going basis.

The BMS Harris & Dixon Insurance Brokers Limited Pension and Life Assurance Scheme (BMS Harris & Dixon)

At the last actuarial valuation at 31 December 2016 the Scheme had a shortfall of £2.8m (prior triennial valuation at 31 December 2013: shortfall of £4.7m). The main actuarial assumptions were that the average annual compound rate of return on investments for the five years from the date of the valuation would be 4.55% and that the annual increase in pensions would be 3.7%. The assessed value of the assets at the date of the latest actuarial valuation for funding purposes amounted to £28.9m and the actuarial value of the assets was sufficient to cover 91% of the value of the benefits that had accrued to members on the basis of pensionable earnings and service at the date of the valuation on an on-going basis.

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24. Pensions (continued)

Contributions

	2018 **£000**	2017 £000
Contributions paid to defined benefit schemes	**1,000**	965
Contributions paid to defined contribution schemes	**2,671**	2,334

FRS 102 Disclosures

The disclosures showing the total assets and liabilities of the pension plans are set out below. These have been calculated on the following assumptions:

BMS Associates and BMS Harris & Dixon

	2018	2017	2016	2015
Rate of increase for deferred pensions	2.20%	2.20 %	2.30%	2.10%
Discount rate	2.80%	2.45 %	2.65%	3.85%
Inflation assumption	3.20%	3.20 %	3.30%	3.10%

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24. Pensions (continued)

The disclosures showing the demographic assumptions are set out below.

BMS Associates and BMS Harris & Dixon

Description	2018	2017
Mortality tables before retirement	**No allowance**	No allowance
Mortality tables after retirement	**100% of PxA08**	100% of PxA08
- Life expectancy at age 63, male in 2018	**24.2 years**	24.4 years
- Life expectancy at age 63, male in 2038	**25.3 years**	25.5 years
- Life expectancy at age 63, female in 2018	**26.5 years**	26.6 years
- Life expectancy at age 63, female in 2038	**27.7 years**	27.8 years
Pension commutation for cash at retirement	**25% of members take the maximum amount of tax-free cash**	25% of members take the maximum amount of tax-free cash

The analysis of the scheme assets are at the balance sheet date is as follows:

BMS Associates

	2018		2017		2016	
	Market value £000	**% of total scheme assets**	Market value £000	% of total Scheme assets	Market value £000	% of total scheme assets
Bonds and cash	**6,553**	**15%**	6,790	15%	6,413	13%
Absolute return funds	**36,055**	**85%**	39,649	85%	42,448	87%
Total	**42,608**	**100%**	46,439	100%	48,861	100%
Actual return on Scheme assets over the previous year	**(2,557)**		764		6,985	

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for the year ended 31 December 2018

24. Pensions (continued)

BMS Harris & Dixon

	2018		2017		2016	
	Market value £000	**% of total scheme assets**	Market value £000	% of total scheme assets	Market value £000	% of total scheme assets
Bonds and cash	**4,076**	**16%**	4,099	14%	3,986	14%
Absolute return funds	**21,318**	**84%**	24,643	86%	24,838	86%
Total	**25,394**	**100%**	28,742	100%	28,824	100%
Actual return on Scheme assets over the previous year	**(1,515)**		428		3,527	

Movements in fair value of the Scheme assets over the year are as follows:

	BMS Associates	**BMS Harris & Dixon**	**Total**	BMS Associates	BMS Harris & Dixon	Total
	2018 £000	**2018 £000**	**2018 £000**	2017 £000	2017 £000	2017 £000
Market value of assets at the beginning of the year	**46,439**	**28,742**	**75,181**	48,861	28,824	77,685
Interest income	**1,122**	**682**	**1,804**	1,253	757	2,010
Actual return on Scheme assets excluding interest income	**(3,679)**	**(2,197)**	**(5,876)**	(489)	(329)	(818)
Employer contributions	**250**	**750**	**1,000**	167	798	965
Benefits paid	**(1,524)**	**(2,583)**	**(4,107)**	(3,353)	(1,308)	(4,661)
Market value of assets at the end of the year	**42,608**	**25,394**	**68,002**	46,439	28,742	75,181

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24. Pensions (continued)

Movements in present value of the defined benefit obligations were as follows:

	BMS Associates 2018 £000	BMS Harris & Dixon 2018 £000	Total 2018 £000	BMS Associates 2017 £000	BMS Harris & Dixon 2017 £000	Total 2017 £000
At 1 January	**63,733**	**39,648**	**103,381**	61,353	39,721	101,074
Interest cost	**1,543**	**940**	**2,483**	1,582	1,040	2,622
Past service cost	**-**	**275**	**275**	-	246	246
Benefits paid	**(1,524)**	**(2,583)**	**(4,107)**	(3,353)	(1,308)	(4,661)
Actuarial losses/(gains)	**(3,686)**	**(1,851)**	**(5,537)**	4,151	(51)	4,100
At 31 December	**60,066**	**36,429**	**96,495**	63,733	39,648	103,381

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	BMS Associates 2018 £000	BMS Harris & Dixon 2018 £000	Total 2018 £000	BMS Associates 2017 £000	BMS Harris & Dixon 2017 £000	Total 2017 £000
Present value of defined benefit obligations	**(60,066)**	**(36,429)**	**(96,495)**	(61,733)	(39,648)	(103,381)
Market Value of assets	**42,608**	**25,394**	**68,002**	46,439	28,742	75,181
Gross liability recognised in the balance sheet	**(17,458)**	**(11,035)**	**(28,493)**	(17,294)	(10,906)	(28,200)

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24. Pensions (continued)

The following amounts have been reflected in the consolidated profit and loss account and consolidated statement of other comprehensive income.

Amounts charged to operating profit:

	2018			2017		
	BMS Associates £000	**BMS Harris & Dixon £000**	**Total £000**	BMS Associates £000	BMS Harris & Dixon £000	Total £000
Past service cost	-	**275**	**275**	–	246	246
Net interest cost	**421**	**258**	**679**	329	283	612
Total operating charge	**421**	**533**	**954**	329	529	858

Amounts recognised in the consolidated statement of other comprehensive income:

	2018			2017		
	BMS Associates £000	**BMS Harris & Dixon £000**	**Total £000**	BMS Associates £000	BMS Harris & Dixon £000	Total £000
Actuarial gains/(losses) on liabilities	**3,686**	**1,851**	**5,537**	(4,151)	51	(4,100)
Return on assets excluding amount included in net interest	**(3,679)**	**(2,197)**	**(5,876)**	(489)	(329)	(818)
Total gain/(loss) relating to defined benefit scheme	**7**	**(346)**	**(339)**	(4,640)	(278)	(4,918)

25. Underlying EBITDA

	2018 £000	2017 £000
Audited EBITDA	**7,229**	2,454
Share-based payments charge (note 4)	**2,930**	3,924
Net investment in new recruits	**4,491**	3,405
Restructuring of business units	**3,065**	630
One-off legal fees	**234**	1,253
Gain on disposal of associated undertaking	-	(575)
Gain on disposal of investment and book of business	**(648)**	-
Share of loss from discontinued insurance undertaking	**8,915**	-
Total underlying EBITDA	**26,216**	11,091

Audited EBITDA comprises the loss/profit attributable to the shareholders of the Company adjusted for interest, tax, depreciation, amortisation, foreign exchange translation and fair value adjustments. The net investment in new recruits relates to the direct costs of new teams in the current and prior year less any income they have produced.

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26. Reconciliation of consolidated operating profit to net cash inflow from operating activities

	2018	2017
	£000	£000
Operating profit	**12,455**	2,281
Depreciation	**2,152**	2,298
Amortisation and write off of goodwill	**1,351**	1,217
Amortisation of debentures	**38**	46
Share-based payment charge	**2,930**	3,924
Net decrease in debtors	**4,573**	2,606
Net (decrease)/increase in creditors	**(4,117)**	10,940
Contribution to pension schemes	**(1,000)**	(965)
Net cash inflow from operating activities	**18,382**	22,347

27. Analysis of debt

	2017	Cash flow	Valuation adjustment	**2018**
	£000	£000	£000	**£000**
Group cash at bank and in hand	20,061	2,526	-	**22,587**
Loans	(48,048)	1,819	(2,894)	**(49,123)**
Net debt	(27,987)	4,345	(2,894)	**(26,536)**

28. Reconciliation of net cash flow to movement in net debt

	2018	2017
	£000	£000
Increase in cash in the year	**2,526**	(13,777)
Decrease/(increase) in loans in year	**1,819**	(21,705)
Valuation adjustment	**(2,894)**	3,550
Change in net debt in year	**1,451**	(4,378)
Net debt at 1 January	**(27,987)**	(23,609)
Net debt at 31 December	**(26,536)**	(27,987)

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29. Related party transactions

Advantage has been taken of the exemption under section 33 of FRS 102, not to disclose transactions between entities wholly owned within the Minova Insurance Holdings Limited Group.

During the year, BMS Group Limited paid agency fees to BMS Risk Solutions Limited of £2.8m (2017: £1.9m).

During the period under review, Minova Management Services Limited, BMS Group Limited, and Pioneer Underwriting Limited, all wholly owned subsidiaries, provided services to BMS Risk Solutions Limited and Pioneer North America PL Limited amounting to £0.4m (2017: £0.3m) and £0.4m (2017: £0.3m) respectively.

30. Post balance sheet events

There have been no material post balance sheet events for the year ended 31 December 2018.