

AUA Insolvency Risk Services Limited

Annual Report and Financial Statements

31 December 2018



Registered Number: 6273355

Registered Office:
The Leadenhall Building
122 Leadenhall Street
London
EC3V 4AG

Contents

	Page
Directors and officers	2
Strategic report	3
Directors' report	5
Independent auditor's report to the members of AUA Insolvency Risk Services Limited	7
Statement of profit or loss	10
Statement of financial position	11
Statement of changes in equity	12
Notes to the financial statements	13

Directors and officers

Directors

A J Loveitt
E C Graham
J Lewis
G Thompson

Company Secretary

F Moule

Registered office

The Leadenhall Building
122 Leadenhall Street
London
EC3V 4AG

Independent Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

Strategic report for the year ended 31 December 2018

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

Business review and principal activities

The Company is, through an intermediate holding company, a wholly owned subsidiary of MS Amlin plc. On 1 February 2016 MS Amlin plc was acquired by Mitsui Sumitomo Insurance Company Limited and the ultimate parent company became MS&AD Insurance Group Holdings, Inc.

The principal activity of the Company remains insurance broking for clients in the insolvency and Law of Property Act/Fixed Charge Receivership market. During the year ended 31 December 2018, the Company placed £10,758,000 (2017: £12,524,000) of gross written premiums. The Company recognised turnover, representing brokerage and fees, of £4,350,000 (2017: £3,826,000) which is a 13.7% increase (2017: 20.2% increase) compared with the previous year.

The financial performance and position of the Company is discussed in the Directors' report on page 5.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, given the Company's net asset position at the year end and no expected changes to the business. Accordingly they continue to adopt the going concern basis in preparing their report and financial statements.

Principal risks, uncertainties and financial risk management

The Directors consider key risks to the Company are increased broker competition, in respect of the Open Cover portion of the business, and a potential lack of underwriting appetite in respect of the Surety Bond facility due to deteriorating claims experience. Other brokers continue to enter the Open Cover market with varying degrees of success. The Bond facility is dependent on continued support from the insurance market and could be compromised if the claims experience deteriorates; these threats are mitigated through the implementation of client protection initiatives and plans to grow market share. These risks could lead to a reducing client base and corresponding reduction in income and a requirement to impair the intangible asset carried in respect of the acquired Lockton's United Kingdom insolvency practitioners' insurance broking business. Details of the acquisition of Lockton's United Kingdom insolvency practitioners' insurance broking business can be found on page 20.

Operational risk is the risk that internal processes fail or prove to be inadequate, resulting in the provision of unsound advice to clients that could lead to regulatory compliance issues or a Professional indemnity claim. These risks are mitigated by procedural controls which are in place and reviewed regularly, compliance monitoring and employee manuals.

Disclosure of financial risk management policies is not considered material for the assessment of the Company's assets, liabilities, financial position and profit and loss. Details can be found in Note 13 on page 21.

Brexit

In 2017, the UK Government triggered Article 50 of the Treaty of Lisbon, beginning the process of negotiating new trade deals with the European Union ('EU'). The outcome, particularly for the UK, remains uncertain.

The MS Amlin Group has significant market presence in continental Europe, and has established a programme to respond to the potential outcomes of the UK exit from the EU. These responses have included re-domiciling MS Amlin Insurance S.E. ('MS AISE') to Belgium from the UK and supporting the efforts of the Corporation of Lloyd's with the establishment of its Brussels branch. Since 1 January 2019, policies written or renewed through the Company have had the option to be placed with either MS AISE, through the Lloyd's Brussels branch, or through existing arrangements with Syndicate 2001. It is the view of the Directors' that this creates the most effective foundation for the Company to continue to support their partners throughout the UK and Europe with the same products and high level of service as per previously.

Strategic report for the year ended 31 December 2018 (continued)

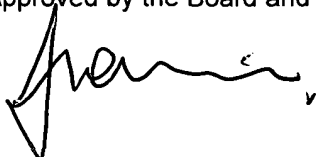
Regulatory risk

As an insurance intermediary the Company receives funds from its customers for payment of premiums to insurers or from insurers to the customers in case of claims or return premiums. To ensure the interests of both are protected fully, such funds are held in a separate statutory client money bank account, in full compliance with the applicable FCA CASS 5 regulations.

Key performance indicators

The Directors of the Company do not believe that key performance indicators are necessary to understand the development, performance or position of the Company's business.

Approved by the Board and signed by order of the Board.

A handwritten signature in black ink, appearing to read 'J Lewis', with a stylized flourish at the end.

J Lewis
Director
10 July 2019

Directors' report for the year ended 31 December 2018

The Directors present their report and the audited financial statements for the year ended 31 December 2018. Principal risk and management objectives are discussed in the Strategic report on page 3 under Principal risks, uncertainties and financial risk management.

Results and dividends

The profit for the financial year ended 31 December 2018 is £109,000 (2017: profit £79,000), details of which are set out in the statement of profit or loss account on page 8 and the related notes.

The Statement of financial position on page 9 of the financial statements shows that the net assets of the Company at 31 December 2018 were £9,458,000 (2017: £9,349,000). The Statement of financial position includes an intangible asset in relation to goodwill arising on the acquisition of intellectual property rights, business information and the benefit of business contracts. This was tested for impairment in December 2018 and is reviewed for impairment indicators on a quarterly basis.

The Directors do not propose any dividend is paid in respect of the year (2017: £nil).

Directors

The current Directors of the Company are shown on page 2. During the year and up to the date of signing, the following changes to the Board of Directors occurred:

<u>Name</u>	<u>Date of resignation</u>	<u>Date of appointment</u>
T A Bowles	6 February 2018	
N J Hornsey (Secretary)	14 May 2018	
F Moule (Secretary)		14 May 2018
J C Bailey	21 June 2018	
J Lewis		30 August 2018
G Thompson		8 November 2018

Directors' indemnity

Between 2008 and the date of this report MS Amlin plc has made qualifying third party indemnity provisions for the benefit of the Directors of the Company. These indemnities were in force during the financial year and also at the date of approval.

Disclosure of information to auditor

Each of the persons who are a Director at the date of approval of this report confirms that:

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

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

Independent auditor

In accordance with Section 487 of the Companies Act 2006, the auditor will be deemed reappointed and KPMG LLP will therefore continue in office

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

The Directors are responsible for preparing the strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

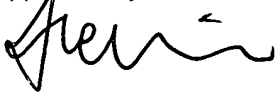
Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company, and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required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

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

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

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

Approved by the Board and signed by order of the Board.



J Lewis
Director
10 July 2019

Independent Auditor's report to the members of AUA Insolvency Risk Services Limited

Opinion

We have audited the financial statements of AUA Insolvency Risk Services ("the company") for the year ended 31 December 2018 which comprise the Statement of profit or loss, Statement of financial position, Statement of changes in equity and related notes, including the accounting policies in note 4.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Other matter

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

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

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

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

Independent Auditor's report to the members of AUA Insolvency Risk Services Limited

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Independent Auditor's report to the members of AUA Insolvency Risk Services Limited

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

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



Timothy Butchart (Senior Statutory Auditor)
for and on behalf of KPMG LLP

15 Canada Square

London

E14 5GL

15 July 2019

Statement of profit or loss
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue from contracts with customers	6	4,350	3,826
Administrative expenses		(4,276)	(3,756)
Operating profit		74	70
Interest receivable and similar income	7	32	16
Interest payable and similar charges		(1)	(1)
Profit on ordinary activities before taxation	8	105	85
Tax on profit on ordinary activities	10	4	(6)
Profit for the financial year		109	79

All activities were continuing throughout both the current and preceding year.

There are no material differences between the profit on ordinary activities before taxation or after taxation stated above and their historical cost equivalents.

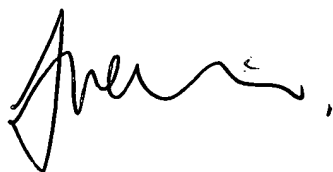
There were no other amounts recognised in comprehensive income either in the current or preceding year, other than those included in the Statement of profit or loss and therefore no Statement of comprehensive income has been presented.

The accompanying notes on pages 13 to 23 are an integral part of these financial statements.

**Statement of financial position
As at 31 December 2018**

	Notes	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	11	2,000	2,500
Current assets			
Debtors	12	832	1,004
Financial investments	13	6,743	6,149
Cash at bank and in hand		1,612	1,833
		<u>9,187</u>	<u>8,986</u>
Creditors: amounts falling due within one year	14	(1,729)	(2,137)
		<u>7,458</u>	<u>6,849</u>
Net current assets			
		<u>9,458</u>	<u>9,349</u>
Capital and reserves			
Called up share capital	16	13,050	13,050
Retained earnings		(3,592)	(3,701)
Total equity		<u>9,458</u>	<u>9,349</u>

The financial statements on pages 8 to 23 were approved and authorised for issue by the Board of Directors and signed on its behalf by:



J Lewis
Director
10 July 2019

Registered Number: 6273355

Statement of changes in equity
For the year ended 31 December 2018

	Called-up share capital £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2018	13,050	(3,701)	9,349
Profit for the financial year	-	109	109
Balance as at 31 December 2018	<u>13,050</u>	<u>(3,592)</u>	<u>9,458</u>

	Called-up share capital £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2017	13,050	(3,780)	9,270
Profit for the financial year	-	79	79
Balance as at 31 December 2017	<u>13,050</u>	<u>(3,701)</u>	<u>9,349</u>

Notes to the financial statements for the year ended 31 December 2018

1 General information

The Company is a private Company limited by shares and is incorporated and domiciled in England. The address of its registered office is The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AG.

2 Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention, modified by the revaluation of financial assets measured at fair value through profit or loss and in accordance with FRS 101 'Reduced Disclosure Framework' ("FRS 101") and with the Companies Act 2006.

The following FRS 101 exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The requirement in IAS 1 Presentation of Financial Statements to present comparative information in respect of Share capital, Intangible Assets and Property, Plant and Equipment.
- Disclosures in respect of capital management
- The requirement to present an additional balance sheet for the beginning of the earliest comparative period following a retrospective change in accounting policy, the correction of an error or the reclassification of items in the financial statements.
- The requirements of IAS 7 to disclose a Statement of Cash Flows and related notes.
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors relating to the effects of new accounting standards which have been issued but which have not been applied in the period.
- The requirements of IAS 24 Related Party Disclosures in respect of the compensation of key management personnel.
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more wholly owned members of a group.
- Certain disclosures required by IAS 36 Impairment of Assets in respect of the impairment of indefinite life intangible assets.
- The disclosures required by IFRS 7, "Financial instruments: Disclosure".
- Certain disclosures required by IFRS 13 Fair Value Measurement.
- Certain disclosures required by IFRS 15 Revenue from Contracts with Customers.

Consolidation

The Company is a wholly-owned subsidiary whose intermediate parent company is MS Amlin plc. The Company is exempt from producing consolidated financial statements by virtue of section 401 of the Companies Act 2006 as the ultimate parent company, MS & AD Insurance Group Holdings, Inc. produces publicly available consolidated financial statements that include the consolidated results of the Company and its subsidiaries.

These financial statements are separate financial statements.

Going concern

The Company's forecasts take account of reasonably possible changes in income and expenditure. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Adoption of new and revised standards

No standards, including IFRS 15 Revenue from contracts with customers and IFRS 9 Financial Instruments, adopted by the Company that became effective in the year had a material impact on the Company. Nonetheless these financial statements have been updated to reflect an enhanced accounting policy under IFRS 15 and revised disclosures where appropriate covering both IFRS 15 and IFRS 9.

IFRS 15

The company has initially applied IFRS 15 retrospectively with the cumulative effect of initially applying the standard recognised at 1 January 2018, therefore prior period comparatives have not been restated. No financial statement line item is affected in the current period by the application of IFRS 15 and consequently no additional disclosures as required by paragraph C8 of IFRS 15 are presented. The nature and effects of the key changes to the company's accounting policies resulting from its adoption of IFRS 15 are summarised below.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity considers the terms of the contract and all relevant facts and circumstances when applying the standard. The standard is applied including the use of any practical expedients, consistently to contracts with similar characteristics and in similar circumstances. The key elements of the standard are:

- Identify the contract(s) with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when or as the performance obligation is satisfied

IFRS 9

The company has adopted IFRS 9 'Financial Instruments' with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 'Financial Instruments: Recognition and Measurement'. The nature and effects of the key changes to the company's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

For an explanation of how the company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see accounting policy note called 'Financial Instruments'.

The adoption of IFRS 9 has not had a significant effect on the company's accounting policies for financial liabilities.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as permitted in the transition arrangements included within IFRS 9. There are no differences between the previous carrying amounts and the carrying amounts on the date of initial

Notes to the financial statements for the year ended 31 December 2018 (continued)**3 Adoption of new and revised standards (continued)**

application for any financial asset or financial liability nor any change in opening retained earnings balance to report. Consequently no such reconciliations have been presented.

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9
The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the company's financial assets and financial liabilities as at 1 January 2018

	Original classification under IAS 39	New classification under IFRS 9
Financial assets		
Investments	Held for trading	Mandatorily at FVTPL
Trade and other receivables	Loans and receivables	Amortised cost
Cash and cash equivalents	Loans and receivables	Amortised cost
Financial liabilities		
Intercompany loan	Other financial liabilities	Other financial liabilities
Trade payables	Other financial liabilities	Other financial liabilities

There is no difference between the carrying amount of these assets under IAS 39 and under IFRS 9.

The company's accounting policies on the classification of financial instruments under IFRS 9 are set out in the accounting policy note 'Financial Instruments'. The application of these policies resulted in the reclassifications set out in the table above and explained below.

Investments

Under IAS 39, investments were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

Trade and other receivables

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

The Company did not early adopt any Standards or Interpretations.

4 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and prior year other than where new policies have been adopted.

Revenue from contracts with customers

Turnover consists of insurance commissions and fees for work undertaken. Insurance commissions are recognised at the point at which the Company becomes contractually entitled to it. Management fee income is recognised and charged based on actual underlying expenses incurred plus a mark-up of 2%.

Notes to the financial statements for the year ended 31 December 2018 (continued)

4 Accounting policies (continued)

Interest receivable

Interest receivable on investments in money market funds and interest receivable is included in the Statement of profit or loss in the period it arises.

Other interest receivable and investment income are recognised on an accruals basis. Gains or losses on financial assets are included in investment income.

Taxation

Income tax expense represents the sum of the current tax payable and deferred tax.

The current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years or that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, it is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the substantively enacted tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the statement of profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also charged or credited directly to other comprehensive income or equity respectively.

Intangible assets

Costs are recognised as intangible assets where they can be identified separately and measured reliably and it is probable that they will be recovered by directly related future economic benefits. Intangible assets are reviewed for impairment losses at each reporting date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets are carried at cost less accumulated amortisation and impairment losses. Amortisation is recognised in line with the consumption of the benefits based on the estimated useful economic life of the assets, which is estimated to be 13 years for the asset held, and is charged to administrative expenses in the Statement of profit or loss. Any impairment in value is charged to the Statement of profit or loss.

Financial investments

The Company classifies its financial assets at fair value through profit and loss. Purchases and sales of investments are recognised on the trade date, which is the date the Company commits to purchase or sell the assets. These are initially recognised at fair value, and are subsequently re-measured at fair value based on quoted bid prices. Transaction costs are recognised directly in the statement of profit or loss when incurred. Changes in the fair value of investments are included in the Statement of profit or loss in the year in which they arise.

Notes to the financial statements for the year ended 31 December 2018 (continued)

4 Accounting policies (continued)

Insurance broking debtors and creditors

Insurance brokers usually act as agents in placing the insurable risks of their clients with insurers and, as such, generally are not liable as principals for amounts arising from such transactions. However, the insurance broker is entitled to retain the investment income on any cash flows arising from these transactions.

Following the introduction of the FSA Client Money Rules (CASS 5) in January 2005, client money is either required to be held in trust, or explicit arrangements with insurers or reinsurers need to be put in place by which the insurers or reinsurers explicitly retain credit risk for any cash held in transit by the insurance broker.

Prior to receipt of fiduciary monies the insurance broker has no effective contractual right to any premium or claim amounts due, once received the insurance broker assumes a degree of risk, reward and control. As such only the commission due to the Company is recognised as a broker debtor and there are therefore no corresponding insurance creditors. When fiduciary cash is received the corresponding onward liabilities are recognised on the Statement of Financial Position.

5 Critical Accounting judgements and uncertainty

The intangible asset relating to the purchase of Lockton's United Kingdom insolvency practitioners' insurance broking business in 2010 for £13 million is subject to review for impairment losses at each reporting date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The assumptions made by management on initial recognition and valuation, together with the performance of impairment tests, are subject to estimation uncertainty. The most subjective elements of the impairment test are associated with profit forecasts and the discount rate used in the calculation of the net present value of future cash flows expected to be generated. The results of the impairment test may result in the value of the intangible being impaired. In prior years this intangible asset has been impaired by £5 million.

6 Revenue from contracts with customers	2018 £'000	2017 £'000
Agency commission	37	209
Charges to Group and MS & AD Insurance Group companies	4,313	3,617
	<u>4,350</u>	<u>3,826</u>

7 Interest receivable and similar income	2018 £'000	2017 £'000
Realised investment income	32	16
	<u>32</u>	<u>16</u>

Notes to the financial statements for the year ended 31 December 2018 (continued)

8 Profit on ordinary activities before taxation	2018	2017
	£'000	£'000
Profit/loss on ordinary activities before taxation is stated after charging:		
Amortisation of intangible assets (note 10)	500	500
Fees payable to the Company's auditors		
- for the audit of the financial statements	18	18
- client money	10	10

9 Directors emoluments and employee information**Employee information**

All MS Amlin employees within the UK are employed by the Group service company, MS Amlin Corporate Services Limited (formerly Amlin Corporate Services Limited). Therefore the number of persons employed by the Company is nil (2017: nil). All relevant staff costs are incurred by MS Amlin Corporate Services Limited and are recharged to the Company by way of either a direct allocation or management charge.

Directors' emoluments

Executive directors and certain non-executive directors are also directors or employees of other companies within the MS Amlin Group. As such a proportion of the total emoluments have been allocated to the Company. However, this is not necessarily a reflection of the amount, if any, charged to the Company by the company employing the Director. Only amounts in respect of qualifying services are disclosed in the table below.

The Directors received the following proportionate total emoluments during their time in office:

	2018	2017
	£'000	£'000
Salaries and other short term benefits	25	29
Amounts received under cash based long-term incentive schemes	2	3
Employer's contributions to pension schemes	4	3
	31	35

Payment was made to one directors (2017: nil) in respect of defined benefit pension schemes and to five directors (2017: five) in respect of defined contribution pension schemes. During the year, three directors were members of long-term incentive schemes (2017: two). The 2017 comparative has been re-presented regarding the proportion of the total emoluments allocated to the Company.

Notes to the financial statements for the year ended 31 December 2018 (continued)

10 Tax on loss on ordinary activities

(a) Analysis of the tax credit in the year

	2018 £'000	2017 £'000
Current tax		
UK corporation tax on profits for the year	(0)	11
Adjustment in respect of previous years	(3)	(4)
Total current tax charge/(credit)	(3)	7
Deferred tax		
Origination of temporary differences	(1)	(1)
Total deferred tax charge/(credit)	(1)	(1)
Total current tax charge/(credit)	(4)	6

(b) Factors affecting tax charge for the year

The current tax assessed for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
Profit on ordinary activities before taxation	105	85
Tax on profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	20	17
Effects of:		
Permanent differences	(21)	(7)
Adjustment in respect of previous years	(3)	(4)
Total current tax charge/(credit)	(4)	6

Notes to the financial statements for the year ended 31 December 2018 (continued)**10 Tax on profit on ordinary activities (continued)****(c) Factors that may affect future tax charge**

Adjustments will be made in the corporation tax accrual for the current accounting year to reflect arms-length prices for transactions between the Company and related companies in the MS Amlin group.

Recent UK budgets have announced changes to the main rate of UK corporation tax. The current rate of 19% was enacted on 26 October 2015 and applied from 1 April 2017.

A further reduction to the main rate of UK corporation tax has been announced. The new rate of 17% will apply from 1 April 2020. This rate was substantively enacted on 15 September 2016.

11 Intangible assets	2018	2017
	£'000	£'000
Cost		
Cost of customer relationships	<u>13,000</u>	<u>13,000</u>
Accumulated amortisation and impairment		
Impairment charges brought forward	5,000	5,000
Amortisation brought forward	5,500	5,000
Amortisation charge for the year	<u>500</u>	<u>500</u>
Cumulative amortisation and impairment at 31 December	<u>11,000</u>	<u>10,500</u>
Net book value		
At 1 January	<u>2,500</u>	<u>3,000</u>
At 31 December	<u>2,000</u>	<u>2,500</u>

In 2010 the Company purchased Lockton's United Kingdom insolvency practitioners' insurance broking business for £13 million, which included the rights to carry on Lockton's business and gave rise to an identifiable intangible asset, being Lockton's existing customer relationships. This cost has been capitalised and recognised as an intangible asset with an estimated useful life of 13 years.

12 Debtors	2018	2017
	£'000	£'000
Trade debtors	230	393
Amounts owed by group undertakings	<u>597</u>	<u>607</u>
	827	1000
Deferred tax (note 14)	<u>5</u>	<u>4</u>
	<u>832</u>	<u>1,004</u>

Trade debtors are interest free and are receivable on demand.

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are receivable on demand.

Notes to the financial statements for the year ended 31 December 2018 (continued)

13 Investments

	At valuation 2018 £'000	At valuation 2017 £'000	At cost 2018 £'000	At cost 2017 £'000
Financial assets at fair value through profit or loss				
Participation in investment pools	6,743	6,149	6,734	6,133
Total financial assets	6,743	6,149	6,734	6,133
Net financial assets	6,743	6,149	6,734	6,133

Financial investments held as current assets relate to investments in listed money market funds. These assets are fair valued through profit or loss.

Market risk

Market risk concerns the risks associated with valuation, interest rates, liquidity and counterparty credit.

Valuation risk

The Company has only investments in money market funds. These funds are interest bearing and there is no valuation risk.

Interest rate risk

The Company has only investments in money market funds. These funds are exposed to decreases in interest rates, however the Company does not consider there to be significant interest rate risk.

Liquidity Risk

The majority of the Company's liabilities are due within one year. Further details of this can be seen in note 13. The Company has a highly liquid investment portfolio that is more than sufficient to settle these liabilities. The Company does not consider there to be any significant liquidity risk.

Credit risk

Credit risk is the risk that the Company becomes exposed to loss if a specific counterparty fails to perform its contractual obligations in a timely manner. Credit risk can also arise from underlying causes that have an impact upon the creditworthiness of all counterparties of a particular description or geographical location.

The Company is exposed to credit risk in its investment portfolio. However this risk is managed through the credit research carried out by the investment manager. The investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. For each portfolio there are limits to the exposure to single issuers and to the total amount that can be held in each credit quality rating category, as determined by reference to credit rating agencies.

Notes to the financial statements for the year ended 31 December 2018 (continued)

14 Creditors: amounts falling due within one year	2018	2017
	£'000	£'000
Trade creditors	1,248	1,350
Amounts owed to group undertakings	349	668
Other creditors	132	108
Corporation tax	-	11
	1,729	2,137

Trade creditors are interest free and are payable on demand.

15 Deferred tax	2018	2017
	£'000	£'000
Other temporary differences	5	4
Deferred tax asset	5	4
At 1 January	4	3
Deferred tax charge for the year	1	1
At 31 December (note 11)	5	4

16 Called up share capital	2018	2017
	£'000	£'000
Allotted and fully paid		
50,000 (2016: 50,000) ordinary shares of £1.00 each	50	50
13,000,000 (2016: 13,000,000) ordinary B shares of £1.00 each	13,000	13,000
	13,050	13,050

17 Ultimate parent company

The Company's immediate parent company is MS Amlin Corporate Services Limited, a company incorporated in Great Britain and registered in England and Wales. The smallest group in which the results of the company will be included is that of Mitsui Sumitomo Insurance Company Limited, a company incorporated in Japan. The Company's ultimate parent company and controlling party is MS & AD Insurance Group Holdings, Inc, a company incorporated in Japan and is the largest group in which the results of the Company are consolidated. The consolidated financial statements of MS & AD Insurance Group Holdings, Inc are available to the public and may be obtained from the Company Secretary at The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AG, which is also the immediate parent company address. The ultimate parent company address is Tokyo Sumitomo Twin Building (West Tower), 27-2, Shinkawa 2-chome, Chuo-ku, Tokyo, Japan. The address of Mitsui Insurance Company Limited is 9, Kanda-Surugadai 3Chome, Chiyoda-ku, Tokyo, Japan.

Notes to the financial statements for the year ended 31 December 2018 (continued)

18 Events after the reporting period

There have been no significant events after the reporting date.