Building the capacity portfolio

Helios Underwriting plc
Annual report and financial statements 2019

Generating value from consolidation at Lloyd's

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The Vision

To grow our Capacity Fund

- Building stakes in the "best at Lloyds"
- Continued participation on the better managed syndicates
- Continued outperformance of the Fund against Lloyds market

The Opportunity

- Continue to build the capacity portfolio
- Take advantage of much improved market conditions
- Ability to buy assets at below fair value

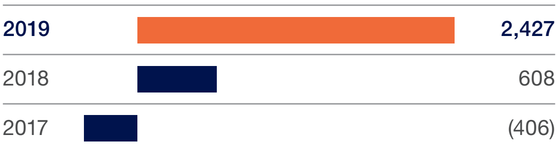
Visit our investor website at **www.huwplc.com** for the latest Company news and announcements.

Delivering our strategy

- 31% increase in the capacity portfolio from the four acquisitions in the year and a further acquisition in year 2020 to date
- Profit before impairments and tax for the year of £2,427,000 (2018: £608,000)
- Basic earnings per share of 25.64p (2018: 3.14p)
- Helios retained capacity for 2020 open underwriting year of £20.7m (2019 year of account: £15.8m)
- Adjusted net asset value of £2.06 per share (2018: £1.90 per share)
- Stop loss in 2020 continues to protect the downside and provides underwriting capital support

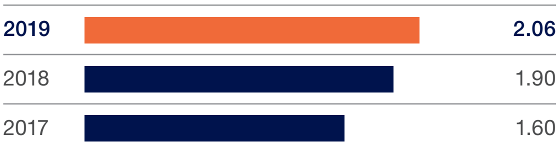
Profit/(loss) before impairments and tax (£'000)

2,427



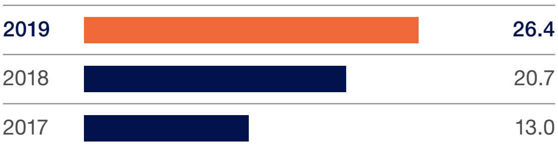
Adjusted net asset value per share – basic (£)

2.06



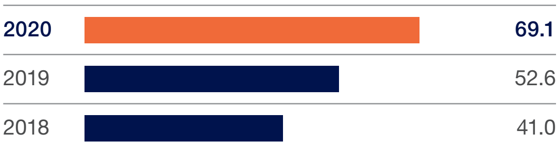
Value of capacity fund (WAV) (£m)

26.4



Growth in capacity (£m)

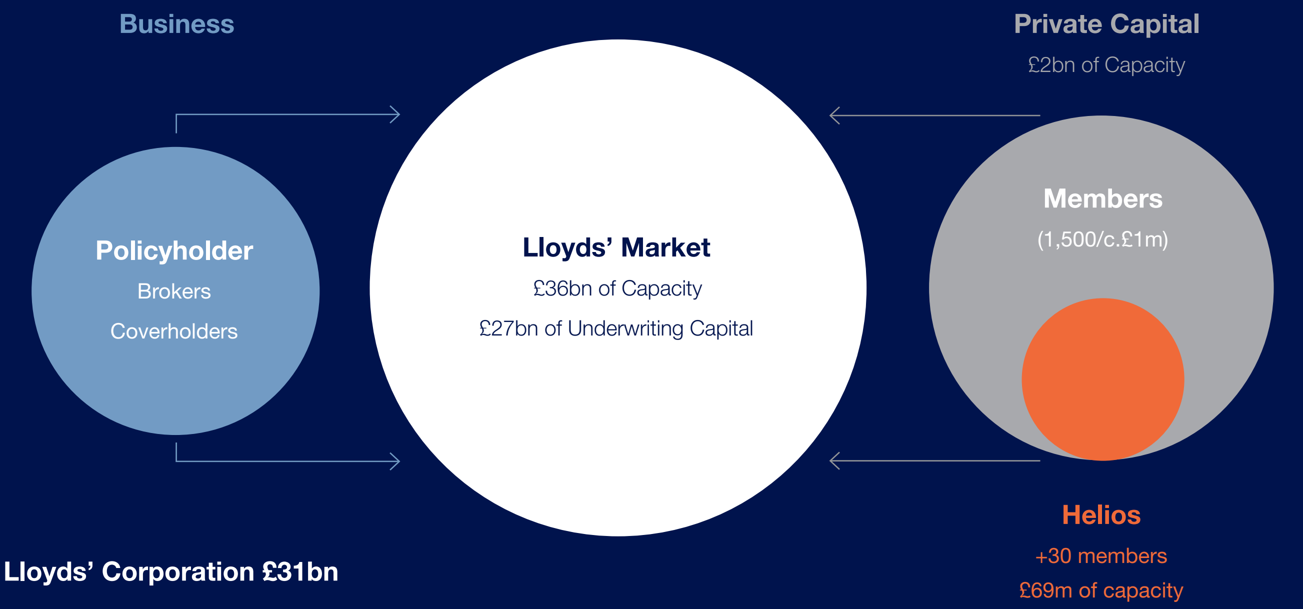
69.1



Window of opportunity to take advantage of improved market conditions

Our unique business model:

Capturing and simplifying capacity at Lloyd's



- Helios is the only professional corporate purchaser acquiring capacity from exiting names
- Limited window of opportunity
- Remaining Names comprise £2–3bn of Lloyd's capacity
- Returns on average 6.3% better than the Lloyd's market
- Requires deep knowledge of and contacts within Lloyd's
- Significant barriers to entry for prospective competitors
- Unrivalled senior management contacts and experience

Market conditions

- Three years of underwriting losses has accelerated improvement in terms and conditions
- Prospects for profitable underwriting improve
- Further pre-emptions expected as syndicates seek to take advantage of improved underwriting conditions
- Inheritance tax relief still important

COVID-19

- Significant loss for the insurance industry
- Highly complex loss that will take many months to understand the extent of exposures
- Underwriting capital and cash reserves will be required to fund solvency losses
- Re-underwriting of portfolios by syndicate can mitigate exposures

The market backdrop

Favourable to our unique business model

Premium rate increases are now accelerating

Change of sentiment for owners of smaller LLVs

Prospects for profitable underwriting are good

Helios Group summary profits

	2019 £'000	2018 £'000
Underwriting profits	**3,261**	783
Total other income	**2,557**	1,879
Total costs	**(3,391)**	(2,054)
Profit before impairments and tax for the year	**2,427**	608
Profit before tax	**4,054**	327
Earnings per share –		
Basic	**25.64p**	3.14p
Diluted	**24.86p**	3.03p

Read more on page 14

Helios Capacity Fund

	Year of account			
Capacity acquired	2017	2018	2019	**2020**
Capacity at start of underwriting year – £m	32.6	41.0	52.6	**69.1**
% capacity retained at outset	30%	30%	30%	**30%**
Helios retained at inception	9.8	12.3	15.8	**20.7**
Acquired in year 1 – £m	4.4	14.7	8.5	**1.1**
Acquired in year 2 – £m	16.1	8.8	1.1	
Acquired in year 3 – £m	8.4	1.3		
Current capacity (including post balance sheet acquisitions of subsidiaries) – £m	62.7	65.8	62.2	**70.2**
Helios retained capacity at closure/current	37.4	27.6	23.3	**21.1**
Proportion retained – %	60%	42%	37%	**30%**

Each LLV acquired increases capacity for three open underwriting years. Position as at May 2020.

Improvement in market conditions is accelerating

Michael Cunningham
Non-executive Chairman

Summary

- Profit before tax and impairments of £2,427,000 (2018: £608,000)
- Adjusted net asset value at £2.06 per share (2018: £1.90)
- The capacity portfolio has been increased to £70m for 2020 year of account
- Four LLVs were acquired in 2019 (six in 2018) for a total consideration of £10m (£12m in 2018)
- The value of the fund increased to £26.4m, an increase of 28%.
- The gain on bargain purchases, acquiring assets at below their fair value, contributed £1.7m to operating profits (2018: £1.2m)
- Too early to quantify COVID-19 impact but is expected to fall mainly on 2019 year of accounts
- In view of the COVID-19 uncertainty, no final dividend is being recommended (2018: 74)
- Pre-emption capacity acquired for no cost increased the value of the portfolio by £2.5m

> Full extent of COVID-19 losses will take many months to be identified.

Summary

Your Board announces the results for 2019 which shows a significant increase in profitability and shareholder value as we were again able to acquires LLVs at below fair value and as the value of the capacity fund increased during the year. The Group's strategy of building a fund of capacity on the better syndicates at Lloyd's by acquiring LLVs and by taking up pre-emption capacity offered by our supported syndicates has increased shareholder value. The profit before impairment for the year is £2,427,000 (2018 608,000), whilst the adjusted net asset value of the Group is £2.06 per share (2018: £1.90).

We are now part way through a broad-based turn in the market, with rates rising steeply across many lines of business. Over the past two years, we have seen premium rates on renewal business rise cumulatively by more than 10% for half of our book. Rate changes for the three months ended 31 March 2020 were particularly encouraging, with an average rate increase of 8%. This strong momentum is expected to continue and should result in an improved underwriting performance in 2020, with further improvement expected in 2021.

The COVID-19 pandemic has created turbulence in financial markets and economic uncertainty which will impact individuals and businesses. The full impact of this on the insurance industry, including the Lloyd's market, is uncertain. The initial assessment by supported syndicates has identified those lines of business most likely to be impacted, however the full extent of the losses and the impact upon pricing will become clearer as the year progresses. We will regularly monitor developments in this area.

Strategy

The building of a portfolio of participations on leading Lloyd's syndicates remains the strategic objective of the Group. During 2019 the key developments were:

- building the portfolio of capacity to £70m for 2020 by acquiring four new subsidiaries in 2019 and a further one LLV in the year to date;
- The value of the capacity fund increasing by 28% to £26.4m as pre-emption capacity acquired for no cost increased the value of the portfolio by £2.5m;
- maintaining the quality of the portfolio and the outperformance of the underwriting results average against the Lloyd's market as a whole; and
- continuing to use quota share reinsurance to reduce the risk from underwriting and to assist in the financing of the underwriting capital of the portfolio.

Capacity acquired

During 2019 a further four corporate members were acquired and a single LLV has been bought to date in 2020. The increase in the capacity for the 2017 to 2019 years of account is shown below.

	Summary of acquisitions			
	Cash consideration £m	Capacity £m	Humphrey Value £m	Discount to Humphrey
Nameco No 409 Limited	1.3	1.1	1.6	19%
Nameco No 1113 Limited	2.0	2.0	2.7	26%
Catbang 926 Limited	5.6	4.1	6.7	16%
Whittle Martin Underwriting Ltd	1.2	1.4	1.4	14%
Total for 2019	**10.1**	**8.6**	**12.5**	**19%**

The four (six in 2018) acquisitions in 2019 were purchased for a total consideration of £10m (£12m in 2018), of which £3.6m (£4.3m in 2018) was attributed to the value of capacity acquired. Since the beginning of 2020 the number of LLVs available for sale has remained steady. The effect of the losses from the last three years and the prospective loss from the COVID-19 pandemic increases the prospect of acquiring further LLVs at lower prices. We will continue to build on the quality of the capacity portfolio as it is essential to acquire and retain the participations on the better managed syndicates.

Adjusted net asset value per share

	2019 £'000	2018 £'000
Net assets less intangible assets	**6,970**	4,994
Group letters of credit	**2,768**	1,744
Fair value of capacity (WAV)	**26,350**	20,638
	36,088	27,376
Shares in issue (Note 21)	**17,489**	14,441
Adjusted net asset value per share (£)	**2.06**	1.90

The adjusted net asset value per share has increased by 8.4% (18% in 2018). The value of the portfolio of capacity has increased with significant contribution being made by the pre-emption of free capacity taken up which contributed £2.5m to the increase in value. The capital raise and acquisition of an LLV for shares in July 2019 has increased the number of shares in issue. The value of capacity is subject to fluctuation and reflects the activity in the capacity auctions held in the autumn of each year.

Dividend

The Board is not recommending the payment of a final dividend for the year ended 31 December 2019 (2018: final dividend of 3.0p). The Board considers that the dividend policy should reflect the requirement to maintain its available cash resources given the uncertainty for the potential funding of the COVID-19 and other losses in the immediate future. However, the Board continues to recognise the importance of capital returns to shareholders and will review the situation at the interim stage.

Outlook

The COVID-19 coronavirus pandemic will be a manageable loss for the property and casualty insurance and reinsurance industry, unless there is some kind of structural change to drive the cost to the sector much higher.

It should not be forgotten that the current turmoil is happening against the backdrop of the greatest momentum we have seen in (re)insurance pricing for many years. Recent events are accelerating the premium rate rises.

The importance of having sufficient diversification within the portfolio to absorb shock losses is critical to the success of the portfolio. We do this by being partnered with the highest quality underwriting businesses at Lloyd's. Bad things happen and the insurance industry exists to pay claims when they do. This is a very challenging time for everyone. Our company has successfully navigated these periods before and we believe they will do so again coming out stronger on the other side.

Board

2019 has demonstrated that value can be created from implementing the strategy of building a capacity fund from the acquisition of LLVs at below fair value. The increase in the value of the capacity fund has contributed to the growth of the Company. Our strategy of reducing risk has been successful in insulating the Company from severe losses. The Executive team is to be congratulated on achieving an excellent result in the circumstances.

Michael Cunningham
Non-executive Chairman
28 May 2020

Successfully building a portfolio of capacity

Nigel Hanbury
Chief Executive

Summary

- Adjusted net asset value at £2.06p per share (2018: £1.90), a 8.4% increase
- 31% increase in the capacity portfolio to £69m of capacity for 2020 underwriting year
- Negative goodwill of £1.7m contributing to shareholder value
- The results of capacity portfolio have for the last three closed years of account out performed the results of the Lloyd's market by an average of 6.3%.

"

Our reinsurance will mitigate downside risk and provide further underwriting capital for COVID-19 losses.

Highlights

- The strategy of building a quality portfolio of syndicate capacity continues successfully as the portfolio increased from £59m to £69m – a 31% increase.
- Quota share reinsurance has provided finance for acquisitions and has mitigated the loss from catastrophe losses in 2017, 2018 and 2019.
- The value of the capacity portfolio has increased to £26.4m (2018: £20.6m) a 28% increase.
- Helios' portfolio underwriting results for 2017 underwriting year outperformed Lloyd's return on capacity by 3.3% and by an average of 6.3% for the last three closed underwriting years of account demonstrating the quality of the portfolio.
- The improvement in underwriting conditions is now accelerating on top of aggregate rate increase during 2019 of 5.4% (2018: 3.5%) following catastrophe losses in 2017, 2018 and 2019.
- With the prospect of improving underwriting returns, together with the opportunity to continue to build the capacity portfolio, Helios is well placed to deliver value to shareholders in the future.

Building the capacity fund

The size of the capacity portfolio increased by 31% to £69.1m and its value by 28% to £26.4m in 2019. This was achieved by:

- The purchase of a further four corporate members. The flow of vehicles for sale increased as existing owners wish to cease underwriting and during 2019 £8.5m (2018: £14.7m) of capacity was added. The assets were acquired at below fair value creating negative goodwill of £1.7m. Given the flow of LLVs for sale at the current time and the uncertainty surrounding the COVID-19 losses, the level of discount to fair value should be able to be maintained.
- The portfolio's syndicates offered pre-emption increases in capacity totalling £5.6m for no cost to take advantage of the improving market conditions. This free capacity on syndicates that have values at auction increased the value of the fund by £2.5m.
- We took advantage of the strong market in the capacity auctions and sold capacity on certain syndicates to balance the portfolio and to realise some additional cash of £0.9m.
- We continued to actively manage the syndicates' participations shedding participations on syndicates' from LLVs acquired and deploying capital on the Beazley Tracker syndicate 5623 and the Blenheim syndicate 5886.

The average price per £ of capacity fell slightly as proportion of capacity on "nil value"/non traded syndicates increased with the participation on syndicates 5623 and 5886.

The value of the portfolio of the syndicate capacity remains the major asset of the Group and an important factor in delivering overall returns to shareholders. The growth in the adjusted net asset value ("ANAV"), being the value of the net tangible assets of the Group, together with the current value of the portfolio capacity, is a key management metric in determining growth in value to shareholders.

The Board recognises that the average prices derived from the annual capacity auctions managed by the Corporation of Lloyd's could be subject to material change if the level of demand for syndicate capacity reduces or if the supply of capacity for sale should increase. In 2019, the average prices of capacity traded in the capacity auctions remained stable at 38p per £ of capacity after adjusting for the additional capacity created from the pre-emptions. The Directors have noted the recent significant reduction in price to book values of the London listed Lloyd's insurers and believe that the reduction in the valuation multiples could be reflected in the average price of capacity in the Capacity Auctions to held in October 2020.

A sensitivity analysis of the potential change to the ANAV per share from changes to the value of the capacity portfolio is set out below:

	Capacity value	Revised ANAV per share
Current value	**26,350**	2.06
Decrease of 10%	**23,715**	1.91
Decrease of 20%	**21,080**	1.76

Each 10% reduction in the capacity values at the 2020 auctions will reduce the ANAV by approx. 15p per share. Any reduction in the value will be mitigated by any pre-emption capacity on syndicates that have a value at auction that is offered and taken up for nil value.

The accounting policy requires an assessment of the carrying value of each syndicate participation against the latest average auction prices. The impairment credit for this year of £1.9m (2018: loss of £281,000) arises as fair value of the syndicate capacity held on the balance sheet has been revised upwards.

These movements in the carrying value of capacity have no impact on cash flow.

	2019	
	Capacity £m	**Fair value (WAV) £m**
At 1 January 2019	**52.6**	**20.6**
Capacity acquired with LLVs	**8.5**	**3.6**
Pre-emption capacity	**5.6**	**2.5**
Capacity sold at auction	**(1.6)**	**(0.9)**
Other capacity movements/change in value	**4.0**	**0.6**
At 31 December 2019	**69.1**	**26.4**
% Growth	**31%**	**28%**

Underwriting result

The calendar year underwriting profit from the Helios retained capacity for 2019 has been generated from the portfolio of syndicate results from the 2017 to 2019 underwriting years as follows:

Underwriting year contribution

Underwriting year	**2019 £'000**	2018 £'000
2016	**—**	1,580
2017	**2,726**	912
2018	**1,349**	(1,709)
2019	**(814)**	—
	3,261	783

2019 again saw some significant catastrophic losses for the insurance industry and so too for the Lloyd's market, with notable losses in the second half of 2019 including Typhoons Faxai and Hagibis (in Japan) as well as Hurricane Dorian (impacting the Bahamas). Insured losses arising from catastrophic events cost the Lloyd's market £1.8bn, net of reinsurance, in 2019 (2018: £2.9bn).The investment return for the Lloyd's market was 4.8% (2018: 0.7%), reflecting a buoyant year in financial markets which has improved the overall underwriting return for the year.

The Lloyd's market experienced a weighted average increase in prices on renewal business of approximately 5.4% in 2019. In addition, several syndicates exited or severely curbed their risk appetites in poor performing lines, as Lloyd's began to ramp up its activity to support the market in closing the performance gap.

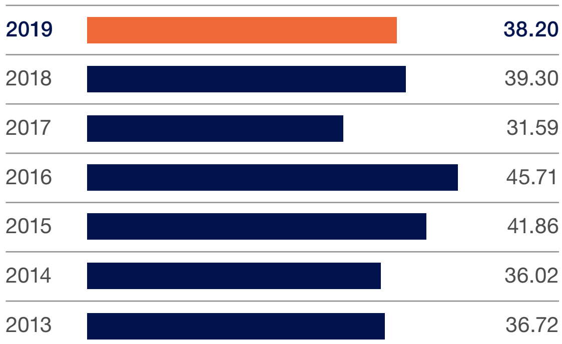
During 2019, the 2017 underwriting year midpoint loss estimate reduced from 8.6% return on capacity to a final loss of 4.7% outperforming the average of the Lloyd's market by over 3%. The overall return on capacity for 2017 benefited from the increased investment returns in last 12 months. The midpoint estimate for the 2018 underwriting year at 31 December 2019 was a loss of 3.61% (2017: 3.5%). The small deterioration of the 2018 mid-point estimate over the year was caused by reserve increases on short tail lines from losses that occurred in 2018 and this mid-point estimate is outperforming the Lloyd's market result by over 2%. Nevertheless, we would expect the 2018 underwriting year forecast to improve over the next 12 months to make a contribution to 2020 calendar year underwriting profits.

The 2019 underwriting year result at 12 months represents a loss of 3% (2018: loss -8%) on the retained capacity. Following the recent receipt of the first estimates of the 2019 year of account we are pleased that the Helios midpoint loss of 0.7% is outperforming Lloyd's by 65 basis points. It is expected that that a significant proportion of the losses arising from COVID 19 will attach to the 2019 underwriting year and therefore there remains considerable uncertainty regarding the eventual outcome for this underwriting year.

The improvement in the underwriting environment is accelerating in 2020 as the losses from COVID-19 pandemic are assessed.

Value per £ of capacity (p)

38.20



Other income

Helios generates additional income at Group level from the following:

	2019 £'000	2018 £'000
Fees from reinsurers	235	575
Corporate reinsurance recoveries	(357)	366
Gain on bargain purchases	1,707	1,184
Investment income	972	(246)
Total other income	**2,557**	1,879

Fees from reinsurers have reduced with two underwriting years now currently forecast to be loss making, no profit commission has been accrued.

The Group has reinsurance policies at member level where any expected underwriting year losses can be recovered up to the level of indemnity for the member. For the 2017 and 2018 years of account, an assessment has been made of the likely year of account loss and a potential reinsurance recovery of £0.6m (2018 – £1m) has been made, hence the reduction in the estimate of the accrual.

During the year the four acquisitions were acquired for a total consideration of £10.1m (2018 – £12.2m), a discount of 19% (2018 -14%) to the Humphrey valuations which generated negative goodwill of £1.7m in the year.

Investment income includes the gain on the sale of capacity during the year of £0.9m.

Total costs

The costs of the Group comprise the operating expenses and the cost of the stop loss protection bought to mitigate the downside from large underwriting losses.

	2019 £'000	2018 £'000
Pre-acquisition	859	56
Stop loss costs	200	296
Operating costs	2,332	1,702
Total costs	**3,391**	2,054

The profits that are recognised in the LLVs acquired in the year are included in the Underwriting result and the pre-acquisition element is reversed out and is treated as an expense.

The reduction in stop loss arises from a prior year adjustment of £0.2m relating to the quota share arrangements.

The Operating Costs include gains and losses on conversion of balance sheet currency balances and a swing in the FX charge of £0.7m in the year accounts for the increase in operating costs. The underlying operating costs of the business remain at £2m.

Quality of portfolio

We continue to focus ruthlessly on the quality syndicates. In order to maintain the quality we strive to acquire LLVs with portfolios that comprise quality syndicates, thereby having to pay the average auction prices. Participations on weaker syndicates in acquired portfolios are sold or discarded to maintain the overall quality. The seven largest participations with the leading managing agents at Lloyd's account for 76% of the portfolio. These participations in syndicates managed by these managing agents represent shares in the better managed businesses at Lloyd's.

Syndicate	Managing Agent	Capacity £'000	Total
510	Tokio Marine Kiln Ltd	13,077	19%
623	Beazley Furlonge Limited	9,572	14%
33	Hiscox Syndicates Limited	8,358	12%
2791	Managing Agency Partners Ltd	6,298	9%
609	Atrium Underwriters Limited	5,717	8%
5886	Blenheim Underwriting Limited	5,333	8%
218	ERS Syndicate Management Ltd	5,115	7%
Subtotal		53,470	76%
Other		16,730	24%
Total (includes post balance sheet acquisition)		**70,200**	**100%**

The underwriting results of the Helios portfolio have on average outperformed the Lloyd's market average. Helios' average return on capacity over the last three closed years is 4.8% and is on average 6.3% higher than the average of the Lloyd's market over that period. This material outperformance cannot be expected to be maintained.

The combined ratio of the portfolio (before Helios corporate costs) has been 5.5% lower than the Lloyd's market on average over the last three calendar years. These incremental returns demonstrate the diversity and breadth of underwriting expertise within the businesses comprising the portfolio of syndicate capacity.

Reinsurance quota share

The use of quota share reinsurance to provide access to the Lloyd's underwriting exposures for reinsurers and private capital has been expanded. The core of the panel of reinsurers remains XL Group plc and Everest Reinsurance Bermuda Limited.

This reinsurance reduces the exposure of the portfolio and assists in the financing of the underwriting capital. Helios will seek to reinsure a significant proportion of the capacity at the start of the underwriting year to mitigate the open-year underwriting exposures. For corporate members acquired during the year, a proportion of the "on-risk" capacity will be ceded to reinsurers whilst the capacity on older years will be retained 100% by Helios. Therefore, the proportion of the overall capacity that Helios retains is expected to rise as further corporate members are acquired in the future. The profits earned after the company has been acquired will be recognised by Helios.

The table shows that the Helios retained capacity increases significantly in years 2 and 3 as further LLVs are acquired and the older years are not reinsured. Capacity on underwriting years after 18 months of development is substantially "off risk" as the underlying insurance contracts have mostly expired. Further capacity was ceded to quota share reinsurers in 2018 from the capacity acquired during the year as the reinsurers provided their share of the necessary underwriting capital immediately; this assisted in the funding of the acquisitions made.

The profits from the capacity on the older years are retained 100% by Helios.

	Year of account – £m			
	2017	2018	2019	**2020**
Helios capacity at outset	9.9	12.3	15.8	**20.7**
Retained capacity in year 1	1.8	6	6.4	**0.3**
Retained capacity in years 2 and 3	24.5	9.2	1.1	**—**
Helios retained capacity	36.2	27.5	23.3	**21.0**
% of off-risk capacity				
Ceded capacity at outset	22.8	28.7	36.8	**48.4**
Further capacity ceded to QS	2.6	9.5	2.1	**0.8**
Total capacity ceded	25.4	38.2	38.9	**49.1**
Current total capacity	62.7	65.8	62.2	**70.2**
Helios share of total capacity	58%	42%	37%	**30%**

Risk management

Helios continues to ensure that the portfolio is well diversified across classes of businesses and managing agents at Lloyd's.

The purchase of quota share reinsurance cedes 70% of the risk on the younger or "on-risk" years, which has remained consistent for the last three years.

The biggest single risk faced by insurers arises from the possibility of mispricing insurance on a large scale. This is mitigated by the diversification of the syndicate portfolio and by the depth of management experience within the syndicates that Helios supports. These management teams have weathered multiple market cycles and the risk management skills employed should reduce the possibility of substantial under-reserving of previous-year underwriting.

We assess the downside risk in the event of a major loss through the monitoring of the aggregate net losses estimated by managing agents to the catastrophe risk scenarios ("CRS") prescribed by Lloyd's.

The individual syndicate net exposures will depend on the business underwritten during the year and the reinsurance protections purchased at syndicate level.

The aggregate exceedance probability ("AEP") assesses the potential impact on balance sheet across the portfolio from either single or multiple large losses with a probability of occurring greater than once in a 30-year period.

In addition, Helios purchases stop loss reinsurance for its 30% share of the portfolio with an indemnity of 10% of its share of the capacity and a claim can be made if the loss for the year of account at 36 months exceeds 5% of capacity.

Capital position

The underwriting capital required by Lloyd's for the Helios portfolio comprises the funds to support the Economic Capital Requirement of the portfolio and the Solvency II adjustments is as follows:

Underwriting capital as at 31 December	**2019 £m**	2018 £m
Reinsurance panel	**26.7**	24.5
Helios own funds	**13.5**	8.3
Group letters of credit	**1.8**	2.2
Total	**42.0**	35.0
Capacity as at 1 January 2020	**70.2**	52.6
Economic capital requirement	**35.2**	27.3
Solvency II and other adjustments	**6.8**	7.7
	42.0	35.0

In addition to the current funds lodged at Lloyd's, Helios has available the following facilities to provide additional resources to fund the necessary capital requirements:

- A bank revolving credit bank facility of £4m of which £2.0m has been drawn down, and
- The stop loss reinsurance contracts for the 2019 and 2020 years of account could provide additional underwriting capital of approximately £5m.

Corporate, social and environmental responsibility

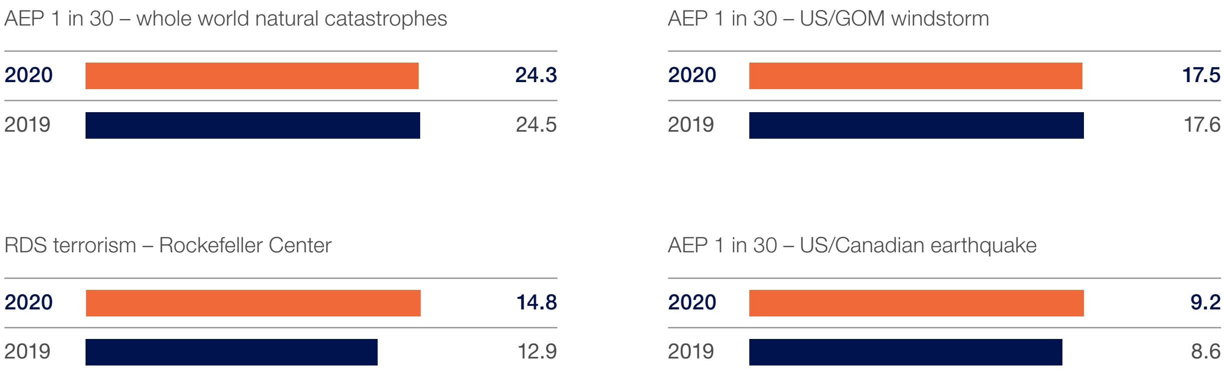
Helios aims to meet its expectations of its shareholders and other stakeholders in recognising, measuring and managing the impacts of its business activities.

As Helios manages a portfolio of Lloyd's syndicate capacity, it has no direct responsibility for the management of those businesses. Each managing agent has responsibility for the management of those businesses, their staff and employment policies and the environmental impact.

Therefore, the Board does not consider it appropriate to monitor or report any performance indicators in relation to corporate, social or environmental matters.

Nigel Hanbury
Chief Executive
28 May 2020

Catastrophe risk scenarios ("CRS") – net of reinsurance (%)



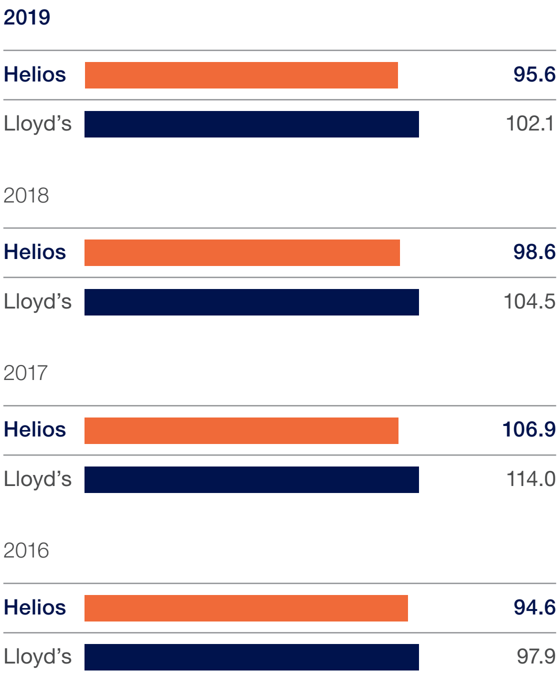
Helios outperforms Lloyd's with a combined ratio of 95.6% in 2019 (Lloyd's 102.1%)

The quality of the Helios portfolio of syndicates was again demonstrated in 2019 with Helios reporting a combined ratio of 95.6% (2018: 98.6%) despite the Lloyd's market as a whole reporting its third consecutive year of loss with a combined ratio of 102.1%. Over the past four years Helios' calendar year combined ratio (before corporate costs) has outperformed Lloyd's by 5.7 percentage points a year with an average combined ratio of 98.9% compared with 104.6% for the overall Lloyd's market. The chart below shows the combined ratio of the Helios portfolio compared with Lloyd's from 2016 to 2019.

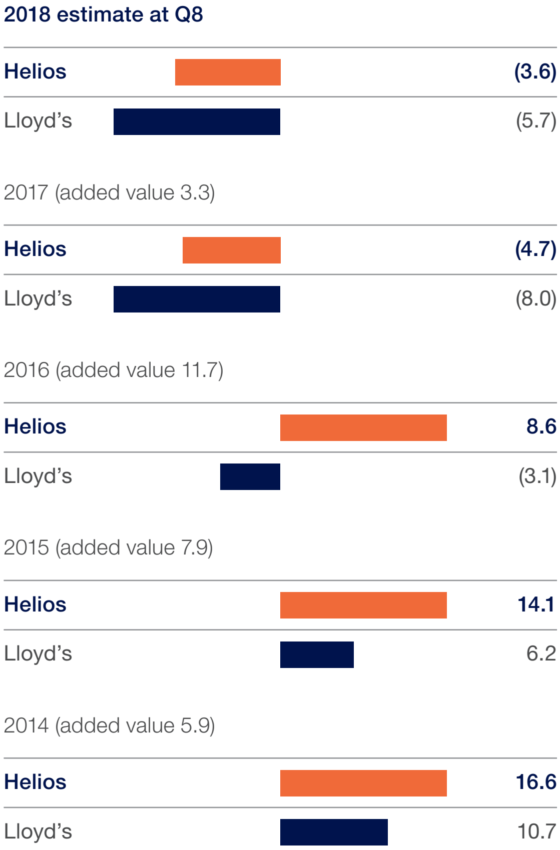
The 2018 Account suffered from the fourth highest total of insured natural catastrophe losses estimated by Swiss Re Sigma at $93bn in 2019 dollars compared with its estimate a year earlier of $85bn. Major losses in the year included Hurricanes Michael and Florence in the US, a record level of losses from wildfires in California as well as Typhoons Jebi and Trami in Japan.

Updated estimates are expected to be released by Lloyd's on 27 May 2020 as at Q1 2020 for the 2018 Account together with a first set of estimates for the 2019 year of account, which will include an initial assessment of losses from COVID-19.

Helios combined ratio compared with Lloyd's: 2016–2019 (%)



Helios return on capacity compared with Lloyd's: 2014–2017 and 2018 (est. at 2019 Q4)



With the closure of the 2017 Account at 31 December 2019 the Helios portfolio has outperformed Lloyd's for the ninth successive three year account result, reporting a loss of 4.7% on capacity compared with the Lloyd's market average result which was a loss of 8.0% on capacity. The 2017 Account improved by 4.6 percentage points from the estimate at Q4 2018 benefiting from prior year releases which totalled 4.3% of capacity.

Trading conditions continued to be difficult in most classes of business in 2017 but the main reason for the loss was the highest ever level of global insured losses from natural catastrophes initially estimated by Swiss Re at $144bn (revised in 2019 Dollars to $151bn). Hurricanes Harvey, Irma and Maria struck the US and the Caribbean in quick succession resulting in combined insured losses of $92bn while separate wildfire outbreaks led to record losses of $13bn across northern and southern California in October and December 2017.

The chart opposite shows the return on capacity of the Helios portfolio compared with Lloyd's for the last four closed years from 2014 to 2017. The chart also includes the open year estimate for the 2018 year of account as at the end of Q4 2019. This open year estimate is a loss of 3.6% of capacity (Lloyd's Market Average is a loss of 5.7% of capacity) and includes estimates from four acquisitions made by Helios during 2019, but excludes the acquisition of Nameco 408 Limited on 29 January 2020. We expect an improvement in this estimate when the result is declared as at the end of 2020, but do not expect prior year reserve releases or the investment return component to be as strong as for the 2017 Account.

"Loss Creep" from 2017/2018 catastrophe losses

What has been unusual about loss development for the major losses in 2017 and 2018 is the level of adverse development with the latest industry loss estimates being significantly higher than initial estimates. The latest estimate of insured losses from Typhoon Jebi, the most powerful typhoon to hit Japan in September 2018 is $13bn which compares with initial estimates from the catastrophe modelling company, AIR, of $3.4bn, an increase of 3.8 times.

Based on estimated insured losses from Property Claims Services the 2018 Hurricanes Michael and Florence could cost insurers 2 times and 1.8 times initial loss estimates while 2017's Hurricane Irma could cost 1.7 times initial estimates. Much of the reason for the "loss creep" for Hurricanes Irma and Michael was due to legislation in Florida known as Assignment of Benefits, where the policyholder can assign post loss benefits from their insurance policy to a third party. New legislation to control this practice was signed into law in Florida on 1 July 2019, which should reduce costs for insurers in that state from future hurricanes by requiring assignees to reasonably price their work combined with revisions to the costs chargeable by plaintiff lawyers.

Major losses in 2019 were below the 10-year average

Owing to the absence of severe hurricanes in the US, in contrast to the previous two years, insured major losses totalled $60bn in 2019, below the annual average of $75bn in the previous ten years. For the second year running Japan was struck by two severe typhoons, Hagibis and Faxai, with the largest insured loss totals of $8bn and $7bn respectively of all disaster events around the world, according to Swiss Re Sigma. Most of the insured losses from Typhoon Hagibis were due to flood. The 2019 hurricane season was notable for Hurricane Dorian which maintained Category 5 winds for the longest duration on record and for the Bahamas was the costliest natural disaster event ever with total insured losses of $4.5bn in the Bahamas and North Carolina.

The COVID-19 "Insurance Event" is expected to mostly impact the 2019 Account

We are currently in the middle of the COVID-19 pandemic which was first identified in Wuhan, China in early December 2019. There is considerable uncertainty about the ultimate level of insured losses arising from COVID-19 as unlike a natural catastrophe, it is spread worldwide, has a multi-class impact and is occurring over a long period.

The uncertainty is reflected in a wide range of insured loss estimates. The broker, Willis Towers Watson (WTW), estimated that insured losses could range from $11bn in an optimistic scenario to $140bn in a worst case scenario, with 96m deaths. US analyst, Dowling & Partners, estimates insured losses in a range of $40bn-$80bn with reinsurers' share being 40%-60% of industry losses. We expect some complexity in establishing what is covered and what is not covered in property catastrophe treaties which may mitigate losses assumed by reinsurers.

Lloyd's announced on 14 May 2020 preliminary estimated insurance losses (Scenario C submitted by Managing Agents assuming social distancing restrictions continue until 30 June 2020) of £2.35bn net of reinsurance with a Reinsurance Recovery Ratio of 48% of gross losses. The direct impact on Lloyd's will largely be felt by the 2019 year of account which we estimate may bear 75% of the insured losses with 25% on the 2020 Account. Based on this split implies an estimated loss of 5.7% of capacity on the 2019 Account and 1.8% of capacity on the 2020 Account. Lloyd's has indicated that with estimated downside uncertainty insured losses could increase by 49% to reach £3.5bn, which is manageable and just under Lloyd's insured losses of £3.8bn from Hurricanes, Harvey, Irma and Maria in 2017.

The main classes affected by COVID-19 claims at Lloyd's are event cancellation, property with affirmative business interruption cover, property treaty, political risks and trade credit. In addition, liability classes are expected to be affected together with a second order impact from recession related claims. Liability classes which may be affected include directors and officers (D&O), general liability (GL), errors and omissions (E&O), employment practices liability (EPL) and workers' compensation.

In the US there is uncertainty for property insurers in relation to Business Interruption cover with currently eight states proposing bills that would retroactively change policy wordings and require insurers to pay business interruption claims despite exclusionary language. The standard ISO property insurance wording in the US is clear that a physical loss is required for a business interruption claim to be made and also excludes loss owing to a virus or bacteria. It is expected that ultimately contract wordings will be upheld with Article 1 of the US Constitution effectively prohibiting states from interfering with private contracts. There is precedent in the US for contract wordings being challenged. In Louisiana after Hurricane Katrina the state tried to force homeowners' insurers to pay claims irrespective of whether their loss was caused by wind driven rain (covered) or flood (not covered). This was challenged by a number of insurers in the courts and the contract language was upheld.

The impact of COVID-19 on the 2019 Account may turn a modest profit into a small loss but there are material variables which will depend on a range of factors not least the duration of lockdown and its impact on the economy. However there may be a beneficial impact on claims owing to the reduction in economic activity as a result of government imposed lock downs. Specific classes which are currently benefiting from reduced frequency include auto and workers' compensation. In addition, owing to courts being closed, the plaintiff bar is more amenable to settlements and mediations and has less need to source claims owing to the inventory being built up from COVID-19.

Momentum of insurance price rises began to accelerate in the second half of 2019

2019 was notable for positive and accelerating momentum in rate increases in most classes of the insurance market and this continues for 2020 with a consequence of COVID-19 being a heightened focus on restricting terms and conditions which had been broadened in the soft market years.

US business remains the predominant market for Lloyd's with around 50% of premiums being denominated in dollars. Using data from the Council of Insurance Agents and Brokers (CIAB) property and casualty insurance rates have now increased for nine successive quarters to Q4 2019 with average premium increases across all size accounts being 7.5%, the highest since 2003 (the rate increase a year earlier during Q4 2018 was 2.4%).

Segments where rate increases are more significant include US public D&O pricing with Aon reporting rate increases of 69.7% in the third quarter of 2019 compared with a year earlier while the US excess and surplus lines market also showed an acceleration in the level of rate increases in the second half of 2019. The E&S market is particularly important for Lloyd's which has the largest market share of all insurers in 2018 of 23.6%, the next largest being AIG with 7.1%. The latest report from AmWINS, the largest independent wholesale broker in the US, placing $15bn of premiums, shows property rates up by 17.9% in Q4 2019 and casualty rates up by 14.5%.

Global insurance rates are accelerating too with broker Marsh estimating that rates rose by 10.6% in Q4 2019 compared with 2.4% in the same quarter a year earlier. This is the largest increase in the Marsh Global Insurance Market Index which covers 90% of Marsh's business since inception of the index in 2012.

Reduced willingness to deploy capital is contributing to improved market conditions

Historically, the insurance cycle has typically been a classic supply led cycle, where pricing is driven more by changes in supply to the market than changes in demand. At year end 2019 both the insurance and reinsurance markets had abundant capital and therefore in theory plentiful supply of underwriting capacity.

The US property/casualty industry policyholders' surplus increased by 14.2% in 2019 to a record high of $847.8bn at 31 December 2019. Global reinsurer capital also rose by 7% to a record $625bn over the year to 31 December 2019. For the first time since 2008, the alternative capital sector of the market fell back by $2bn to $95bn comprising 15.2% of global reinsurer capital using data from broker, Aon, whose calculation is a broad measure of reinsurer capital available including alternative reinsurance capital. However, Aon estimated that as much as $15bn of alternative capital was trapped in loss reserves and buffers and therefore unavailable as collateral in 2020.

The reason we believe there was a higher level of rate rises in the second half of 2019 is improved underwriting discipline measured by the willingness to deploy capital. This is highlighted by the actions of a number of larger global insurers including Lloyd's:

- The Lloyd's Performance Management Directorate focused its business plan approval process for 2019 on scrutiny of eight classes of business market wide which had been underperforming along with scrutiny of each syndicate's bottom decile underperforming business. The result was the removal of around $4bn of underperforming business from the Lloyd's market for 2019. A measure of the improved discipline at Lloyd's is the fact that 15 syndicates ceased trading in 2018 and 2019.

- US insurer, AIG, made fundamental changes to its underwriting strategy in 2019 which included reducing its property gross limits from $2.5bn to $750m to along with reducing casualty gross limits from $250m to $100m.
- Other significant insurer books being re-underwritten include FM Global, the second largest US commercial property insurer and Swiss Re Corporate Solutions.

Insurance rating momentum continues in 2020

The momentum of rate rises continues in 2020 with broker Marsh reporting the tenth successive quarter of rate increases which averaged 13.9% for Q1 2020 compared with 10.6% for Q4 2019. Rising rates are now being accompanied by narrower terms and conditions with broker WTW reporting that coverage terms and conditions are now under scrutiny and in some cases intense scrutiny.

Twice a year WTW publishes its Marketplace Realities Report which examines market conditions and their expectation of rate changes in 28 insurance classes of business. In its spring update published in May 2020, it predicts that for the first time since it started publishing this Report not a single line of business is expected to show overall decreases with a net plus 23 out of 28 classes showing rate increases. In comparison, in Spring 2017 this measure was negative four when six classes showed rate increases compared with ten showing rate decreases.

Capital flow into reinsurance pauses leading to higher rate increases in 2020

The level of catastrophe losses in 2017 and 2018 as well as "loss creep" has led to a pause in the flow of institutional capital into the collateralised reinsurance market. Reinsurance broker Guy Carpenter estimated that alternative capital grew by 150% between 2012 and 2018 and this was accompanied by a 27% fall in global property catastrophe pricing over this period. Since the beginning of 2019 investors in Insurance Linked Securities funds are being more discerning about which funds they back. The most notable exit is CatCo Investment Management which was bought by US insurance company, Markel in 2015 but was put into orderly run off and ceased writing new business in July 2019. At its peak CatCo had $6.6bn of assets under management but as of Q1 2020 its assets had reduced to $2.7bn.

So far in 2020 we have seen higher rate increases in the reinsurance market than in 2019 with Guy Carpenter's Global Rate Online Index rising by 5% at 1 January (1.1% at 1 January 2019) and its US rate online index by 9% (3% at 1 January 2019). More significant rate increases were seen at the 1 April Japanese property renewals where loss affected wind and flood treaties saw rate increases of between 30% and 50% according to broker Willis Re, while loss free layers were up by between 10% and 35%.

We expect the impact of COVID-19 will increase pressure for reinsurance rate increases at this years' midyear renewals in June and July and at 1 January 2021. Increased demand for risk transfer from insurers may be met by reduced supply if alternative capital pulls back further. Reasons for reduced supply may be a combination of COVID-19 being another instance of exposure to non-modelled perils leading to further trapped collateral and the re-pricing of asset markets curtailing available assets for investment in the Insurance Linked Securities sector.

The Impact of COVID-19 on the economy will affect demand for insurance

The strength of the economy drives the property/casualty insurance industry with net written premiums, a proxy for demand, tracking nominal GDP growth fairly well other than in "hard markets". In 2019, US property/casualty insurers' net earned premiums grew by 4.8% benefiting from rate increases and out-pacing nominal GDP growth of 4.2% for the year.

The COVID-19 pandemic is expected to result in two quarters of economic contraction before recovery later in the year with Wells Fargo Securities estimating the second quarter will see GDP reduce in the US by 22.3% compared with the 4.8% contraction in the first quarter. We expect a fall in demand for insurance although previous economic downturns have been associated with varied growth experience. Some industries will be particularly adversely affected due to COVID-19 such as aviation and hospitality while there has been a sharp fall in energy exposures owing to the reduction in the oil price.

In the last six recessions in the US net written premium has contracted in three of the recessions but risen in the other three. US insurance analyst, Dowling & Partners, states that its working assumption is that "whatever the premium decline, the decline in losses will be greater from lower loss costs". In general, non-life insurance has defensive qualities in today's challenging environment compared with other industries as demand is less sensitive to macroeconomic conditions.

Declining investment returns favour underwriting discipline

At a time of low and declining interest rates the only way to make an acceptable return on equity for investors is to make an underwriting profit. In March 2020 the US Federal Reserve made two emergency rate reductions in its Fed Funds Rate totalling 1.5% which is now targeted at 0% to 0.25% and has coincided with reductions in yield across all durations of the yield curve.

As of 1 May 2020 the two year Treasury Yield had reduced to 0.2% from 2.31% a year ago with most insurers now having low yielding bonds for years to come on premiums received in 2020 and from maturing bonds held in technical reserves releasing cash for reinvestment. Some insurers have also reported investment losses in the first quarter of 2020 which are greater than their estimated losses from COVID-19 meaning that pressures from both the asset and liability sides of the balance sheet are likely to lead to improved underwriting discipline.

Future prospects for the Helios portfolio

The Helios portfolio continues to focus in 2020 on quality Lloyd's syndicates with a key success characteristic being focus on profit over growth. Over 46% of the portfolio measured by capacity is on syndicates graded "AA" or "A" by Hampden. Quality syndicates which are able to conserve capital in soft market years are also in a better position to take advantage in the current upturn in rates and expected profitability.

Despite the current constraints on the economy from COVID-19 we expect the upward price trend in insurance rates in the second half of 2019 and reinsurance rates in the first half of 2020 to be maintained for the remainder of 2020 and into 2021. Importantly rate rises are being accompanied by tighter terms and conditions. What matters to profitability is the price of insurance per unit of exposure and this has been and is continuing to rise.

Assuming the extreme scenario business interruption issues are resolved successfully, COVID-19 should be a manageable loss to the Lloyd's market. It is usually a good time to take underwriting risk when insurers raise capital after an event and risk awareness is heightened. In recent weeks we have seen a number of insurance companies raise new equity and debt capital to replenish COVID-19 losses and fund future growth opportunities and we suspect there are more capital raisings in the pipeline. Helios has a strong record of outperformance of Lloyd's overall leaving its portfolio of syndicates in an excellent position to take advantage of current market conditions which have improved significantly over the past 12 months.

Summary financial information

The information set out below is a summary of the key items that the Board assesses in estimating the financial position of the Group. Given the Board has no active role in the management of the syndicates within the portfolio, the following approach is taken:

A) It relies on the quarterly syndicate forecasts to assess its share of the underlying profitability of the syndicates within the portfolio.

B) It calculates the amounts due to/from the quota share reinsurers in respect of their share of the profits/losses as well as fees and commissions due.

C) An adjustment is made to exclude pre-acquisition profits on companies bought in the year.

D) Costs relating to stop loss reinsurance and operating costs are deducted.

	Year to 31 December 2019 £'000	Year to 31 December 2018 £'000
Underwriting profit	**3,261**	783
Other income:		
– fees from reinsurers	**235**	575
– corporate reinsurance policies	**(357)**	366
– goodwill on bargain purchase	**1,707**	1,184
– investment income	**972**	(246)
Total other income	**2,557**	1,879
Costs:		
– pre-acquisition	**(859)**	(56)
– stop loss costs	**(200)**	(296)
– operating costs	**(2,332)**	(1,702)
Total costs	**(3,391)**	(2,054)
Operating profit/(loss) before impairments of goodwill and capacity	**2,427**	608
Impairment charge – capacity	**1,860**	(281)
Tax	**(233)**	129
Profit/(loss) for the year	**4,053**	456

Year to 31 December 2019

Underwriting year	Helios retained capacity at 31 December 2019 £m	Portfolio midpoint forecasts	Total profit/(loss) currently estimated £'000	% earned in the 2019 calendar year	Helios profits £'000
2017	**36.2**	**(4.8)%**	**(1,748)**	**156%**	**2,726**
2018	**21.0**	**(3.6)%**	**(758)**	**178%**	**1,349**
2019	**18.3**	**N/A**	**—**	**—**	**(814)**
					3,261

Year to 31 December 2018

Underwriting year	Helios retained capacity at 31 December 2018 £m	Portfolio midpoint forecasts	Total profit currently estimated £'000	% earned in the 2018 calendar year	Helios profits £'000
2016	33.9	8.6%	2,915	54%	1,580
2017	28.2	(8.2%)	(2,312)	39%	912
2018	18.3	N/A	—	—	(1,709)
					783

Summary balance sheet

See Note 28 for further information.

	2019 £'000	2018 £'000
Intangible assets	**21,178**	16,051
Funds at Lloyd's	**13,520**	8,388
Other cash	**3,028**	9,717
Other assets	**10,105**	10,156
Total assets	**47,831**	44,312
Deferred tax	**3,292**	2,569
Borrowings	**2,000**	9,196
Other liabilities	**6,145**	3,891
Total liabilities	**11,437**	15,656
Total syndicate equity	**(8,246)**	(7,611)
Total equity	**28,148**	21,045

Cash flow

Analysis of free working capital	Year to 31 December 2019 £'000	Year to 31 December 2018 £'000
Opening balance (free cash)	**9,717**	1,078
Income		
Cash acquired on acquisition	**2,045**	1,057
Distribution of profits (net of tax retentions)	**1,724**	3,887
Transfers from Funds at Lloyd's	**4,178**	14,880
Other income	**178**	323
Proceeds from the sale of capacity	**911**	65
Proceeds from the issue of shares	**2,014**	—
Borrowings	**2,000**	9,196
Expenditure		
Operating costs	**(2,377)**	(1,778)
Payable funds for acquisitions	**—**	(721)
Payments to QS reinsurers	**(465)**	(1,918)
Acquisition of LLVs	**(4,897)**	(10,859)
Transfers to Funds at Lloyd's	**(1,137)**	(3,212)
Tax	**(833)**	(766)
Dividends paid	**(529)**	(219)
Repayment of borrowings	**(9,214)**	(1,094)
Share buy backs	**(287)**	(202)
Closing balance	**3,013**	9,717

Adjusted NAV	Year to 31 December 2019 £'000	Year to 31 December 2018 £'000
Net assets less intangible assets	**6,970**	4,994
Group letter of credit	**2,768**	1,744
Fair value of capacity (WAV)	**26,350**	20,638
	36,088	27,376
Shares in issue – on the market (Note 21)	**17,489**	14,441
Shares in issue – total of on the market and JSOP shares (Note 21)	**17,989**	14,941
Adjusted net asset value per share £ – on the market	**2.06**	1.90
Adjusted net asset value per share £ – on the market and JSOP shares	**2.01**	1.83

Experienced leadership

Committee membership

A Audit Committee   N Nomination and Remuneration Committee   ◯ Chairman of Committee

Nigel John Hanbury, 64
(Chief Executive)

Nigel was appointed CEO in October 2012. He joined Lloyd's in 1979 as an external member and became a Lloyd's broker in 1982. He later moved to the members' Agency side, latterly becoming chief executive and then chairman of Hampden Agencies Limited. He serves on the board of the Association of Lloyd's Members and was elected to the Council of Lloyd's for the "Working Names" constituency, serving on that body between 1999 and 2001 and then 2005 to 2008, as well as participating on the market board and other Lloyd's committees. In December 2009 he ceased being chairman of Hampden and in 2011 acquired a majority stake in HIPCC, a Guernsey cell company, formerly wholly owned by Hampden plc. Nigel and/or his direct family underwrite at Lloyd's through two LLVs.

Jeremy Richard Holt Evans, 63
(Non-executive Director)

Jeremy Evans joined Minories Underwriting Agencies in 1993, which was subsequently transferred to Aberdeen Underwriting Advisers Limited, with specific responsibility for its corporate capital plans, including the development of a conversion scheme for existing members. He is the CEO of Nomina plc and is on the Board of Hampden Capital plc and a number of its subsidiaries.

Harold Michael Clunie Cunningham, 73
(Non-executive Chairman)

Michael Cunningham has worked in the investment management business for over 25 years. Within Rathbones he was an investment director with responsibility for the AIM-focused Venture Capital Trusts.

A N

Andrew Hildred Christie, 64
(Non-executive Director)

Andrew Christie is a Senior Advisor of corporate finance advisory firm Smith Square Partners LLP and has nearly 30 years' experience in corporate finance. Prior to Smith Square Partners, he was a managing director in the investment banking division of Credit Suisse Europe and prior to that he was head of investment banking in Asia Pacific for Credit Suisse First Boston and Barclays de Zoete Wedd.

A N

Arthur Roger Manners, 61
(Finance Director)

Arthur has over 20 years' experience in the insurance industry. He has been a consultant to Helios since June 2015 and joined the Board in April 2016. His role as Finance Director at Helios is part time. He previously worked for Beazley Group plc from 1993 to 2009 as finance director and latterly as company secretary. He remains chairman of the trustees of the Beazley Furlonge Pension Scheme. Arthur and his family underwrite at Lloyd's through an LLV.

Edward Fitzalan-Howard, Duke of Norfolk, 62
(Non-executive Director)

Edward Fitzalan-Howard was educated at Oxford and in 1979 he set up an energy company, Sigas, which he sold in 1988 before starting Parkwood, a waste management business which he sold to Viridor in 2002. Since then his main focus has been the building up of his family estates. He has previously been a member of Lloyd's.

A N

Corporate governance

The Board provides leadership and is collectively responsible for the long-term success of the Group

The Company is incorporated in the UK and the Company's shares are traded on AIM of the London Stock Exchange. As a result, the Company is subject to the UK's City Code on Takeovers and Mergers.

The Board is committed to achieving a high standard of corporate governance within the Company and its subsidiaries, which it seeks to demonstrate by adopting and being compliant with the principles of the Quoted Companies Alliance's Corporate Governance Code (the "QCA Code"). The Board considers the QCA Code is relevant and appropriate for the Company as the ten principles of the QCA Code focus on the "pursuit of medium to long-term value for shareholders without stifling the entrepreneurial spirit in which the company was created".

Accordingly, the Board ensures the Company has a strong governance framework embedded within its culture and applies the principles of the QCA Code. The Board requires that the Company's strategy of building a portfolio of underwriting capacity at Lloyd's through the purchase of corporate members is carried out in a manner that is ethical and sustainable. This is achieved by focusing on syndicate portfolios comprising quality syndicates which are managed by leading managing agents at Lloyd's. The Directors and the Board determine, support and will observe the Company's ethical values in order to promote and preserve the Company's reputation. The Board periodically reviews the governance framework and, as the Company evolves, will make such improvements and changes as considered necessary.

Section 172(1) Statement

The Directors have complied with their responsibilities under Section 172 of the Companies Act 2006 which requires them to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

In doing so, the Directors have had regard to the interests of stakeholders affected by the Company's activities and to the likely consequences of decisions in the long term. The Board has set a number of key strategic priorities for 2020, as detailed earlier in this report. These priorities reflect the need to consider the interests of our staff and the need to keep pace with market initiatives and technological changes so the business is appropriately positioned to take best advantage of market conditions. The strategic priorities are cascaded down by the Executive Directors through direct communication with those responsible for putting measures in place and taking action to achieve them.

The Board is committed to ensuring the Company's business remains sustainable, not only from the shareholders' perspective, but also for the environment, customers, suppliers and others affected by our activities. In so doing, the Board has regard to the following matters:

The Company's Section 172(1) Statement is also available at https://www.huwplc.com/assets/huwplc-section-172-statement-200505.pdf

Interests of the Company's employees

Engaged, enabled and empowered employees who contribute to the best of their potential are fundamental to the long-term success of the business. We have two employees, the Chief Executive and the Finance Director, and we actively seek to understand their values and what motivates them and to take this into account in the way we operate. In all instances, two-way communication is actively sought and encouraged. Oversight of the Executive Directors, performance is maintained through an annual performance and development review process conducted by the Nomination and Remuneration Committee and we seek to offer appropriate levels of remuneration and incentives, drawing on comparator benchmark surveys as appropriate.

Fostering business relationships with customers, suppliers and others

The Company's business model and strategy, as detailed earlier, is to build a portfolio of underwriting capacity at Lloyd's through the purchase of corporate members and to engage leading managing agents at Lloyd's to manage those businesses. The Lloyd's managing agents are in turn responsible for managing their staff and employment policies and dealing with customers, suppliers and others involved in their supply chain.

Input from the managing agents is important and, periodically, they provide market updates and information to the Board which is taken into account when making decisions about improvements to the Company's products or business, developing new products or exploring new opportunities.

Our relationships with managing agents, outsource providers and professional advisers or other providers of services to the Company, including reinsurers, are formally recorded in written contracts, engagement letters, service level agreements and terms of business. The Executive Directors monitor performance under these arrangements and pay our suppliers in accordance with the Company's agreed payment policy. Again, transparent two-way communication with our suppliers is actively sought and encouraged.

The impact of the Company's operations on the community and the environment

The Board is committed to ensuring the Company's business remains sustainable for the community, environment and others affected by the Company's activities and considers participation in quality syndicates, whose key characteristics are conservative reserving and a focus on profit rather than growth, is important in ensuring the Company's long-term success and sustainability. Whilst the managing agents have direct responsibility for managing the Syndicates and the impact of their businesses on the environment and the community, the managing agents' performance in this respect is periodically reported to and reviewed by the Company's Executive Directors.

Corporate governance statement – Year ended 31 December 2019 continued

Maintaining a reputation for high standards of business conduct

The Board recognises the importance of the Company preserving and maintaining its long-established reputation for high standards of business conduct to ensure the business remains sustainable, maximises its competitive advantage over the longer term and builds value for shareholders.

The strategy of building a portfolio of underwriting capacity at Lloyd's through the purchase of corporate members is carried out in a manner that the Board considers is ethical and sustainable. This is achieved by focusing on quality syndicates that are then managed by leading managing agents at Lloyd's, who in turn are required to demonstrate high standards of business conduct.

These Lloyd's managing agents must comply with Lloyd's Minimum Standards as well as requirements of the Financial Conduct Authority and the Prudential Regulatory Authority, which together set a high bar for conduct and how relationships and business are managed. Notably, the Lloyd's Minimum Standards encompass matters such as claims management and treating customers fairly. The Chief Executive and Finance Director are in regular contact with the Research Team at Hampden Private Capital which liaises with the managing agents on a regular basis not only to review performance of the portfolio, but also to consider governance matters and compliance with Lloyd's Minimum Standards.

Acting fairly between shareholders of the Company

The support and engagement of our shareholders are imperative to the future success of the Company and the Board is committed to communicating effectively with all shareholders and to understanding their needs and expectations. To achieve this, the Board encourages two-way communication with shareholders and responds appropriately to ensure all questions or issues received from them are addressed in a timely manner.

The Chief Executive, Finance Director and Chairman have regular, direct contact with large shareholders and make sure that their opinions are communicated to the Board as needed. There has been regular dialogue with shareholders during the year including holding briefings with analysts and other investors. The Company also uses the Annual General Meeting as an opportunity to communicate with its shareholders. All Directors are expected to attend the Annual General Meeting, with the Chair of the Audit and Nomination and Remuneration Committees being available to answer shareholders' questions.

We also have an ongoing dialogue with shareholders through formal communication of financial results on a yearly and half yearly basis and provide periodic market updates and press releases to ensure compliance with the AIM Rules.

Material decisions impacting stakeholders which took place in the year ended 31 December 2019

When the Board makes decisions due regard is given to the matters listed above in varying degrees depending on their relevance. Notable examples include decisions made on fundraising, the sale of capacity at the Lloyd's auctions, and bank re-financing to enable the Company to pursue its acquisition strategy whilst at the same time allowing sufficient working capital for the business, relevant to employees and suppliers; the dividend policy relevant directly to shareholders and indirectly impacting all stakeholders of the business.

Michael Cunningham
Non-executive Chairman
28 May 2020

Board balance and independence

The Board consists of two Executive Directors and four Non-executive Directors including the Chairman. The Board considers that all the Non-executive Directors are independent in character and judgement and reviews on an ongoing basis whether there are relationships or circumstances which are likely to affect or could affect the independence of the Non-executive Directors.

Each of the Directors brings a mix of skills and experience and knowledge, the balance of which enables the Board to discharge its duties effectively. Upon joining the Board, Directors receive an induction on various aspects of the Company. The Company Secretary supports the Chairman in addressing the training and development needs of Directors to ensure they are kept up to date with changes to law, regulations and corporate governance best practice. The Directors receive updates from the Company Secretary and other various external advisers on legal requirements and regulations, remuneration matters and corporate governance best practice.

All Directors have agreed in their terms of engagement to commit such time as is necessary to discharge their responsibilities to the Company effectively; to attend all scheduled Board, Committee, strategy, Non-executive Director (where applicable) and shareholder meetings; and to be available at all times to discharge their duties effectively. Details of attendance at Board and Committee meetings are set out on page 20.

The role of the Board

The Board is responsible for formulating, reviewing and approving the Company's strategy; determining the budget; approving corporate actions; monitoring performance and progress against plans and strategy; and corporate governance within the Company. The Company holds Board meetings at least four times each financial year and at other times as and when required. The Board also holds dedicated strategy meetings and regular informal discussions are held between the Executive and Non-executive Directors. There is a formal schedule of matters reserved for the Board.

The Non-executive Chairman, Michael Cunningham, is responsible for running the Board effectively and ensuring the Company's approach to corporate governance is appropriate, with assistance from the Company Secretary.

The Executive Directors are responsible for day-to-day management of the Company, running the business and informing and consulting with the Board about any significant financial and operational matters. Key areas of responsibility for the Non-executive Directors include constructively challenging and helping to develop proposals on strategy; monitoring and scrutinising the reporting of performance against agreed goals and objectives; determining the integrity of financial information and that financial controls and risk management systems are robust and defensible; determining remuneration of the Executive Directors; appointing and removing Executive Directors; and planning succession.

The Company Secretary ensures that all Directors receive regular and timely information about the Company's operational and financial performance and that all necessary information is circulated to the Directors sufficiently in advance of meetings to enable the Board to have meaningful discussions and make informed decisions. All Directors have access to advice and assistance from the Company Secretary and are permitted to obtain independent professional advice at the Company's expense where they consider it necessary for them to effectively discharge their duties. On an ongoing basis Directors are encouraged to raise any issues or concerns with the Chairman as soon as appropriate, as the Chairman will do in the event that there are any matters causing the Company concern.

The role of the Board continued

The Board agenda for each meeting is collated by the Chairman in conjunction with the Company Secretary. The agenda ensures that adequate time is spent on operational and financial matters. The Non-executive Chairman has been instrumental in formalising regular, dedicated strategy meetings. During the course of the year, the topics subject to Board discussion at formal scheduled Board meetings included:

- strategic planning;
- financial performance and budget;
- acquisitions and Group structure changes;
- share structure and capital; and
- approval of annual and half year reports.

Minutes of all Board and Committee meetings are recorded by the Company Secretary.

Committees

Audit Committee

The members of the Audit Committee are all Non-executive Directors, being Michael Cunningham, Edward Fitzalan-Howard and Andrew Christie, who chairs the Committee. The Committee met three times during the year to fulfil its duties and with auditors without management present.

The Committee is comprised of independent Non-executive Directors only. The major tasks undertaken by the Committee include monitoring the integrity of the Company's financial reporting, reviewing internal controls and risk management systems and oversight of the external audit process. The CEO and Finance Director are invited to attend the Audit Committee meetings if appropriate.

The Committee meets the auditors and reviews reports from the auditors relating to the accounting and internal control systems. It also oversees the relationship with the external auditors including reviewing the effectiveness of the audit and assessing annually their independence and objectivity, taking into account relevant UK professional and regulatory requirements; and the relationship with the auditors as a whole, including non-audit services and monitoring the auditors' compliance with relevant ethical and professional guidance. The Committee reviews the Company's compliance with accounting, legal and listing requirements.

During the year, the Committee worked with the auditors, PKF Littlejohn, on audit planning and reviewed the findings from the final year audit and mid-year review and considered relevant significant accounting policies, particularly where judgement was required. Members of the Committee had separate discussions with the auditors without management being present on the adequacy of controls and any judgemental areas, as well as feedback on the 2019 audit.

Nomination and Remuneration Committee

The members of the Nomination and Remuneration Committee are Andrew Christie, who chairs the Committee, Michael Cunningham and Edward Fitzalan-Howard, all of whom are independent Non-executive Directors.

The Committee met three times during the year to fulfil its duties. In respect of its remuneration duties, the Committee determines and agrees the Board policies for pay; bonuses; incentives and other rewards; employee benefits; and the conditions of employment. The Committee's terms of reference try to ensure that members of the executive management are provided with sufficient incentives to encourage enhanced performance and are in a fair and responsible manner rewarded for their individual contribution to the success of the Company. During the year, the Committee considered short-term incentives and remuneration, strategic objectives and performance targets and the workings of the joint stock option plan.

The Committee also has responsibility for periodically reviewing the structure, size and composition of the Board with a view to the Company's strategy and likely future requirements; considering succession planning; and identifying candidates and recommending new appointments to the Board. Any recommendations from such reviews are reported to the Board and, should they identify a need for training and development or indeed a change in composition of the Board, they would be actioned appropriately.

Relations with shareholders

The Board is committed to communicating effectively with the Company's shareholders and other stakeholders, and to understanding their needs and expectations. To achieve this the Board encourages two-way communication with investors and stakeholders and responds appropriately to ensure all questions or issues received from them are addressed in a timely manner.

The Chief Executive, Finance Director and Chairman have regular, direct contact with large shareholders and make sure that their opinions are communicated to the Board as needed. There has been regular dialogue with shareholders during the year including holding briefings with analysts and other investors. The Company also uses the Annual General Meeting as an opportunity to communicate with its shareholders. All Directors are expected to attend the Annual General Meeting with the Chair of the Audit and Nomination and Remuneration Committees being available to answer shareholders' questions.

Notice of the date of the 2020 Annual General Meeting is included with this report. Separate resolutions on each substantially separate issue, in particular any proposal relating to the Annual Report and Accounts, will be made at the Annual General Meeting.

Board performance evaluation

The performance of all continuing Directors is considered before they are proposed for re-election at each AGM.

During 2019 the Board commenced a formal review of its own performance and the performance of the Board's Committees and the Chairman. The review was conducted internally by the Company Secretary and consisted of written responses to a standard questionnaire. Views and recommendations were consolidated into a report which was presented to the Board for review. Matters requiring further consideration were either referred to the Nomination and Remuneration Committee or were allocated to the Board as a whole for further analysis, with a view to presenting proposals for how further improvements could be made to the Board during 2020. Issues raised by the evaluation exercise will be used to improve the effectiveness of the Board and introduce improvements to Board processes.

Corporate governance statement – Year ended 31 December 2019 continued

Board and Committee meeting attendance

The Company holds Board meetings regularly throughout the year. Five scheduled Board meetings were held during the year, as well as three Audit Committee meetings and three Nomination and Remuneration Committee meetings.

	Board		Audit Committee		Nomination and Remuneration Committee	
Director	Possible number of meetings	Number of meetings attended	Possible number of meetings	Number of meetings attended	Possible number of meetings	Number of meetings attended
Michael Cunningham	5	5	3	3	3	3
Nigel Hanbury	5	5	—	—	—	—
Jeremy Evans	5	5	—	—	—	—
Andrew Christie	5	5	3	3	3	3
Edward Fitzalan-Howard	5	5	3	3	3	3
Arthur Manners	5	5	—	—	—	—

Subsidiary board and committees

Jeremy Evans, Nigel Hanbury and Nomina plc are directors of the following subsidiary companies:

	Jeremy Evans (appointed)	Nigel Hanbury (appointed)	Nomina plc (appointed)
Hampden Corporate Member Limited	31 May 2006	18 February 2013	31 May 2006
Nameco (No. 917) Limited	9 January 2013	18 February 2013	17 September 2004
Nameco (No. 229) Limited	1 November 2001	21 November 2012	24 September 1998
Nameco (No. 518) Limited	1 November 2001	27 November 2012	20 September 2000
Nameco (No. 804) Limited	10 October 2003	16 October 2013	10 October 2003
Helios UTG Partner Limited	27 August 2013	Not a director	27 August 2013
Halperin Underwriting Limited	20 February 2014	20 December 2013	9 July 2004
Bernul Limited	4 June 2014	27 March 2014	4 June 2014
Nameco (No. 311) Limited	1 November 2001	8 January 2015	22 September 1999
Nameco (No. 402) Limited	1 November 2001	20 February 2015	24 September 1999
Updown Underwriting Limited	24 March 2015	13 March 2015	31 December 2002
Nameco (No. 507) Limited	1 November 2001	12 June 2015	20 September 2000
Nameco (No. 76) Limited	1 November 2001	27 August 2015	2 October 2000
Kempton Underwriting Limited	15 October 2013	27 August 2015	15 October 2013
Devon Underwriting Limited	21 January 2016	21 January 2016	21 January 2016
Nameco (No. 346) Limited	1 November 2001	27 May 2016	22 September 1999
Pooks Limited	25 January 2017	1 August 2008	31 December 2002
Charmac Underwriting Limited	4 September 2013	3 April 2017	4 September 2013
Nottus (No 51) Limited	1 November 2001	8 June 2017	9 September 1997
Chapman Underwriting Company Limited	28 April 2017	20 November 2017	31 December 2002
Llewellyn House Underwriting Limited	19 October 2018	19 October 2018	19 October 2018
Advantage DCP Limited	11 March 2014	6 December 2018	11 March 2014
Romsey Underwriting Limited	10 December 2018	10 December 2018	10 December 2018
Nameco (No. 409) Limited	6 February 2019	6 February 2019	6 February 2019
Nameco (No. 1113) Limited	29 August 2013	19 December 2013	29 August 2013
Catbang 926 Limited	7 September 2006	19 December 2019	7 September 2006
Whittle Martin Underwriting	20 December 2019	20 December 2019	23 June 2016
Nameco (No. 408) Limited	1 November 2001	28 January 2020	24 September 1999

Conflict management

Jeremy Evans was a director of Hampden Agencies Limited until December 2007 and remains a director of Nomina plc as well as of the Company. Jeremy Evans is a director of Hampden Capital plc, which owns 100% of Hampden Agencies Limited and 99% of Nomina plc. The Articles of Association of the Company provide that Jeremy Evans will not vote in respect of arrangements relating to Hampden Agencies Limited's appointment as the Group's members' agent or to Nomina plc's appointment as provider of administrative and support services or any other arrangements or contracts where Hampden Agencies Limited or Nomina plc has an interest.

Nigel Hanbury is a Director and substantial shareholder of Helios Underwriting plc and its subsidiary companies. He is also director and majority shareholder in HIPCC Limited.

HIPCC Limited acts as an intermediary for the reinsurance products purchased by Helios. An arrangement has been put in place so that 51% of the profits generated by HIPCC in respect of the business relating to Helios will be repaid to Helios for the business transacted for the 2020 and subsequent underwriting years. The consideration paid to Nigel Hanbury of £100,000 reflects the HIPCC income that he is expected to forego.

Directors' responsibilities statement – Year ended 31 December 2019

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 Group and Parent Company Financial Statements in accordance with International Financial Reporting Standards ("IFRSs"). 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 Group and Company and of the profit or loss of the Group 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 accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed for the Group and the Company Financial Statements, 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 Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and 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 the Financial Statements may differ from legislation in other jurisdictions.

The Company is compliant with AIM Rule 26 regarding the Company's website.

Nigel Hanbury
Chief Executive
28 May 2020

Directors' report – Year ended 31 December 2019

The Directors present their report and the audited Group and Parent Company Financial Statements for the year ended 31 December 2019.

General information

The Company is a public limited company listed on AIM. The Company was incorporated in England and is domiciled in the UK and its registered office is 40 Gracechurch Street, London EC3V 0BT. The Company participates in insurance business as an underwriting member at Lloyd's through its subsidiary undertakings.

Principal activity, review of the business and future developments

The Company's principal activity is to provide a limited liability investment for its shareholders in the Lloyd's insurance market.

The Group participates in the Lloyd's insurance market through its participation in a portfolio of Lloyd's syndicates.

A more detailed review of the business for the year and outlook for the future is included in the Chairman's Statement, the Chief Executive's Review and the Lloyd's Advisers' Report.

Results and dividends

The Group result for the year ended 31 December 2019 is shown in the consolidated statement of comprehensive income. The Group profit for the year after taxation was £4,054,000 (2018: £456,000).

An ordinary dividend of 1.5p per share and an additional special dividend of 1.5p per share was paid during calendar year 2019 totalling £529,000 (2018: £219,000).

Charitable and political donations

During the year, the Group made no political or charitable donations.

Directors and their interests

Under the Articles of Association, any Director appointed as a Director by the Board since the Company's last Annual General Meeting as well as one third of the remaining Directors are required to retire from the Board by rotation at the forthcoming Annual General Meeting and may offer themselves for re-election as Directors. Consequently, Nigel Hanbury and Andrew Christie are retiring by rotation and offering themselves for re-election as Directors of the Company at the 2020 Annual General Meeting.

Policy and practice on the payment of creditors

It is the Group's policy to:

- agree the terms of payment at the commencement of business with suppliers;
- ensure that suppliers are aware of the terms of payment; and
- pay in accordance with contractual and other legal obligations.

The number of days' purchases outstanding at 31 December 2019 is nil (2018: nil).

Substantial shareholdings

The substantial shareholders shown below were as at 22 May 2020:

	Number of shares	% holdings
Will Roseff	4,707,695	26.2%
Nigel Hanbury (either personally or has an interest in)	4,327,640	24%
Hampden Capital plc	1,214,560	6.7%
Smith & Williamson Holdings Limited	864,458	4.8%

Disclosure of information to auditors

The Directors who held office at the date of approval of the Report of the Directors confirm that, so far as they are individually aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors and the Annual Report

PKF Littlejohn LLP have signified their willingness to continue in office as auditors.

A resolution to reappoint PKF Littlejohn LLP as auditors will be put to the members at the next Annual General Meeting to be convened at which the Annual Report will be laid before the members for consideration.

Approved by the Board of Directors and signed on behalf of the Board on 28 May 2020.

Nigel Hanbury
Chief Executive
28 May 2020

Independent auditor's report – To the members of Helios Underwriting plc

Opinion

We have audited the financial statements of Helios Underwriting plc (the 'Parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's and parent company's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 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 parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – COVID-19

We draw attention to notes 2 and 29 of the financial statements, which describes the group's and parent company's assessment of the COVID-19 impact on its ability to continue as a going concern. Our opinion is not modified in this respect.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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.

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the Financial Statements line items and disclosures and in evaluating the effect of misstatements, both individually and in an aggregate on the Financial Statements as a whole, both at the Group level and at the individual Parent Company level. The application of these considerations gives rise to the following levels of materiality, the quantum and purpose of which is set out below.

Materiality measure	Materiality (2019 and 2018)	Clearly trivial threshold (2019 and 2018)	Basis for materiality	Key considerations and benchmarks
Consolidated Financial Statements	£210,000	£10,500	In assessing the materiality, we have assessed a number of benchmarks based on the profit before tax, gross and net assets. We have concluded that a reasonable estimate of materiality should be 1% of the Group's net assets.	In determining our materiality, for both the consolidated Financial Statements and the Parent Company Statement of Financial Position, we have considered those matters which we believe are in the interest of the primary users of the Financial Statements. We have also taken into account that the Parent Company does not trade, and its only income is based on its investments in subsidiaries and hence a lower level of materiality was appropriate.
Parent Company	£140,000	£7,000	We have used a similar approach to assess the materiality to apply to the Parent Company. The net assets were used as the benchmark, however we concluded that a reasonable estimate of materiality should be 0.5% of the net assets.	

We have agreed with the Audit Committee that we would not report to them any misstatement below the trivial threshold levels.

We use a different level of materiality ("performance materiality") to determine the extent of our testing for the audit of the Financial Statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regards to the internal control environment. In this respect, Performance materiality has been set to 80% of the above materiality levels, to £168,000 for the consolidation level and £112,000 for the Parent Company level.

Independent auditor's report – To the members of Helios Underwriting plc continued

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Group's activities, the key subjective judgements used by the Directors, the inherent and key audit risks in the business environment the Group operates in and the overall control environment established by management. Based on this understanding, we assessed those aspect of the Group's and Parent Company's transactions, year-end balances and disclosures which were most likely to give rise to a material misstatement and were most susceptible to irregularities, including fraud or error. Specifically, we identified what we considered to be our key audit matters and planned accordingly.

We have performed full scope audit procedures over all significant components of Helios Underwriting plc other than one inconsequential component, where the group engagement team undertook analytical procedures.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the scope of our audit responded to the key audit matter
Preparation of financial statements (Group only)	
The Group's primary statements aggregate the results of its trading subsidiaries, which mainly consist of corporate members of Lloyd's of London (Lloyd's). The result of the subsidiaries' activities is largely derived by Returns prepared by Lloyd's which themselves are based on the syndicate audited financial statements. The Group Financial Statements aggregate the disclosed analysis from those subsidiaries to produce its primary statements and the necessary disclosures.	As Group auditors, we have reviewed the process adopted by management in order to collate and aggregate the data produced by Lloyd's and ensured that the data used by management agrees back to those Returns. The procedures we have adopted have enabled us to conclude whether sufficient appropriate audit evidence has been obtained to enable us to give the opinions expressed in this report and to ensure the financial statements correctly reflect the aggregate of the subsidiaries results.
Acquisition of new subsidiaries (Group only)	
The Parent Company has acquired four new subsidiaries during the year, the details of which are included in Note 22 of the Financial Statements. The net assets acquired have been fair valued at the date of acquisition by the Group and the resulting negative goodwill has been reflected in these Financial Statements. This is a significant contribution to the results for the year.	Our work on the acquisition of these new subsidiaries included a review of the fair value of the net assets acquired and hence an assessment of the goodwill arising on the consolidation. This calculation, being the comparison of the cost of acquisition over the fair value of the Group's share of the net assets acquired, gave rise to a gain on bargain purchase (negative goodwill) of £1,707k, for all of the subsidiaries acquired. This is credited as revenue to the consolidated income statement of the year. Based on the work performed we consider the calculation of goodwill is reasonable and correctly accounted for.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the group and parent company 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 this regard.

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.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the group and parent company 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 group and parent company 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Carmine Papa (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor
28 May 2020

15 Westferry Circus
Canary Wharf
London E14 4HD

Consolidated statement of comprehensive income – Year ended 31 December 2019

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Gross premium written	6	**55,470**	38,703
Reinsurance premium ceded	6	**(13,210)**	(7,675)
Net premium written	6	**42,260**	31,028
Change in unearned gross premium provision	7	**(60)**	(360)
Change in unearned reinsurance premium provision	7	**488**	284
Net change in unearned premium provision	7	**428**	(76)
Net earned premium	5,6	**42,688**	30,952
Net investment income	8	**2,335**	295
Other underwriting income		**417**	266
Gain on bargain purchase	22	**1,707**	1,184
Other income		**432**	(184)
Revenue		**47,579**	32,513
Gross claims paid		**(34,107)**	(23,631)
Reinsurers' share of gross claims paid		**8,237**	4,859
Claims paid, net of reinsurance		**(25,870)**	(18,772)
Change in provision for gross claims	7	**(3,758)**	(1,109)
Reinsurers' share of change in provision for gross claims	7	**2,004**	909
Net change in provision for claims	7	**(1,754)**	(200)
Net insurance claims incurred and loss adjustment expenses	6	**(27,624)**	(18,972)
Expenses incurred in insurance activities		**(15,764)**	(11,696)
Other operating expenses		**(1,764)**	(1,237)
Operating expenses	9	**(17,528)**	(12,933)
Operating profit before impairments of goodwill and capacity	6	**2,427**	608
Impairment of syndicate capacity	13	**1,860**	(281)
Profit before tax		**4,287**	327
Income tax credit	10	**(233)**	129
Profit for the year		**4,054**	456
Other comprehensive income			
Foreign currency translation differences		**—**	—
Income tax relating to the components of other comprehensive income		**—**	—
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year		**4,054**	456
Profit for the year attributable to owners of the Parent		**4,054**	456
Total comprehensive income for the year attributable to owners of the Parent		**4,054**	456
Earnings per share attributable to owners of the Parent			
Basic	11	**25.64p**	3.14p
Diluted	11	**24.86p**	3.03p

The profit/(loss) attributable to owners of the Parent, the total comprehensive income and the earnings per share set out above are in respect of continuing operations.

The notes are an integral part of these Financial Statements.

Consolidated statement of financial position – At 31 December 2019

	Note	31 December 2019 £'000	31 December 2018 £'000
Assets			
Intangible assets	13	**21,178**	16,051
Financial assets at fair value through profit or loss	15	**67,141**	58,075
Deferred income tax asset		**—**	—
Reinsurance assets:			
– reinsurers' share of claims outstanding	7	**25,760**	22,698
– reinsurers' share of unearned premium	7	**5,023**	4,057
Other receivables, including insurance and reinsurance receivables	16	**47,726**	52,938
Deferred acquisition costs	17	**6,641**	6,782
Prepayments and accrued income		**432**	439
Cash and cash equivalents		**6,037**	12,202
Total assets		**179,938**	173,242
Liabilities			
Insurance liabilities:			
– claims outstanding	7	**95,616**	88,032
– unearned premium	7	**26,522**	24,772
Deferred income tax liabilities	18	**3,292**	2,635
Borrowings	19	**2,000**	9,196
Other payables, including insurance and reinsurance payables	20	**18,040**	25,321
Accruals and deferred income		**6,320**	2,241
Total liabilities		**151,790**	152,197
Equity			
Equity attributable to owners of the Parent:			
Share capital	21	**1,839**	1,510
Share premium	21	**18,938**	15,387
Other reserves – treasury shares (JSOP)		**(50)**	(50)
Retained earnings		**7,421**	4,198
Total equity		**28,148**	21,045
Total liabilities and equity		**179,938**	173,242

The Financial Statements were approved and authorised for issue by the Board of Directors on 28 May 2020, and were signed on its behalf by:

Nigel Hanbury
Chief Executive
28 May 2020

The notes are an integral part of these Financial Statements.

Parent Company statement of financial position – At 31 December 2019

Company number: 05892671

	Note	31 December 2019 £'000	31 December 2018 £'000
Assets			
Investments in subsidiaries	14	**33,329**	24,559
Financial assets at fair value through profit or loss	15	**—**	—
Other receivables	16	**8,151**	6,693
Cash and cash equivalents		**2,191**	8,430
Total assets		**43,671**	39,682
Liabilities			
Borrowings	19	**2,000**	9,196
Other payables	20	**4,182**	1,835
Total liabilities		**6,182**	11,031
Equity			
Equity attributable to owners of the Parent:			
Share capital	21	**1,839**	1,510
Share premium	21	**18,938**	15,387
		20,777	16,897
Retained earnings:			
At 1 January		**11,754**	7,712
Profit for the year attributable to owners of the Parent		**5,789**	4,463
Other changes in retained earnings		**(831)**	(421)
At 31 December		**16,712**	11,754
Total equity		**37,489**	28,651
Total liabilities and equity		**43,671**	39,682

The Financial Statements were approved and authorised for issue by the Board of Directors on 28 May 2020, and were signed on its behalf by:

Nigel Hanbury
Chief Executive
28 May 2020

The notes are an integral part of these Financial Statements.

Consolidated statement of changes in equity – Year ended 31 December 2019

	Note	Attributable to owners of the Parent				
		Share capital £'000	Share premium £'000	Other reserves (JSOP) £'000	Retained earnings £'000	Total equity £'000
At 1 January 2018		1,510	15,387	(50)	4,198	21,045
Total comprehensive income for the year:						
Profit for the year		—	—	—	456	456
Other comprehensive income, net of tax		—	—	—	—	—
Total comprehensive income for the year		—	—	—	456	456
Transactions with owners:						
Dividends paid	12	—	—	—	(219)	(219)
Company buy back of ordinary shares	21, 23	—	—	—	(202)	(202)
Share issue, net of transaction costs	21	—	—	—	—	—
Total transactions with owners		—	—	—	(421)	(421)
At 31 December 2018		1,510	15,387	(50)	4,198	21,045
At 1 January 2019		1,510	15,387	(50)	4,198	21,045
Total comprehensive income for the year:						
Profit for the year		—	—	—	—	—
Other comprehensive income, net of tax		—	—	—	4,054	4,054
Total comprehensive income for the year		—	—	—	4,054	4,054
Transactions with owners:						
Dividends paid	12	—	—	—	(529)	(529)
Company buy back of ordinary shares	21, 23	—	—	—	(302)	(302)
Share issue, net of transaction cost	21	329	3,551	—	—	3,880
Other comprehensive income, net of tax		—	—	—	—	—
Total transactions with owners		329	3,551	—	(831)	3,049
At 31 December 2019		**1,839**	**18,938**	**(50)**	**7,421**	**28,148**

The notes are an integral part of these Financial Statements.

Parent Company statement of changes in equity – Year ended 31 December 2019

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
At 1 January 2018		1,510	15,387	7,712	24,609
Total comprehensive income for the year:					
Profit for the year		—	—	4,463	4,463
Other comprehensive income, net of tax		—	—	—	—
Total comprehensive income for the year		—	—	4,463	4,463
Transactions with owners:					
Dividends paid	12	—	—	(219)	(219)
Company buy back of ordinary shares	21, 23	—	—	(202)	(202)
Share issue, net of transaction costs		—	—	—	—
Total transactions with owners		—	—	(421)	(421)
At 31 December 2018		1,510	15,387	11,754	28,651
At 1 January 2019		1,510	15,387	11,754	28,651
Total comprehensive income for the year:					
Profit for the year		—	—	5,789	5,789
Other comprehensive income, net of tax		—	—	—	—
Total comprehensive income for the year		—	—	5,789	5,789
Transactions with owners:					
Dividends paid	12	—	—	(529)	(529)
Company buy back of ordinary shares	21, 23	—	—	(302)	(302)
Share issue, net of transaction costs		329	3,551	—	3,880
Total transactions with owners		329	3,551	(831)	3,049
At 31 December 2019		**1,839**	**18,938**	**16,712**	**37,489**

The notes are an integral part of these Financial Statements.

Consolidated statement of cash flows – Year ended 31 December 2019

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Cash flows from operating activities			
Profit before tax		**4,287**	327
Adjustments for:			
– interest received	8	**(235)**	(144)
– investment income	8	**(1,248)**	(841)
– gain on bargain purchase	22	**(1,707)**	(1,184)
– impairment of goodwill	22	**—**	—
– profit on sale of intangible assets		**(898)**	(125)
– impairment of intangible assets	13	**(1,860)**	281
Changes in working capital:			
– change in fair value of financial assets held at fair value through profit or loss	8	**(657)**	490
– increase in financial assets at fair value through profit or loss		**(3,010)**	10,585
– decrease/(increase) in other receivables		**18,823**	(7,113)
– (decrease)/increase in other payables		**(6,785)**	3,955
– net (decrease)/increase in technical provisions		**(6,473)**	2,162
Cash generated from/(used in) operations		**237**	8,393
Income tax paid		**(1,119)**	(962)
Net cash from/(used in) operating activities		**(882)**	7,431
Cash flows from investing activities			
Interest received	8	**235**	144
Investment income	8	**1,248**	841
Purchase of intangible assets	13	**(22)**	—
Proceeds from disposal of intangible assets		**932**	86
Acquisition of subsidiaries, net of cash acquired		**(1,493)**	(6,825)
Net cash from/(used in) investing activities		**900**	(5,754)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**1,844**	—
Payment for Company buy back of shares	24	**(302)**	(202)
Proceeds from borrowings	19	**2,000**	9,196
Repayment of borrowings	19	**(9,196)**	(1,094)
Dividends paid to owners of the Parent	12	**(529)**	(219)
Net cash from financing activities		**(6,183)**	7,681
Net (decrease)/increase in cash and cash equivalents		**(6,165)**	9,358
Cash and cash equivalents at beginning of year		**12,202**	2,844
Cash and cash equivalents at end of year		**6,037**	12,202

Cash held within the syndicates' accounts is £3,009,000 (2018: £2,485,000) of the total cash and cash equivalents held at the year end of £6,037,000 (2018: £12,202,000). The cash held within the syndicates' accounts is not available to the Group to meet its day-to-day working capital requirements.

Cash and cash equivalents comprise cash at bank and in hand.

The notes are an integral part of these Financial Statements.

Parent Company statement of cash flows – Year ended 31 December 2019

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Cash flows from operating activities			
Profit before tax		**5,543**	4,204
Adjustments for:			
– investment income		**—**	—
– dividends received		**(8,336)**	(8,079)
– impairment of investment in subsidiaries	14	**1,394**	2,506
Changes in working capital:			
– change in fair value of financial assets held at fair value through profit or loss		**—**	—
– decrease in financial assets at fair value through profit or loss		**—**	1
– increase/(decrease) in other receivables		**925**	(601)
– Increase in other payables		**2,346**	2,182
Net cash from operating activities		**1,872**	213
Cash flows from investing activities			
Investment income		**—**	—
Dividends received		**8,336**	8,079
Acquisition of subsidiaries	14, 22	**(8,128)**	(12,142)
Amounts owed by subsidiaries	25	**(2,136)**	3,617
Net cash used in investing activities		**(1,928)**	(446)
Cash flows from financing activities			
Net proceeds from the issue of ordinary share capital		**1,844**	—
Payment for Company buy back of shares	24	**(302)**	(202)
Proceeds from borrowings	19	**2,000**	9,196
Repayment of borrowings	19	**(9,196)**	(1,094)
Dividends paid to owners of the Parent	12	**(529)**	(219)
Net cash (used in)/from financing activities		**(6,183)**	7,681
Net (increase)/decrease in cash and cash equivalents		**(6,239)**	7,448
Cash and cash equivalents at beginning of year		**8,430**	982
Cash and cash equivalents at end of year		**2,191**	8,430

Cash and cash equivalents comprise cash at bank and in hand.

The notes are an integral part of these Financial Statements.

1. General information

The Company is a public limited company listed on AIM. The Company was incorporated in England and is domiciled in the UK and its registered office is 40 Gracechurch Street, London EC3V 0BT. These Financial Statements comprise the Company and its subsidiaries (together referred to as the "Group"). The Company participates in insurance business as an underwriting member at Lloyd's through its subsidiary undertakings.

2. Significant accounting policies

The principal accounting policies adopted in the preparation of the Group and Parent Company Financial Statements (the "Financial Statements") are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRIC") as adopted by the European Union ("EU"), and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

No statement of comprehensive income is presented for Helios Underwriting plc, as a Parent Company, as permitted by Section 408 of the Companies Act 2006.

The Financial Statements have been prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss.

Use of judgements and estimates

The preparation of Financial Statements in conformity with IFRS requires the use of judgements, estimates and assumptions in the process of applying the Group's accounting policies that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amounts, events or actions, actual results may ultimately differ from these estimates. Further information is disclosed in Note 3.

The Group participates in insurance business through its Lloyd's member subsidiaries. Accounting information in respect of syndicate participations is provided by the syndicate managing agents and is reported upon by the syndicate auditors.

Going concern

The Group and the Company have net assets at the end of the reporting period of £28,148,000 and £37,489,000, respectively.

The Company's subsidiaries participate as underwriting members at Lloyd's on the 2017, 2018 and 2019 years of account, as well as any prior run-off years, and they have continued this participation since the year end on the 2020 year of account. This underwriting is supported by Funds at Lloyd's totalling £15,315,000 (2018: £10,578,000), letters of credit provided through the Group's quota share reinsurance agreements totalling £26,742,000 (2018: £24,544,000) and solvency credits issued by Lloyd's totalling £80,000 (2018: £nil).

The Directors have a reasonable expectation that the Group and the Company have adequate resources to meet their underwriting and other operational obligations for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements. In arriving at this assessment the directors have taken into account the matters referred to in note 29, in respect of the impact of COVID-19 on the Groups activities.

International Financial Reporting Standards

Adoption of new and revised standards

During the current year, the Group and the Company adopted all the new and revised IFRS, amendments and interpretations that are relevant to its operations and are effective for accounting periods beginning on 1 January 2019, except for IFRS 9 "Financial Instruments" effective from 1 January 2018, for which a temporary exemption has been applied by the Group, as explained further below. These are set out below and did not have a material impact on the accounting policies of the Group and the Company:

- IFRS 16 "Leases", issued on 13 January 2016 (effective 1 January 2019).
- Amendments to IFRS 9: Prepayment Features with Negative Compensation, issued on 12 October 2017 (effective date 1 January 2019).
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures, issued on 12 December 2017 (effective date 1 January 2019).
- IFRS 23 "Uncertainty over Income Tax Treatments", issued on 7 June 2017 (effective date 1 January 2019).
- Annual improvements to IFRS 2015–2017 Cycle, issued on 12 December 2017 (effective date 1 January 2019).
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, issued on 7 February 2017 (effective date 1 January 2019).

Temporary exemptions from IFRS 9 "Financial Instruments" (effective 1 January 2018)

The effective date of IFRS 9 "Financial Instruments" is January 2018. An insurer that has not previously adopted any version of IFRS 9, including the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss and whose activities are predominantly connected with insurance as its annual reporting date that immediately precedes 1 April 2016 (or a later date as specified in paragraph 20G of IFRS 4), may apply IAS 39 "Financial Instruments: Recognition and Measurement", rather than IFRS 17 "Insurance Contracts".

The Group has applied the temporary exemption from IFRS 9 as its activities are predominantly connected with insurance and it has not previously adopted any version of IFRS 9, including the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss, for annual periods beginning before 1 January 2023. Consequently, the Group has a single date of initial application for IFRS 9 in its entirely, being 1 January 2023.

2. Significant accounting policies continued

International Financial Reporting Standards continued

New standards, amendments and interpretations not yet adopted

At the date of authorisation of these Financial Statements, the following standards, amendments and interpretations were in issue but not yet effective:

(i) Adopted by the EU

Amendments:

- Amendments to IAS 1 and IAS 8: Definition of Material, issued on 31 October 2018 (effective 1 January 2020).

(ii) Not adopted by the EU

Standards:

- IFRS 17 "Insurance Contracts", issued on 18 May 2017 (effective date 1 January 2023).

Amendments:

- Amendments to References to the Conceptual Framework in IFRS, issued on 29 March 2017 (effective date 1 January 2020).
- Amendment to IFRS 3 "Business Combinations", issued on 22 October 2018 (effective 1 January 2020).
- Amendment to IAS 1 "Presentation of Financial Statements": Classification of Liabilities as Current or Non-current, issued on 23 January 2020 (effective date 1 January 2022).

Principles of consolidation, business combinations and goodwill

(a) Consolidation and investments in subsidiaries

The Group Financial Statements incorporate the Financial Statements of Helios Underwriting plc, the Parent Company, and its directly and indirectly held subsidiaries being Hampden Corporate Member Limited, Nameco (No. 917) Limited, Nameco (No. 229) Limited, Nameco (No. 518) Limited, Nameco (No. 804) Limited, Halperin Underwriting Limited, Bernul Limited, Nameco (No. 311) Limited, Nameco (No. 402) Limited, Updown Underwriting Limited, Nameco (No. 507) Limited, Nameco (No. 76) Limited, Kempton Underwriting Limited, Devon Underwriting Limited, Nameco (No. 346) Limited, Pooks Limited, Charmac Underwriting Limited, Nottus (No 51) Limited, Chapman Underwriting Limited, Llewellyn House Underwriting Limited, Advantage DCP Limited, Romsey Underwriting Limited, Nameco (No. 409) Limited, Nameco (No. 1113) Limited, Catbang 926 Limited, Whittle Martin Underwriting Limited, RBC CEES Trustee Limited (see Notes 14 and 23), Helios UTG Partner Limited, Nomina No 035 LLP, Nomina No 342 LLP, Nomina No 380 LLP, Nomina No 372 LLP, Salviscount LLP, Inversanda LLP, Fyshe Underwriting LLP, Nomina No 505 LLP and Nomina No 321 LLP (Note 14).

The Financial Statements for all of the above subsidiaries are prepared for the year ended 31 December 2019 under UK GAAP. Consolidation adjustments are made to convert the subsidiary Financial Statements prepared under UK GAAP to IFRS so as to align accounting policies and treatments.

No income statement is presented for Helios Underwriting plc as permitted by Section 408 of the Companies Act 2006. The profit after tax for the year of the Parent Company was £5,789,000 (2018: profit £4,463,000).

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding or partnership participation of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated.

In the Parent Company's Financial Statements, investments in subsidiaries are stated at cost and are reviewed for impairment annually or when events or changes in circumstances indicate the carrying value to be impaired.

(b) Business combinations and goodwill

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition costs are expensed as incurred.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and recorded as goodwill. Following initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually or if events or changes in circumstances indicate that the carrying value may be impaired and recognised directly in the consolidated income statement. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly as revenue in the consolidated income statement as a gain on bargain purchase. The gain on bargain purchase is recognised within the operating profit, as acquiring LLVs at a discount to their net asset fair value is an important part of the predominant strategy for the Company.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as Nigel Hanbury.

2. Significant accounting policies continued

Foreign currency translation

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Statements are presented in thousands of pounds sterling, which is the Group's functional and presentational currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Foreign currency transactions and non-monetary assets and liabilities, including deferred acquisition costs and unearned premiums, are translated into the functional currency using annual average rates of exchange prevailing at the time of the transaction as a proxy for the transactional rates. The translation difference arising on non-monetary asset items is recognised in the consolidated income statement.

Certain supported syndicates have non-sterling functional currencies and any exchange movement that they would have reflected in other comprehensive income as a result of this has been included within profit before tax at consolidation level, to be consistent with the Group's policy of using sterling as the functional currency.

Monetary items are translated at period-end rates; any exchange differences arising from the change in rates of exchange are recognised in the consolidated income statement of the year.

Underwriting

Premiums

Gross premium written comprises the total premiums receivable in respect of business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and includes estimates of premiums due but not yet receivable or notified to the syndicates on which the Group participates, less an allowance for cancellations. All premiums are shown gross of commission payable to intermediaries and exclude taxes and duties levied on them.

Unearned premiums

Gross premium written is earned according to the risk profile of the policy. Unearned premiums represent the proportion of gross premium written in the year that relates to unexpired terms of policies in force at the end of the reporting period calculated on a time apportionment basis having regard, where appropriate, to the incidence of risk. The specific basis adopted by each syndicate is determined by the relevant managing agent.

Deferred acquisition costs

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

Reinsurance premiums

Reinsurance premium costs are allocated by the managing agent of each syndicate to reflect the protection arranged in respect of the business written and earned.

Reinsurance premium costs in respect of reinsurance purchased directly by the Group are charged or credited based on the annual accounting result for each year of account protected by the reinsurance.

Claims incurred and reinsurers' share

Claims incurred comprise claims and settlement expenses (both internal and external) occurring in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported ("IBNR") and settlement expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

The provision for claims outstanding comprises amounts set aside for claims notified and IBNR. The amount included in respect of IBNR is based on statistical techniques of estimation applied by each syndicate's in-house reserving team and reviewed, in certain cases, by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from the rating and other models of the business accepted, and assessments of underwriting conditions.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to each syndicate's reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Each syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly, the two most critical assumptions made by each syndicate's managing agent as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used, including pricing models for recent business, are reasonable indicators of the likely level of ultimate claims to be incurred.

The level of uncertainty with regard to the estimations within these provisions generally decreases with time since the underlying contracts were exposed to new risks. In addition, the nature of short-tail risks, such as property where claims are typically notified and settled within a short period of time, will normally have less uncertainty after a few years than long-tail risks, such as some liability businesses where it may be several years before claims are fully advised and settled. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim this may increase the uncertainty in the estimation of the outcomes.

2. Significant accounting policies continued

Underwriting continued

Claims incurred and reinsurers' share continued

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The provisions for gross claims and related reinsurance recoveries have been assessed on the basis of the information currently available to the directors of each syndicate's managing agent. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the Financial Statements for the period in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

Quota share reinsurance

Under the Group's quota share reinsurance agreements, 70% of the 2018, 2019 and 2020 underwriting year of insurance exposure is ceded to the reinsurers. Amounts payable to the reinsurers are included within "reinsurance premium ceded" in the consolidated income statement of the year and amounts receivable from the reinsurers are included within "reinsurers' share of gross claims paid" in the consolidated income statement of the year.

Unexpired risks provision

Provision for unexpired risks is made where the costs of outstanding claims, related expenses and deferred acquisition costs are expected to exceed the unearned premium provision carried forward at the end of the reporting period. The provision for unexpired risks is calculated separately by reference to classes of business that are managed together, after taking into account relevant investment return. The provision is made on a syndicate-by-syndicate basis by the relevant managing agent.

Closed years of account

At the end of the third year, the underwriting account is normally closed by reinsurance into the following year of account. The amount of the reinsurance to close premium payable is determined by the managing agent, generally by estimating the cost of claims notified but not settled at 31 December, together with the estimated cost of claims incurred but not reported ("IBNR") at that date and an estimate of future claims handling costs. Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured.

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet any obligations, and the other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle any outstanding claims.

The Directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote and consequently the reinsurance to close has been deemed to settle the liabilities outstanding at the closure of an underwriting account. The Group will include its share of the reinsurance to close premiums payable as technical provisions at the end of the current period and no further provision is made for any potential variation in the ultimate liability of that year of account.

Run-off years of account

Where an underwriting year of account is not closed at the end of the third year (a "run-off" year of account) a provision is made for the estimated cost of all known and unknown outstanding liabilities of that year. The provision is determined initially by the managing agent on a similar basis to the reinsurance to close. However, any subsequent variation in the ultimate liabilities for that year remains with the corporate member participating therein. As a result, any run-off year will continue to report movements in its results after the third year until such time as it secures a reinsurance to close.

Net operating expenses (including acquisition costs)

Net operating expenses include acquisition costs, profit and loss on exchange and other amounts incurred by the syndicates on which the Group participates.

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the end of the reporting period.

Investment income

Interest receivable from cash and short-term deposits and interest payable are accrued to the end of the period.

Dividend income from financial assets at fair value through profit or loss is recognised in the income statement when the Group's right to receive payments is established.

Syndicate investments and cash are held on a pooled basis, the return from which is allocated by the relevant managing agent to years of account proportionate to the funds contributed by the year of account.

Other operating expenses

All expenses are accounted for on an accruals basis.

Intangible assets: syndicate capacity

Syndicate capacity is an intangible asset which represents costs incurred in the Corporation of Lloyd's auctions in order to acquire rights to participate on syndicates' years of account.

At the individual subsidiary company level, the syndicate capacity is stated at cost, less any provision for impairment at initial recognition, and amortised on a straight line basis over the useful economic life, which is estimated to be five years (up to 2014: estimated to be seven years). No amortisation is charged until the following year when underwriting commences in respect of the purchased syndicate participation.

2. Significant accounting policies continued

Intangible assets: syndicate capacity continued

At the consolidation level, the Group's accounting policy for the year 2014 was consistent with the accounting policy of the subsidiaries as described above. As of 1 January 2015, the Group changed its accounting policy for accounting for the intangible asset, syndicate capacity, as set out below:

The syndicate capacity represents the cost of purchasing the Group's participation in the combined syndicates. The capacity is capitalised at cost in the statement of financial position. It has an indefinite useful life and is carried at cost less accumulated impairment. It is annually tested for impairment for each syndicate by reference to the weighted average value at Lloyd's auctions and expected future profit streams to be earned by those syndicates in which the Group participates and provision is made for any impairment in the consolidated income statement.

Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group does not make use of the held-to-maturity and available-for-sale classifications.

(i) Financial assets at fair value through profit or loss

All financial assets at fair value through profit or loss are categorised as designated at fair value through profit or loss upon initial recognition because they are managed and their performance is evaluated on a fair value basis in accordance with the Company's documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the Group's key management.

The Group's investment strategy is to invest and evaluate their performance with reference to their fair values. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets, except for maturities greater than 12 months after the reporting period. The latter ones are classified as non-current assets.

The Group's loans and receivables comprise "other receivables, including insurance and reinsurance receivables" and "cash and cash equivalents".

The Parent Company's loans and receivables comprise "other receivables" and "cash and cash equivalents".

(b) Recognition, derecognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, being the date on which the Group commits to the purchase or sale of the asset. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or is transferred and the Group has transferred substantially all its risks and rewards of ownership.

Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs incurred expensed in the income statement.

Loans and receivables are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost less any impairment losses.

Fair value estimation

The fair value of financial assets at fair value through profit or loss which are traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regular occurring market transactions on an arm's length basis. The quoted market price used for financial assets at fair value through profit or loss held by the Group is the current bid price.

The fair value of financial assets at fair value through profit or loss that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates.

Unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the income statement within "net investment income".

The fair values of short-term deposits are assumed to approximate to their book values. The fair values of the Group's debt securities have been based on quoted market prices for these instruments.

(c) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2. Significant accounting policies continued

Financial assets continued

(c) Impairment continued

Asset carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Cash and cash equivalents

For the purposes of the statements of cash flows, cash and cash equivalents comprise cash and short-term deposits at bank.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings, using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services, and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred.

Joint Share Ownership Plan ("JSOP")

On 14 December 2017, the Company issued and allotted 500,000 new ordinary shares of £0.10 each ("ordinary shares"). The new ordinary shares have been issued at a subscription price of 133.5p per ordinary share, being the closing price of an ordinary share on 13 December 2017, pursuant to the Helios Underwriting plc employees' Joint Share Ownership Plan (the "Plan").

The new ordinary shares have been issued into the respective joint beneficial ownership of (i) each of the participating Executive Directors as shown in Note 23 and (ii) the Trustee of RBC CEES Trustee Limited (the "Trust") and are subject to the terms of joint ownership agreements ("JOAs") respectively entered into between the Director, the Company and the Trustee. The nominal value of the new ordinary shares has been paid by the Trust out of funds advanced to it by the Company with the additional consideration of 123.5p left outstanding until such time as new ordinary shares are sold. The Company has waived its lien on the shares such that there are no restrictions on their transfer.

The terms of the JOAs provide, inter alia, that if jointly owned shares become vested and are sold, the proceeds of sale will be divided between the joint owners so that the participating Director receives an amount equal to any growth in the market value of the jointly owned ordinary shares above the greater of either:

(a) the initial market value (133.5p per share), less a "carrying cost" (equivalent to simple interest at 4.5% per annum on the initial market value accruing over the three years from the date of award) and the Trust receives the initial market value of the jointly owned shares plus the carrying cost; or

(b) if higher, 150p (so that the participating Director will only ever receive value if the share sale price exceeds this).

The vesting of the award will be subject to performance conditions measured over the three calendar years from the award date.

A proportion of the jointly owned shares shall vest pro rata to the percentage by which the average return on capacity of the last three closed underwriting years of account of the Helios Capacity Portfolio outperforms on average the return on capacity of the Lloyd's market (the "Performance Percentage") over the performance period such that:

(i) if the Performance Percentage is 4% or greater, all of the jointly owned shares shall vest; and

(ii) if the Helios Capacity Portfolio fails to outperform the return on capacity of the Lloyd's market, none of the jointly owned shares shall vest; but

(iii) if the Performance Percentage is between 0% and 4%, a proportion of the jointly owned shares shall vest pro rata on a straight line basis.

The Plan was established and approved by resolution of the Remuneration Committee of the Company on 13 December 2017 and provides for the acquisition by employees, including Executive Directors, of beneficial interests as joint owners (with the Trust) of ordinary shares in the Company upon the terms of a JOA. The terms of the JOA provide that if the jointly owned shares become vested and are sold, the proceeds of sale will be divided between the joint owners on the terms set out above.

2. Significant accounting policies continued

Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax

The current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management establishes provisions when appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements.

However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Other payables

These present liabilities for services provided to the Group prior to end of the financial year which are unpaid. These are classified as current liabilities, unless payment is not due within 12 months after the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Share capital and share premium

Ordinary shares are classified as equity.

The difference between the fair value of the consideration received and the nominal value of the share capital issued is taken to the share premium account. Incremental costs directly attributable to the issue of shares or options are shown in equity as a deduction, net of tax, from proceeds.

Where the Company buys back its own ordinary shares on the market, and these are held in treasury, the purchase is made out of distributable profits and hence shown as a deduction from the Company's retained earnings.

Dividend distribution policy

Dividend distribution to the Company's shareholders is recognised in the Group's and the Parent Company's Financial Statements in the period in which the dividends are approved by the Company's shareholders.

3. Key accounting judgements and estimation uncertainties

In applying the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions in determining the carrying amounts of assets and liabilities. These judgements, estimates and assumptions are based on the best and most reliable evidence available at the time when the decisions are made, and are based on historical experience and other factors that are considered to be applicable. Due to the inherent subjectivity involved in making such judgements, estimates and assumptions, the actual results and outcomes may differ. 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.

The measurement of the provision for claims outstanding is the most significant judgement involving estimation uncertainty regarding amounts recognised in these Financial Statements in relation to underwriting by the syndicates and this is disclosed further in Notes 4 and 7.

The management and control of each syndicate is carried out by the managing agent of that syndicate, and the Company looks to the managing agent to implement appropriate policies, procedures and internal controls to manage each syndicate.

The key accounting judgements and sources of estimation uncertainty set out below therefore relate to those made in respect of the Company only, and do not include estimates and judgements made in respect of the syndicates.

Purchased syndicate capacity

Estimating value in use

Where an indication of impairment of capacity values exists, the Directors will carry out an impairment review to determine the recoverable amount, which is the higher of fair value less cost to sell and value in use. The value in use calculation requires an estimate of the future cash flows expected to arise from the capacity and a suitable discount rate in order to calculate present value.

Assessing indicators of impairment

In assessing whether there have been any indicators of impairment of assets, the Directors consider both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability.

Recoverability of receivables

The Company establishes a provision for receivables that are estimated not to be recoverable. When assessing recoverability, factors such as the ageing of the receivables, past experience of recoverability and the credit profile of individual or groups of customers are all considered.

4. Risk management

The majority of the risks to the Group's future cash flows arise from each subsidiary's participation in the results of Lloyd's syndicates. As detailed below, these risks are mostly managed by the managing agents of the syndicates. The Group's role in managing these risks, in conjunction with its subsidiaries and members' agent, is limited to a selection of syndicate participations, monitoring the performance of the syndicates and the purchase of appropriate member level reinsurance.

Risk background

The syndicates' activities expose them to a variety of financial and non-financial risks. The managing agent is responsible for managing the syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. For the purposes of setting capital requirements for the 2017 and subsequent years of account, each managing agent will have prepared a Lloyd's capital return ("LCR") for the syndicate to agree capital requirements with Lloyd's based on an agreed assessment of the risks impacting the syndicate's business and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks described below are typically reflected in the LCR and typically the majority of the total assessed value of the risks concerned is attributable to insurance risk.

The insurance risks faced by a syndicate include the occurrence of catastrophic events, downward pressure on pricing of risks, reductions in business volumes and the risk of inadequate reserving. Reinsurance risk arises from the risk that a reinsurer fails to meet its share of a claim. The management of the syndicate's funds is exposed to investment risk, liquidity risk, credit risk, currency risk and interest rate risk (as detailed below), leading to financial loss. The syndicate is also exposed to regulatory and operational risks including its ability to continue to trade. However, supervision by Lloyd's and the Prudential Regulation Authority provides additional controls over the syndicate's management of risks.

The Group manages the risks faced by the syndicates on which its subsidiaries participate by monitoring the performance of the syndicates it supports. This commences in advance of committing to support a syndicate for the following year, with a review of the business plan prepared for each syndicate by its managing agent. In addition, quarterly reports and annual accounts, together with any other information made available by the managing agent, are monitored and if necessary enquired into. If the Group considers that the risks being run by the syndicate are excessive, it will seek confirmation from the managing agent that adequate management of the risk is in place and, if considered appropriate, will withdraw support from the next year of account. The Group also manages its exposure to insurance risk by purchasing appropriate member level reinsurance.

(a) Syndicate risks

(i) Liquidity risk

The syndicates are exposed to daily calls on their available cash resources, principally from claims arising from its insurance business. Liquidity risk arises where cash may not be available to pay obligation when due, or to ensure compliance with the syndicate's obligations under the various trust deeds to which it is party.

The syndicates aim to manage their liquidity position so that they can fund claims arising from significant catastrophic events, as modelled in their Lloyd's realistic disaster scenarios ("RDS").

Although there are usually no stated maturities for claims outstanding, syndicates have provided their expected maturity of future claims settlements as follows:

2019	No stated maturity £'000	0–1 year £'000	1–3 years £'000	3–5 years £'000	>5 years £'000	Total £'000
Claims outstanding	**—**	**34,942**	**32,517**	**14,985**	**13,172**	**95,616**

2018	No stated maturity £'000	0–1 year £'000	1–3 years £'000	3–5 years £'000	>5 years £'000	Total £'000
Claims outstanding	2	33,228	30,565	12,299	11,938	88,032

4. Risk management continued

Risk background continued

(a) Syndicate risks continued

(ii) Credit risk

Credit ratings to syndicate assets (Note 28) emerging directly from insurance activities which are neither past due nor impaired are as follows:

2019	AAA £'000	AA £'000	A £'000	BBB or lower £'000	Not rated £'000	Total £'000
Financial investments	8,027	16,601	15,456	7,825	5,704	53,613
Deposits with ceding undertakings	—	—	—	—	8	8
Reinsurers' share of claims outstanding	1,328	5,459	16,603	38	2,227	25,655
Reinsurance debtors	15	306	1,037	32	822	2,212
Cash at bank and in hand	47	52	2,045	428	437	3,009
	9,417	22,418	35,141	8,323	9,198	84,497

2018	AAA £'000	AA £'000	A £'000	BBB or lower £'000	Not rated £'000	Total £'000
Financial investments	9,081	13,725	13,812	6,557	6,506	49,681
Deposits with ceding undertakings	—	—	—	—	6	6
Reinsurers' share of claims outstanding	1,225	4,453	14,818	19	2,063	22,578
Reinsurance debtors	27	170	871	1	251	1,320
Cash at bank and in hand	106	132	1,629	291	327	2,485
	10,439	18,480	31,130	6,868	9,153	76,070

Syndicate assets (Note 28) emerging directly from insurance activities, with reference to their due date or impaired, are as follows:

		Past due but not impaired				
2019	Neither past due nor impaired £'000	Less than 6 months £'000	Between 6 months and 1 year £'000	Greater than 1 year £'000	Impaired £'000	Total £'000
Financial investments	53,613	—	—	—	—	53,613
Deposits with ceding undertakings	8	—	—	—	—	8
Reinsurers' share of claims outstanding	25,655	49	—	—	(5)	25,699
Reinsurance debtors	2,212	575	45	23	—	2,855
Cash at bank and in hand	3,009	—	—	—	—	3,009
Insurance and other debtors	40,566	1,018	243	254	(6)	42,075
	125,063	1,642	289	277	(11)	127,259

		Past due but not impaired				
2018	Neither past due nor impaired £'000	Less than 6 months £'000	Between 6 months and 1 year £'000	Greater than 1 year £'000	Impaired £'000	Total £'000
Financial investments	49,681	—	—	—	—	49,681
Deposits with ceding undertakings	6	—	—	—	—	6
Reinsurers' share of claims outstanding	22,578	123	—	—	(3)	22,698
Reinsurance debtors	1,320	538	12	14	—	1,884
Cash at bank and in hand	2,485	—	—	—	—	2,485
Insurance and other debtors	42,984	813	171	225	(6)	44,187
	119,054	1,474	183	239	(9)	120,941

(iii) Interest rate equity price risk

Interest rate risk and equity price risk are the risks that the fair value of future cash flows of financial instruments will fluctuate because of changes in market interest rates and market prices, respectively.

(iv) Currency risk

The syndicates' main exposure to foreign currency risk arises from insurance business originating overseas, primarily denominated in US dollars. Transactions denominated in US dollars form a significant part of the syndicates' operations. This risk is, in part, mitigated by the syndicates maintaining financial assets denominated in US dollars against its major exposures in that currency.

Notes to the Financial Statements – Year ended 31 December 2019 continued

4. Risk management continued

Risk background continued

(a) Syndicate risks continued

(iv) Currency risk continued

The table below provides details of syndicate assets and liabilities (Note 28) by currency:

2019	GBP £'000 converted	USD £'000 converted	EUR £'000 converted	CAD £'000 converted	Other £'000 converted	Total £'000 converted
Total assets	**21,981**	**90,359**	**6,318**	**10,303**	**3,412**	**132,373**
Total liabilities	**(31,604)**	**(91,559)**	**(4,976)**	**(8,652)**	**(4,183)**	**(140,974)**
(Deficiency)/surplus of assets	**(9,623)**	**(1,200)**	**1,342**	**1,651**	**(771)**	**(8,601)**

2018	GBP £'000 converted	USD £'000 converted	EUR £'000 converted	CAD £'000 converted	Other £'000 converted	Total £'000 converted
Total assets	19,637	85,608	7,108	9,780	6,797	128,930
Total liabilities	(26,707)	(89,915)	(7,421)	(6,805)	(5,693)	(136,541)
(Deficiency)/surplus of assets	(7,070)	(4,307)	(313)	2,975	1,104	(7,611)

The impact of a 5% change in exchange rates between GBP and other currencies would be £51,000 on shareholders' funds (2018: £27,000).

(v) Reinsurance risk

Reinsurance risk to the Group arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, result in coverage disputes or prove inadequate in terms of the vertical or horizontal limits purchased. Failure of a reinsurer to pay a valid claim is considered a credit risk, which is detailed separately below.

The Group currently has reinsurance programmes on the 2017, 2018 and 2019 years of account.

The Group has strategic collateralised quota share arrangements in place in respect of 70% of its underwriting business with XL Re Limited, Bermudan reinsurer Everest Reinsurance Bermuda Limited (part of global NYSE-quoted insurer Everest Re Group Limited), Guernsey reinsurer Polygon Insurance Co Limited and other private shareholders through HIPCC Limited.

(b) Group risks – corporate level

(i) Investment, credit, liquidity and currency risks

The other significant risks faced by the Group are with regard to the investment of funds within its own custody. The elements of these risks are investment risk, liquidity risk, credit risk, interest rate risk and currency risk. To mitigate this, the surplus Group funds are deposited with highly rated banks and fund managers. The main liquidity risk would arise if a syndicate had inadequate liquid resources for a large claim and sought funds from the Group to meet the claim. In order to minimise investment risk, credit risk and liquidity risk, the Group's funds are invested in readily realisable short-term deposits. The Group's maximum exposure to credit risk at 31 December 2019 is £27.2m (2018: £28.3m), being the aggregate of the Group's insurance receivables, prepayments and accrued income, financial assets at fair value, and cash and cash equivalents, excluding any amounts held in the syndicates. The syndicates can distribute their results in sterling, US dollars or a combination of the two. The Group is exposed to movements in the US dollar between the balance sheet date and the distribution of the underwriting profits and losses, which is usually in the May following the closure of a year of account. The Group does not use derivative instruments to manage risk and, as such, no hedge accounting is applied.

As a result of the specific nature and structure of the Group's collateralised quota share reinsurance arrangements through Cell 6, the Group's Funds at Lloyd's calculation benefits from an aggregate £26.7m (2018: £24.5m) letter of credit ("LOC") acceptable to Lloyd's, on behalf of XL Re Limited, Everest Reinsurance Bermuda Limited, Polygon Insurance Co Limited (the reinsurers) and other private shareholders. The LOC is pledged in aggregate to the relevant syndicates through Lloyd's and thus Helios Underwriting plc is not specifically exposed to counterparty credit risk in this matter. Should the bank's LOC become unacceptable to Lloyd's for any reason, the reinsurer is responsible under the terms of the contract for making alternative arrangements. The contract is annually renewable and the Group has a contingency plan in place in the event of non-renewal under both normal and adverse market conditions.

(ii) Market risk

The Group is exposed to market and liquidity risk in respect of its holdings of syndicate participations. Lloyd's syndicate participations are traded in the Lloyd's auctions held in September and October each year. The Group is exposed to changes in market prices and a lack of liquidity in the trading of a particular syndicate's capacity could result in the Group making a loss compared to the carrying value when the Group disposes of particular syndicate participations.

(iii) Regulatory risks

The Company's subsidiaries are subject to continuing approval by Lloyd's to be a member of a Lloyd's syndicate. The risk of this approval being removed is mitigated by monitoring and fully complying with all requirements in relation to membership of Lloyd's. The capital requirements to support the proposed amount of syndicate capacity for future years are subject to the requirements of Lloyd's. A variety of factors are taken into account by Lloyd's in setting these requirements including market conditions and syndicate performance and, although the process is intended to be fair and reasonable, the requirements can fluctuate from one year to the next, which may constrain the volume of underwriting a subsidiary of the Company is able to support.

The Company is subject to the AIM Rules. Compliance with the AIM Rules is monitored by the Board.

4. Risk management continued

Operational risks

As there are relatively few transactions actually undertaken by the Group, there are only limited systems and operational requirements of the Group and therefore operational risks are not considered to be significant. Close involvement of all Directors in the Group's key decision making and the fact that the majority of the Group's operations are conducted by syndicates provide control over any remaining operational risks.

Capital management objectives, policies and approach

The Group has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- to maintain the required level of stability of the Group, thereby providing a degree of security to shareholders;
- to allocate capital efficiently and support the development of the business by ensuring that returns on capital employed meet the requirements of the shareholders; and
- to maintain the financial strength to support increases in the Group's underwriting through acquisition of capacity in the Lloyd's auctions or through the acquisition of new subsidiaries.

The Group's capital management policy is to hold a sufficient level of capital to allow the Group to take advantage of market conditions, particularly when insurance rates are improving, and to meet the Funds at Lloyd's ("FAL") requirements that support the corporate member subsidiaries' current and future levels of underwriting.

Approach to capital management

The capital structure of the Group consists entirely of equity attributable to equity holders of the Company, comprising issued share capital, share premium and retained earnings as disclosed in the statements of changes in equity on pages 29 and 30.

At 31 December 2019, the corporate member subsidiaries had an agreed FAL requirement of £39,368,000 (2018: £32,688,000) to support their underwriting on the 2020 year of account (2019 year of account). The funds to support this requirement are held in short-term investment funds and deposits or provided by the quota share reinsurance capital providers by way of an LOC. The FAL requirements are formally assessed and funded twice yearly and must be met by the corporate member subsidiaries to continue underwriting. At 31 December 2019, the agreed FAL requirements for the Group were 56.96% (2018: 62%) of the capacity for the following year of account.

5. Segmental information

Nigel Hanbury is the Group's chief operating decision-maker. He has determined its operating segments based on the way the Group is managed, for the purpose of allocating resources and assessing performance.

The Group has three segments that represent the primary way in which the Group is managed, as follows:

- syndicate participation;
- investment management; and
- other corporate activities.

Year ended 31 December 2019	Syndicate participation £'000	Investment management £'000	Other corporate activities £'000	Total £'000
Net earned premium	42,688	—	—	42,688
Net investment income	2,387	(52)	—	2,335
Other income	254	—	595	849
Net insurance claims and loss adjustment expenses	(26,265)	—	(1,359)	(27,624)
Expenses incurred in insurance activities	(15,367)	—	(397)	(15,764)
Other operating expenses	(114)	—	(1,650)	(1,764)
Gain on bargain purchase (Note 22)	—	—	1,707	1,707
Impairment of goodwill	—	—	—	—
Impairment of syndicate capacity (see Note 13)	—	—	1,860	1,860
Profit before tax	3,583	(52)	756	4,287

5. Segmental information continued

Year ended 31 December 2018	Syndicate participation £'000	Investment management £'000	Other corporate activities £'000	Total £'000
Net earned premium	30,749	—	203	30,952
Net investment income	586	(291)	—	295
Other income	(330)	—	412	82
Net insurance claims and loss adjustment expenses	(18,972)	—	—	(18,972)
Expenses incurred in insurance activities	(11,359)	—	(337)	(11,696)
Other operating expenses	(302)	—	(935)	(1,237)
Gain on bargain purchase (Note 22)	—	—	1,184	1,184
Impairment of goodwill	—	—	—	—
Impairment of syndicate capacity (see Note 13)	—	—	(281)	(281)
Profit before tax	372	(291)	246	327

The Group does not have any geographical segments as it considers all of its activities to arise from trading within the UK.

No major customers exceed 10% of revenue.

Net insurance claims and loss adjustment expenses within 2019 other corporate activities totalling £1,359,000 (net earned premium within 2018: £203,000 – 2016, 2017 and 2018 years of account) presents the 2017, 2018 and 2019 years of account net Group quota share reinsurance premium recoverable to HIPCC Limited (Note 25). This net quota share reinsurance premium recoverable is included within "net insurance claims incurred and loss adjustments expenses" in the consolidated income statement of the year.

6. Operating profit before impairments of goodwill and capacity

	Underwriting year of account*							
Year ended 31 December 2019	**2017 and prior £'000**	**2018 £'000**	**2019 £'000**	**Sub-total £'000**	**Pre-acquisition £'000**	**Corporate reinsurance £'000**	**Other corporate £'000**	**Total £'000**
Gross premium written	1,031	5,891	54,656	61,578	(6,108)	—	—	55,470
Reinsurance ceded	(116)	(1,444)	(13,003)	(14,563)	1,553	—	(200)	(13,210)
Net premium written	915	4,447	41,653	47,015	(4,555)	—	(200)	42,260
Net earned premium	3,526	21,772	22,156	47,454	(4,566)	—	(200)	42,688
Other income	1,574	615	339	2,527	(550)	235	2,679	4,891
Net insurance claims incurred and loss adjustment expenses	893	(12,854)	(16,276)	(28,237)	2,329	(1,359)	(358)	(27,624)
Operating expenses	(1,535)	(6,823)	(8,767)	(17,125)	1,929	—	(2,332)	(17,528)
Operating profit before impairments of goodwill and capacity	4,458	2,710	(2,548)	4,620	(858)	(1,124)	(211)	2,427
Quota share adjustment	(1,733)	(1,361)	1,735	(1,359)	—	1,359	—	—
Operating profit before impairments of goodwill and capacity, after quota share adjustment	2,725	1,349	(813)	3,261	(858)	235	(211)	2,427

* The underwriting year of account results represent the Group's share of the syndicates' results by underwriting year of account before corporate member level reinsurance and members' agent's charges.

6. Operating profit before impairments of goodwill and capacity continued

Year ended 31 December 2018	Underwriting year of account* 2016 and prior £'000	2017 £'000	2018 £'000	Sub-total £'000	Pre-acquisition £'000	Corporate reinsurance £'000	Other corporate £'000	Total £'000
Gross premium written	1,333	6,253	45,283	52,869	(14,166)	—	—	38,703
Reinsurance ceded	81	(954)	(9,840)	(10,713)	3,131	203	(296)	(7,675)
Net premium written	1,414	5,299	35,443	42,156	(11,035)	203	(296)	31,028
Net earned premium	4,912	19,457	18,903	43,272	(12,227)	203	(296)	30,952
Other income	335	(261)	(120)	(46)	94	575	938	1,561
Net insurance claims incurred and loss adjustment expenses	1,220	(11,035)	(16,204)	(26,019)	6,681	—	366	(18,972)
Operating expenses	(2,949)	(6,076)	(7,602)	(16,627)	5,396	—	(1,702)	(12,933)
Operating profit before impairments of goodwill and capacity	3,518	2,085	(5,023)	580	(56)	778	(694)	608
Quota share adjustment	(1,938)	(1,173)	3,314	203	—	(203)	—	—
Operating profit before impairments of goodwill and capacity, after quota share adjustment	1,580	912	(1,709)	783	(56)	575	(694)	608

* The underwriting year of account results represent the Group's share of the syndicates' results by underwriting year of account before corporate member level reinsurance and members' agent's charges.

Pre-acquisition relates to the element of results from the new acquisitions before they were acquired by the Group.

7. Insurance liabilities and reinsurance balances

Movement in claims outstanding

	Gross £'000	Reinsurance £'000	Net £'000
At 1 January 2018	59,833	14,836	44,997
Increase in reserves arising from acquisition of subsidiary undertakings	25,576	6,969	18,607
Movement of reserves	1,109	909	200
Other movements	1,514	(16)	1,530
At 31 December 2018	88,032	22,698	65,334
At 1 January 2019	88,032	22,698	65,334
Increase in reserves arising from acquisition of subsidiary undertakings	11,792	2,730	9,062
Movement of reserves	3,758	2,004	1,754
Other movements	(7,966)	(1,672)	(6,294)
At 31 December 2019	**95,616**	**25,760**	**69,856**

Included within other movements are the 2016 and prior years' claims reserves reinsured into the 2017 year of account on which the Group does not participate and currency exchange differences.

7. Insurance liabilities and reinsurance balances continued

Movement in unearned premium

	Gross £'000	Reinsurance £'000	Net £'000
At 1 January 2018	15,916	2,354	13,562
Increase in reserves arising from acquisition of subsidiary undertakings	8,042	1,322	6,720
Movement of reserves	360	284	76
Other movements	454	97	357
At 31 December 2018	24,772	4,057	20,715
At 1 January 2019	24,772	4,057	20,715
Increase in reserves arising from acquisition of subsidiary undertakings	3,380	1,182	2,197
Movement of reserves	60	488	(428)
Other movements	(1,690)	(704)	(985)
At 31 December 2019	**26,522**	**5,023**	**21,499**

Assumptions, changes in assumptions and sensitivity

As described in Note 4, the majority of the risks to the Group's future cash flows arise from its subsidiaries' participation in the results of Lloyd's syndicates and are mostly managed by the managing agents of the syndicates. The Group's role in managing these risks, in conjunction with the Group's members' agent, is limited to a selection of syndicate participations and monitoring the performance of the syndicates and their managing agents.

The amounts carried by the Group arising from insurance contracts are calculated by the managing agents of the syndicates, derived from accounting information provided by the managing agents and reported upon by the syndicate auditors.

The key assumptions underlying the amounts carried by the Group arising from insurance contracts are:

- the claims reserves calculated by the managing agents are accurate; and
- the potential deterioration of run-off year results has been fully provided for by the managing agents.

There have been no changes in assumptions in 2019.

The amounts carried by the Group arising from insurance contracts are sensitive to various factors as follows:

- a 10% increase/decrease in the managing agents' calculation of gross claims reserves will decrease/increase the Group's pre-tax profits by £9,562,000 (2018: £8,803,000);
- a 10% increase/decrease in the managing agents' calculation of net claims reserves will decrease/increase the Group's pre-tax profits by £6,986,000 (2018: £6,533,000); and
- a 10% increase/decrease in the run-off year net claims reserves will decrease/increase the Group's pre-tax profits by £nil (2018: £7,000).

The 10% movement has been selected to give an indication of the possible variations in the assumptions used.

Analysis of gross and net claims development

The tables below provide information about historical gross and net claims development:

Claims development – gross

£m

Underwriting pure year*	After one year	After two years	After three years	After four years	After five years	After six years	After seven years	After eight years	After nine years	Profit on RITC received
2011	19	29	29	29	28	28	28	27	27	2
2012	19	27	27	26	26	25	25	25		3
2013	14	24	24	23	22	22	21			2
2014	14	23	24	23	23	23				4
2015	13	25	25	24	24					4
2016	16	31	32	31						
2017	33	48	51							
2018	25	42								
2019	**22**									

7. Insurance liabilities and reinsurance balances continued

Analysis of gross and net claims development continued

Claims development – net

£m

Underwriting pure year*	After one year	After two years	After three years	After four years	After five years	After six years	After seven years	After eight years	After nine years	Profit on RITC received
2011	16	25	25	25	24	24	23	23	23	2
2012	16	23	23	22	22	21	21	21		3
2013	12	21	20	20	19	19	19			3
2014	12	20	20	20	20	19				3
2015	11	21	21	21	21					3
2016	13	25	26	25						
2017	23	36	37							
2018	19	31								
2019	**16**									

* Including the new acquisitions during 2019.

At the end of the three years syndicates are normally reinsured to close. Participations on subsequent years on syndicates may therefore change. The above table shows nine years of development and how the reinsurance to close received performed.

8. Net investment income

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Investment income	**1,248**	841
Realised losses on financial assets at fair value through profit or loss	**262**	(145)
Unrealised losses on financial assets at fair value through profit or loss	**657**	(490)
Investment management expenses	**(67)**	(55)
Bank interest	**235**	144
Net investment income	**2,335**	295

9. Operating expenses (excluding goodwill and capacity impairment)

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Expenses incurred in insurance activities:		
Acquisition costs	**11,238**	8,231
Change in deferred acquisition costs	**231**	120
Administrative expenses	**4,234**	3,447
Other	**61**	(102)
	15,764	11,696
Other operating expenses:		
– Exchange differences	**125**	(324)
– Directors' remuneration	**414**	341
– Acquisition costs in connection with the new subsidiaries acquired in the year	**156**	144
– Professional fees	**530**	624
– Administration and other expenses	**392**	353
Auditors' remuneration:		
– audit of the Parent Company and Group Financial Statements	**57**	33
– audit of subsidiary company Financial Statements	**48**	40
– underprovision of prior year audit fee	**15**	8
– audit related assurance services	**27**	18
	1,764	1,237
Operating expenses	**17,528**	12,933

The Group has no employees other than the Directors of the Company.

Notes to the Financial Statements – Year ended 31 December 2019 continued

9. Operating expenses (excluding goodwill and capacity impairment) continued

Details of the Directors' remuneration are disclosed below:

Directors' remuneration	Year ended 31 December 2019 £	Year ended 31 December 2018 £
Arthur Manners	154,167	128,000
Edward William Fitzalan-Howard	18,000	15,000
Jeremy Evans	15,000	15,000
Michael Cunningham	20,000	20,000
Andrew Christie	15,000	15,000
Nigel Hanbury	191,667	148,000
Total	413,834	341,000

The Chief Executive, Nigel Hanbury, and the Finance Director, Arthur Manners, had a bonus incentive scheme during 2019 in addition to their basic remuneration. The above figures for Nigel Hanbury and Arthur Manners include an accrual for the year of £50,000 each (2018: £50,000 each for Nigel Hanbury and Arthur Manners) in respect of this scheme. However, during the year 2019, a bonus was paid to these two Directors, being £112,500 to Nigel Hanbury and £90,000 to Arthur Manners, in respect of year 2018.

No other Directors derive other benefits, pension contributions or incentives from the Group. During 2017, a Joint Share Ownership Plan was implemented as an incentive scheme for the Chief Executive, Nigel Hanbury, and the Finance Director, Arthur Manners (see Note 23).

10. Income tax charge

(a) Analysis of tax credit in the year

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Current tax:		
– current year	497	892
– prior year	(76)	50
– foreign tax paid	33	88
Total current tax	454	1,030
Deferred tax:		
– current year	(169)	(1,205)
– prior year	(52)	46
Total deferred tax	(221)	(1,159)
Income tax expense	233	(129)

(b) Factors affecting the tax credit for the year

Tax for the year is the same as (2018: lower than) the standard rate of corporation tax in the UK of 19% (2018: 19%).

The differences are explained below:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Profit before tax	4,287	327
Tax calculated as profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	814	62
Tax effects of:		
– Prior year adjustments	(128)	96
– Rate change and other adjustments	(140)	(53)
– Permanent disallowances	(346)	(322)
– Goodwill on bargain purchase not subject to tax	—	—
– Foreign taxes	33	88
– Other	—	—
Tax credit for the year	233	(129)

10. Income tax charge continued

(b) Factors affecting the tax credit for the year continued

The results of the Group's participation on the 2017, 2018 and 2019 years of account and the calendar year movement on 2016 and prior run-offs will not be assessed for tax until the years ended 2020, 2021 and 2022 respectively, being the year after the calendar year result of each run-off year or the normal date of closure of each year of account. Full provision is made as part of the deferred tax provisions for underwriting profits/(losses) not yet subject to corporation tax.

The Group has £1,551,000 (2018: £1,723,000) taxable losses carried forward, to which £289,000 (2018: £334,000) has been recognised as a deferred tax asset and has been offset against deferred tax liabilities of the same nature as disclosed in Note 18.

The Company has £1,262,000 (2018: £1,389,000) of tax losses to carry forward to which no deferred tax asset has been recognised due to the uncertainty of the future taxable profits, as disclosed in Note 18.

11. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the Company after tax by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Earnings per share has been calculated in accordance with IAS 33 "Earnings per Share".

The earnings per share and weighted average number of shares used in the calculation are set out below:

	Year ended 31 December 2019	Year ended 31 December 2018
Profit for the year after tax attributable to ordinary equity holders of the Parent	**£4,054,000**	£456,000
Basic – weighted average number of ordinary shares*	**15,809,376**	14,544,433
Adjustments for calculating the diluted earnings per share: Treasury shares (JSOP scheme), Note 21	**500,000**	500,000
Diluted – weighted average number of ordinary shares*	**16,309,376**	15,044,433
Basic earnings/(loss) per share	**25.64p**	3.14p
Diluted earnings/(loss) per share	**24.86p**	3.03p

The basic and diluted earnings per share for the year 2017 are the same. The issue of the 500,000 partly paid ordinary shares (Note 21) gave rise to an anti-dilutive element.

* Used as the denominator in calculating the basic earnings per share, and diluted earnings per share, respectively.

12. Dividends paid or proposed

A dividend of 3p per share was paid during the year totalling £529,000 (2018: £219,000). The dividend was settled in cash (2018: in cash).

No final dividend is being proposed in respect of the financial year ending 31 December 2019.

Notes to the Financial Statements – Year ended 31 December 2019 continued

13. Intangible assets

	Goodwill £'000	Syndicate capacity £'000	Total £'000
Cost			
At 1 January 2018	756	13,160	13,916
Additions	19	—	19
Disposals	—	(74)	(74)
Impairment	—	—	—
Acquired with subsidiary undertakings	—	4,212	4,212
At 31 December 2018	775	17,298	18,073
At 1 January 2019	775	17,298	18,073
Additions	—	21	21
Disposals	—	(352)	(352)
Impairment	—	—	—
Acquired with subsidiary undertakings	—	3,598	3,598
At 31 December 2019	**775**	**20,565**	**21,340**
Impairment			
At 1 January 2018	—	1,741	1,741
Impairment for the year	—	281	281
Disposals	—	—	—
At 31 December 2018	—	2,022	2,022
At 1 January 2019	—	2,022	2,022
Impairment for the year	—	(1,860)	(1,860)
Disposals	—	—	—
At 31 December 2019	**—**	**162**	**162**
Net book value			
At 31 December 2018	775	15,276	16,051
At 31 December 2019	**775**	**20,403**	**21,178**

Note 22 sets out the details of the entities acquired by the Group during the year, the fair value adjustments and the goodwill arising.

14. Investments in subsidiaries

	31 December 2019 £'000	31 December 2018 £'000
Total	**33,329**	24,599

During the year 2019 an impairment charge of £1,394,000 (2018: £2,506,000) was recognised on the cost of investments in subsidiaries and included in the Parent income statement.

At 31 December 2019, the Company owned 100% of the following companies and limited liability partnerships, either directly or indirectly. All subsidiaries are incorporated in England and Wales and their registered office address is at 40 Gracechurch Street, London EC3V 0BT, apart from RBC CEES Trustee Limited, which is incorporated in Jersey and its registered office address is Gaspé House, 66-72 Esplanade, Jersey JE2 3QT.

Company or partnership	Direct/indirect interest	2019 ownership	2018 ownership	Principal activity
Hampden Corporate Member Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Nameco (No. 917) Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Nameco (No. 229) Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Nameco (No. 518) Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Nameco (No. 804) Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Halperin Underwriting Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Bernul Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Nameco (No. 311) Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Nameco (No. 402) Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Updown Underwriting Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Nameco (No. 507) Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Nameco (No. 76) Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Kempton Underwriting Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Devon Underwriting Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Nameco (No. 346) Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Pooks Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Charmac Underwriting Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
RBC CEES Trustee Limited[(ii)]	Direct	**100%**	100%	Joint Share Ownership Plan
Nottus (No 51) Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Chapman Underwriting Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Llewellyn House Underwriting Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Advantage DCP Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Romsey Underwriting Limited	Direct	**100%**	100%	Lloyd's of London corporate vehicle
Helios UTG Partner Limited[(i)]	Direct	**100%**	100%	Corporate partner
Nomina No 035 LLP	Indirect	**100%**	100%	Lloyd's of London corporate vehicle
Nomina No 342 LLP	Indirect	**100%**	100%	Lloyd's of London corporate vehicle
Nomina No 372 LLP	Indirect	**100%**	100%	Lloyd's of London corporate vehicle
Salviscount LLP	Indirect	**100%**	100%	Lloyd's of London corporate vehicle
Inversanda LLP	Indirect	**100%**	100%	Lloyd's of London corporate vehicle
Fyshe Underwriting LLP	Indirect	**100%**	100%	Lloyd's of London corporate vehicle
Nomina No 505 LLP	Indirect	**100%**	100%	Lloyd's of London corporate vehicle
Nomina No 321 LLP	Indirect	**100%**	100%	Lloyd's of London corporate vehicle
Nameco (No. 409) Limited	Direct	**100%**	—	Lloyd's of London corporate vehicle
Nameco (No. 1113) Limited	Direct	**100%**	—	Lloyd's of London corporate vehicle
Catbang 926 Limited	Direct	**100%**	—	Lloyd's of London corporate vehicle
Whittle Martin Underwriting	Direct	**100%**	—	Lloyd's of London corporate vehicle

For details of all new acquisitions made during the year 2019 refer to Note 22(a).

(i) Helios UTG Partner Limited, a subsidiary of the Company, owns 100% of Nomina No 035 LLP, Nomina No 342 LLP, Nomina No 372 LLP, Salviscount LLP, Inversanda LLP, Fyshe Underwriting LLP, Nomina No 505 LLP and Nomina No 321 LLP. The cost of acquisition of these LLPs is accounted for in Helios UTG Partner Limited, their immediate parent company.

On 21 February 2019, the Company sold its shares in Dumasco Limited (a dormant company) for £nil gains or losses. On 27 November 2019, the Company sold its shares in Nameco (No. 321) Limited, Nameco (No. 365) Limited and Nameco (No. 605) Limited for £nil gains or losses.

(ii) RBC CEES Trustee Limited was an incorporated entity in year 2017 to satisfy the requirements of the Joint Share Ownership Plan (see Note 23).

15. Financial assets at fair value through profit or loss

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded securities) is based on quoted market prices (unadjusted) at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data inputs, either directly or indirectly (other than quoted prices included within Level 1) and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This is the case for unlisted equity securities.

The Group held the following financial assets carried at fair value on the statement of financial position:

Group	**Total 2019 £'000**	Level 1 £'000	Level 2 £'000	Level 3 £'000
Shares and other variable yield securities and units in unit trusts	**9,116**	3,202	5,632	282
Debt securities and other fixed income securities	**43,659**	12,827	30,832	—
Participation in investment pools	**621**	156	358	107
Loans and deposits with credit institutions	**201**	106	90	5
Derivatives	**47**	13	34	—
Other investments	**7**	7	—	—
Funds at Lloyd's	**13,490**	13,490	—	—
Total – fair value	**67,141**	29,801	36,946	394

Group	Total 2018 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Shares and other variable yield securities and units in unit trusts	7,806	2,717	4,983	106
Debt securities and other fixed income securities	40,797	13,345	27,452	—
Participation in investment pools	826	304	282	239
Loans and deposits with credit institutions	227	168	10	50
Derivatives	30	24	6	—
Other investments	6	6	—	—
Funds at Lloyd's	8,383	8,383	—	—
Total – fair value	58,075	24,947	23,733	395

Funds at Lloyd's represent assets deposited with the Corporation of Lloyd's to support the Group's underwriting activities as described in the accounting policies. The Group entered into a Lloyd's Deposit Trust Deed which gives Lloyd's the right to apply these monies in settlement of any claims arising from the participation on the syndicates. These monies can only be released from the provision of this Deed with Lloyd's express permission and only in circumstances where the amounts are either replaced by an equivalent asset, or after the expiration of the Group's liabilities in respect of its underwriting.

In addition to funds held by Lloyd's shown above, letters of credit totalling £1,826,000 (2018: £2,194,000) are also held as part of the Group's Funds at Lloyd's.

The Directors consider any credit risk or liquidity risk not to be material.

Company

Financial assets at fair value through profit or loss are shown below:

	31 December 2019 £'000	31 December 2018 £'000
Holdings in collective investment schemes	**—**	—
Total – market value	**—**	—

16. Other receivables

Group	31 December 2019 £'000	31 December 2018 £'000
Arising out of direct insurance operations	**13,171**	12,082
Arising out of reinsurance operations	**22,115**	26,297
Other debtors	**12,440**	14,559
Total	**47,726**	52,938

The Group has no analysis of other receivables held directly by the syndicates on the Group's behalf (see Note 27). None of the Group's other receivables are past their due date and all are classified as fully performing.

Included within the above receivables are amounts totalling £3,164,000 (2018: £2,081,000) which are not expected to be wholly recovered within one year.

Company	31 December 2019 £'000	31 December 2018 £'000
Receivables from subsidiaries (Note 25)	**7,804**	5,668
Other debtors	**347**	1,025
Prepayments	**—**	—
Total	**8,151**	6,693

Included within receivables are amounts totalling £100,000 (2018: Nil), which are not expected to be recoverable within one year.

17. Deferred acquisition costs

	31 December 2019 £'000	31 December 2018 £'000
At 1 January	**6,782**	4,420
Increase arising from acquisition of subsidiary undertakings (Note 22)	**2,532**	3,003
Movement in deferred acquisition costs	**(230)**	(120)
Other movements	**(2,443)**	(521)
At 31 December	**6,641**	6,782

18. Deferred tax

Group

Deferred tax is calculated in full on temporary differences using a tax rate of 17% on deferred tax assets and 19% on deferred tax liabilities (2018: 17% on deferred tax assets and 19% on deferred tax liabilities). The movement on the deferred tax liability account is shown below:

Deferred tax liabilities	Valuation of capacity £'000	Timing differences on underwriting results £'000	Total £'000
At 1 January 2018	2,211	752	2,963
On acquisition of subsidiary undertakings	801	30	831
Prior period adjustment	46	—	46
Credit for the year	(108)	(1,097)	(1,205)
At 31 December 2018	2,950	(315)	2,635
At 1 January 2019	2,950	(315)	2,635
On acquisition of subsidiary undertakings	878	—	878
Prior period adjustment	(52)	—	(52)
Credit for the year	356	(525)	(169)
At 31 December 2019	**4,132**	**(840)**	**3,292**

Company

The Company had no deferred tax assets or liabilities (2018: £nil), as disclosed in Note 10.

19. Borrowings

Group and Company	31 December 2019 £'000	31 December 2018 £'000
Secured – at amortised cost		
Bank revolving credit facility	**2,000**	9,196
	2,000	9,196
Current	**2,000**	8,162
Non-current	**—**	1,034
	2,000	9,196

Bank loan

(a) Revolving credit/loan facility

On 21 April 2016, the Company registered a security charge with Companies House against a prospective Revolving Credit Facility ("RCF"). During the year ended 31 December 2017, the Company agreed an RCF with the National Westminster Bank Plc to the value of £2,000,000, secured against all of the assets of the Group. On 22 November 2017 £1,094,000 was drawn down and repaid in full on 22 June 2018. The charge registered with National Westminster Bank Plc has now been fully satisfied.

A new sterling Revolving Loan Facility ("RLF") was agreed with Barclays Bank Plc during the year ended 31 December 2019 to the value of £4m, of which £2m was available for general corporate purposes and acquisitions and the remaining £2m was available for use only in a large loss scenario, secured against all of the assets of Helios Underwriting plc.

On 19 December 2019 £2,000,000 was drawn down on the RLF. The maturity of the RLF is three months from the initial date of the drawdown, being 19 December 2019. The RLF incurs interest at the following rates:

- drawn amounts: 3% per annum over LIBOR; and
- undrawn amount: 1% fixed per annum.

Total arrangement fees of £30,000 were paid to Barclays Bank Plc during the year for the creation of the RLF.

(b) Bank loan

On 14 November 2018, the Company agreed a short-term loan with National Westminster Bank Plc. The maturity of the loan was the later of 31 January 2019 and two months after the loan is drawn. On 7 December 2018 £8,162,000 was drawn down. The loan was repaid in full on 1 January 2019. The short-term loan incurred interest on drawn amounts at 2.5% per annum over LIBOR.

An arrangement fee of £41,000 was paid during the year 2018 to the National Westminster Bank Plc.

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Liabilities	Equity			
Group	Other loans and borrowings £'000	Share capital/ premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2018	1,094	16,897	(50)	4,163	22,104
Changes from financing cash flows					
Proceeds from issue of share capital (Note 21)	—	—	—	—	—
Proceeds from loans and borrowings	9,196	—	—	—	9,196
Payments for Company buy back of ordinary shares (Note 24)	—	—	—	(202)	(202)
Repayment of borrowings	(1,094)	—	—	—	(1,094)
Dividend paid	—	—	—	(219)	(219)
Total changes from financing cash flows	8,102	—	—	(421)	7,681
Effect of changes in foreign exchange rates	—	—	—	—	—
Changes in fair value	—	—	—	—	—
Other changes:	—	—	—	—	—
Liability related	—	—	—	—	—
Other expense	—	—	—	—	—
Interest expense	—	—	—	—	—
Interest paid	—	—	—	—	—
Total liability related other changes	—	—	—	—	—
Total liability related other changes	—	—	—	—	—
Total equity related other changes*	—	—	—	456	456
Balance at 31 December 2018	9,196	16,897	(50)	4,198	30,241

* The equity related other changes relate to the consolidated profit for the year 2018.

19. Borrowings continued

Bank loan continued

(b) Bank loan continued

Group	Liabilities: Other loans and borrowings £'000	Equity: Share capital/ premium £'000	Equity: Other reserves £'000	Equity: Retained earnings £'000	Total £'000
Balance at 1 January 2019	9,196	16,897	(50)	4,198	30,241
Changes from financing cash flows					
Proceeds from issue of share capital (Note 21)	—	3,880	—	—	3,880
Proceeds from loans and borrowings	2,000	—	—	—	2,000
Payments for Company buy back of ordinary shares (Note 24)	—	—	—	(302)	(302)
Repayment of borrowings	(9,196)	—	—	—	(9,196)
Dividend paid	—	—	—	(529)	(529)
Total changes from financing cash flows	(7,196)	3,880	—	(831)	(4,147)
Effect of changes in foreign exchange rates	—	—	—	—	—
Changes in fair value	—	—	—	—	—
Other changes:					
Liability related	—	—	—	—	—
Other expense	—	—	—	—	—
Interest expense	—	—	—	—	—
Interest paid	—	—	—	—	—
Total liability related other changes	—	—	—	—	—
Total equity related other changes*	—	—	—	4,054	4,054
Balance at 31 December 2019	**2,000**	**20,777**	**(50)**	**7,421**	**30,148**

* The equity related other changes relate to the consolidated profit for the year 2019.

Company	Liabilities: Other loans and borrowings £'000	Equity: Share capital/ premium £'000	Equity: Other reserves £'000	Equity: Retained earnings £'000	Total £'000
Balance at 1 January 2018	1,094	16,897	—	7,712	25,703
Changes from financing cash flows					
Proceeds from issue of share capital (Note 21)	—	—	—	—	—
Proceeds from loans and borrowings	9,196	—	—	—	9,196
Payments for Company buy back of ordinary shares (Note 24)	—	—	—	(202)	(202)
Repayment of borrowings	(1,094)	—	—	—	(1,094)
Dividend paid	—	—	—	(219)	(219)
Total changes from financing cash flows	8,102	—	—	(421)	7,681
Effect of changes in foreign exchange rates	—	—	—	—	—
Changes in fair value	—	—	—	—	—
Other changes:	—	—	—	—	—
Liability related	—	—	—	—	—
Other expense	—	—	—	—	—
Interest expense	—	—	—	—	—
Interest paid	—	—	—	—	—
Total liability related other changes	—	—	—	—	—
Total equity related other changes*	—	—	—	4,463	4,463
Balance at 31 December 2018	9,196	16,897	—	11,754	37,847

* The equity related other changes relate to the Company's profit for the year 2018.

Notes to the Financial Statements – Year ended 31 December 2019 continued

19. Borrowings continued
Bank loan continued
(b) Bank loan continued

Company	Liabilities: Other loans and borrowings £'000	Equity: Share capital/ premium £'000	Equity: Other reserves £'000	Equity: Retained earnings £'000	Total £'000
Balance at 1 January 2019	9,196	16,897	—	11,754	37,847
Changes from financing cash flows					
Proceeds from issue of share capital (Note 21)	—	3,880	—	—	3,880
Proceeds from loans and borrowings	2,000	—	—	—	2,000
Payments for Company buy back of ordinary shares (Note 24)	—	—	—	(302)	(302)
Repayment of borrowings	(9,196)	—	—	—	(9,196)
Dividend paid	—	—	—	(529)	(529)
Total changes from financing cash flows	(7,196)	3,880	—	(831)	(4,147)
Effect of changes in foreign exchange rates	—	—	—	—	—
Changes in fair value	—	—	—	—	—
Other changes:	—	—	—	—	—
Liability related	—	—	—	—	—
Other expense	—	—	—	—	—
Interest expense	—	—	—	—	—
Interest paid	—	—	—	—	—
Total liability related other changes	—	—	—	—	—
Total equity related other changes*	—	—	—	5,789	5,789
Balance at 31 December 2019	**2,000**	**20,777**	**—**	**16,712**	**39,489**

* The equity related other changes relate to the Company's profit for the year 2018.

20. Other payables

Group	31 December 2019 £'000	31 December 2018 £'000
Arising out of direct insurance operations	**2,090**	1,893
Arising out of reinsurance operations	**10,970**	12,451
Corporation tax payable	**545**	726
Other creditors	**4,435**	10,251
	18,040	25,321

The Group has no analysis of other payables held directly by the syndicates on the Group's behalf (see Note 27).

Company	31 December 2019 £'000	31 December 2018 £'000
Other creditors	**—**	1,466
Accruals and deferred income	**4,182**	369
	4,182	1,835

All payables above are due within one year.

21. Share capital and share premium

	Number of shares (i)	Ordinary share capital £'000	Partly paid ordinary share capital £'000	Share premium £'000	Total £'000
Ordinary shares of 10p each and share premium at 1 January 2018	15,104,240	1,460	50	15,387	16,897
Ordinary shares of 10p each and share premium at 31 December 2018	15,104,240	1,460	50	15,387	16,897
Ordinary shares of 10p each and share premium at 1 January 2019	15,104,240	1,460	50	15,387	16,897
Ordinary shares of 10p each and share premium at 31 December 2019	**18,390,906**	**1,789**	**50**	**18,938**	**20,777**

During the year, the Company issued a further 3,286,666 shares.

(i) Number of shares

	2019	2018
Allotted, called up and fully paid ordinary shares:		
– On the market	**17,488,628**	14,440,962
– Company buy back of ordinary share held in treasury (Note 24)	**402,278**	163,278
	17,890,906	14,604,240
Uncalled and partly paid ordinary shares under the JSOP scheme (ii) (Note 23)	**500,000**	500,000
	18,390,906	15,104,240

(ii) The partly paid ordinary shares are not entitled to dividend distribution rights during the year.

22. Acquisition of Limited Liability Vehicles

Acquisitions of Limited Liability Vehicles are accounted for using the acquisition method of accounting.

Where the comparison of the consideration paid to the fair value of net assets acquired gives rise to a negative goodwill this is recognised in the revenue, in the consolidated income statement as a gain on bargain purchase (negative goodwill). The below table shows the summary of the gain on bargain purchase and the impairment of goodwill as follows:

Company or partnership	**2019 Gain on bargain purchase £'000**	**2019 Impairment of goodwill £'000**	**Total £'000**	2018 Gain on bargain purchase £'000	2018 Impairment of goodwill £'000	Total £'000
Nameco (No. 409) Limited	**214**	**—**	**214**	—	—	—
Nameco (No. 1113) Limited	**255**	**—**	**253**	—	—	—
Catbang 926 Limited	**1,036**	**—**	**1,036**	—	—	—
Whittle Martin Underwriting	**202**	**—**	**202**	—	—	—
Fyshe Underwriting LLP	**—**	**—**	**—**	34	—	34
Nomina No 505 LLP	**—**	**—**	**—**	38	—	38
Llewellyn House Underwriting Limited	**—**	**—**	**—**	—	—	—
Advantage DCP Limited	**—**	**—**	**—**	474	—	474
Romsey Underwriting Limited	**—**	**—**	**—**	569	—	569
Nomina No 321 LLP	**—**	**—**	**—**	69	—	69
	1,707	**—**	**1,707**	1,184	—	1,184

22. Acquisition of Limited Liability Vehicles continued

Further details of individual acquisitions are shown below:

(a) 2019 acquisitions

Nameco (No. 409) Limited

On 6 February 2019, Helios Underwriting plc acquired 100% of the issued share capital of Nameco (No. 409) Limited for a total consideration of £1,346,000. Nameco (No. 409) Limited is incorporated in England and Wales and is a corporate member of Lloyd's.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of the net assets was £1,560,000. Negative goodwill of £214,000 arose on acquisition and has been immediately recognised as goodwill on bargain purchase in the income statement. The following table explains the fair value adjustments made to the carrying values of the major categories of assets and liabilities at the date of acquisition:

	Carrying value £'000	Adjustments £'000	Fair value £'000
Intangible assets	11	429	440
Financial assets at fair value through profit or loss	1,379	—	1,379
Reinsurance assets:			
– reinsurers' share of claims outstanding	621	—	621
– reinsurers' share of unearned premium	95	—	95
Other receivables, including insurance and reinsurance receivables	1,747	—	1,747
Deferred acquisition cost	141	—	141
Prepayments and accrued income	10	—	10
Cash and cash equivalents	341	—	341
Insurance liabilities:			
– claims outstanding	(2,148)	—	(2,148)
– unearned premium	(492)	—	(492)
Deferred income tax liabilities	(2)	(82)	(84)
Other payables, including insurance and reinsurance payables	(452)	—	(452)
Accruals and deferred income	(38)	—	(38)
Net assets acquired	**1,213**	**347**	**1,560**
Satisfied by:			
Cash and cash equivalents	1,346	—	1,346
Total consideration	**1,346**	**—**	**1,346**
Negative goodwill	**133**	**(347)**	**(214)**

	2017 year of account	2018 year of account	**2019 year of account**
Capacity acquired	1,194,112	1,230,299	**1,069,040**

The net earned premium and profit of Nameco (No. 409) Limited for the period since the acquisition date to 31 December 2019 are £811,000 and £110,000, respectively.

Negative goodwill has arisen on the acquisition of Nameco (No. 409) Limited as a result of the purchase consideration being at a discount to the fair value of net assets acquired.

22. Acquisition of Limited Liability Vehicles continued

(a) 2019 acquisitions continued

Nameco (No. 1113) Limited

On 17 July 2019, Helios Underwriting plc acquired 100% of the issued share capital of Nameco (No. 1113) Limited for a total consideration of £2,036,000. Nameco (No. 1113) Limited is incorporated in England and Wales and is a corporate member of Lloyd's.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of the net assets was £2,291,000. Negative goodwill of £255,000 arose on acquisition and has been immediately recognised as goodwill on bargain purchase in the income statement. The following table explains the fair value adjustments made to the carrying values of the major categories of assets and liabilities at the date of acquisition:

	Carrying value £'000	Adjustments £'000	Fair value £'000
Intangible assets	7	1,105	1,112
Financial assets at fair value through profit or loss	1,191	—	1,191
Reinsurance assets:			
– reinsurers' share of claims outstanding	693	—	693
– reinsurers' share of unearned premium	70	—	70
Other receivables, including insurance and reinsurance receivables	1,985	1,084	3,069
Deferred acquisition cost	83	—	83
Prepayments and accrued income	18	—	18
Cash and cash equivalents	177	—	177
Insurance liabilities:			
– claims outstanding	(2,202)	—	(2,202)
– unearned premium	(647)	—	(647)
Deferred income tax liabilities	—	(416)	(416)
Other payables, including insurance and reinsurance payables	(755)	—	(755)
Accruals and deferred income	(102)	—	(102)
Net assets acquired	**518**	**1,773**	**2,291**
Satisfied by:			
Cash and cash equivalents	2,036	—	2,036
Total consideration	**2,036**	**—**	**2,036**
Negative goodwill	**1,518**	**(1,773)**	**(255)**

	2017 year of account	2018 year of account	**2019 year of account**
Capacity acquired	1,796,419	2,035,238	**1,994,276**

The net earned premium and profit of Nameco (No. 1113) Limited for the period since the acquisition date to 31 December 2019 are £498,000 and £104,000, respectively.

Negative goodwill has arisen on the acquisition of Nameco (No. 1113) Limited as a result of the purchase consideration being at a discount to the fair value of net assets acquired.

22. Acquisition of Limited Liability Vehicles continued

(a) 2019 acquisitions continued

Catbang 926 Limited

On 19 December 2019, Helios Underwriting plc acquired 100% of the issued share capital of Catbang 926 Limited for a total consideration of £5,575,000. Catbang 926 Limited is incorporated in England and Wales and is a corporate member of Lloyd's.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of the net assets was £6,611,000. Negative goodwill of £1,036,000 arose on acquisition and has been immediately recognised as goodwill on bargain purchase in the income statement. The following table explains the fair value adjustments made to the carrying values of the major categories of assets and liabilities at the date of acquisition:

	Carrying value £'000	Adjustments £'000	Fair value £'000
Intangible assets	—	1,444	1,444
Financial assets at fair value through profit or loss	4,228	—	4,228
Reinsurance assets:			
– reinsurers' share of claims outstanding	841	—	841
– reinsurers' share of unearned premium	381	—	381
Other receivables, including insurance and reinsurance receivables	5,642	—	5,642
Deferred acquisition cost	466	—	466
Prepayments and accrued income	24	—	24
Cash and cash equivalents	2,261	—	2,261
Insurance liabilities:			
– claims outstanding	(5,310)	—	(5,310)
– unearned premium	(1,602)	—	(1,602)
Deferred income tax liabilities	(26)	(274)	(300)
Other payables, including insurance and reinsurance payables	(1,304)	—	(1,304)
Accruals and deferred income	(160)	—	(160)
Net assets acquired	**5,441**	**1,170**	**6,611**
Satisfied by:			
Cash and cash equivalents	5,575	—	5,575
Loan paid on acquisition	—	—	—
Total consideration	**5,575**	**—**	**5,575**
Negative goodwill	**134**	**(1,170)**	**(1,036)**

	2017 year of account	2018 year of account	**2019 year of account**
Capacity acquired	4,076,102	4,076,102	**4,076,102**

The net earned premium and loss of Catbang 926 Limited for the period since the acquisition date to 31 December 2019 are £94,000 and £17,000, respectively.

Negative goodwill has arisen on the acquisition of Catbang 926 Limited as a result of the purchase consideration being in excess of the fair value of net assets acquired.

22. Acquisition of Limited Liability Vehicles continued

(a) 2019 acquisitions continued

Whittle Martin Underwriting

On 20 December 2019, Helios Underwriting plc acquired 100% of the issued share capital of Whittle Martin Underwriting for a total consideration of £1,207,000. Whittle Martin Underwriting is incorporated in England and Wales and is a corporate member of Lloyd's.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of the net assets was £1,409,000. Negative goodwill of £202,000 arose on acquisition and has been immediately recognised as goodwill on bargain purchase in the income statement. The following table explains the fair value adjustments made to the carrying values of the major categories of assets and liabilities at the date of acquisition:

	Carrying value £'000	Adjustments £'000	Fair value £'000
Intangible assets	40	562	602
Financial assets at fair value through profit or loss	1,240	—	1,240
Reinsurance assets:			
– reinsurers' share of claims outstanding	574	—	574
– reinsurers' share of unearned premium	117	—	117
Other receivables, including insurance and reinsurance receivables	2,004	—	2,004
Deferred acquisition cost	188	—	188
Prepayments and accrued income	10	—	10
Cash and cash equivalents	256	—	256
Insurance liabilities:			
– claims outstanding	(2,132)	—	(2,132)
– unearned premium	(639)	—	(639)
Deferred income tax liabilities	—	(107)	(107)
Other payables, including insurance and reinsurance payables	(660)	—	(660)
Accruals and deferred income	(44)	—	(44)
Net assets acquired	**954**	**455**	**1,409**
Satisfied by:			
Cash and cash equivalents	1,207	—	1,207
Loan paid on acquisition	—	—	—
Total consideration	**1,207**	**—**	**1,207**
Negative goodwill	**253**	**(455)**	**(202)**

	2017 year of account	2018 year of account	2019 year of account
Capacity acquired	1,372,272	1,443,031	**1,363,831**

The net earned premium and loss of Whittle Martin Underwriting for the period since the acquisition date to 31 December 2019 are £38,000 and £4,000, respectively.

Negative goodwill has arisen on the acquisition of Whittle Martin Underwriting as a result of the purchase consideration being at a discount to the fair value of net assets acquired.

22. Acquisition of Limited Liability Vehicles continued

(b) 2018 acquisitions

Fyshe Limited

On 31 August 2018, Helios UTG Partner Limited, a 100% subsidiary of the Company, became a 100% corporate partner in Fyshe LLP for a total consideration of £68,000. Fyshe LLP is incorporated in England and Wales and is a corporate member of Lloyd's.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of the net assets was £102,000. Negative goodwill of £34,000 arose on acquisition and has been immediately recognised as goodwill on bargain purchase in the income statement. The following table explains the fair value adjustments made to the carrying values of the major categories of assets and liabilities at the date of acquisition:

	Carrying value £'000	Adjustments £'000	Fair value £'000
Intangible assets	—	211	211
Financial assets at fair value through profit or loss	513	—	513
Reinsurance assets:			
– reinsurers' share of claims outstanding	261	—	261
– reinsurers' share of unearned premium	41	—	41
Other receivables, including insurance and reinsurance receivables	324	—	324
Deferred acquisition cost	65	—	65
Prepayments and accrued income	2	—	2
Cash and cash equivalents	90	—	90
Insurance liabilities:			
– claims outstanding	(929)	—	(929)
– unearned premium	(227)	—	(227)
Deferred income tax liabilities	—	(40)	(40)
Other payables, including insurance and reinsurance payables	(177)	—	(177)
Accruals and deferred income	(32)	—	(32)
Net assets acquired	(69)	171	102
Satisfied by:			
Cash and cash equivalents	68	—	68
Total consideration	68	—	68
Negative goodwill	137	(171)	(34)

	2016 year of account	2017 year of account	2018 year of account
Capacity acquired	495,450	486,014	500,150

The net earned premium and profit of Fyshe for the period since the acquisition date to 31 December 2018 are £133,000 and £6,000, respectively.

Negative goodwill has arisen on the acquisition of Fyshe LLP as a result of the purchase consideration being at a discount to the fair value of net assets acquired.

22. Acquisition of Limited Liability Vehicles continued

(b) 2018 acquisitions continued

Nomina No 505 LLP

On 25 September 2018, Helios UTG Partner Limited, a 100% subsidiary of the Company, became a 100% corporate partner in Nomina No 505 LLP for a total consideration of £302,000. Nomina No 505 LLP is incorporated in England and Wales and is a corporate member of Lloyd's.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of the net assets was £340,000. Negative goodwill of £38,000 arose on acquisition and has been immediately recognised as goodwill on bargain purchase in the income statement. The following table explains the fair value adjustments made to the carrying values of the major categories of assets and liabilities at the date of acquisition:

	Carrying value £'000	Adjustments £'000	Fair value £'000
Intangible assets	4	287	291
Financial assets at fair value through profit or loss	916	—	916
Reinsurance assets:			
– reinsurers' share of claims outstanding	427	—	427
– reinsurers' share of unearned premium	64	—	64
Other receivables, including insurance and reinsurance receivables	579	217	796
Deferred acquisition cost	133	—	133
Prepayments and accrued income	7	—	7
Cash and cash equivalents	130	—	130
Insurance liabilities:			
– claims outstanding	(1,529)	—	(1,529)
– unearned premium	(412)	—	(412)
Deferred income tax liabilities	—	(96)	(96)
Other payables, including insurance and reinsurance payables	(345)	—	(345)
Accruals and deferred income	(42)	—	(42)
Net assets acquired	(68)	408	340
Satisfied by:			
Cash and cash equivalents	302	—	302
Total consideration	302	—	302
Negative goodwill	370	(408)	(38)

	2016 year of account	2017 year of account	2018 year of account
Capacity acquired	796,755	852,255	922,937

The net earned premium and profit of Nomina No 505 Ltd for the period since the acquisition date to 31 December 2018 are £195,000 and £33,000, respectively.

Negative goodwill has arisen on the acquisition of Nomina No 505 LLP as a result of the purchase consideration being at a discount to the fair value of net assets acquired.

22. Acquisition of Limited Liability Vehicles continued

(b) 2018 acquisitions continued

Llewellyn House Underwriting Limited

On 19 October 2018, Helios Underwriting plc acquired 100% of the issued share capital of Llewellyn House Underwriting Limited for a total consideration of £414,000. Llewellyn House Underwriting Limited is incorporated in England and Wales and is a corporate member of Lloyd's.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of the net assets was £394,000. Goodwill of £20,000 arose on acquisition which has been recognised as an intangible asset and will be assessed at each period end for impairment. The following table explains the fair value adjustments made to the carrying values of the major categories of assets and liabilities at the date of acquisition:

	Carrying value £'000	Adjustments £'000	Fair value £'000
Intangible assets	48	161	210
Financial assets at fair value through profit or loss	498	—	498
Reinsurance assets:			
– reinsurers' share of claims outstanding	254	—	254
– reinsurers' share of unearned premium	35	—	35
Other receivables, including insurance and reinsurance receivables	191	—	191
Deferred acquisition cost	57	—	57
Prepayments and accrued income	4	—	4
Cash and cash equivalents	469	—	469
Insurance liabilities:			
– claims outstanding	(829)	—	(829)
– unearned premium	(221)	—	(221)
Deferred income tax liabilities	—	(31)	(31)
Other payables, including insurance and reinsurance payables	(207)	—	(207)
Accruals and deferred income	(35)	—	(36)
Net assets acquired	264	130	394
Satisfied by:			
Cash and cash equivalents	414	—	414
Loan paid on acquisition	—	—	—
Total consideration	414	—	414
Goodwill	150	(130)	20

	2016 year of account	2017 year of account	2018 year of account
Capacity acquired	520,004	537,937	536,311

The net earned premium and loss of Llewellyn House Underwriting Limited for the period since the acquisition date to 31 December 2018 are £77,000 and £2,000, respectively.

Goodwill has arisen on the acquisition of Llewellyn House Underwriting Limited as a result of the purchase consideration being in excess of the fair value of net assets acquired.

22. Acquisition of Limited Liability Vehicles continued
(b) 2018 acquisitions continued
Advantage DCP Limited
On 6 December 2018, Helios Underwriting plc acquired 100% of the issued share capital of Advantage DCP Limited for a total consideration of £1,795,000. Advantage DCP Limited is incorporated in England and Wales and is a corporate member of Lloyd's.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of the net assets was £2,000. Negative goodwill of £474,000 arose on acquisition and has been immediately recognised as goodwill on bargain purchase in the income statement. The following table explains the fair value adjustments made to the carrying values of the major categories of assets and liabilities at the date of acquisition:

	Carrying value £'000	Adjustments £'000	Fair value £'000
Intangible assets	89	127	216
Financial assets at fair value through profit or loss	2,341	—	2,341
Reinsurance assets:			
– reinsurers' share of claims outstanding	845	—	845
– reinsurers' share of unearned premium	249	—	249
Other receivables, including insurance and reinsurance receivables	4,771	—	4,771
Deferred acquisition cost	1,367	—	1,367
Prepayments and accrued income	30	—	30
Cash and cash equivalents	335	—	335
Insurance liabilities:			
– claims outstanding	(4,615)	—	(4,615)
– unearned premium	(2,275)	—	(2,275)
Deferred income tax liabilities	—	(23)	(23)
Other payables, including insurance and reinsurance payables	(843)	—	(843)
Accruals and deferred income	(129)	—	(129)
Net assets acquired	2,165	104	2,269
Satisfied by:			
Cash and cash equivalents	1,874	—	1,874
Loan paid on acquisition	(79)	—	(79)
Total consideration	(1,795)	—	(1,795)
Negative goodwill	(370)	(104)	(474)

	2016 year of account	2017 year of account	2018 year of account
Capacity acquired	3,624,169	3,067,408	2,320,000

The net earned premium and loss of Advantage DCP Limited for the period since the acquisition date to 31 December 2018 are £226,000 and £34,000, respectively.

Negative goodwill has arisen on the acquisition of Advantage DCP Limited as a result of the purchase consideration being at a discount to the fair value of net assets acquired.

22. Acquisition of Limited Liability Vehicles continued

(b) 2018 acquisitions continued

Romsey Underwriting Limited

On 6 December 2018, Helios Underwriting plc acquired 100% of the issued share capital of Romsey Underwriting Limited for a total consideration of £9,400,000. Romsey Underwriting Limited is incorporated in England and Wales and is a corporate member of Lloyd's.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of the net assets was £9,969,000. Negative goodwill of £569,000 arose on acquisition and has been immediately recognised as goodwill on bargain purchase in the income statement. The following table explains the fair value adjustments made to the carrying values of the major categories of assets and liabilities at the date of acquisition:

	Carrying value £'000	Adjustments £'000	Fair value £'000
Intangible assets	27	3,213	3,240
Financial assets at fair value through profit or loss	16,928	—	16,928
Reinsurance assets:			
– reinsurers' share of claims outstanding	5,022	—	5,022
– reinsurers' share of unearned premium	908	—	908
Other receivables, including insurance and reinsurance receivables	5,960	—	5,960
Deferred acquisition cost	1,338	—	1,338
Prepayments and accrued income	71	—	71
Cash and cash equivalents	2,771	—	2,771
Insurance liabilities:			
– claims outstanding	(17,088)	—	(17,088)
– unearned premium	(4,751)	—	(4,751)
Deferred income tax liabilities	(60)	(611)	(671)
Other payables, including insurance and reinsurance payables	(3,343)	—	(3,343)
Accruals and deferred income	(416)	—	(416)
Net assets acquired	7,367	2,602	9,969
Satisfied by:			
Cash and cash equivalents	9,400	—	9,400
Loan paid on acquisition	—	—	—
Total consideration	9,400	—	9,400
Negative goodwill	2,033	(2,602)	(569)

	2016 year of account	2017 year of account	2018 year of account
Capacity acquired	10,351,060	10,907,123	10,041,348

The net earned premium and loss of Romsey Underwriting Limited for the period since the acquisition date to 31 December 2018 are £478,000 and £1,000, respectively.

Negative goodwill has arisen on the acquisition of Romsey Underwriting Limited as a result of the purchase consideration being at a discount to the fair value of net assets acquired.

22. Acquisition of Limited Liability Vehicles continued

(b) 2018 acquisitions continued

Nomina No 321 LLP

On 28 December 2018, Helios UTG Partner Limited, a 100% subsidiary of the Company, became a 100% corporate partner in Nomina No 321 LLP for a total consideration of £84,000. Nomina No 321 LLP is incorporated in England and Wales and is a corporate member of Lloyd's.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of the net assets was £153,000. Negative goodwill of £69,000 arose on acquisition and has been immediately recognised as goodwill on bargain purchase in the income statement. The following table explains the fair value adjustments made to the carrying values of the major categories of assets and liabilities at the date of acquisition:

	Carrying value £'000	Adjustments £'000	Fair value £'000
Intangible assets	94	42	136
Financial assets at fair value through profit or loss	383	—	383
Reinsurance assets:			
– reinsurers' share of claims outstanding	159	—	159
– reinsurers' share of unearned premium	25	—	25
Other receivables, including insurance and reinsurance receivables	192	55	247
Deferred acquisition cost	43	—	43
Prepayments and accrued income	3	—	3
Cash and cash equivalents	58	—	58
Insurance liabilities:			
– claims outstanding	(586)	—	(586)
– unearned premium	(157)	—	(157)
Deferred income tax liabilities	—	(18)	(18)
Other payables, including insurance and reinsurance payables	(119)	—	(119)
Accruals and deferred income	(21)	—	(21)
Net assets acquired	74	79	153
Satisfied by:			
Cash and cash equivalents	84	—	84
Total consideration	84	—	84
Negative goodwill	10	(79)	(69)

	2016 year of account	2017 year of account	2018 year of account
Capacity acquired	287,188	335,353	369,556

The net earned premium and profit of Nomina No 321 Ltd for the period since the acquisition date to 31 December 2018 are £3,000 and £nil, respectively.

Negative goodwill has arisen on the acquisition of Nomina No 321 LLP as a result of the purchase consideration being at a discount to the fair value of net assets acquired.

Had the Limited Liability Vehicles been consolidated from 1 January 2019, the consolidated statement of comprehensive income would show net earned premium of £45,300,000 and a profit after tax of £4,850,000.

Costs incurred in connection with the six acquisitions totalling £156,000 (2018: £145,000) have been recognised in the consolidated income statement.

23. Joint Share Ownership Plan ("JSOP")

No shares have been vested as at 31 December 2019.

Effect of the transactions

The beneficial interests of the Executives following the transaction will be as follows:

	2019			2018		
Director	Interests in jointly owned ordinary shares issued under JSOP	Other interests in ordinary shares	Total shareholding	Interests in jointly owned ordinary shares issued under JSOP	Other interests in ordinary shares	Total shareholding
Arthur Manners	**200,000**	**162,292**	**362,292**	200,000	133,334	333,334
Nigel Hanbury	**300,000**	**4,027,640**	**4,327,640**	300,000	2,436,871	2,736,871

23. Joint Share Ownership Plan ("JSOP") continued

Effect of the transactions continued

The new ordinary shares will rank pari passu with the Company's existing issued ordinary shares. The Company's issued share capital following Admission will comprise 18,390,905 ordinary shares with voting rights and no restrictions on transfer and this figure may be used by shareholders as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change to their interest in, the Company under the Disclosure Guidance and Transparency Rules.

The JSOP is to be accounted for as if it were a premium priced option, and therefore Black Scholes mathematics have been applied to determine the fair value. As the performance condition will eventually be trued up, a calculation of the fair value based on an algebraic Black Scholes calculation of the value of the "as if" option discounted for the risk of forfeiture or non-vesting is reasonable. The discount factors are for the risk that an employee leaves and forfeits the award or the failure to meet the performance condition with the result the JSOP awards do not vest in full or at all.

The basic Black Scholes calculation is based on the following six basic assumptions:

(a) market value of a share at the date of grant (133.5p);

(b) expected premium or threshold price of a share (141.4p);

(c) expected life of the JSOP award;

(d) risk-free rate of capital;

(e) expected dividend yield; and

(f) expected future volatility of a Helios share.

Date of grant	13.12.17
(a) Share price	133.5p
(b) Exercise price	141.4p
(c) Expected life (years)	3
(d) Risk-free rate	1.00%
(e) Expected dividend yield (continuous payout)	4.20%
(f) Volatility	20.00%
Exponential constant	2.72
Black Scholes option value	9.3

The fair value has been discounted by 50% for the risk that some of the awards will be forfeited and not vest, giving a fair value of 4.6p per share. The total fair value per share of 4.6p times the number of JSOP awards (500,000 being ordinary shares, Note 21) gives a total fair value of £23,150. The amount is to be charged as an expense and spread over three years, being the years 2018 to 2020.

24. Treasury shares: purchase of own shares

During the year, the Company bought back some of its own ordinary shares on the market and these are held in treasury, as detailed below:

Date	Number of shares	Market value consideration paid £	Market price per share £	Nominal value 10p each £
As at 1 January 2019	163,278	202,598		16,328
03/01/2019	10,000	14,000	1.400	1,000
08/01/2019	15,000	21,450	1.430	1,500
11/01/2019	5,000	7,125	1.425	500
16/01/2019	12,500	17,625	1.410	1,250
18/01/2019	25,000	35,625	1.425	2,500
22/01/2019	25,000	35,250	1.410	2,500
16/08/2019	102,000	113,220	1.110	10,200
30/08/2019	15,000	18,000	1.200	1,500
13/09/2019	7,500	9,075	1.210	750
04/10/2019	10,000	12,400	1.240	1,000
09/11/2019	12,000	16,020	1.335	1,200
	402,278	502,388		40,228

The retained earnings have been reduced by £502,000, being the consideration paid on the market for these shares, as shown in the consolidated and Parent Company statements of changes in equity.

The Company cannot exercise any rights over these bought back and held in treasury shares, and has no voting rights. No dividend or other distribution of the Company's assets can be paid to the Company in respect of the treasury shares that it holds.

As at 31 December 2019, the 402,278 own shares bought back represent 2.25% of the total allotted, called up and fully paid ordinary shares of the Company of 17,890,906 (Note 21).

25. Related party transactions

Helios Underwriting plc has inter-company loans with its subsidiaries which are repayable on three months' notice provided it does not jeopardise each company's ability to meet its liabilities as they fall due. All inter-company loans are therefore classed as falling due within one year. The amounts outstanding as at 31 December are set out below:

Company	31 December 2019 £'000	31 December 2018 £'000
Balances due from/(to) Group companies at the year end:		
Hampden Corporate Member Limited	**154**	265
Nameco (No. 365) Limited	**—**	(36)
Nameco (No. 605) Limited	**—**	(16)
Nameco (No. 321) Limited	**—**	4
Nameco (No. 917) Limited	**3,855**	3,812
Nameco (No. 229) Limited	**(2)**	3
Nameco (No. 518) Limited	**8**	20
Nameco (No. 804) Limited	**(65)**	(45)
Halperin Underwriting Limited	**8**	7
Bernul Limited	**77**	66
Dumasco Limited	**—**	38
Nameco (No. 311) Limited	**22**	20
Nameco (No. 402) Limited	**(135)**	(143)
Updown Underwriting Limited	**(1)**	(21)
Nameco (No. 507) Limited	**87**	91
Nameco (No. 76) Limited	**(130)**	(141)
Kempton Underwriting Limited	**(3)**	2
Devon Underwriting Limited	**29**	138
Nameco (No. 346) Limited	**(727)**	(263)
Pooks Limited	**163**	345
Charmac Underwriting Limited	**(369)**	(351)
Nottus (No 51) Limited	**(25)**	35
Chapman Underwriting Limited	**111**	383
Llewellyn House Underwriting Limited	**8**	63
Advantage DCP Limited	**(1,607)**	72
Romsey Underwriting Limited	**1,646**	459
Nameco (No. 409) Limited	**86**	—
Nameco (No. 1113) Limited	**(489)**	—
Catbang 926 Limited	**3,518**	—
Whittle Martin Underwriting	**776**	
Helios UTG Partner Limited	**759**	811
RBC CEES Trustee Limited	**50**	50
Total (Note 16)	**7,804**	5,668

Helios Underwriting plc and its subsidiaries have entered into a management agreement with Nomina plc. Jeremy Evans, a Director of Helios Underwriting plc and its subsidiary companies, is also a director of Nomina plc. Under the agreement, Nomina plc provides management and administration, financial, tax and accounting services to the Group for an annual fee of £146,000 (2018: £160,000).

25. Related party transactions continued

The Limited Liability Vehicles have entered into a members' agent agreement with Hampden Agencies Limited. Jeremy Evans, a Director of Helios Underwriting plc and its subsidiary companies, is also a director of Hampden Capital plc, which controls Hampden Agencies Limited. Under the agreement the Limited Liability Vehicles will pay Hampden Agencies Limited a fee based on a fixed amount, which will vary depending upon the number of syndicates the Limited Liability Vehicles underwrite on a bespoke basis, and a variable amount depending on the level of underwriting through the members' agent pooling arrangements. In addition, the Limited Liability Vehicles will pay profit commission on a sliding scale from 1% of the net profit up to a maximum of 10%. The total fees payable for 2019 are set out below:

Company	31 December 2019 £'000	31 December 2018 £'000
Nameco (No. 917) Limited	**67**	57
Devon Underwriting Limited	**—**	7
Nameco (No. 346) Limited	**23**	44
Pooks Limited	**—**	6
Charmac Underwriting Limited	**2**	22
Nottus (No 51) Limited	**2**	13
Chapman Underwriting Limited	**22**	13
Llewellyn House Underwriting Limited	**—**	8
Advantage DCP Limited	**10**	54
Romsey Underwriting Limited	**35**	35
Nameco (No. 409) Limited	**8**	—
Nameco (No. 1113) Limited	**1**	—
Catbang 926 Limited	**31**	—
Whittle Martin Underwriting	**11**	—
Salviscount LLP	**4**	18
Inversanda LLP	**—**	6
Fyshe Underwriting LLP	**—**	8
Nomina No 505 LLP	**2**	14
Nomina No 321 LLP	**6**	8
Total	**224**	313

25. Related party transactions continued

The Group entered into quota share reinsurance contracts for the 2017, 2018, 2019 and 2020 years of account with HIPCC Limited. The Limited Liability Vehicles' underwriting year of account quota share participations are set out below:

Company or partnership	2017	2018	2019	2020
Hampden Corporate Member Limited	–	–	–	**–**
Nameco (No. 365) Limited	–	–	–	**–**
Nameco (No. 605) Limited	–	–	–	**–**
Nameco (No. 321) Limited	–	–	–	**–**
Nameco (No. 917) Limited	70%	70%	70%	**70%**
Nameco (No. 229) Limited	–	–	–	**–**
Nameco (No. 518) Limited	–	–	–	**–**
Nameco (No. 804) Limited	–	–	–	**–**
Halperin Underwriting Limited	–	–	–	**–**
Bernul Limited	–	–	–	**–**
Dumasco Limited	–	–	–	**–**
Nameco (No. 311) Limited	–	–	–	**–**
Nameco (No. 402) Limited	–	–	–	**–**
Updown Underwriting Limited	–	–	–	**–**
Nameco (No. 507) Limited	–	–	–	**–**
Nameco (No. 76) Limited	–	–	–	**–**
Kempton Underwriting Limited	–	–	–	**–**
Devon Underwriting Limited	70%	70%	–	**–**
Nameco (No. 346) Limited	70%	70%	70%	**70%**
Pooks Limited	70%	70%	–	**–**
Charmac Underwriting Limited	70%	70%	–	**–**
Nottus (No 51) Limited	70%	70%	–	**–**
Chapman Underwriting Limited	–	70%	70%	**70%**
Helios UTG Partner Limited	–	–	–	**–**
Nomina No 035 LLP	–	–	–	**–**
Nomina No 342 LLP	–	–	–	**–**
Nomina No 380 LLP	–	–	–	**–**
Nomina No 372 LLP	–	–	–	**–**
Salviscount LLP	70%	70%	–	**–**
Inversanda LLP	70%	70%	–	**–**
Fyshe Underwriting LLP	–	70%	–	**–**
Nomina No 505 LLP	–	70%	–	**–**
Llewellyn House Underwriting Limited	–	70%	–	**–**
Advantage DCP Limited	–	–	70%	**70%**
Romsey Underwriting Limited	–	70%	70%	**70%**
Nomina No 321 LLP	–	70%	70%	**70%**
Nameco (No. 409) Limited	–	70%	70%	**70%**
Nameco (No. 1113) Limited	–	–	70%	**70%**
Catbang 926 Limited	–	–	–	**70%**
Whittle Martin Underwriting	–	–	–	**70%**

Nigel Hanbury, a Director of Helios Underwriting plc and its subsidiary companies, is also a director and majority shareholder in HIPCC Limited. Hampden Capital, a substantial shareholder in Helios Underwriting plc, is also a substantial shareholder in HIPCC Limited – Cell 6. Under the agreement, the Group accrued a net reinsurance premium recovery of £4,551,000 (2018: £5,160,000) during the year.

In addition, HIPCC provide stop loss, portfolio stop loss and HASP reinforce policies for the company.

HIPCC Limited acts as an intermediary for the reinsurance products purchased by Helios. An arrangement has been put in place so that 51% of the profits generated by HIPCC in respect of the business relating to Helios will be repaid to Helios for the business transacted for the 2020 and subsequent underwriting years. The consideration paid to Nigel Hanbury of £100,000 reflects the HIPCC income that he is expected to forego.

Nigel Hanbury was the sole shareholder and a director of Nameco (No 1113) Limited, which was acquired by the company on 17 July 2019 in exchange for 1,590,769 shares in the company, a total consideration of £2,036,000 (see note 22).

Notes to the Financial Statements – Year ended 31 December 2019 continued

25. Related party transactions continued

During the year, the following Directors received dividends, in line with their shareholdings held:

Director	Shareholding at date dividend declared 28 June 2019	Dividend received 31 July 2019 £	Shareholding at date dividend declared 8 June 2018	Dividend received 6 July 2018 £
Nigel Hanbury (either personally or has an interest in)	**2,436,871**	**73,106**	2,436,871	36,553
Andrew Christie	**12,166**	**365**	12,166	182
Jeremy Evans	**58,670**	**1,760**	58,670	880
Arthur Manners	**133,334**	**4,000**	133,334	558
Edward Fitzalan-Howard (appointed 1 January 2018)	**333,333**	**10,000**	133,334	5,000
Michael Cunningham	**37,167**	**1,115**	37,167	2,000

26. Ultimate controlling party

The Directors consider that the Group has no ultimate controlling party.

27. Syndicate participations

The syndicates and members' agent pooling arrangements ("MAPA") in which the Company's subsidiaries participate as corporate members of Lloyd's are as follows:

		Allocated capacity per year of account			
Syndicate or MAPA number	Managing or members' agent	2020* £	2019* £	2018 £	2017 £
33	Hiscox Syndicates Limited	**8,228,483**	6,939,458,	7,915,153	5,689,020
218	ERS Syndicate Management Limited	**5,063,490**	5,063,490	5,058,954	3,575,610
308	Tokio Marine Kiln Syndicates Limited	**—**	—	—	132,000
318	Beaufort Underwriting Agency Limited	**—**	836,250	866,250	866,250
386	QBE Underwriting Limited	**1,267,435**	1,267,436	1,263,054	1,293,760
510	Tokio Marine Kiln Syndicates Limited	**12,888,509**	11,723,920	11,708,852	11,702,184
557	Tokio Marine Kiln Syndicates Limited	**2,254,330**	1,502,886	1,516,740	1,834,167
609	Atrium Underwriters Limited	**5,570,819**	4,957,429	4,946,580	4,618,280
623	Beazley Furlonge Limited	**9,346,269**	8,257,178	7,893,269	6,809,484
727	S A Meacock & Company Limited	**1,393,205**	1,544,860	1,544,860	1,544,861
958	Canopius Managing Agents Limited	**—**	—	—	—
1176	Chaucer Syndicates Limited	**1,419,908**	1,449,906	1,448,810	1,168,400
1200	Argo Managing Agency Limited	**—**	25,000	25,714	104,162
1729	Asta Managing Agency Limited	**2,867**	28,288	296,252	301,614
1884	Charles Taylor Managing Agency Limited	**—**	—	—	217,500
1910	Asta Managing Agency Limited	**—**	—	—	—
1969	Apollo Syndicate Management Limited	**—**	—	131,082	616,462
1991	Covery's Managing Agency Limited	**—**	—	—	222,228
2010	Cathedral Underwriting Limited	**2,129,005**	2,130,071	2,127,332	2,127,335
2014	Pembroke Managing Agency Limited	**—**	32,192	416,184	2,166,374
2121	Argenta Syndicate Management Limited	**1,253,868**	1,003,093	1,003,093	885,082
2525	Asta Managing Agency Limited	**535,460**	467,270	432,632	332,794
2689	Asta Managing Agency Limited	**2,377**	32,192	398,045	1,537,499
2791	Managing Agency Partners Limited	**6,193,469**	6,391,469	6,379,196	6,379,200
2988	Brit Syndicates Limited	**—**	2,740	227,127	225,687
4242	Asta Managing Agency Limited	**3,299**	253,299	348,378	288,521
4444	Canopius Managing Agents Limited	**—**	—	1,113,184	697,258
5623	Beazley Furlonge Limited	**2,250,000**	—	—	—
5820	Amtrust Syndicate Limited Syndicates Limited	**—**	—	—	—
5886	Asta Managing Agency Limited	**5,623,852**	536,512	453,254	377,717
6103	Managing Agency Partners Limited	**1,319,151**	1,263,251	1,258,374	309,458
6104	Hiscox Syndicates Limited	**1,021,487**	1,112,382	1,087,384	1,323,545
6107	Beazley Furlonge Limited	**1,000,000**	1,242,551	997,286	681,390
6111	Catlin Underwriting Agencies Limited	**—**	—	249,065	278,279
6117	Argo Managing Agency Limited	**347,162**	3,035,553	3,377,517	3,207,946
6123	Asta Managing Agency Limited	**—**	—	8,708	8,440
Total		**69,114,446**	61,098,676	64,492,329	61,522,507

* Including the new acquisitions in 2019.

28. Group-owned net assets

The Group statement of financial position includes the following assets and liabilities held by the syndicates on which the Group participates. These assets are subject to trust deeds for the benefit of the relevant syndicates' insurance creditors. The table below shows the split of the statement of financial position between Group and syndicate assets and liabilities:

	31 December 2019			31 December 2018		
	Group £'000	Syndicate £'000	Total £'000	Group £'000	Syndicate £'000	Total £'000
Assets						
Intangible assets	21,178	—	21,178	16,051	—	16,051
Financial assets at fair value through profit or loss	13,520	53,621	67,141	8,388	49,687	58,075
Deferred income tax asset	—	—	—	—	—	—
Reinsurance assets:						
– reinsurers' share of claims outstanding	61	25,699	25,760	—	22,698	22,698
– reinsurers' share of unearned premium	—	5,023	5,023	—	4,057	4,057
Other receivables, including insurance and reinsurance receivables	10,044	37,682	47,726	10,156	42,782	52,938
Deferred acquisition costs	—	6,641	6,641	—	6,782	6,782
Prepayments and accrued income	—	432	432	—	439	439
Cash and cash equivalents	3,028	3,009	6,037	9,717	2,485	12,202
Total assets	47,831	132,107	179,938	44,312	128,930	173,242
Liabilities						
Insurance liabilities:						
– claims outstanding	—	95,616	95,616	—	88,032	88,032
– unearned premium	—	26,522	26,522	—	24,772	24,772
Deferred income tax liabilities	3,292	—	3,292	2,569	66	2,635
Borrowings	2,000	—	2,000	9,196	—	9,196
Other payables, including insurance and reinsurance payables	1,051	16,989	18,040	2,650	22,671	25,321
Accruals and deferred income	5,094	1,226	6,320	1,241	1,000	2,241
Total liabilities	11,437	140,353	151,790	15,656	136,541	152,197
Equity attributable to owners of the Parent						
Share capital	1,839	—	1,839	1,510	—	1,510
Share premium	18,938	—	18,938	15,387	—	15,387
Other reserves	(50)	—	(50)	(50)	—	(50)
Retained earnings	15,667	(8,246)	7,421	11,809	(7,611)	4,198
Total equity	36,394	(8,244)	28,148	28,656	(7,611)	21,045
Total liabilities and equity	47,831	132,107	179,938	44,312	128,930	173,242

Below is an analysis of the free working capital available to the Group:

Group	31 December 2019 £'000	31 December 2018 £'000
Funds at Lloyd's supplied by:		
Quota share reinsurers	26,742	24,544
Stop loss reinsurers	1,826	2,195
Group owned	13,490	8,383
Total Funds at Lloyd's supplied (excluding solvency credits)	42,058	35,122
Group funds available:		
Financial assets (Note 28)	13,520	8,388
Cash (Note 28)	3,028	9,717
Total funds	16,548	18,105
Less Group Funds at Lloyd's	(13,490)	(8,383)
Free working capital	3,058	9,722

Notes to the Financial Statements – Year ended 31 December 2019 continued

29. Events after the financial reporting period

COVID-19

The COVID-19 pandemic has created turbulence in financial markets and economic uncertainty which will impact individuals and businesses. The full impact of this on the insurance industry, including the Lloyd's market, is uncertain. The initial assessment by supported syndicates has identified those lines of business most likely to be impacted, however the full extent of the losses and the impact upon pricing will become clearer as the year progresses. We will regularly monitor developments in this area and take appropriate actions as needed.

The COVID-19 coronavirus pandemic will be a manageable loss for the property and casualty insurance and reinsurance industry, unless there is some kind of structural change to drive the cost to the sector much higher.

It should not be forgotten that the current turmoil is happening against the backdrop of the greatest momentum we have seen in (re)insurance pricing for many years. Recent events are accelerating the premium rate rises.

The importance of having sufficient diversification within the portfolio to absorb shock losses is critical to the success of the portfolio. We do this by being partnered with the highest quality underwriting businesses at Lloyd's

It is expected that that a significant proportion of the losses arising from COVID-19 will attach to the 2019 underwriting year and therefore there remains considerable uncertainty regarding the eventual outcome for this underwriting year.

The Directors are confident that the business continues to be a going concern as in to the current funds lodged at Lloyd's, Helios has available the following facilities to provide additional resources to fund the necessary capital requirements:

- The Board considers that the dividend policy should reflect the requirement to maintain its available cash resources given the uncertainty for the potential funding of the COVID-19 and other losses in the immediate future and therefore no dividend will be payable.
- A bank revolving credit bank facility of £4m of which £2.0m has been drawn down, and
- The stop loss reinsurance contracts for the 2019 and 2020 years of account could provide additional underwriting capital of approximately £5m.

Share buy backs

Since the year ended 31 December 2019, the Company has repurchased a further 10,600 ordinary 10p shares for a total consideration of £14,000.

29. Events after the financial reporting period continued

Acquisitions

Nameco (No. 408) Limited

On 28 January 2020, Helios Underwriting plc acquired 100% of the issued share capital of Nameco (No. 408) Limited for a total consideration of £1,007,000. Nameco (No. 408) Limited is incorporated in England and Wales and is a corporate member of Lloyd's.

After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the provisional fair value of the net assets was £1,110,000. Giving rise to negative goodwill of £102,883 on acquisition. The following table explains the provisional fair value adjustments made to the carrying values of the major categories of assets and liabilities at the date of acquisition:

	Carrying value £'000	Adjustments £'000	Fair value £'000
Intangible assets	—	439	439
Financial assets at fair value through profit or loss	1,220	—	1,220
Reinsurance assets:			
– reinsurers' share of claims outstanding	521	—	521
– reinsurers' share of unearned premium	95	—	95
Other receivables, including insurance and reinsurance receivables	1,636	—	1,636
Deferred acquisition cost	171	—	171
Prepayments and accrued income	11	—	11
Cash and cash equivalents	427	—	427
Insurance liabilities:			
– claims outstanding	(2,085)	—	(2,085)
– unearned premium	(608)	—	(608)
Deferred income tax liabilities	(3)	(84)	(87)
Other payables, including insurance and reinsurance payables	(606)	—	(606)
Accruals and deferred income	(24)	—	(24)
Net assets acquired	**755**	**355**	**1,110**
Satisfied by:			
Cash and cash equivalents	1,007	—	1,007
Loan receivable on acquisition	—	—	—
Total consideration	**1,007**	**—**	**1,007**
Negative goodwill	**252**	**355**	**(103)**

	2017 year of account	2018 year of account	**2019 year of account**
Capacity acquired	1,187,869	1,304,321	**1,142,830**

Registered officers and advisers

Directors
Harold Michael Clunie Cunningham (Non-executive Chairman)
Nigel John Hanbury (Chief Executive)
Jeremy Richard Holt Evans (Non-executive Director)
Andrew Hildred Christie (Non-executive Director)
Arthur Roger Manners (Finance Director)
Edward Fitzalan-Howard (Non-executive Director)

Company secretary
Martha Bruce
Bruce Wallace Associates Limited
118 Pall Mall
London SW1Y 5ED

Company number
05892671

Registered office
40 Gracechurch Street
London EC3V 0BT

Statutory auditors
PKF Littlejohn LLP
15 Westferry Circus
Canary Wharf
London E14 4HD

Lloyd's members' agent
Hampden Agencies Limited
40 Gracechurch Street
London EC3V 0BT

Registrars
Neville Registrars Limited
Neville House
Steelpark Road
Halesowen B62 8HD

Nominated adviser and broker
Shore Capital and Corporate Limited
Cassini House
57 St James Street
London SW1A 1LD

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HELIOS UNDERWRITING

Helios Underwriting plc
40 Gracechurch Street
London
EC3V 0BT