CITYNET INSURANCE BROKERS

Annual Financial Report - Year End February 2017

CITYNET INSURANCE BROKERS LIMITED

(Company Registration Number: 3933031)

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS

Citynet Insurance Brokers Limited

Directors

R J Scott	
G T Kinsella	
D Walland	
A M Purves	
A M Reason	
S Charman	
R Seeley	
T Hicks	
A Walsh	
P R Pennington Legh	(Non Executive Chairman)
A Colosso	(Non Executive)

Secretary

D. Walland

Registered Office

71 Fenchurch Street
London
EC3M 4BS

Company number 3933031

Auditors

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Principal Bankers

Barclays Bank PLC
1 Churchill Place
London
E14 5HP

Lawyers

RPC
Tower Bridge House
St Kathrines Way
London
E1W 1AA

Citynet Insurance Brokers Limited

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Citynet Insurance Brokers Limited

Chief Executive Officers Review

The last 12 months have been the most rewarding in our 17 year history.

We have increased our income by 43.00% and our EBITDA by 125.00%. This has been achieved almost exclusively through organic growth. Whilst our headcount increased by less than 10.00% our turnover per employee increased by 30.00%.

We remain independent, debt free and owned exclusively by active working directors. A combination of these factors and our growth makes us very rare in the London market these days.

During the past 12 months, we have continued to focus on our core activities which are Casualty, Property, Motor Fleet and Professional Indemnity emanating from the United Kingdom, Republic of Ireland and New Zealand. Our business model remains simple, servicing our loyal broker base and continuing to engage daily with our partner insurers.

Whilst it is still our intention to seek organic growth wherever possible we are financially well placed to recruit both individuals as well as teams without seeking any funding or permission from any external sources.

We are forecasting a healthy double digit increase again in both turnover and profit for the forthcoming year. This is despite a challenging marketplace in which a surplus of capacity means we are still some way from ideal market conditions. The recent Ogden ruling will undoubtedly have an impact on the two largest sectors of our business, Motor and Casualty although I suspect the full impact will be more noticeable in our 2018/19 financial year.

Since we undertook a Management Buy Out in 2012 our income has more than trebled, we have maintained our service standards which is reflected in our high renewal retention and we attract, train and more importantly retain our staff.

As the company has grown significantly during this period we have made the necessary corporate and regulatory advances to support that growth, these include the evolution of the risk and compliance, audit and remuneration committee's, the addition of a second non-executive director, encouraging a qualified workforce and the appointment of additional compliance resources. It is true to say that our culture has changed significantly in the five years since 2012.

We have always strived to be the best we can and whilst we are proud of our recent achievements we feel that we have merely laid the foundations for a period of accelerated growth. We are very well placed to use our size and good reputation as a springboard for further success.

Signed 30 August 2017

Richard Scott

Richard Scott
Chief Executive Officer

Citynet Insurance Brokers Limited

Strategic Report

The Directors present their strategic report for the year ended 28 February 2017.

Review and analysis of the business model

The business model of the company is a Lloyd's of London accredited Broker regulated for insurance mediation by the Financial Conduct Authority, our activities throughout the year are all insurance related and this is not planned to change for the period.

The company acts as a wholesale insurance intermediary selling A rated insurer products to retail brokers (our agents) who act directly with the insured, the company has no plans to become a retail broker as we believe this creates a conflict with our agents.

The company's core product lines remain commercial property insurance, commercial liability insurance, motor fleet insurance and professional indemnity but we pride ourselves on being able to arrange insurance cover for a diverse range of other risks. During the year we have also expanded our schemes and facilities offering and now have a dedicated department.

Our remuneration is almost exclusively paid by the insurer as a commission and shared with our agent, however on occasions we charge a handling fee in place of the commission.

During the year our main territories were Ireland, the UK and New Zealand and we will be looking to expand on these territories.

Key performance indicators

Management use a range of performance measures to monitor and manage the business. The Key performance indicators are set out below.

<u>Revenue</u>

Gross Written Premium	£120.0m
Gross Brokerage	£ 22.7m
Cost of Sales	£ 13.7m
Net Brokerage	£ 9.0m

<u>Agent Information</u>
49 new agencies opened, 44 in the UK and 5 in Ireland
234 live UK agencies and 150 live Irish agencies
Largest agent introduces 4.5% of turnover

<u>Revenue per employee</u>

Year	Average Employees	Turnover per employee
2014	32	£130,626
2015	40	£131,648
2016	53	£119,126
2017	58	£155,674

<u>EBITDA</u>

Year	EBITDA	EBITDA Margin
2014	£1,055,974	25%
2015	£1,348,918	26%
2016	£1,215,488	19%
2017	£2,738,946	30%

Citynet Insurance Brokers Limited

Strategic Report

Development and financial performance during the year/period

As reported in the company Statement of Comprehensive Income, the company revenue has increased from £6.31m to £9.02m (up 43%). This is due to a combination of strong renewal retention and new business received from organic growth and a full years trading from the new team acquired in August 2015, expansion of the Motor department, a favourable Irish market and the opening of new UK agencies. The rate of exchange also moved favourably during the year leading to an average of 14% more sterling being earned on the euro than in the previous year.

This incredible growth in turnover has been achieved without a huge influx of additional staff as we aim to trade efficiently through the use of binders and facilities, this has allowed us to restrict the increase in costs from £5.16m to £6.53m (up 26%) of which £0.5m of the increase related to our new modern offices at 71 Fenchurch Street which was absolutely essential in presenting ourselves as an ambitious professional broker.

The M&A market review many valuation models and prevalent in the Insurance industry are brokerage, EBITDA and turnover per head. We are pleased that in all three categories the company has very favourable results, brokerage revenue has grown by 43%, EBITDA has grown from £1.2m to £2.7m (up 125%) and turnover per head has risen from £119K to £155K all these measures adding considerable value to the shareholders.

The EBITDA for 2017 has been increased by £100,000 to recognise a non-trading one off share related payment.

Strategy and objectives

The company will maintain its core strategy of attracting introducing producers and teams disillusioned by market consolidation and will be looking to expand into new products and territories by employing market experts.

During the year the company entered into its first acquisition of a broker which unfortunately stalled due to circumstances beyond our control, but this is a potential avenue the company will pursue again in the future.

The board's medium term plan without an acquisition is brokerage of £18m and EBITDA of £6.4m by 2021.

The company has taken a short term lease on the new offices until April 2019 when the directors anticipate the new office space in the City will have a downward effect on rents.

The company has designed and developed an in-house renewal and brokerage software system and is currently building a similar claims solution which along with binder enhancements being introduced will transform data capture and production of figures for our binding authorities and lineslips.

On the IT front the Company has also introduced a quote and bind system from a third party software house, this is being developed for new products which are currently underwritten in house but has the ability to go online in the future.

Financial position at the reporting date

The statement of financial position shows that the Company's shareholder funds at the year end have increased from £1.7m to £2.7m and gearing has remained at 0%.

Citynet Insurance Brokers Limited

Strategic Report

Liquidity risk

The Board manages its cash and borrowing requirements centrally to maximise interest income and minimise interest expense, whilst ensuring that the Company has sufficient liquid resources to meet the operating needs of its business.

Foreign currency risk

The Company's principal foreign currency exposures arise from exporting services overseas. The Company policy permits, but does not demand, that these exposures may be hedged in order to fix the cost in sterling. This hedging activity involves the use of foreign exchange forward contracts and is designed to protect the Company. During the year the Company utilised Barclays Bank to hedge forward contracts for Euro based business.

Regulatory Risk

The regulatory risk posed to the company is the risk of having its license to operate withdrawn either by the FCA or by Lloyd's. The company established a specific Supervisory board within its Holding Company which has oversight for regulatory risk, the board has a dedicated compliance team who manage the risk along with total engagement from all members of the Operating board.

Principal risks and uncertainties facing the business

The Risk Committee continually monitor the key risks facing the Company together with assessing the controls used for managing these risks. The Risk Committee formally reports to the board of directors which reviews and documents the principal risks facing the business at least quarterly.

The principal 5 risks identified by the Company are as follows:

Loss of PI Insurance	The risk is managed by creating the right working culture where employees are aware of how important accuracy is, right first time, ensuring risks are on cover, documents are accurate and providing a superior claims service.
Brexit	The main risk to the Company is on our business emanating from the Republic of Ireland. The board of directors are investigating the establishment of an Irish Office regulated by the Central Bank or the purchase of a regulated entity.
Reliance on a Key Insurer	The Company has previously placed a huge volume to one particular insurer, it was shown a change in management can have unforeseen consequences so a conscious decision was taken to utilise a much greater spread of insurers.
Competitor Pressure	The Company has a healthy competitive nature in a condensed market that enables the company to monitor its competitors very closely
Cyber Risk	The global threat of cyber attacks and ransom demands has been identified as a major risk and the Company has undertaken an external cyber review which came back positive with some minor recommendations which are being introduced.

Citynet Insurance Brokers Limited

Strategic Report

Culture

The growth of the Company has inevitably changed the culture of the Company from a small broker to a growing SME broker and this has resulted in the establishment of an internal corporate code with a operational board and a supervisory board plus delegation to relevant committee's to accommodate the increasing size of the business.

The company demands continued improvement and the culture in the boardroom is not self-congratulating but "how can we do even better", not only in terms of growth but in terms of service, professionalism, efficiency and self-regulation.

Compliance is now embedded in the company and the addition of a second non-executive has provided an added dimension with each non-executive fulfilling roles as recommended by the corporate governance code.

The company still prides itself on its core values which are staff retention, a fair employer, an employer of choice and all our shareholders work and contribute to office life.

Our future goals will be to bring the gender diversity in the office to the board of directors.

This report was approved by the board on the 30 August 2017 and signed on its behalf.

D Walland
Chief Financial Officer

Citynet Insurance Brokers Limited

Report of the Directors'

The Directors have pleasure in presenting their report and the financial statements for the year ended 28 February 2017.

Principal Activities

The principal activity of the Company during the year was that of a wholesale Lloyd's insurance broker specialising in Liability, Professional Indemnity, Property Insurance, Fleet Insurance and combined packages and facilities.
We have established ourselves as one of the London Market leaders in arranging bespoke binders and facilities in the UK, Ireland and New Zealand.

Future Developments

The board plan to introduce new measures that will enhance the company in its next phase, and most importantly will be the appointment of a Managing Director to bring a new lease of life and to deliver the strategies agreed by the board. It is anticipated that this will be an internal appointment.
The company is undertaking a share re-organisation to bring further key employees within the share structure and cement their future with the company.
New minimum CII FIT requirements will be introduced for all staff over the coming eighteen months to provide a foundation level knowledge of insurance and hopefully encourage staff to progress to CII cert and CII dip.
An enhanced management meeting and management information will be introduced providing a communication platform between staff, management and directors.

Results and Dividends

The trading results for the year, and the Company's financial position at the end of the year, are shown in the attached financial statements.

The operating profit amounted to £2,495,546 (2016: £1,146,805).

The profit for the year after tax amounted to £1,989,497 (2016: £949,438). The Directors approved dividends of £1,018,879 (2016: £1,004,196) during the year.

Directors indemnity

The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for directors and officers of the Company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted or alleged to have been done or omitted, by them as officers or employees of the Company. Appropriate directors and officers' liability insurance cover is in place in respect of all of the Company's directors.

The directors who served during the year were;

R J Scott
G T Kinsella
D Walland
A M Purves
A M Reason
S Charman
R Seeley
T Hicks
A Walsh
P R Pennington Legh (Non Executive Chairman)
A Colosso (Non Executive)

Citynet Insurance Brokers Limited

Report of the Directors'

Directors Interests in Shares

100% of Citynet Insurance Brokers Ltd shares are held by Citynet London Holdings Ltd. The director's interest in the share capital of the company, by virtue of their holdings in the immediate parent company at 28 February 2017 is R.J. Scott 50.01% (2016: 50.01%), G.T. Kinsella 20.99% (2015: 22.70%), D. Walland 14.00% (2016: 14.79%), A. Purves 5.00% (2016: 5.00%), S.Charman 5.00% (2016: 5.00%) and A.Reason 5.00% (2016: 2.50%).
Options were crystallised of 2.50% by A Reason during the period.

Donations

During the year charitable donations of £3,237 (2016: £4,041) were made. No political donations were made during the year.

Auditors

Mazars LLP have agreed to continue as our auditors in accordance with Section 485 of the Companies Act 2006.

Disclosure of information to Auditors

The directors have taken all the necessary steps to make themselves aware, as directors, of any relevant audit information and to establish that the auditors are aware of that information.
As far as the directors are aware, there is no relevant information of which the company's auditors are unaware.

By Order of the Board

D Walland
Chief Financial Officer

30 August 2017

Citynet Insurance Brokers Limited

Statement of Directors' Responsibilities for the year ended 28 February 2017

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent Auditors Report to the member of

Citynet Insurance Brokers Limited

We have audited the financial statements of Citynet Insurance Brokers Limited for the year ended 28 February 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cashflows, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 28 February 2017 and of the company's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent Auditors Report to the member of

Citynet Insurance Brokers Limited *(continued)*

Opinion 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 Report of the Directors' for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Report of the Directors' have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the Directors'.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Barker

Amanda Barker (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London E1W 1DD

Date: 31 August 2017

Citynet Insurance Brokers Limited

Statement of Comprehensive Income
for the year ended

	Note	28 February 2017 £	29 February 2016 £
Turnover	4	9,029,144	6,313,689
Administrative expenses		(6,533,598)	(5,166,884)
Operating Profit before Interest and Tax	5	2,495,546	1,146,805
Gain / (Loss) arising on fair value of derivative instruments	15	24,162	(21,891)
Interest receivable and other income	6	27,312	23,342
Profit on Ordinary Activities before Taxation		2,547,020	1,148,256
Tax on profit on ordinary activities	9	(557,523)	(198,818)
Profit on Ordinary Activities after Taxation		1,989,497	949,438
Other Comprehensive Income		-	-
Total Comprehensive Income for the Year		1,989,497	949,438

All activities are continuing.

The notes on pages 15 to 28 form part of these financial statements.

Citynet Insurance Brokers Limited

Statement of Financial Position

	Note	28 February 2017		29 February 2016	
		£	£	£	£
Fixed Assets					
Tangible fixed assets	10		226,803		123,678
Current Assets					
Debtors	12	17,238,667		12,358,167	
Cash at bank and in hand	13	10,496,640		4,579,855	
		27,735,307		16,938,022	
Creditors: amounts falling due within one year	14	(25,100,411)		(15,102,106)	
Net Current Assets			2,634,896		1,835,916
Total Assets Less Current Liabilities			2,861,699		1,959,594
Provision for Liabilities	16	(181,487)		(250,000)	
Total Assets Less Liabilities			2,680,212		1,709,594
Capital and Reserves					
Called up share capital	18		210,527		210,527
Capital redemption reserve	19		6,250		6,250
Profit and loss account	20		2,463,435		1,492,817
Equity Shareholder Funds			2,680,212		1,709,594

The financial statements were approved by the Board and authorised for issue on 30 August 2017

Signed on behalf of the board by

Richard Scott

R.J Scott
Chief Executive Officer
The notes on pages 15 to 28 form part of these financial statements.

Citynet Insurance Brokers Limited

Statement of Cashflows

	28 February 2017	29 February 2016
	£	£
Cash flows from operating activities		
Operating profit for the financial year	2,495,546	1,146,805
Adjustments for;		
Depreciation of tangible assets	89,869	64,823
Loss on Disposal	-	62,958
(Increase) in trade and other debtors	(4,880,500)	(3,076,734)
Increase in trade and other creditors	9,639,600	3,081,588
(Decrease) / Increase in Provisions for Liabilities	(68,513)	250,000
Interest receivable	27,312	23,342
Gain / Loss on Derivatives	24,162	(21,891)
Tax Paid	(198,818)	(300,940)
Net cash generated by operating activities	4,633,112	**1,229,950**
Cash flows from investing activities		
Proceeds from sale of tangible fixed assets	-	19,358
Purchases of tangible assets	(192,994)	(139,766)
Net cash used in investing activities	**(192,994)**	**(120,408)**
Cash flows from financing activities		
Repayment of bank loans	-	(83,333)
Repayment of finance lease obligations	-	(8,668)
Dividends paid	(1,018,879)	(1,004,196)
Net cash used in financing activities	**(1,018,879)**	**(1,096,197)**
Net increase in cash and cash equivalents	5,916,785	13,345
Cash and cash equivalents at the beginning of the year	4,579,855	4,566,510
Cash and cash equivalents at the end of the year	**10,496,640**	**4,579,855**

Citynet Insurance Brokers Limited

Statement of Changes in Equity

	Called Up Share Capital	Capital Redemption Reserve	Profit & Loss Account	Total Equity
	£	£	£	£
At 1 March 2015	210,527	6,250	1,547,575	1,764,352
Profit for the Year	-	-	949,438	949,438
Dividends Paid	-	-	(1,004,196)	(1,004,196)
At 29 February 2016	**210,527**	**6,250**	**1,492,817**	**1,709,594**
At 1 March 2016	210,527	6,250	1,492,817	1,709,594
Profit for the Year	-	-	1,989,497	1,989,497
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	1,989,497	1,989,497
Dividends Paid	-	-	(1,018,879)	(1,018,879)
At 28 February 2017	**210,527**	**6,250**	**2,463,435**	**2,680,212**

Citynet Insurance Brokers Limited

Notes to the Financial Statements for the year ended 28 February 2017

1. Company Information

Citynet Insurance Brokers Limited is a private limited company incorporated in the United Kingdom and regulated by the Financial Conduct Authority. The address of its registered office and principal place of business is 71 Fenchurch Street, London, EC3M 4BS

The principal activity of the company is that of a wholesale Lloyd's insurance broker specialising in Liability, Professional Indemnity, Property Insurance, Fleet Insurance and combined packages and facilities.

2. Basis of Preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The financial statements are presented in Sterling (£)

(a) Accounting convention

The financial statements are prepared under the historical cost convention.

(b) Turnover

Turnover represents net retained brokerage, commissions and charges earned during the year for insurance services rendered.

(c) Recognition of income

Non Binder Brokerage

Brokerage and fees are taken to profit and loss at the later of the inception date of the policy or period of insurance or when the policy placement has been substantially completed and confirmed. No provision is made for adjustments to brokerage which may arise from future events such as policy cancellation, extension or amendment as these adjustments have historically been immaterial. Where there is an expectation of future servicing requirements, a proportion of income relating to the policy is deferred to cover the associated obligations under the policy contract.

Binder Brokerage

Binder business received from non-Citynet coverholders is recognised the month after the inception due to timing of the bordereau being received. This is the point at which the firm are able to determine the economic benefits are reasonably receivable. Amendments that may arise in this one month lag have historically been immaterial.

(d) Foreign currencies

Assets, liabilities, revenues and costs expressed in foreign currencies are translated into sterling at rates of exchange ruling on the date on which transactions occur, except for monetary assets and liabilities which are translated at the rate ruling at the balance sheet date. Differences arising on the translation of such items are dealt with in profit and loss.

Citynet Insurance Brokers Limited

Notes to the Financial Statements for the year ended 28 February 2017 *(continued)*

2. Basis of Preparation *(continued)*

(e) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Plant and equipment includes office furniture and equipment and computer equipment.

Depreciation is provided at rates calculated to write off the cost over three or four years as follows:

Plant and equipment - 25% or 33⅓% per annum on cost

(f) Current taxation

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

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed.

A deferred tax liability or asset is recognised for the additional tax that will be paid or avoided in respect of assets and liabilities that are recognised in a business combination.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

With the exception of changes arising on the initial recognition of a business combination, the tax expense (income) is presented either in profit or loss, other comprehensive income or equity depending on the transaction that resulted in the tax expense (income).

(g) Insurance broking debtors and creditors

The company acts as an agent in broking the insurable risks of its clients. It is the company's normal practice to settle accounts with clients, insurers, market settlement bureaux and other intermediaries on a net basis, meaning that substantial changes in both insurance broking debtors and insurance broking creditors can result from comparatively small cash settlements. For this reason, the totals of insurance broking debtors and insurance broking creditors give no indication of future cash flows.

The insurance cash, debtors and creditors arising from these broking transactions are shown as assets and liabilities in the statement of financial position reflecting the fact they relate to policies written under the Marine Insurance Act 1906 and the company/group is considered to remain legally liable for premiums in respect of these policies.

Citynet Insurance Brokers Limited

Notes to the Financial Statements for the year ended 28 February 2017 *(continued)*

2. Basis of Preparation *(continued)*

(g) Insurance broking debtors and creditors (*continued*)

The net insurance balances are presented in note 19 showing the net commission due to the company/group at the year end date.

Trade debtors are recognised at the undiscounted amount of cash receivable, which is normally the invoiced amount less any allowances for doubtful debts. Trade creditors are recognised on the basis of the net amount due to the insurer market, the market bureau or insurance intermediary.

(h) Operating leases

Leases where substantially all the benefits and risks of the ownership of the assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

(i) Pension costs

Contributions to the company's defined contribution scheme are charged to the profit and loss in the year in which they become payable.

(j) Share Based Payments

In accordance with FRS 102 section 26 "Share Based Payments" the company reflects the economic cost of any shares options issued to directors or employees by recording an expense in the profit and loss for the fair value on date of grant of the benefit awarded. The fair value is taken by using the Black Scholes valuation model based on earnings.

(k) Provisions for Liabilities

Provisions are recognised when the company has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.
Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The increase in the provision due to passage of time is recognised as interest expense.

2. Basis of Preparation *(continued)*

(l) Financial Instruments

Financial assets and liabilities are recognised when the company becomes party to the contractual provisions of the financial instrument. The company holds both basic and complex financial instruments, which comprise cash and cash equivalents, trade and other receivables, equity investments, derivative financial instruments, trade and other payables, convertible loan notes and borrowings. The company has chosen to apply the provisions of section 11 Basic Financial Instruments and section 12 Other Financial Instruments in full.

Financial assets – classified as basic financial instruments

(i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held with banks and other short term highly liquid investments with original maturities of three months or less.

(ii) Trade and other receivables

Trade and other receivables are initially recognised at the transaction price, including any transaction costs, and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

At the end of each reporting period the company assess whether there is objective evidence that any receivable amount may be impaired. A provision for impairment is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the assets carrying amount and the present

value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised immediately in profit or loss.

Financial liabilities – classified as basic financial instruments

(iii) Trade and other payables and loans and borrowings

Trade and other payables and loans and borrowings are initially measured at the transaction price, including any transaction costs, and subsequently measured at amortised cost using the effective interest method. Amounts that are payable within one year are measured at the undiscounted amount of the cash expected to be paid.

(iv) Derivative financial instruments

The company uses derivative financial instruments to reduce exposure to foreign exchange risk arising in relation to foreign denominated loans. The company does not hold or issue derivative financial instruments for speculative purposes.
Derivative financial instruments are initially recognised at fair value at the date the derivative contract is entered into and are subsequently measured at fair value at each reporting date. The resulting gain or loss is recognised in profit or loss. The company doesn't apply hedge accounting in accordance with section 12.

3. Critical accounting judgements and key sources of estimation uncertainty

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. The directors' 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 critical judgements that the directors have made in the process of applying the Company's estimates and accounting policies that have the most significant effect on the amounts recognised in the statutory financial statements are discussed below.

(i) Assessing indicators of impairment

In assessing whether there have been any indicators of impairment assets, the directors have considered both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability. There have been no indicators of impairments identified during the current financial year.

(ii) Income deferral for post placement activities

Included within creditors is an income deferral for post placement activities, specifically claims handling, in respect of policies written in previous years. This income deferral is calculated using the cost of the expected resources and overheads which relate to the operation of the claims team. Historical data has also been used to estimate the time and cost for the firm to settle current claims outstanding and those claims which relate to policies in the year.

4. Turnover

	2017 £	2016 £
UK	3,960,335	3,337,885
Europe	5,002,620	2,928,265
Rest of the World	66,189	47,539
	9,029,144	6,313,689

All turnover arose from brokerage and fees.

Citynet Insurance Brokers Limited

Notes to the Financial Statements for the year ended 28 February 2017 *(continued)*

5. Operating profit is stated after charging:

	2017 £	2016 £
Depreciation on tangible fixed assets	89,869	64,823
Auditors remuneration (audit services only)	24,217	22,676
Auditors remuneration (non audit services)	8,973	17,602
Operating lease rentals - land and buildings	318,809	78,766
Rate of exchange gain	20,597	17,749

6. Interest Receivable & Other income

	2017 £	2016 £
Interest - bank accounts	5,797	2,852
Other income	21,515	20,490
	27,312	23,342

7. Staff Costs

The average monthly number of employees, including directors, during the year was as follows:

	2017 Number	2016 Number
Technical / Broking	44	38
Administration / Claims	14	15
Part Time	9	7
	67	60

Staff costs, including directors were as follows:

	2017 £	2016 £
Wages and salaries	3,666,745	3,249,459
Social security costs	421,430	363,787
Other pension costs	362,140	183,815
	4,450,315	3,797,061

Citynet Insurance Brokers Limited

Notes to the Financial Statements for the year ended 28 February 2017 *(continued)*

8. Directors Remuneration and their Interests

	2017 £	2016 £
Directors emoluments	894,500	882,000
Directors' fees	14,000	15,690
Pension costs	82,100	91,700
	990,600	989,390

The number of directors to whom pension benefits are accruing under the company's money purchase scheme is 8 (2016: 8), and under individual pension arrangements is 1 (2016: 1).

	2017 £	2016 £
Highest paid director:		
Emoluments	123,500	115,000
Pension costs	10,000	20,000

The directors are considered to be the key management personnel of the company.

9. Taxation

	2017 £	2016 £
Current tax		
UK Corporation tax	538,537	244,808
Total current tax	538,537	244,808
Underprovision of tax in prior years	18,986	(45,990)
Total tax charge on profit on ordinary activities	557,523	198,818

The rate of tax for the year based on the UK standard rate of corporation tax is 20% before marginal relief (2016: 20%).

The actual tax charge for the current year and the previous year differs from the standard companies' rate for the reasons set out in the following reconciliation.

Citynet Insurance Brokers Limited

Notes to the Financial Statements for the year ended 28 February 2017 *(continued)*

9. Taxation (*continued*)

	2017 £	2016 £
Profit on ordinary activities before tax	2,547,020	1,148,256
Corporation Tax at UK standard rate 20% (2016: 20%)	509,404	229,651
Difference due to movement in Tax rate	-	2,289
Underprovision in prior years	18,986	(45,990)
Marginal relief	-	(60)
Expenses not deductible for tax purposes	50,109	27,039
Capital allowances in excess of depreciation	(20,976)	(14,111)
Total tax charge for the year	557,523	198,818

No deferred taxation has been provided on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, as the amounts are immaterial.

During the year the UK corporation tax rate remained at 20%. A reduction in the UK corporation tax rate from 20% to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020 was substantively enacted in October 2015.

10. Tangible Fixed Assets

	Plant and Equipment £
Cost	
At 1 March 2016	361,026
Additions	192,994
Disposals	(-)
At 28 February 2017	554,020
Depreciation	
At 1 March 2016	237,348
Charge for the year	89,869
Disposals	(-)
At 28 February 2017	327,217
Net book value	
At 28 February 2017	226,803
At 29 February 2016	123,678

Citynet Insurance Brokers Limited

Notes to the Financial Statements for the year ended 28 February 2017 *(continued)*

11. Dividends

	2017 £	2016 £
Dividends of 4.83p per Ordinary Shares (2016: 4.76p)	1,018,879	1,004,196
	1,018,879	1,004,196

12. Debtors

	2017 £	2016 £
Amounts due within one year		
Insurance debtors	16,141,959	11,537,090
Provision for bad debts	(92,788)	(92,788)
Other debtors	169,502	203,939
Prepayments and accrued income	389,994	79,926
Amounts owed by group undertakings	630,000	630,000
	17,238,667	12,358,167

Included in other debtors is a rent deposit of £20,577 (2016: £20,577) which is covered by a Rent Deposit Deed dated 6 September 2012 created by the company securing all monies due or to become due to the City of London in respect of 108 Fenchurch Street, London EC3M 5JR.

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Included in other debtors is a loan to Profile Risk Solutions of £50,000 (2016: £50,000) which is covered by a loan agreement and has 0.75% annual interest charged.

Also included in other debtors are interest free season ticket loans to Directors as follows:

	Amounts due on 28 February 2017	Amounts due on 29 February 2016	Maximum amount outstanding during the year
D Walland	1,846	1,677	2,256
G.T. Kinsella	2,260	2,240	2,712
A.M Reason	4,132	8,059	4,508
A.M Purves	3,212	3,181	4,283
S Charman	5,123	5,077	6,152
R Seeley	3,143	3,087	3,772
T Hicks	844	834	2,532
A Walsh	2,963	2,776	3,704

Citynet Insurance Brokers Limited

Notes to the Financial Statements for the year ended 28 February 2017 *(continued)*

13. Cash at Bank and in Hand

	2017 £	2016 £
Bank balances – NST Client Money Accounts	7,998,380	3,376,233
Bank balances – MJC Client Money Accounts	17,648	34,741
Bank Balances – Rrisk Client Money Accounts	-	4,170
Total Client Money Bank Balances	8,016,028	3,415,144
Bank balances - Office	2,480,612	1,164,711
	10,496,640	4,579,855

14. Creditors: amounts falling due within one year

	2017 £	2016 £
Insurance creditors	22,419,027	13,733,408
Corporation tax	550,330	191,625
Other taxes and social security costs	96,844	121,224
Accruals	1,429,456	881,408
Other creditors	604,754	174,441
	25,100,411	15,102,106

Included in accounts payable are amounts owing to Directors in respect of Business Expenses as follows:

	Amounts due on 28 February 2017 £	Amounts due on 29 February 2016 £
R J Scott	70	143
G T Kinsella	120	162
D Walland	9	39
A Reason	318	132
R J Seeley	15	115

15. Financial Instruments

	2017 £	2016 £
Financial assets that are debt instruments measured at amortised cost;		
Trade Debtors	16,915,304	12,122,036
Other Debtors	169,502	203,939
Cash at Bank and in hand	10,496,640	4,579,855
Total financial assets held at amortised cost	27,581,446	16,905,830
Financial assets / (liabilities) measured at fair value through profit and loss;		
Forward foreign currency contracts	2,271	(21,891)
Total financial assets / (liabilities) held at fair value through SOCI	2,271	(21,891)
Financial liabilities measured at amortised cost;		
Bank overdraft	-	-
Bank loans	-	-
Finance leases & hire purchase contracts	-	-
Trade creditors	24,239,364	14,327,187
Total financial liabilities held at amortised cost	24,239,364	14,327,187

Derivative financial instruments – forward contracts

The company enters into foreign currency contracts to mitigate the exchange rate risk for certain foreign currency debtors. At 28 February 2017, the outstanding contracts mature within 9 months (2015: 13) of the year end. The company is committed to sell €700,000 and receive a fixed sterling amount. (2015: €490,000). At year end these gave a fair value asset of £2,271 (2015: €-21,891).

The forward currency contracts are measured at fair value using quoted forward exchange rates.

16. Provision for Liabilities

	2017 £	2016 £
Balance at 1 March 2016	250,000	-
Provision made during the year	68,399	250,000
Utilised during the year	(136,912)	-
Balance at 28 February 2017	181,487	250,000

The provision for £181,487 represents the agreed final costs in settlement of the failed installation of the computer system that was contracted by the company.

The timing of the economic outflow is within 1 year.

Citynet Insurance Brokers Limited

Notes to the Financial Statements for the year ended 28 February 2017 *(continued)*

17. Insurance balances

The directors consider the disclosure of insurance broking assets and liabilities within the financial statements to be informative and accordingly provide the following information:

	2017 £	2016 £
Insurance debtors	16,141,959	11,537,090
Insurance bank accounts	8,016,028	3,415,144
	24,157,987	14,952,234
Insurance creditors	(22,419,027)	(13,733,408)
Surplus	1,738,960	1,218,826

18. Share Capital

	2017 £	2016 £
Authorised		
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
Allotted, issued and fully paid		
210,527 ordinary shares of £1 each	210,527	210,527

The ordinary shares carry one voting right per share and no right to fixed income.

19. Capital Redemption Reserve

The capital redemption reserves comprises of consideration paid on pay back of shares.

20. Profit and Loss account

The profit and loss reserve includes all current and prior year retained profit and losses.

21. Operating Leases

The company has the following annual lease commitments on its accommodation, which expires 1 March 2019:

Land and buildings

	2017 £	2016 £
Less than 1 year	347,088	347,088
Between one and two years	368,707	371,211
Between two and five years	36,651	402,342

Citynet Insurance Brokers Limited

Notes to the Financial Statements for the year ended 28 February 2017 *(continued)*

22. Pension Commitments

The Company operates a defined contribution pension scheme. The assets of the scheme are held in independently administered funds. The pension charge represents contributions payable by the Company to the fund and amounted to £362,140 (2016: £183,815). The contributions outstanding at the year end amounted to £Nil (2016: £Nil).

23. Financial Commitments

In accordance with the Company's foreign exchange policy there were NZ $575 of open forward contracts for sale to Sterling at the year end and open forward contracts to purchase £603,048 from Euro at the year end as set out below.

Financial year ending	Amount	Average committed rate	Contracted value	Fair value
28 February 2017	NZ$ 575	1.7408	£330	£1
28 February 2017	€ 5,079	1.1849	£4,286	(£42)
28 February 2017	€ 700,000	1.1690	£598,762	(£2,271)

24. Related Party Disclosures

MJC Underwriting Agency Limited

In April 2011 MJC Underwriting Agency Limited ("MJC") was established with 37.5% of the equity currently held by Citynet Shareholders, MJC continued to be an appointed representative of Citynet until 4 October 2016, and is authorised by the Financial Conduct Authority for Insurance Mediation.

MJC entered into solvent members voluntary liquidation on the 10 April 2017. Citynet were paid a fee of £10,000 to handle the run off of the insurance business which runs until the 31 August 2017.

During the year £11,515 (2016: £19,740) was charged to MJC in respect of providing the following services;

Handling Client Money
Accounts Payable Services
Bordereaux checking & Processing
Placing and settling business to Insurers
Set up of Binding Authorities and Terms of Business Agreements.

MJC clients paid net premium of £1,018,806 (2016: £2,063,941) and €786 (2016: €5,817) to Citynet up to 28 February 2017, which Citynet pays the premium to Insurers and commission to MJC. Citynet paid expenses of £2,394 (2016: £1,958) on behalf of MJC of which £617 (2016: £Nil) was outstanding to Citynet at the end of the year.

Faversham Underwriting Limited

In June 2014 Faversham Underwriting Limited ("Faversham") was established with 25% of the equity currently held by Citynet Shareholders.

During the year Citynet paid expenses of £1,338 (2016: £1,171) on behalf of Faversham of which £1,338 (2016: £1,171) was outstanding to Citynet at the end of the year.

Notes to the Financial Statements for the year ended 28 February 2017 *(continued)*

24. Related Party Disclosures *(continued)*

Citynet London Holdings Limited

Three of Citynet's Directors, Richard Scott, Gerard Kinsella and David Walland have provided personal guarantees for a total of 33.33% of the outstanding balance of the financing loan provided to Citynet Insurance Brokers Limited by Barclays Bank PLC. These guarantees are in proportion to their shareholding in the parent company. As at the 28 February 2017 this loan was repaid in full.

A loan of £280,000 was made on the 14 November 2012 and £175,000 on the 31 May 2013 and £175,000 on the 30 May 2014 from Citynet Insurance Brokers Ltd to Citynet London Holdings Limited and remains outstanding at the end of the year. No interest is charged on this loan. The loan is repayable on demand.

Directors Close Family Members

During the year close family members of 3 directors were employed by the company and paid salaries totalling £116,500 (2016: £116,500) of which £80,000 (2016: Nil) was outstanding at year end. Pension contributions were made during the year totalling £12,190 (2016: £2,190) of which Nil (2016: Nil) remained unpaid at the end of the year.

25. Parent Undertaking and Controlling Party

Citynet London Holdings Limited is the ultimate parent undertaking, Citynet London Holdings Limited is registered in England and Wales.

Richard Scott is the controlling party by virtue of his shareholding in the ultimate parent undertaking.