Pioneer Underwriting Limited

Report and Accounts

31 December 2016

Registered No: 7529401

Registered No: 7529401

Directors

J P M Taylor (Chairman) (Non-Executive)
E Brown (Non-Executive)
I E Clark (Non-Executive)
D P Doherty (Chief Executive Officer)
D J Douetil (Non-Executive)
D Foster
J C Monk
P Springman (Non-Executive)
G Rayner
A Stout
P J Vincent

Auditor
Deloitte LLP
London

Registered Office
7 Bishopsgate
London
EC2N 3AR

Chief Executive Officer's Report

Pioneer Underwriting Limited ('the Company') is the main trading entity within the Pioneer Group. Pioneer operates a unique underwriting facility model to deliver excellent capacity to our clients and writes over 25 underwriting facilities, backed by 29 markets. Our continued investment in new underwriters demonstrates the attractiveness of Pioneer as a dynamic, flexible platform that can offer a home to entrepreneurial underwriting talent.

2016 was a record year for the Company with income growing by 77% to £22.9m generating a profit before tax of £7.8m (2015 £1.4m loss). This growth was fuelled by our investment in new teams, infrastructure and trusted long term partnerships with capacity providers. In 2016 we further strengthened our management team with a new CUO and CFO whilst continuing to enhance our operating platform.

Market conditions have remained extremely challenging throughout the course of the year, with declining insurance and reinsurance rates across many lines however maintaining a disciplined approach to risk selection and achieving adequate pricing remains our key objective. Looking forward, the Company is well positioned for 2017 with a well diversified panel of capacity providers and underwriting teams that are gaining significant traction.

On behalf of the board I would like to thank all of our staff for their significant efforts during the year and to our brokers, clients and capital providers for their continued support.

D P Doherty

Chief Executive Officer

Strategic Report

Business review and future developments

The principal activity of the Company is that of an insurance general agent.

Pioneer Underwriting Limited is regulated by the Financial Conduct Authority.

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

Results and dividends

The financial results are set out in the profit and loss account on page 8.

Turnover for the year was £22.9m (2015: £13.0m). The profit after tax attributable to Shareholders amounted to £6.1m (2015: £1.1m loss). No dividends were paid during the year (2015: £nil).

At the year end the Company had a shareholder surplus of £8.0m (2015: £1.6m).

Approved by the Board of Directors on 28 April 2017 and signed on its behalf.

D Foster

Director

28 April 2017

Directors' Report

The directors present their report and audited accounts for the year ended 31 December 2016.

Directors

The current directors of the Company are listed on page 1.

The directors of the Company who served during the period under review are:

J P M Taylor (Chairman)
E Brown (Non-Executive)
I E Clark (Non-Executive)
D P Doherty (Chief Executive Officer)
D J Douetil (Non-Executive)
D Foster (appointed 8 April 2016)
J C Monk
G Rayner (appointed 18 October 2016)
P Springman (Non-Executive)
A Stout
P J Vincent

E Brown served as an executive director untll 31 December 2016, whereupon he resumed as a Non-executive director.

Directors' liabilities

The Company has granted an indemnity to all directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force at the date of approving the directors' report.

Principal risks and uncertainties

The management of the business and the execution of the strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are considered to relate to:

- competition from managing agents;
- the relative value of sterling against our key currencies in which revenues are generated, notably the US Dollar;
- recruitment and retention of staff;
- substantial changes in the premium rating environment resulting in a reduction in commission earnings or increases in premiums reducing the level of demand for the Company's services; and
- claims and claims costs, which can affect the level of profit commission that the Company receives, (although the underwriting agency operations are not directly responsible for claims).

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

Directors' Report

Audit Information

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

- so far as he/ she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006. Deloitte LLP have indicated its willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Statement of Directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors on 28 April 2017 and signed on its behalf.

D Foster

Director

28 April 2017

Independent Auditor's Report

to the shareholders of Pioneer Underwriting Limited

We have audited the financial statements of Pioneer Underwriting Limited for the year ended 31 December 2016, which comprise the Profit and loss account, the Balance sheet, statement of changes in equity and the related notes 1 to 18. 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).

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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' responsibilities, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implication for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report (continued)

to the shareholders of Pioneer Underwriting Limited

Matters on which we are required to report by exception

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

Adam Knight (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
28 April 2017

Profit and Loss Account

For the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Turnover	3	**22,948**	12,962
Administrative expenses		**(15,165)**	(14,347)
Operating profit/ (loss)	4	**7,783**	(1,385)
Other income	5	**12**	2
Profit/ (loss) on ordinary activities before taxation		7,795	(1,383)
Tax (charge)/ credit on profit on ordinary activities	7	**(1,663)**	331
Profit/ (loss) for the year		**6,132**	(1,052)

All operations derive from continuing activities.

A statement of comprehensive income has not been prepared as there is no other comprehensive income for the current financial year and the preceding financial year other than as stated in the profit and loss account.

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

Balance Sheet

As at 31 December 2016

	Notes	2016 £000	2015 £000
Current assets			
Debtors:			
- due within one year	8	**31,771**	16,386
- due after one year	8	**526**	484
Cash at bank and in hand	9	**566**	1,066
		32,863	17,936
Creditors: amounts falling due within one year	10	**(24,903)**	(16,330)
Net current assets		**7,960**	1,606
Net assets		**7,960**	1,606
Capital and reserves			
Called up share capital	11	**-**	-
Share premium account	12	**1,000**	1,000
Profit and loss account		**6,960**	606
Equity shareholders' funds		**7,960**	1,606

The accompanying notes form an integral part of the financial statements for Pioneer Underwriting Limited, company number 7529401, which were approved by the Board of Directors on 28 April 2017 and signed on its behalf.

D Foster

Director

Statement of changes in equity

As at 31 December 2016

	Called-up Share capital	Share Premium	Profit and Loss account	Total Equity
At 1 January 2015	–	–	1,482	**1,482**
Loss for the year	–	–	(1,052)	**(1,052)**
Total comprehensive income for the year	–	–	(1,052)	**(1,052)**
Shares issued	–	1,000	–	**1,000**
Share based payment transactions	–	–	176	**176**
At 31 December 2015	–	1,000	606	**1,606**
Profit of the year			6,132	**6,132**
Total comprehensive income for the year			6,132	**6,132**
Share based payment transactions			222	**222**
At 31 December 2016	–	1,000	6,960	**7,960**

Notes to the accounts

For the year ended 31 December 2016

1. Accounting Policies

The principal accounting policies are summarised below.

General information and basis of accounting

The accounts are prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The financial statements are also presented in pounds sterling.

Minova Insurance Holdings Limited, the ultimate parent of Pioneer Underwriting Limited, meets the definition of a qualifying entity under FRS 102. As a result Minova Insurance Holdings Limited has taken advantage of the disclosure exemptions available to it in respect of the separate financial statements of Pioneer Underwriting Limited. Exemptions have been taken in relation to share-based payments, share capital, presentation of a cash flow statement, intra-group transactions and remuneration of key management personnel, as these additional disclosures not required under previous UK GAAP are not relevant to the users of the financial statements.

Going concern

The financial statements have been prepared under the going concern basis. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Turnover

Turnover represents commissions associated with the placement of insurance contracts net of commissions payable to other directly involved parties. The Company recognises this income when earned. Commission is recognised at the later of the policy inception date or when the policy placement has been completed and confirmed, with a proportion of income deferred over the period of the underlying contracts to recognise the on-going contractual obligations of maintaining and servicing the contracts over that period.

Profit Commission

Profit commission is recognised when the amount can be reliably estimated, with a reasonable degree of certainty.

Foreign currencies

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

Notes to the accounts

For the year ended 31 December 2016

1. Accounting Policies (continued)

Pensions

All employees are eligible to become members of a group pension scheme within three months' service. For defined benefit schemes, the Company was unable to identify its share of the underlying assets and liabilities on a consistent and reliable basis. Consequently, these schemes are treated as defined contribution schemes and the pension cost charged to the profit and loss account is based on the actuarially determined contribution rate after each triennial valuation.

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

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

Taxation

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

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

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

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

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

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

Notes to the accounts

For the year ended 31 December 2016

Share-based payment

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

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

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

2. Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the Company's accounting policies

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

Profit commission

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

Profit commission is recognised when the amount can be reliably estimated, with a reasonable degree of certainty.

3. Geographical analysis of turnover by source

	2016	2015
	£000	£000
United Kingdom	**22,948**	12,962

The business activities of the Company are primarily based in the United Kingdom, and this is where the Company's operating profits are generated and its net assets are held. The turnover arises from the Company's principal activity.

Notes to the accounts

For the year ended 31 December 2016

4. Operating profit

	2016	2015
	£000	£000
Operating profit is stated after charging:		
Staff costs including directors' emoluments:		
Salaries (including bonus)	**11,410**	7,749
Social security costs	**1,434**	949
Other pension costs	**618**	634
Other staff costs	**1,148**	593
Share based payment charge	**222**	176
Audit fees	**85**	40

The average number of employees during the year was 78 (2015: 67).

5. Other income

	2016	2015
	£000	£000
Bank interest	**12**	2

Notes to the accounts

For the year ended 31 December 2016

6. Directors' remuneration

	2016 £000	2015 £000
Remuneration of directors of the Company included in staff costs was as follows:		
Emoluments	**2,489**	1,359
Company contributions payable to defined contribution pension scheme	**31**	57

	2016 No.	2015 No.
Number of directors who are members of defined contribution pension scheme	**4**	3
Number of directors who were granted options under the Unapproved Share Option Plan	**4**	2

	2016 £000	2015 £000
In respect of the highest paid director:		
Emoluments	**627**	242

	2016 £000	2015 £000
Company contributions payable to defined contribution pension scheme	**3**	13

The highest paid director received no further emoluments or remuneration in the year.

Notes to the accounts

For the year ended 31 December 2016

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

	2016	2015
	£000	£000
Taxation charge/(credit) comprises:		
Current tax		
UK corporation tax at 20% (2015: 20.25%)	**1,712**	(151)
Prior years' (over)/under provision	**(7)**	304
Total current tax	**1,705**	153
Deferred tax		
Origination and reversal of timing differences	**(85)**	(114)
Prior years' under/(over) provision	**38**	(396)
Rate difference	**5**	26
Total deferred tax (note 13)	**(42)**	(484)
Tax charge(credit) on profit/(loss) on ordinary activities	**1,663**	(331)

There is no expiry date on timing differences or tax credits.

Factors affecting the tax charge for the year

The tax rate for the year is explained below:

	2016	2015
	£000	£000
Profit/(Loss) on ordinary activities before tax	**7,795**	(1,383)
Profit/(Loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20.25%)	**1,559**	(280)
Effects of:		
Expenses not deductible for tax purposes	**69**	47
Income not taxable	**-**	(19)
Share options adjustment	**(1)**	1
Transitional adjustments under FRS 102	**-**	(14)
Effect of tax rate change on deferred tax	**5**	26
Prior years' under/(over) provision – deferred tax	**38**	(396)
Prior years' (over)/under provision – current tax	**(7)**	304
Total tax charge/(credit) for the year	**1,663**	(331)

The UK Government has enacted reductions in the main tax rate to 19% from 1 April 2017, and 17% from 1 April 2020. At the balance sheet date the deferred tax asset has been provided for at rates at which management believe the assets will be utilised.

Notes to the accounts

For the year ended 31 December 2016

8. Debtors – amounts falling due within one year

	2016	2015
	£000	£000
Net Insurance assets	**4,927**	2,297
Amount due from parent undertaking	**19,563**	7,576
Other debtors	**99**	106
Prepayments and accrued income	**7,182**	6,407
	31,771	16,386

Amounts falling due after one year

	2016	2015
	£000	£000
Deferred Tax	**526**	484

9. Cash at bank and in hand

	2016	2015
	£000	£000
Cash at bank and in hand	**566**	1,066

10. Creditors – amounts falling due within one year

	2016	2015
	£000	£000
Accruals and deferred income	**516**	1,288
Advanced commission	**16,316**	11,477
Other creditors	**8,071**	3,565
	24,903	16,330

11. Called up share capital

	2016	2015
	£	£
Allotted, called up and fully paid:		
200 ordinary shares of £1 each (2015: 200 ordinary shares)	**200**	200

Notes to the accounts

For the year ended 31 December 2016

12. Share premium account

	2016	2015
	£000	£000
As at 1 January	**1,000**	1000
	1,000	1000

13. Deferred Tax

	2016	2015
	£000	£000
Other timing differences		
At 1 January	**484**	-
Credit in the year	**42**	484
At 31 December	**526**	484

14. Pensions

The group also operates a defined contribution pension scheme, the assets being held separate from the group in independently administered funds. The total paid by the Company into the scheme in the year was £618,000 (2015: £584,000). There were no prepaid or outstanding contributions by the Company at the year end.

15. Related party transactions

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

During the period under review, the Company provided services to Pioneer North America PL Limited amounting to £322,000 (2015: £270,000).

16. Ultimate parent undertaking

The Company's immediate parent company is Pioneer Underwriting Holdings Limited, a company registered and operating in England and Wales.

The ultimate parent undertaking and controlling entity is Minova Insurance Holdings Limited ("Minova"), a company registered and operating in England and Wales. The parent undertaking of the largest and smallest group of undertakings for which consolidated accounts are prepared, and of which the Company is a member, is Minova. A copy of the accounts of that company can be obtained from the Registered Office, One America Square, London EC3N 2LS.

17. Contingent Liabilities

The Company, together with certain other subsidiaries, acts as an obligor under the terms of a Securities Purchase Agreement ("SPA") dated 16 October 2014 between Minova Insurance Holdings Limited ("Minova") and Pricoa Capital Group. Accordingly, the Company, together with Minova and certain other fellow subsidiaries has given a guarantee in respect of Minova's obligations under the SPA.

18. Post balance sheet events

There were no material post balance sheet events for the year ended 31 December 2016.