Consolidated income statement

FOR THE YEAR ENDED 31 JANUARY 2021

	Note	2021 £'m	2020 (restated) £'m
Gross earned premiums	3	**221.7**	233.9
Earned premiums ceded to reinsurers	3	**(142.8)**	(145.7)
Net earned premiums	3	**78.9**	88.2
Other revenue	3	**258.7**	709.1
Total revenue	3	**337.6**	797.3
Gross claims incurred	28	**(131.4)**	(140.6)[1]
Reinsurers' share of claims incurred	28	**113.2**	109.8[1]
Net claims incurred	28	**(18.2)**	(30.8)
Other cost of sales		**(82.0)**	(395.1)
Total cost of sales	3	**(100.2)**	(425.9)
Gross profit		**237.4**	371.4
Administrative and selling expenses	4	**(224.2)**	(252.6)
Impairment of assets	5	**(65.0)**	(400.5)
Gain on lease modification	18	**3.2**	–
Net profit on disposal of businesses	13	**8.6**	–
Net profit on disposal of property, plant and equipment, right-of-use assets and software	15, 17, 18	**6.6**	1.3
Investment income	6	**0.7**	1.2
Finance costs	7	**(30.2)**	(21.8)
Finance income	8	**1.7**	0.1
Loss before tax		**(61.2)**	(300.9)
Tax expense	10	**(6.6)**	(11.9)
Loss for the year		**(67.8)**	(312.8)
Attributable to:			
Equity holders of the parent		**(67.8)**	(312.8)
Earnings Per Share:			(restated)
Basic	12	**(67.0p)**	(381.7p)[2]
Diluted	12	**(67.0p)**	(381.7p)[2]

The notes on pages 136 to 203 form an integral part of these consolidated financial statements.

1 Gross claims incurred and reinsurers' share of claims incurred for the year ended 31 January 2020 have been restated due to an incorrect allocation between these classifications. Gross claims incurred have decreased by £19.3m and reinsurers' share of claims incurred has decreased by £19.3m

2 In accordance with IAS 33 'Earnings per Share', basic and diluted EPS figures for the year ended 31 January 2020 have been restated and adjusted for: (a) the bonus factor of 1.1 to reflect the bonus element of the Firm Placing and Open Offer (note 33); and (b) the consolidation of the Company's shares during the year (note 33). Amounts as originally stated were (27.9p) for basic and diluted EPS, and 8.9p for basic and diluted Underlying Basic EPS

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 JANUARY 2021

	Note	**2021 £'m**	2020 £'m
Loss for the year		**(67.8)**	(312.8)
Other comprehensive income			
Other comprehensive income to be reclassified to income statement in subsequent years			
Net gains/(losses) on hedging instruments during the year	19	**22.3**	(11.2)
Recycling of previous gains to income statement on matured hedges	19	**(2.5)**	(2.6)
Total net gains/(losses) on cash flow hedges		**19.8**	(13.8)
Associated tax effect		**(3.5)**	2.4
Net gains on fair value financial assets during the year		**3.2**	8.1
Associated tax effect		**(0.8)**	(1.4)
Total other comprehensive gains/(losses) with recycling to income statement		**18.7**	(4.7)
Other comprehensive income not to be reclassified to income statement in subsequent years			
Remeasurement losses on defined benefit plans	27	**(1.2)**	(5.4)
Associated tax effect		**0.2**	0.9
Total other comprehensive losses without recycling to income statement		**(1.0)**	(4.5)
Total other comprehensive gains/(losses)		**17.7**	(9.2)
Total comprehensive losses for the year		**(50.1)**	(322.0)
Attributable to:			
Equity holders of the parent		**(50.1)**	(322.0)

The notes on pages 136 to 203 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

FOR THE YEAR ENDED 31 JANUARY 2021

	Note	2021 £'m	2020 £'m
Assets			
Goodwill	14	**718.6**	778.4
Intangible assets	15	**56.6**	57.1
Property, plant and equipment	17	**660.2**	425.0
Right-of-use assets	18	**2.8**	25.7
Financial assets	19	**359.8**	378.1
Current tax assets		**3.1**	–
Deferred tax assets	10	**12.5**	22.3
Reinsurance assets	28	**71.6**	62.1
Inventories	22	**3.5**	5.4
Trade and other receivables	23	**183.1**	209.0
Assets held for sale	13, 17, 38	**16.9**	33.8
Trust accounts	24	**22.4**	–
Cash and short-term deposits	25	**101.6**	97.9
Total assets		**2,212.7**	2,094.8
Liabilities			
Retirement benefit scheme obligations	27	**4.3**	5.5
Gross insurance contract liabilities	28	**426.3**	443.6
Provisions	31	**11.7**	7.7
Financial liabilities	19	**826.6**	690.3
Deferred tax liabilities	10	**5.8**	4.2
Current tax liabilities		**–**	7.7
Contract liabilities	29	**82.2**	153.2
Trade and other payables	26	**175.1**	185.9
Liabilities held for sale	13, 38	**–**	8.5
Total liabilities		**1,532.0**	1,506.6
Equity			
Issued capital	33	**21.0**	11.2
Share premium		**648.3**	519.3
Retained earnings		**0.2**	65.4
Share-based payment reserve		**5.8**	7.8
Fair value reserve		**7.3**	4.9
Hedging reserve		**(1.9)**	(20.4)
Total equity		**680.7**	588.2
Total equity and liabilities		**2,212.7**	2,094.8

The notes on pages 136 to 203 form an integral part of these consolidated financial statements.

Signed for and on behalf of the Board on 6 April 2021 by

E A SUTHERLAND
Group Chief Executive Officer

J B QUIN
Group Chief Financial Officer

Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 JANUARY 2021

	Attributable to the equity holders of the parent						
	Issued capital £'m	Share premium £'m	Retained earnings £'m	Share-based payment reserve £'m	Fair value reserve £'m	Hedging reserve £'m	Total £'m
At 1 February 2020	**11.2**	**519.3**	**65.4**	**7.8**	**4.9**	**(20.4)**	**588.2**
Loss for the year	**–**	**–**	**(67.8)**	**–**	**–**	**–**	**(67.8)**
Other comprehensive (losses)/income excluding recycling	**–**	**–**	**(1.0)**	**–**	**2.4**	**18.4**	**19.8**
Recycling of previous gains to income statement	**–**	**–**	**–**	**–**	**–**	**(2.1)**	**(2.1)**
Total comprehensive (losses)/income	**–**	**–**	**(68.8)**	**–**	**2.4**	**16.3**	**(50.1)**
Recognition of non-financial asset from hedging reserve (note 19)	**–**	**–**	**–**	**–**	**–**	**2.2**	**2.2**
Dividends paid (note 11)	**–**	**–**	**(0.1)**	**–**	**–**	**–**	**(0.1)**
Issue of share capital (note 33)	**9.8**	**140.6**	**–**	**–**	**–**	**–**	**150.4**
Transaction costs associated with issue of share capital	**–**	**(11.6)**	**–**	**–**	**–**	**–**	**(11.6)**
Share-based payment charge (note 36)	**–**	**–**	**–**	**2.4**	**–**	**–**	**2.4**
Exercise of share options	**–**	**–**	**3.7**	**(4.4)**	**–**	**–**	**(0.7)**
At 31 January 2021	**21.0**	**648.3**	**0.2**	**5.8**	**7.3**	**(1.9)**	**680.7**
At 1 February 2019	11.2	519.3	401.4	13.3	(1.8)	17.5	960.9
Loss for the year	–	–	(312.8)	–	–	–	(312.8)
Other comprehensive (losses)/income excluding recycling	–	–	(4.5)	–	6.7	(9.3)	(7.1)
Recycling of previous gains to income statement	–	–	–	–	–	(2.1)	(2.1)
Total comprehensive (losses)/income	–	–	(317.3)	–	6.7	(11.4)	(322.0)
Recognition of non-financial asset from hedging reserve (note 19)	–	–	–	–	–	(26.5)	(26.5)
Dividends paid (note 11)	–	–	(25.8)	–	–	–	(25.8)
Share-based payment charge (note 36)	–	–	–	2.2	–	–	2.2
Exercise of share options	–	–	7.1	(7.7)	–	–	(0.6)
At 31 January 2020	**11.2**	**519.3**	**65.4**	**7.8**	**4.9**	**(20.4)**	**588.2**

The notes on pages 136 to 203 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 JANUARY 2021

	Note	2021 £'m	2020 £'m
Loss before tax		**(61.2)**	(300.9)
Depreciation, impairment and profit on disposal, of property, plant & equipment and right-of-use assets		**14.9**	43.7
Amortisation and impairment of intangible assets and loss on disposal of software		**72.5**	408.1
Gain on lease modification		**(3.2)**	–
Share-based payment transactions		**2.4**	2.1
Profit on disposal of assets held for sale		**(12.2)**	–
Loss on disposal of subsidiaries		**3.6**	–
Finance costs		**30.2**	21.8
Finance income		**(1.7)**	(0.1)
Interest income from investments		**(0.7)**	(1.2)
Increase in trust accounts		**(22.4)**	–
Movements in other assets and liabilities		**(66.5)**	(37.8)
		(44.3)	135.7
Interest received		**0.7**	1.2
Interest paid		**(24.1)**	(19.9)
Income tax paid		**(10.7)**	(25.1)
Net cash flows (used in)/from operating activities		**(78.4)**	91.9
Investing activities			
Proceeds from sale of property, plant and equipment, and right-of-use assets		**8.3**	6.3
Purchase of and payments for the construction of property, plant and equipment and intangible assets		**(285.1)**	(295.3)
Net disposal of financial assets		**41.9**	32.8
Disposal of subsidiaries, net of cash in businesses disposed of	13	**23.1**	–
Net cash flows used in investing activities		**(211.8)**	(256.2)
Financing activities			
Payment of principal portion of lease liabilities	32	**(4.0)**	(15.0)
Proceeds from borrowings	32	**330.8**	279.0
Repayment of borrowings	32	**(130.0)**	(84.2)
Debt issue costs	32	**(17.4)**	(7.9)
Proceeds from issue of share capital	33	**150.3**	–
Transaction costs associated with issue of share capital		**(11.6)**	–
Dividends paid		**(0.1)**	(25.8)
Net cash flows from financing activities		**318.0**	146.1
Net increase/(decrease) in cash and cash equivalents		**27.8**	(18.2)
Cash and cash equivalents at the start of the year		**139.1**	157.3
Cash and cash equivalents at the end of the year	25	**166.9**	139.1

The notes on pages 136 to 203 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 CORPORATE INFORMATION
Saga plc (the 'Company') is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 (registration number 08804263). The Company is registered in England and its registered office is located at Enbrook Park, Folkestone, Kent CT20 3SE.

Saga offers a wide range of products and services to its customer base which includes general insurance products, package and cruise holidays, personal finance products and a monthly subscription magazine.

2.1 BASIS OF PREPARATION
The consolidated financial statements of the Group have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU).

The consolidated financial statements have been prepared on a going concern basis and on a historical cost basis except as otherwise stated. The Group has reviewed the appropriateness of the going concern basis in preparing the financial statements, particularly in light of the COVID-19 pandemic, details of which are included below. Based on those assumptions, the Directors have concluded that it remains appropriate to adopt the going concern basis in preparing the financial statements.

The Group's consolidated financial statements are presented in pounds sterling which is also the parent company's functional currency, and all values are rounded to the nearest hundred thousand (£'m), except when otherwise indicated. Each company in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The preparation of financial statements in compliance with international accounting standards (IFRS) as adopted by the EU, and in conformity with the requirements of the Companies Act 2006, requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 2.5.

The principal accounting policies adopted, which have been applied consistently, unless otherwise stated, are set out in note 2.3 below.

Going concern
The Directors have considered the appropriateness of the going concern basis of preparation for the financial statements prepared to 31 January 2021 and in doing so have considered a range of possible scenarios that factor in the potential ongoing impact of the COVID-19 pandemic and other key risks and uncertainties.

The Group's business activities, together with the factors likely to affect its future development and performance, its exposure to risk and its management of these risks, details of its financial instruments and derivative activities, and details of other financial and non-financial liabilities, are described throughout the annual report (see (i) Principal risks and uncertainties (PRUs) on pages 28 and 29; (ii) Operating and Financial Review on pages 30 to 45; (iii) Audit, risk and internal control on pages 66 to 69; (iv) Audit Committee Report on pages 70 to 73; (v) Risk Committee Report on pages 74 to 76; and (vi) notes on pages 136 to 203). The Directors believe that the Group is well placed to successfully manage its business risks.

The Group's largest business is its Insurance operations, which have been resilient over the last 12 months and have remained profitable. In addition, the Group has been able to maintain full operational capability throughout the year despite the impact of the COVID-19 pandemic, with almost all colleagues working from home.

However, the Group's Travel business has been subject to significant disruption. Following advice from the UK Government that people over 70 years old should avoid travel and given operational challenges in almost all countries, the Group took the decision to suspend Cruise and Tour Operations in March 2020. Both businesses have been suspended since then and will not resume trading until later this year.

Over the 12 months during which the Travel business has been suspended, the Group has taken a number of mitigating actions to strengthen its financial position, including reductions in costs, conclusion of disposals, an equity capital raise and amendments to both ship debt and banking facilities. These actions, together with the cash generated by the Insurance business, enabled the Group to reduce net debt (excluding debt relating to Cruise operations) by £115m during the year despite the provision of £104m in cash support to Travel operations.

As at 31 January 2021, the Group had significant headroom to all covenants on bank facilities. At that date, the Group was in compliance with all requirements of its banking facilities, specifically: the leverage ratio (excluding the impact of debt and earnings relating to the new ocean cruise ships) was 2.7x (2020: 2.4x), compared to a 4.75x maximum covenant; interest cover was 3.3x (2020: 9.0x), well above the minimum covenant of 1.25x; and the Cruise intercompany debtor was £16.2m (2020: £1.1m), significantly below the limit in bank facilities at that date of £45m (since increased to £55m).

2.1 BASIS OF PREPARATION (CONTINUED)

Going concern (continued)

Although the Travel business remains suspended, customer loyalty has been exceptionally positive, especially for Cruise. Given the large number of customers who have rebooked for 2021/22 travel departures and because of a level of pent-up demand, demand generation is not considered to be a near-term material challenge for the Travel business.

The Group's base case assumption is for Tour Operations to resume in July 2021 for river cruising and in September 2021 for stays and tours, and ocean cruises recommencing in June 2021 for Spirit of Discovery and in July 2021 for the inaugural cruise of Spirit of Adventure. It is also assumed that the mid-term outlook for Cruise returns to pre COVID-19 levels.

The Group believes that the base case assumption is reasonable for the following reasons:

- All customers should have been vaccinated twice by the end of May, which will be combined with a series of other safety measures implemented by the business, including a quarantine and testing procedure for crew.
- There is UK Government support to resume domestic and international tourism from June and they have confirmed that cruises will be allowed to restart to the same timetable.
- There is a growing recognition that ocean cruise – if managed properly – is a safer proposition than some other forms of international travel. This is particularly the case for Saga given the nature of the cruise proposition and the additional steps being taken, including mandatory vaccines before travel and our third-party accreditation for COVID-19 health and safety protocols.
- A number of European countries have already indicated they will be welcoming Saga customers and look forward to UK cruise ships entering their ports in the summer of 2021. The Group's ships are particularly sought after for their modest size (at less than 1,000 passengers) and the vaccine-only policy for customers.
- If scheduled port stops are not possible because of growing levels of COVID-19 in those countries, the flexibility of Cruise allows for itineraries to be modified accordingly.

Although management are confident of a summer return, there is high degree of uncertainty in the outlook, with a number of factors that could lead to a delay in the lifting of the ban on international travel. Given this situation, which is constantly evolving, the Group has considered a range of alternative outcomes.

The main downside scenario considered assumes no Tour Operations departures until March 2022, with Cruise resuming from November 2021 for Spirit of Discovery and from December 2021 for Spirit of Adventure. In this scenario the Group has also assumed a slower recovery in load factors (remaining at 80% until July 2022) and incremental costs in operating the business. In assessing wider downside risks, the Group has also considered other trading stress tests in relation to the Insurance business.

Although this scenario would be challenging, the Group expects to remain resilient and would not expect to need to take further actions to improve financial flexibility. Specifically:

- The Group has plenty of liquidity, with £75m of available cash at 31 January 2021, and a £100m revolving credit facility (RCF) that is currently undrawn.
- The Group has agreed a working capital facility with Roger De Haan that enables the Cruise business to draw down £10m in cash support if required, on the same terms as the RCF.
- The Insurance business continues to perform well and with predictable cash generation.
- Tour Operations customer receipts are fully ring fenced and are not included in available cash.
- There are no debt maturities until after April 2022, with capital repayments not due on the two cruise ships until June 2022 for £15m on the Spirit of Discovery facility and until September 2022 for £16m on the Spirit of Adventure facility, and there are no repayments due on bank facilities until their maturity in May 2023.
- The Group therefore expects to be able to operate within the debt covenants and other requirements of its banking facilities, which have been amended to accommodate the Group's downside scenario modelling and are summarised below.

		30 April 2021*	31 July 2021	31 October 2021*	31 January 2022	30 April 2022*	31 July 2022
Leverage (net debt to EBITDA ratio)	Maximum	4.75	4.75	4.50	4.25	4.00	3.00
Interest cover (EBITDA to net cash interest ratio)	Minimum	1.25	1.25	1.25	1.50	3.50	3.50
Cruise intercompany debt cap	Maximum	£55m	£55m	£55m	£55m	£55m	£55m

* Quarterly covenants for leverage and interest cover are only tested if leverage is above 4.0x times at the previous covenant test date.

Notes to the consolidated financial statements continued

2.1 BASIS OF PREPARATION (CONTINUED)

Going concern (continued)

Although the Group believes that the downside scenario above represents an appropriate reasonable worse-case (RWC), there are a number of significant factors related to COVID-19 that are outside of the control of the Group, including the status and impact of the pandemic worldwide; potential emergence of new variants of the virus; the availability of vaccines, together with the speed at which they are deployed and their efficacy; and the restrictions imposed worldwide in respect of the freedom of movement and travel. The Group is therefore not able to provide certainty that there could not be more severe downside scenarios to that described above.

While the Group expects the outcome of a scenario more severe than the RWC to be unlikely, further downside sensitivities have been considered in light of the COVID-19 pandemic, including the impact of not being able to resume both Cruise and Tour Operations until March 2022. In considering this outcome, the Group has allowed for likely ongoing lower motor claims frequency than assumed in its base case plans, which in part offsets the adverse impact of continued delays to a resumption of Travel. In this scenario, the Group projects that it would have limited headroom to the interest cover covenant and would be near the limit of Cruise funding, but it would still remain in compliance with the requirements of its banking facilities for at least the next 12 months. The Group would however consider taking further actions to increase flexibility and reduce downside risks associated with the remote possibility of any further delay to the restart of Travel beyond March 2022. Such actions would include seeking additional amendments to bank facilities and consideration of alternative sources of funding.

The impact of the COVID-19 pandemic cannot be accurately predicted and it is not possible to assess all possible future implications for the Group; however, based on this analysis and the scenarios modelled, the Directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements. The Directors have therefore deemed it appropriate to prepare the financial statements to 31 January 2021 on a going concern basis.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 January each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with an investee entity and has the ability to affect those returns through its power over the investee entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiary companies are consolidated using the acquisition method.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date when such control ceases.

In preparing these consolidated financial statements, any intra-group receivables, payables, income and expenses arising from intra-group trading are eliminated. Where accounting policies used in individual financial statements of a subsidiary company differ from Group policies, adjustments are made to bring these policies in line with Group policies.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where a subsidiary which constituted a separate major line of business is disposed of, it is disclosed as a discontinued operation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Revenue recognition

Revenue represents amounts receivable from the sale or supply of goods and services provided to customers in the ordinary course of business and is recognised to the extent that it is probable that the future economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is received. The recognition policies for the Group's various revenue streams by segment are as follows:

i) Insurance

Twelve month insurance policies with no option to fix the premium at renewal ('annual policies'):
Insurance premiums received for risks underwritten by the Group are recognised on a straight-line time-apportioned basis over the period of the policy. The portion of those premiums ceded to reinsurers is also recognised on a straight-line time-apportioned basis over the duration of the policy as a reduction to revenue.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Revenue recognition (continued)

i) Insurance (continued)

Brokerage revenue received in connection with insurance policies not underwritten by the Group is recognised on inception of the policy when the obligation to arrange insurance for the customer has been satisfied. The portion of insurance premiums received for risks which are not underwritten by the Group that are passed to a third-party insurer is not recognised in the income statement.

Insurance premiums and sales revenues received in advance of the inception date of a policy are treated as advance receipts and included as contract liabilities in the statement of financial position.

Premiums in respect of insurance policies underwritten by the Group that have a period of unexpired risk at the reporting date, and which relate to the period after the reporting date, are treated as unearned and included in gross insurance contract liabilities in the statement of financial position. The portion of those unearned premiums ceded to excess of loss reinsurers is recognised as a reinsurance asset on the face of the statement of financial position. The portion of those unearned premiums ceded to quota share reinsurers is recognised as an asset within trade payables, since there is a right of set-off within the contract.

Changes to premiums are recognised on the effective date of the mid-term adjustment. For those policies that are underwritten by the Group, these changes are recognised on a straight-line time-apportioned basis over the period remaining on the policy. Reduction in premiums from mid-term cancellations are recognised on the effective date of the cancellation. Fee income from mid-term adjustments and cancellations is recognised on the date which the mid-term adjustment or cancellation occurs.

Twelve month insurance policies with the option to fix the premium over three years ('three-year fixed-price policies'):
Insurance premiums received over the duration of three-year fixed-price policies underwritten by the Group are recognised over the three years of cover. Premiums are allocated to each of the three policy years based on the relative expected claims costs in each year, and are then recognised on a straight-line time-apportioned basis within each policy year. The carrying value of the revenue deferred in this instance is recognised as unearned premium within gross insurance contract liabilities in the statement of financial position. The portion of premiums ceded to reinsurers is recognised in the same manner as for annual policies.

Brokerage revenue received in connection with three-year fixed-price policies not underwritten by the Group is allocated to the performance obligations of the contract, being the arrangement of the insurance in each year and the option to fix the customer price at renewal. The revenue allocated to the option to renew at a fixed price is recognised in profit or loss either when the customer exercises the option at the first and second renewal dates, or sooner if the customer cancels the policy mid-term or makes a claim that releases the Group from its obligation to fix the customer's price. The carrying value of the revenue deferred in this instance is recognised within contract liabilities in the statement of financial position.

Where there is a switch of underwriter between the Group and a third-party underwriter at either of the renewal points within the three-year price fix, the Group applies the relevant accounting policy for the subsequent policy year in line with either of the two methods described above.

All insurance policies (both three-year fixed-price policies and annual policies):
Income from credit provided to customers to facilitate payment of their insurance premiums over the life of their policy is treated as part of the revenue from insurance operations and recognised over the period of the policy in proportion to the outstanding premium balance.

Profit commissions due under co-insurance or reinsurance arrangements are recognised and valued in accordance with the contractual terms to which they are subject, when it is highly probable that a significant reversal of revenue will not occur, and on the same basis, where appropriate, as the related reinsured liabilities.

For revenue earned from credit hire and repair services for non-fault claims ('credit hire' and 'credit repair'), the Group initially recognises the revenue at fair value, which is based on a historical assessment of debt recovery and discount levels. Credit hire revenue is recognised from the date that a vehicle is placed on hire equally over the duration of the hire. Credit repair revenue represents income from the recovery of the costs of repair of customers' vehicles. Credit repair revenue is recognised when the work has been completed. Late payment penalties afforded under the terms of the Association of British Insurers General Terms of Agreement (ABI GTA) are recognised as they become payable by the insurance company.

ii) Travel

Revenue from tour operations and cruise holidays where the Group does not operate the cruise ship is recognised in line with the performance obligations that are included in a package holiday, namely the provision of flights, accommodation, transfers and travel insurance. Revenue is recognised as and when each performance obligation is satisfied.

Notes to the consolidated financial statements continued

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Revenue recognition (continued)

ii) Travel (continued)

Revenue in respect of cruise holidays where the Group operates the cruise ship is also recognised in line with the performance obligations, being the cruise itself, flights (where applicable), travel insurance and transfers. The portion of revenue allocated to the cruise itself is recognised on a per diem basis over the duration of the cruise in line with when the performance obligation is satisfied. The portion of revenue allocated to each of flights (where applicable), travel insurance and transfers is recognised as and when each performance obligation is satisfied.

An element of revenue which represents the non-refundable deposit received at the time of booking is recognised in the income statement immediately in line with the prevailing rate of cancellation.

Revenue from sales in resort, for example for optional excursions, or onboard a cruise ship operated by the Group, for example bar sales or optional excursions, is recognised as it is earned.

Revenue from tour operations and cruising holidays received in advance of when each performance obligation is satisfied is included as deferred revenue within contract liabilities in the statement of financial position.

iii) Other Businesses and Central Costs

Personal finance

Revenue from personal finance products is recognised when the customer contracts with the provider of the relevant personal finance product where the revenue comprises a one-off payment by the provider of the product.

Where the personal finance product is one that delivers a recurring income stream, the present value of the future expected revenue to be received is recognised when the customer contracts with the provider of the relevant personal finance product, and it is highly probable that a significant reversal of revenue recognised will not occur. For the Saga Savings product, commissions are earned over the duration of the contract in line with the contractual amount due to the Company.

Magazine subscriptions

Magazine subscription revenue is recognised on a straight-line basis over the period of the subscription. Revenue generated from advertising within the magazine is recognised when the magazine is provided to the customer.

The element of subscriptions and advertising revenue relating to the period after the reporting date is recognised as deferred revenue within contract liabilities in the statement of financial position.

Printing and mailing

Revenue from printing and mailing services is recognised in line with the performance obligations within customer contracts.

b. Cost recognition

i) Insurance acquisition costs

Acquisition costs arising from the selling or renewing of insurance policies underwritten by the Group are recognised on a straight-line time-apportioned basis over the period of the policy in which the related revenues are earned. The proportion of acquisition costs relating to premiums treated as unearned at the reporting date are deferred and included as other receivables in the statement of financial position.

Incremental costs of obtaining an insurance contract not underwritten by the Group, namely fees charged by price-comparison websites, are recognised as an asset within trade and other receivables on the face of the statement of financial position. Such costs are amortised in line with the pattern of revenue for the related insurance contract, which incorporate the propensity for that contract to renew in future periods based on the prevailing rate of renewal for these types of contract. If the expected amortisation period is one year or less, then incremental costs are expensed when incurred.

ii) Claims costs

Claims costs incurred in respect of insurance policies underwritten by the Group include estimates for claims made for losses reported as occurring during the period together with the related handling costs, any adjustments to claims outstanding from previous periods, and an estimate for the cost of claims incurred during the period but not reported as at the reporting date. The portion of costs recovered from reinsurance is recognised as a reduction to those costs in the same period in which the costs are recognised.

Further detail is provided in note 28.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Cost recognition (continued)

iii) Finance costs

Finance costs comprise interest paid and payable that is calculated using the effective interest rate (EIR) method, and it is recognised in the income statement as it accrues. Accrued interest is included within the carrying value of the interest bearing financial liability in the statement of financial position. Finance costs also include debt issue costs that were initially recognised in the statement of financial position and amortised over the life of the debt, debt issue costs in respect of renegotiating existing facilities that are immediately recognised in the income statement and net fair value losses on derivative financial instruments.

iv) All other expenses

All other expenses are recognised in the income statement as they are incurred.

c. Recognition of other income statement items

i) Investment income

Investment income in the form of interest is recognised in the income statement as it accrues and is calculated using the effective interest rate method. Fees and commissions which are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the EIR of the instrument.

ii) Dividend income

Income in the form of dividends is recognised when the right to receive payment is established. For listed securities, this is the date that the security is listed as ex-dividend.

iii) Gains and losses on financial investments at fair value through profit or loss (FVTPL)

Realised and unrealised gains and losses on financial investments are recorded as finance income or finance costs in the income statement. Unrealised gains and losses arising on financial assets measured at FVTPL, which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or the purchase value for investments acquired during the year, net of the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year. Realised gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the carrying value at the date of sale.

d. Taxes

i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax assets and liabilities also include adjustments in respect of tax expected to be payable or recoverable in respect of previous periods. Current income tax relating to items recognised in other comprehensive income and directly in equity is recognised in other comprehensive income or equity and not in the income statement.

ii) Deferred tax

Deferred tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income or equity, in which case the deferred tax is recognised in other comprehensive income or equity as appropriate.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to the consolidated financial statements continued

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Foreign currencies

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency spot rate at the date that the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange prevalent at the reporting date.

f. Intangible assets

Intangible assets acquired are measured on initial recognition at cost. Intangible assets acquired in a business combination are measured at their fair value at the date of acquisition and, following initial recognition, are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding internally developed software, are not capitalised and the related expenditure is reflected in the income statement in the period in which the expenditure is incurred.

The useful lives of intangible assets and goodwill are assessed as either finite or indefinite. Estimated useful lives are as follows:

Goodwill	Indefinite
Brands	10 years
Customer relationships	Over the life of the customer relationship
Contracts acquired	Over the life of the contract
Software	3-10 years

Intangible assets with finite lives are amortised over their useful economic life on a basis appropriate to the consumption of the asset and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category that is consistent with the function of the intangible assets.

Goodwill and intangible assets with indefinite useful lives are not amortised but are tested for impairment at least annually, either individually or at the cash generating unit (CGU) level. Where the carrying value of the asset exceeds the recoverable amount, an impairment loss is recognised in the income statement immediately. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

g. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date at fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

When the Group acquires a business, it assesses the financial and non-financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument within the scope of IFRS 9 'Financial Instruments' is measured at fair value with the changes in fair value recognised in the income statement.

Any excess of the cost of acquisition over the fair values of the identifiable assets and liabilities is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable assets and liabilities of the acquired business, the difference is recognised directly in the income statement in the year of acquisition.

Acquisition-related costs are expensed as incurred and included in administrative expenses.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to CGUs at the point of acquisition and is reviewed at least annually for impairment.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. If such an indication exists, the recoverable amount is estimated and compared with the carrying amount. If the recoverable amount is less than the carrying amount, the asset is considered impaired and is written down to its recoverable amount and the impairment loss is recognised immediately in the income statement.

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there is any indication that an asset may be impaired, recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount is determined of the CGU to which the asset belongs.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

Recoverable amount is calculated as the higher of fair value less costs to sell, and value-in-use. In assessing value-in-use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. The Group bases its value-in-use calculations on detailed budgets, plans and long-term growth assumptions, which are prepared separately for each of the Group's CGUs to which individual assets are allocated.

i. Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

Assets in the course of construction at the balance sheet date are classified separately. These assets are transferred to other asset categories when they become available for their intended use.

Depreciation is charged to the income statement on a straight-line basis so as to write off the depreciable amount of property, plant and equipment over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Land and assets in the course of construction are not depreciated. Estimated useful lives are as follows:

Buildings, properties and related fixtures:	
Buildings	50 years
Fixtures & fittings	3-20 years
Cruise ships	30 years
Computers	3-6 years
Plant, vehicles and other equipment	3-10 years

Costs relating to cruise ship mandatory dry-dockings are capitalised and depreciated over the period up to the next dry-docking, where appropriate. All other repairs and maintenance costs are recognised in the income statement as incurred.

An item of property, plant and equipment is derecognised upon disposal, or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

Estimated residual values and useful lives are reviewed annually.

j. Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. To be classified as held for sale, an asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets, and the sale must be highly probable. Sale is considered to be highly probable when management is committed to a plan to sell an asset and an active programme to locate a buyer and complete the plan has been initiated at a price that is reasonable in relation to its current fair value, and there is an expectation that the sale will be completed within one year from the date of classification. Non-current assets classified as held for sale are carried on the Group's statement of financial position at the lower of their carrying amount and fair value less costs to sell.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

Notes to the consolidated financial statements continued

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Financial instruments

i) Financial assets

On initial recognition, a financial asset is classified as either amortised cost, fair value through other comprehensive income (FVOCI); or fair value through profit or loss (FVTPL). The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

	Initial recognition	Subsequent measurement
Amortised cost	A financial asset is measured at amortised cost if it meets both of the following conditions and is not elected to be designated as FVTPL: – it is held within a business model whose objective is to hold assets to collect contractual cash flows; and – its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.	These assets are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is reduced by any impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss as they are incurred. Any gain or loss on derecognition is recognised in profit or loss immediately.
FVOCI	A debt investment is measured at FVOCI if it meets both of the following conditions and is not elected to be designated as FVTPL: – it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and – its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.	Debt instruments are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairments are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income (OCI). On derecognition, gains and losses accumulated in OCI are recycled to profit or loss. Equity investments are measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.
FVTPL	All financial assets not classified as amortised cost or FVOCI as described above are classified as FVTPL and held at fair value. This includes all derivative financial assets. On initial recognition, the Group may irrevocably elect to designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI as FVTPL if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise. This election is made on an individual instrument basis.	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss, unless such instrument is designated in a hedging relationship (see (vi) below).

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or when the Group has transferred substantially all the risks and rewards relating to the asset to a third party.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Financial instruments (continued)

ii) Impairment of financial assets

The expected credit loss (ECL) impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI.

The Group measures loss allowances at an amount equal to 12 month ECLs, except for the following, which are measured as lifetime ECLs:

- Debt securities that are determined to have high credit risk at the reporting date.
- Other debt securities and bank balances for which credit risk has increased significantly since initial recognition.
- Trade receivables and contract assets that result from transactions within the scope of IFRS 15.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the definition of 'investment grade'. The Group considers this to be BBB- or higher as per Standard & Poor's rating scale.

Measurement of ECLs

ECLs are measured as a probability-weighted estimate of credit losses. Credit losses are measured as the probability of default in conjunction with the present value of the Group's exposure. Loss allowances for ECLs on financial assets measured at amortised cost are deducted from the gross carrying amount of the assets, with a corresponding charge to the income statement. For debt instruments measured at FVOCI the loss allowance for debt investments at FVOCI is recognised in profit or loss and reduces the fair value loss otherwise recognised in the statement of comprehensive income, and deducted from the gross carrying value of the financial asset in the statement of financial position

iii) Financial liabilities

Initial recognition and measurement

All financial liabilities are classified as financial liabilities at amortised cost on initial recognition except for derivatives, which are classified at FVTPL, the gains or losses for which are recognised through OCI if the instrument is designated as a hedging instrument in an effective hedge.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, derivative financial instruments and lease liabilities.

Subsequent measurement

After initial recognition, interest bearing loans and borrowings and other payables are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

iv) Derivatives

Derivatives are measured at fair value both initially and subsequent to initial recognition. All changes in fair value of non-designated derivatives are recognised in the income statement immediately. Changes in fair value of derivatives designated as cash flow hedges are initially recognised in OCI until such a point that they are recycled to profit or loss in the same period as the hedged item is recognised in profit or loss, or immediately if the hedged item is no longer expected to occur.

Derivatives are presented as assets when the fair values are positive and as liabilities when the fair values are negative. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

Notes to the consolidated financial statements continued

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Financial instruments (continued)

v) Fair values

The Group measures all financial instruments at fair value at each reporting date, other than those instruments measured at amortised cost.

Fair value is the price that would be required to sell an asset or to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market accessible by the Group for the asset or liability or, in the absence of a principal market, in the most advantageous market accessible by the Group for the asset or liability.

The fair values are quoted market prices where there is an active market or are based on valuation techniques when there is no active market or the instruments are unlisted. Valuation techniques include the use of recent arm's-length market transactions, discounted cash flow analysis and other commonly used valuation techniques.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

vi) Hedge accounting

The Group designates certain derivative financial instruments as cash flow hedges of certain forecast transactions. These transactions are highly probable to occur and present an exposure to variations in cash flows that could ultimately affect amounts determined in profit or loss.

The Group has elected to adopt the general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses forward foreign exchange contracts and commodity swap contracts to hedge the variability in cash flows arising from changes in foreign currency rates and oil prices respectively. For foreign exchange contracts, the Group designates the fair value change of the full forward price as the hedging instrument in cash flow hedging relationships. For commodity hedging, the Group designates the fair value change of the benchmark oil price. The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity. Any ineffective portion of the fair value gain or loss is recognised immediately within the income statement.

When a hedging instrument no longer meets the criteria for hedge accounting (through maturity, sale, or other termination), hedge accounting is discontinued prospectively. If the hedged forecast transaction is still expected to occur, the associated cumulative gain or loss remains in the hedging reserve and is recognised in accordance with the above policy when the hedged forecast transaction occurs. If the hedged forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is recognised in the income statement immediately.

l. Leases

The Group leases various river cruise ships, buildings, equipment and vehicles. The contract length of the lease varies considerably and may include extension or termination options as described below.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether: the contract involves the use of an identified asset; the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and the Group has the right to direct the use of the asset.

Leases are initially recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Where it is reasonably certain that an extension option will be triggered in a contract, lease payments to be made in respect of the option will be included in the measurement of the lease liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the Group's incremental borrowing rate is used. This is the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset, in a similar economic environment, with similar terms, security and conditions.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Leases (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period using the EIR method and the lease liability is measured at amortised cost using the EIR method.

Right-of-use assets are initially measured at cost comprising the present value of future lease payments plus any initial direct costs and restoration costs. Right-of-use assets are depreciated over the lease term on a straight-line basis except for the Group's river cruise ships. The unit of production method is used to depreciate river cruise ships in order to accurately reflect the usage of the asset, which is seasonal.

Payments associated with short-term leases of equipment and all leases of low-value assets are expensed in profit or loss as incurred in line with the exemption allowed under paragraph 6 of IFRS 16. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture with an individual item value of US$5,000 or less.

Extension and termination options are included in a number of property and river cruise ship leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate; or
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Income arising from operating leases where the Group acts as lessor is recognised on a straight-line basis over the lease term and is included in operating income.

m. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur.

Borrowing costs consist of interest and fees that an entity incurs in connection with the borrowing of funds.

n. Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand, and short-term deposits with a maturity of three months or less from their inception date.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash, short-term deposits as defined above and short-term highly liquid investments (including money market funds) with original maturities of three months or less that are subject to an insignificant risk of change in value, net of outstanding bank overdrafts.

o. Trust accounts

All customer monies received in advance in relation to Air Travel Organiser's Licence (ATOL) licensable bookings are held in trust accounts until after the customer has travelled, when the Group has fulfilled all its performance obligations with customers.

The trust arrangement is governed by a deed between the Group, the Civil Aviation Authority Air Travel Trustees and an independent Trustee, PT Trustees Limited, which determines the inflows and outflows from the accounts. The Group does not use advance receipts from customers in its Tour Operations business to fund its business operations.

p. Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost. Loss allowances are measured as lifetime ECLs.

q. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs include all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred prior to completion and disposal.

Notes to the consolidated financial statements continued

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r. Insurance contract liabilities

Insurance contract liabilities include an outstanding claims provision, a provision for unearned premiums and, if required, a provision for premium deficiency.

Outstanding claims provision

The provision for outstanding claims is set on an individual claim basis and is based on the ultimate cost of all claims notified but not settled less amounts already paid by the reporting date, together with a provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported at the statement of financial position date, which is estimated using actuarial methods. The outstanding claims provision is not discounted for the time value of money, with the exception of claims settled as periodical payment orders (PPOs).

The amount of any anticipated reinsurance, salvage or subrogation recoveries is separately identified and reported within reinsurance assets and insurance contract liabilities respectively.

Differences between the provisions at the reporting date and settlements and provisions in the following year (known as 'run off deviations') are recognised in the income statement as they arise.

Provision for unearned premiums

The provision for unearned premiums represents the portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is recognised in the income statement as premium income over the term of the contract on a straight-line basis.

Provision for premium deficiency

At each reporting date, the Group reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the income statement by setting up a provision for premium deficiency.

s. Reinsurance assets

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on insurance contracts issued are classified as reinsurance contracts. A contract is only accounted for as a reinsurance contract where there is significant insurance risk transfer between the insurer and reinsurer.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities under excess of loss cover. Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions in accordance with the relevant reinsurance contract.

The Group assesses its reinsurance assets for impairment at each balance sheet date. For assets that are directly exposed to long tail PPO liabilities a general provision for impairment is provided, calculated on a wholesale basis by reference to published credit rating default curves. For all other reinsurance assets, the carrying value is written down to its recoverable amount only if there is objective evidence of impairment.

For the funds-withheld quota share agreement in motor insurance, the obligation to pay funds and the right to receive reimbursement for incurred claims are presented on a net basis because there is a legally enforceable right to offset these amounts and there is an intention to settle on a net basis or realise both the asset and settle the liability simultaneously. The reinsurance assets recognised under these agreements are therefore recognised as an offset against premium ceded under the same agreement, within trade and other payables.

t. Share-based payments

The Group provides benefits to employees (including Executive Directors) in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions'). The cost of equity-settled transactions is measured by reference to the fair value on the grant date and is recognised as an expense over the relevant vesting period, ending on the date on which the employee becomes fully entitled to the award.

Fair values of share-based payment transactions are calculated using Black-Scholes and Monte-Carlo modelling techniques. In valuing equity-settled transactions, assessment is made of any vesting conditions to categorise these into market performance conditions, non-market performance conditions and service conditions.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t. Share-based payments (continued)

Where the equity-settled transactions have market performance conditions (that is, performance which is directly or indirectly linked to the share price), the fair value of the award is assessed at the time of grant and is not changed, regardless of the actual level of vesting achieved, except where the employee ceases to be employed prior to the vesting date.

For service conditions and non-market performance conditions, the fair value of the award is assessed at the time of grant and is reassessed at each reporting date to reflect updated expectations for the level of vesting. No expense is recognised for awards that ultimately do not vest.

At each reporting date prior to vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and, in the case of non-market conditions, the best estimate of the number of equity instruments that will ultimately vest or, in the case of instruments subject to market conditions, the fair value on grant adjusted only for leavers. The movement in the cumulative expense since the previous reporting date is recognised in the income statement, with the corresponding increase in share-based payments reserve.

Upon vesting of an equity instrument, the cumulative cost in the share-based payments reserve is reclassified to retained earnings in equity.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted Earnings Per Share.

u. Retirement benefit schemes

During the year, the Group operated a defined benefit pension plan that requires contributions to be made to separately administered funds. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit valuation method.

Actuarial gains and losses arising in the year are credited/charged to other comprehensive income and comprise the effects of changes in actuarial assumptions and experience adjustments due to differences between the previous actuarial assumptions and what has actually occurred. In particular, the difference between the interest income and the actual return on plan assets is recognised in other comprehensive income.

Other movements in the net surplus or deficit, which include the current service cost, any past service cost and the effect of any curtailment or settlements, are recognised in the income statement. Past service costs are recognised in the income statement on the earlier of the date of plan curtailment and the date that the Group recognises restructuring-related costs. The interest cost less interest income on assets held in the plans is also charged to the income statement.

The defined benefit schemes are funded, with assets of the schemes held separately from those of the Group, in separate Trustee administered funds. Scheme assets are measured using market values and scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability. Full actuarial valuations are obtained at least triennially and are updated at each reporting date. The resulting defined benefit asset or liability is presented separately on the face of the statement of financial position. The value of a pension benefit asset is restricted to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

For defined contribution schemes, the amounts charged to the income statement are the contributions payable in the year.

v. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

w. Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost. They represent liabilities to pay for goods or services that have been received or supplied in the normal course of business, invoiced by the supplier before the year end, but for which payment has not yet been made.

Notes to the consolidated financial statements continued

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x. Equity

The Group has ordinary shares that are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following is a list of standards and amendments to standards that are in issue but are not effective or adopted as at 31 January 2021. Except where separately disclosed, these standards are yet to be endorsed by the EU and UK Endorsement Board.

a. IFRS 17 'Insurance contracts'

IFRS 17 was issued in May 2017 and it establishes a principles-based accounting approach for insurance contracts and will replace IFRS 4. The Group has begun work to determine the full impact of this standard on the Group's financial statements. Our initial assessment is that the standard is likely to have a material impact on the Group's financial statements as it represents a significant change to current insurance accounting requirements. The standard is effective for annual reporting periods beginning on or after 1 January 2023.

b. Classification of liabilities as current or non-current (amendments to IAS 1)

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments are effective for annual periods beginning on or after 1 January 2023 and are not likely to have a material effect on the Group's financial statements.

c. Reference to the Conceptual Framework (amendments to IFRS 3)

The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendment will have no effect on the Group's financial statements.

d. Property, plant and equipment – proceeds before intended use (amendments to IAS 16)

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments are not expected to have a material impact on the Group's financial statements.

e. Onerous contracts – cost of fulfilling a contract (amendments to IAS 37)

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments are not expected to have a material impact on the Group's financial statements.

f. Annual improvements to IFRS 2018-2020

Makes minor amendments to the following standards: IFRS 1, IFRS 9, IFRS 16 and IAS 41. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments will have no effect on the Group's financial statements.

g. COVID-19-related rent concessions (amendment to IFRS 16)

The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 June 2020. The amendment was endorsed by the EU on 9 October 2020. The amendment will have no effect on the Group's financial statements.

h. Amendments to IFRS 17

Amends IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 'Insurance Contracts' was published in 2017. As described above, our initial assessment is that the standard is likely to have a material impact on the Group's financial statements as it represents a significant change to current insurance accounting requirements. The standard is effective for annual reporting periods beginning on or after 1 January 2023.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

i. Interest rate benchmark reform – phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the inter-bank offered rate (IBOR) reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition. The amendments are effective for annual reporting periods beginning on or after 1 January 2021. The amendments were endorsed by the EU on 13 January 2021. The amendments are not expected to have a material impact on the Group's financial statements.

j. Disclosure of accounting policies (amendments to IAS 1 and IFRS Practice Statement 2)

The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The amendments are not expected to have a material impact on the Group's financial statements.

k. Definition of accounting estimates (amendments to IAS 8)

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The amendments are not expected to have a material impact on the Group's financial statements.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires the Group to select accounting policies and make estimates and assumptions that affect items reported in the primary consolidated financial statements and notes to the consolidated financial statements.

The major areas of judgement used as part of accounting policy application are summarised below:

Significant judgements

Acc. policy	Items involving judgement	Critical accounting judgement
2.3a	Revenue recognition – performance obligations	Identification of performance obligations within contracts with customers, and the subsequent allocation of the transaction price to each performance obligation.
2.3ai	Classification of insurance contracts	Assessment of whether significant insurance risk is transferred, and in particular assessment of whether reinsurance arrangements constitute a reinsurance contract under IFRS 4, for example the funds-withheld quota share contract.
2.3h	Impairment testing of goodwill and other major classes of assets	The Group determines whether goodwill needs to be impaired on an annual basis, or more frequently as required. In the year to 31 January 2021, management deemed it necessary to impair the goodwill allocated to the Cruise and Tour Operations CGUs in full. Following the continued impact of the COVID-19 pandemic on the Group's operations, especially in Travel, management has concluded that indicators of impairment exist and has conducted impairment reviews at 31 January 2021 of the Group's two cruise ships, Spirit of Discovery and Spirit of Adventure. Management have considered a range of scenarios and used their judgement to conclude no impairment was necessary. In the year to 31 January 2021, in light of the Group's decision to vacate most of its properties, management exercised its judgement in relation to the impairment of the freehold land and buildings. In the year to 31 January 2021, in relation to the Destinology business, management also exercised its judgement in relation to the impairment of property, plant and equipment and right-of-use assets.
2.3l	Leases – extension and termination options	Assessment of whether it is probable that the Group will exercise any extension of termination options included within lease contracts

Notes to the consolidated financial statements continued

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)
Significant judgements (continued)

Acc. policy	Items involving judgement	Critical accounting judgement
2.3r	Insurance contract liabilities	Judgement as to areas of uncertainty that may give rise to claims costs in excess of the actuarial best estimate of claims incurred, and the level of additional reserve margin to recognise in the financial statements above that estimate. In the year to 31 January 2021, the Group has considered the additional latency risk to claims cost development caused by the impact of COVID-19 and has recognised an additional claims reserve above actuarial best estimate to cover this specific risk.

Significant estimates

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results may therefore differ from those estimates.

The table below sets out those items the Group considers susceptible to changes in critical estimates and assumptions together with the relevant accounting policy.

Acc. policy	Items involving estimation	Sources of estimation uncertainty
2.3ai	Revenue recognition – three-year fixed-price insurance policies	The stand-alone selling price of the option to fix within the Group's three-year fixed-price insurance policies has been estimated using the expected cost plus a margin approach as set out in paragraph 79 (b) of IFRS 15. An allowance has also been made for the likelihood that the option will be exercised by factoring in the expected rate of renewal at the first and second renewal dates. The amount of revenue deferred upon initial recognition is therefore reduced to the extent that it is estimated that customers will not exercise the option due to the fact that they either decide not to renew or they make a claim that releases the Group from its obligation to fix the customer price.
2.3bi	Cost recognition – incremental costs of obtaining an insurance contract	Incremental costs of obtaining an insurance contract not underwritten by the Group, namely fees charged by price-comparison websites, are recognised as an asset on the statement of financial position. Such costs are amortised in line with the pattern of revenue for the related insurance contract, which incorporates the propensity for that contract to renew in future periods based on the prevailing rate of renewal for these types of contract.
2.3f & 2.3i	Useful economic lives and residual values of intangible assets and property, plant and equipment	The useful economic lives and residual values of intangible assets and property, plant and equipment are assessed upon the capitalisation of each asset and at each reporting date, and are based upon the expected consumption of future economic benefits of the asset. Assets which are in the course of construction are not amortised and are assessed for impairment in line with the requirements of IAS 36.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Significant estimates (continued)

Acc. policy	Items involving estimation	Sources of estimation uncertainty
2.3h	Goodwill impairment testing	The Group determines whether goodwill needs to be impaired on an annual basis, or more frequently as required. This requires an estimation of the value-in-use of the CGUs to which goodwill is allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs, discounted at a suitably risk-adjusted rate in order to calculate present value. The COVID-19 pandemic has increased the estimation uncertainty in our Tour Operations and Cruise CGUs. The outcome of the impairment reviews concluded that an impairment charge of £59.8 be recognised against the Group's Cruise and Tour Operations CGUs as at 31 July 2020. Sensitivity analysis has been undertaken to determine the effect of changing the discount rate, the terminal value and future cash flows on the present value calculation, which is shown in note 16a on pages 169 and 170.
2.3h	Impairment of property, plant and equipment, and right-of-use assets	Management has performed an impairment review on its freehold land and buildings, and has estimated the recoverable amount based on the fair value less costs to sell of each property the Group plans to dispose of. The outcome of the impairment reviews concluded that an impairment charge of £4.5m be recognised against the Group's freehold land and buildings assets as at 31 January 2021. These properties were subsequently transferred to assets held for sale. Following the continued impact of the COVID-19 pandemic on the Group's operations, management conducted impairment reviews at 31 January 2021 of the Group's two cruise ships, Spirit of Discovery and Spirit of Adventure. Based on these impairment reviews, and looking at the probability of a range of outcomes, the Group remains comfortable that there is headroom over and above the carrying value of the two cruise ship assets, and therefore concluded that no impairment charges were necessary.

Notes to the consolidated financial statements continued

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Significant estimates (continued)

Acc. policy	Items involving estimation	Sources of estimation uncertainty
2.3r	Valuation of insurance contract liabilities	For insurance contracts, estimates have to be made both for the expected cost of claims known but not yet settled (case reserves) and for the expected cost of claims incurred but not yet reported (IBNR), as at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain-Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years. Historical claims development is primarily analysed by accident year, geographical area, significant business line and peril. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the best estimate of the ultimate cost of claims. The ultimate cost of claims is not discounted except for those in respect of PPOs, which have been discounted at -1.5% for the year ended 31 January 2021 (2020: -1.5%). The valuation of these claims involves making assumptions about the rate of inflation and the expected rate of return on assets to determine the discount rate. Due to the size of PPO claims, the ultimate cost is highly sensitive to changes in these assumptions. The assumptions are reviewed at each reporting date, and the sensitivity of this assumption is shown in note 20d on pages 182 and 183. In calculating the level of reserve margin to recognise above the actuarial best estimate of incurred claims, the Group considered an array of risks to future claims experience and estimated the financial impact that those risks could have to derive an appropriate level of margin to hold. This included an assessment of the magnitude of the claims latency risk due to the impact of the COVID-19 pandemic.
2.3u	Valuation of pension benefit obligation	The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. Actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. All significant assumptions and estimates involved in arriving at the valuation of the pension scheme obligation are set out in note 27 on pages 186 to 189.

3 SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on their products and services. The Group has three reportable operating segments as follows:

- **Insurance:** the segment comprises the provision of general insurance products. Revenue is derived primarily from insurance premiums and broking revenues. This segment is further analysed into four product sub-segments:
  - Retail broking, consisting of:
    - Motor broking
    - Home broking
    - Other insurance broking
  - Underwriting.

  The Group classifies the CGU at its lowest level to be at the Insurance segment level.

- **Travel:** the segment comprises the operation and delivery of package tours and cruise holiday products. The Group owns and operates two ocean cruise ships. All other holiday products are packaged together with third-party supplied accommodation, flights and other transport arrangements.

- **Other Businesses and Central Costs:** the segment comprises the Group's other businesses and its central cost base. The other businesses include the financial services product offering, a monthly subscription magazine product and the Group's mailing and printing business.

Segment performance is evaluated using the Group's key performance measure of Underlying Profit Before Tax. Items not allocated to a segment relate to transactions that do not form part of the ongoing segment performance or which are managed at a Group level.

Transfer prices between operating segments are set on an arm's-length basis in a manner similar to transactions with third parties. Segment income, expenses and results include transfers between business segments which are then eliminated on consolidation.

Goodwill, corporate bond and bank loans are not allocated to segments as they are managed on a Group basis.

Notes to the consolidated financial statements continued

3 SEGMENTAL INFORMATION (CONTINUED)

2021	Insurance					Travel	Other Businesses and Central Costs	Adjustments	Total
	Motor broking £'m	Home broking £'m	Other insurance broking £'m	Under-writing £'m	Total £'m	£'m	£'m	£'m	£'m
Revenue	**92.7**	**60.2**	**40.7**	**74.4**	**268.0**	**51.6**	**22.6**	**(4.6)**	**337.6**
Cost of sales	(2.7)	–	(4.2)	(16.5)	(23.4)	(68.1)	(8.7)	–	(100.2)
Gross profit	**90.0**	**60.2**	**36.5**	**57.9**	**244.6**	**(16.5)**	**13.9**	**(4.6)**	**237.4**
Administrative and selling expenses	(56.5)	(32.3)	(22.0)	(2.9)	(113.7)	(64.4)	(50.7)	4.6	(224.2)
Impairment of assets	–	–	–	–	–	(0.2)	(5.0)	(59.8)	(65.0)
Gain on lease modification	–	–	–	–	–	–	3.2	–	3.2
Net (loss)/profit on disposal of businesses	–	–	–	–	–	(1.7)	10.3	–	8.6
Net profit/(loss) on disposal of property, plant and equipment, right-of-use assets and software	–	–	–	–	–	6.8	(0.2)	–	6.6
Investment income	–	–	–	3.7	3.7	0.2	(3.2)	–	0.7
Finance costs	–	–	–	–	–	(13.6)	(16.6)	–	(30.2)
Finance income	–	–	–	–	–	1.7	–	–	1.7
Profit/(loss) before tax	**33.5**	**27.9**	**14.5**	**58.7**	**134.6**	**(87.7)**	**(48.3)**	**(59.8)**	**(61.2)**
Reconciliation to Underlying Profit/(Loss) Before Tax									
Profit/(loss) before tax	**33.5**	**27.9**	**14.5**	**58.7**	**134.6**	**(87.7)**	**(48.3)**	**(59.8)**	**(61.2)**
Net fair value loss on derivative financial instruments	–	–	–	–	–	(1.7)	–	–	(1.7)
Impairment of goodwill	–	–	–	–	–	–	–	59.8	59.8
(Profit) on disposal/ impairment of assets	–	–	–	–	–	(3.8)	1.8	–	(2.0)
Restructuring costs	–	–	–	–	–	13.0	17.8	–	30.8
Net loss/(profit) on disposal of businesses	–	–	–	–	–	1.7	(10.3)	–	(8.6)
Underlying Profit/(Loss) Before Tax	**33.5**	**27.9**	**14.5**	**58.7**	**134.6**	**(78.5)**	**(39.0)**	**–**	**17.1**
Total assets less liabilities					**284.4**	**19.3**	**(18.0)**	**395.0**	**680.7**

All revenue is generated solely in the UK.

3 SEGMENTAL INFORMATION (CONTINUED)

2020	Insurance Motor broking £'m	Insurance Home broking £'m	Insurance Other insurance broking £'m	Insurance Under-writing £'m	Insurance Total £'m	Travel £'m	Other Businesses and Central Costs £'m	Adjustments £'m	Total £'m
Revenue	**104.7**	**62.5**	**67.9**	**69.1**	**304.2**	**464.1**	**35.6**	**(6.6)**	**797.3**
Cost of sales	(2.8)	–	(12.9)	(30.1)	(45.8)	(365.0)	(15.1)	–	(425.9)
Gross profit	**101.9**	**62.5**	**55.0**	**39.0**	**258.4**	**99.1**	**20.5**	**(6.6)**	**371.4**
Administrative and selling expenses	(73.9)	(29.4)	(25.9)	(2.4)	(131.6)	(78.4)	(49.2)	6.6	(252.6)
Impairment of assets	–	–	–	–	–	(13.3)	(4.2)	(383.0)	(400.5)
Net profit on disposal of property, plant and equipment and right-of-use assets	–	–	–	–	–	1.0	0.3	–	1.3
Investment income	–	–	–	4.0	4.0	0.4	(3.2)	–	1.2
Finance costs	–	–	–	–	–	(8.0)	(13.8)	–	(21.8)
Finance income	–	–	–	–	–	–	0.1	–	0.1
Profit/(loss) before tax	**28.0**	**33.1**	**29.1**	**40.6**	**130.8**	**0.8**	**(49.5)**	**(383.0)**	**(300.9)**
Reconciliation to Underlying Profit/(Loss) Before Tax									
Profit/(loss) before tax	**28.0**	**33.1**	**29.1**	**40.6**	**130.8**	**0.8**	**(49.5)**	**(383.0)**	**(300.9)**
Net fair value loss on derivative financial instruments	–	–	–	–	–	1.1	–	–	1.1
Impairment of assets	–	–	–	–	–	13.6	3.3	–	16.9
Impairment of goodwill	–	–	–	–	–	–	–	383.0	383.0
Impact of insolvency of Thomas Cook	–	–	–	–	–	3.9	–	–	3.9
Restructuring costs	–	–	–	–	–	0.4	5.5	–	5.9
Underlying Profit/(Loss) Before Tax	**28.0**	**33.1**	**29.1**	**40.6**	**130.8**	**19.8**	**(40.7)**	**–**	**109.9**
Total assets less liabilities					**283.2**	**71.9**	**(144.6)**	**377.7**	**588.2**

All revenue is generated solely in the UK.

Total assets less liabilities detailed as adjustments relates to the following unallocated items:

	2021 £'m	2020 £'m
Goodwill (note 14)	**718.6**	778.4
Group bond and bank loans	**(323.6)**	(400.7)
	395.0	377.7

Notes to the consolidated financial statements continued

3 SEGMENTAL INFORMATION (CONTINUED)

a. Disaggregation of revenue

	2021					
	Insurance					
Major product lines	Earned premium on insurance underwritten by the Group £'m	Other revenue £'m	Total insurance £'m	Travel £'m	Other Businesses and Central Costs £'m	Total £'m
Gross earned premium on insurance underwritten by the Group	221.7		221.7			221.7
Less: ceded to reinsurers	(142.8)		(142.8)			(142.8)
Net revenue on:						
– Motor broking	23.2	69.5	92.7			92.7
– Home broking	–	60.2	60.2			60.2
– Other broking	1.1	39.6	40.7			40.7
– Underwriting	54.6	19.8	74.4			74.4
Tour Operations				32.7		32.7
Cruise				18.9		18.9
Personal Finance					6.0	6.0
Healthcare					0.9	0.9
Media					9.1	9.1
Other					2.0	2.0
	78.9	189.1	268.0	51.6	18.0	337.6

	2020					
	Insurance					
Major product lines	Earned premium on insurance underwritten by the Group £'m	Other revenue £'m	Total insurance £'m	Travel £'m	Other Businesses and Central Costs £'m	Total £'m
Gross earned premium on insurance underwritten by the Group	233.9		233.9			233.9
Less: ceded to reinsurers	(145.7)		(145.7)			(145.7)
Net revenue on:						
– Motor broking	23.8	80.9	104.7			104.7
– Home broking	–	62.5	62.5			62.5
– Other broking	1.3	66.6	67.9			67.9
– Underwriting	63.1	6.0	69.1			69.1
Tour Operations				346.1		346.1
Cruise				118.0		118.0
Personal Finance					7.4	7.4
Healthcare					6.1	6.1
Media					13.3	13.3
Other					2.2	2.2
	88.2	216.0	304.2	464.1	29.0	797.3

Included in other revenue is instalment interest income on premium financing of £11.1m (2020: £11.1m).

3 SEGMENTAL INFORMATION (CONTINUED)

b. Contract balances

The following table provides information about contract assets and contract liabilities from contracts with customers as accounted for under IFRS 15 (the amounts stated here do not include amounts accounted for under IFRS 4):

	2021 £'m	2020 £'m
Contract cost assets	**2.9**	2.6
Contract liabilities	**82.2**	153.2

The contract cost assets relate to commissions paid to price-comparison websites to acquire new business policies not underwritten by the Group.

Management expects that incremental commission fees paid to price-comparison websites as a result of obtaining insurance contracts are recoverable. The Group has therefore capitalised them as contract assets amounting to £4.5m for the year ended 31 January 2021 (2020: £5.9m). These fees are amortised over the period of the expected renewal cycle. In the year to 31 January 2021, the amount of amortisation was £4.2m (2020: £5.9m) and there was no impairment loss in relation to the costs capitalised.

Applying the practical expedient in paragraph 94 of IFRS 15, the Group recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

The contract liabilities relate to the deferral of revenue for performance obligations not satisfied as at 31 January 2021 and the advance consideration received from customers for holidays or cruises booked but not travelled, and insurance premiums received in advance of the inception date. There was no revenue recognised in the current reporting year that related to performance obligations that were satisfied in a prior year.

Significant changes in the contract assets and the contract liabilities during the year are as follows:

	2021		2020	
	Contract cost assets £'m	Contract liabilities £'m	Contract cost assets £'m	Contract liabilities £'m
Balance as at 1 February	**2.6**	**153.2**	4.5	144.7
Released to the income statement in the period	**(4.2)**	**(86.2)**	(5.9)	(131.3)
Additional contract balances incurred during the period	**4.5**	**149.9**	5.9	140.4
Amounts refunded to customers	**–**	**(133.1)**	–	–
Disposed of with subsidiary undertakings	**–**	**(1.6)**	–	–
Reclassification to assets/liabilities held for sale	**–**	**–**	(1.9)	(0.6)
Balance as at 31 January	**2.9**	**82.2**	2.6	153.2

c. Transaction price allocated to the remaining performance obligations

The transaction price allocated to three-year fixed-price insurance policy renewal options where the remaining performance obligations are not expected to be satisfied within the next 12 months is £1.0m (2020: £0.8m). This is expected to be recognised as revenue in the subsequent one to three years.

The transaction price allocated to customer contracts within the Travel segment where the remaining performance obligations are not expected to be satisfied within the next 12 months is £14.3m (2020: £1.1m). This is expected to be recognised as revenue in the subsequent one to two years.

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Notes to the consolidated financial statements continued

4 ADMINISTRATIVE AND SELLING EXPENSES

	2021 £'m	2020 (restated) £'m
Staff costs (excluding restructuring costs)	**90.1**	98.7
Marketing and fulfilment costs	**41.4**	69.3
Short-term lease rentals	**0.2**	0.3
Auditors' remuneration	**1.8**	1.9
Other administrative costs	**60.0**	58.7
Amounts ceded under reinsurance contracts	**(7.7)**	(4.6)
Depreciation – property, plant and equipment (note 17)	**3.8**	4.1
Depreciation – right-of-use assets (note 18)	**1.5**	2.0
Amortisation of intangible assets (note 15)	**11.8**	16.7
Restructuring costs	**21.3**	1.6
Cost of Thomas Cook insolvency	**–**	3.9
	224.2	252.6

a. Auditors' remuneration

	2021 £'m	2020 £'m
Audit of the parent company and consolidated financial statements	**0.6**	0.7
Audit of subsidiary financial statements	**1.0**	1.0
Audit-related assurance services	**0.2**	0.2
Total auditors' remuneration	**1.8**	1.9

In addition to the auditors' remuneration disclosed above, a further £0.6m was paid by the Group in relation to corporate finance services provided. These costs were expensed against the share premium reserve as part of the transaction costs associated with issue of share capital during the year.

5 IMPAIRMENT OF ASSETS

During the year, the Group has impaired the carrying value of the goodwill balance allocated to the Tour Operations CGU by £15.0m (2020: £nil) and the Cruise CGU by £44.8m (2020: £nil). In the prior year the Group impaired the carrying value of the goodwill balance allocated to the Insurance CGU and Destinology business by £370.0m and £13.0m respectively. (See note 16a for further details.)

In light of the Group's decision to vacate most of its properties, it has estimated the recoverable amount based on the fair value less costs to sell of each property the Group plans to dispose of. The outcome of the impairment reviews concluded that an impairment charge of £4.5m (2020: £nil) be recognised against the Group's freehold land and buildings assets as at 31 January 2021 (note 17). These properties were subsequently transferred to assets held for sale (note 38).

The Group has impaired property, plant and equipment and software in its Central Costs division by £0.4m (2020: £nil) and £0.1m (2020: £nil) respectively.

The Group has impaired property, plant and equipment and right-of-use assets in its Destinology business by £0.1m (2020: £nil) and £0.1m (2020: £nil) respectively. In the prior year the Group impaired software and acquired intangibles in the Destinology business by £1.3m and £5.7m respectively.

In the prior year the Group impaired property, plant and equipment and right-of-use assets in its mailing business by £3.1m and £0.2m respectively. The Group has also impaired software and property, plant and equipment in the prior year in its Healthcare business by £0.8m and £0.1m respectively.

In the prior year management recalculated the recoverable amount of Saga Sapphire based on the higher of its fair value less costs to sell and value-in-use. The recoverable amount was below that calculated by management previously and as such, an impairment charge was recognised. The impairment charge of £6.3m reflected a write down of the carrying value of property, plant and equipment.

6 INVESTMENT INCOME

	2021 £'m	2020 £'m
Interest income recognised using the EIR method	**5.0**	5.7
Gains on assets measured at FVTPL	**0.3**	0.9
Amounts ceded under reinsurance contracts	**(4.6)**	(5.4)
	0.7	1.2

7 FINANCE COSTS

	2021 £'m	2020 £'m
Interest and charges on debt and borrowings	**29.4**	19.5
Net fair value loss on derivative financial instruments	**–**	1.1
Net interest and finance charges payable on lease liabilities	**0.8**	1.2
	30.2	21.8

8 FINANCE INCOME

	2021 £'m	2020 £'m
Net finance income on pension schemes	**–**	0.1
Net fair value gain on derivative financial instruments	**1.7**	–
	1.7	0.1

9 DIRECTORS AND EMPLOYEES

Amounts charged to the income statement for the year are as follows:

	2021 £'m	2020 £'m
Wages and salaries	**102.5**	104.5
Social security costs	**11.6**	10.5
Pension costs (note 25)	**11.2**	10.6
Total staff costs	**125.3**	125.6

Staff costs (including restructuring and redundancy costs) of £13.9m (2020: £25.8m) and £111.4m (2020: £99.8m) have been allocated to cost of sales and to administrative and selling expenses respectively.

Average monthly number of employees:

	2021	2020
Insurance	**1,509**	1,766
Travel	**1,001**	2,408
Other Businesses and Central Costs	**697**	1,030
Total staff numbers	**3,207**	5,204

Directors' remuneration

The information required by the Companies Act 2006 and the Listing Rules of the FCA is contained on pages 77 to 110 in the Directors' Remuneration Report.

Notes to the consolidated financial statements continued

9 DIRECTORS AND EMPLOYEES (CONTINUED)

Compensation of key management personnel of the Group

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and comprise the Directors of the Company and the Chief Executive Officers of the major businesses within the trading segments.

The amounts recognised as an expense during the financial year in respect of key management personnel are as follows:

	2021 £'m	2020 £'m
Short-term benefits	**6.6**	5.1
Termination costs	**0.4**	-
Share-based payments	**0.4**	0.5
	7.4	5.6

10 TAX

The major components of the income tax expense are:

	2021 £'m	2020 £'m
Consolidated income statement		
Current income tax		
Current income tax charge	**3.5**	16.4
Adjustments in respect of previous years	**(3.7)**	(0.8)
	(0.2)	15.6
Deferred tax		
Relating to origination and reversal of temporary differences	**3.2**	(1.1)
Effect of tax rate change on opening balance	**(1.7)**	–
Adjustments in respect of previous years	**5.3**	(2.6)
	6.8	(3.7)
Tax expense in the income statement	**6.6**	11.9

Reconciliation of tax expense to loss before tax multiplied by the UK corporation tax rate:

	2021 £'m	2020 £'m
Loss before tax	**(61.2)**	(300.9)
Tax at rate of 19.0% (2020: 19.0%)	**(11.6)**	(57.2)
Adjustments in respect of previous years	**1.6**	(3.4)
Effect of tax rate change on opening balance	**(1.7)**	–
Expenses not deductible for tax purposes:		
Impairment of goodwill	**11.4**	72.8
Other non-deductible expenses/non-taxed income	**(0.5)**	(0.3)
Effect of Cruise business entering Tonnage Tax regime	**7.4**	–
Tax expense in the income statement	**6.6**	11.9

The Group's tax expense for the year was £6.6m (2020: £11.9m) representing a tax effective rate of 471.4% before the impairment of goodwill and associated deferred tax (2020: 14.5%). The Group's tax effective rate is higher than the standard rate of corporation tax, mainly due to the Group's Cruise business entering the Tonnage Tax regime on 1 February 2020, which has resulted in the losses accumulated in the Cruise business due to the COVID-19 pandemic during the period not being eligible for group relief to other profitable companies within the Group. If the Cruise business had not entered the Tonnage Tax regime the Group's tax effective rate would have been 17.6%.

Adjustments in respect of previous years includes an adjustment for the over-provision of tax charge in prior years of £1.6m (2020: £3.4m credit).

No tax charge or credit arose on the disposal of the Bennetts, Destinology and Healthcare businesses.

10 TAX (CONTINUED)

Deferred tax

	Consolidated statement of financial position		Consolidated income statement	
	2021 £'m	2020 £'m	2021 £'m	2020 £'m
Excess of depreciation over capital allowances	3.9	8.5	4.6	(4.0)
Intangible assets	–	–	–	(1.3)
Retirement benefit scheme liabilities	0.8	0.9	0.3	0.5
Short-term temporary differences:				
– Designated hedges recognised through OCI	0.2	4.2	–	–
– Share-based payment reserve	1.0	1.2	0.2	0.8
– General bad debt provision	2.8	3.9	1.1	(1.2)
– Capitalised borrowing costs	(2.2)	(1.5)	0.7	2.2
– Other	0.2	0.9	(0.1)	(0.7)
Deferred tax charge/(credit)			6.8	(3.7)
Net deferred tax assets	6.7	18.1		

Deferred tax is reflected in the statement of financial position as follows:

	2021 £'m	2020 £'m
Deferred tax assets	12.5	22.3
Deferred tax liabilities	(5.8)	(4.2)
Net deferred tax assets	6.7	18.1

Reconciliation of net deferred tax assets

	2021 £'m	2020 £'m
At 1 February	18.1	7.1
Tax (charge)/credit recognised in the income statement	(6.8)	3.7
Tax (charge)/credit recognised in other comprehensive income	(4.1)	1.9
Tax (charge)/credit recognised directly into the hedging reserve	(0.5)	5.4
At 31 January	6.7	18.1

On 11 March 2020, it was announced that the corporation tax rate would remain at 19% from 1 April 2020 and this has been enacted at the statement of financial position date. As a result, the closing deferred tax balances have been reflected at 19%. We expect net deferred tax assets/(liabilities) to be normally settled in more than 12 months.

On 3 March 2021, it was announced that the corporation tax rate will increase to 25% from 1 April 2023 and has not been enacted at the statement of financial position date. As a result, the closing deferred tax balances have not been updated to reflect this rate change. If the rate change had been enacted at the statement of financial position date, the impact would have been to increase the net deferred tax asset by £2.1m.

The Group has tax losses which arose in the UK of £4.2m (2020: £4.2m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group. They have arisen in subsidiaries that have been loss-making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future. If the Group was able to recognise all unrecognised deferred tax assets, the profit would increase by £0.8m (2020: £0.7m).

Notes to the consolidated financial statements continued

11 DIVIDENDS

Declared and paid during the year:	2021 £'m	2020 £'m
Final dividend for the year ended 31 January 2021: nil pence per share (2020: 1.0 pence per share)	–	11.2
Interim dividend for the year ended 31 January 2021: nil pence per share (2020: 1.3 pence per share)	–	14.6
	–	25.8
Proposed after the end of the reporting period and not recognised as a liability:		
Final dividend for the year ended 31 January 2021: nil pence per share (2020: nil pence per share)	–	–

Given the uncertain implications of the COVID 19 pandemic, the Board of Directors does not recommend the payment of a final dividend for the 2020/21 financial year. In addition to the dividends declared and paid during the year stated above, dividend equivalents of £0.1m (2020: £nil) have been paid. These dividend equivalents relate to previously declared dividends which only become payable when certain share options are exercised.

The distributable reserves of Saga plc are £38.2m as at 31 January 2021 which are equal to the retained earnings reserve. If necessary, its subsidiary companies hold significant reserves from which a dividend can be paid. Subsidiary distributable reserves are available immediately with the exception of companies within the Tour Operations and Underwriting segments, which require regulatory approval before any dividends can be declared and paid. However, due to the debt holidays agreed with our ship facilities lenders up to 31 March 2022 (notes 30 and 40), the Group is prohibited from declaring dividends during this time.

12 EARNINGS PER SHARE

Basic Earnings Per Share (EPS) is calculated by dividing the loss after tax for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by also including the weighted average number of ordinary shares that would be issued on conversion of all potentially dilutive options.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

The calculation of basic and diluted EPS is as follows:

	2021 £'m	2020 (restated) £'m
Loss attributable to ordinary equity holders	(67.8)	(312.8)
Weighted average number of ordinary shares	m	m
Ordinary shares as at 1 February	1,119.4	1,119.1
Initial Public Offering (IPO) share options exercised	–	0.2
Long-Term Incentive Plan (LTIP) share options exercised	–	0.1
Issue of shares – 5 October 2020 (note 33)		
First Firm Placing	224.4	–
Second Firm Placing	124.2	–
Placing and Open Offer	623.3	–
Bonus factor impact reflecting bonus element of October 2020 rights issue	–	109.7
Sub-total before share consolidation	2,091.3	1,229.1
Share consolidation – 13 October 2020 (note 33)	(1,951.9)	(1,147.2)
Issue of shares – 18 November 2020 (note 33)	0.5	–
Ordinary shares as at 31 January	139.9	81.9
Weighted average number of ordinary shares for basic EPS and diluted EPS	101.2	81.9
Basic EPS	(67.0p)	(381.7p)
Diluted EPS	(67.0p)	(381.7p)

12 EARNINGS PER SHARE (CONTINUED)

The table below reconciles between basic EPS and Underlying Basic EPS:

	2021	2020 (restated)
Basic EPS	**(67.0p)**	(381.7p)
Adjusted for:		
Derivative (gains)/losses	**(1.9p)**	1.4p
Impairment, and profit on disposal, of property, plant and equipment and software	**(2.2p)**	21.5p
Impairment of goodwill and associated deferred tax	**59.1p**	467.4p
Impact of insolvency of Thomas Cook	**–**	4.9p
Net profit on disposal of businesses	**(8.5p)**	–
Restructuring costs	**33.7p**	7.5p
Underlying Basic EPS	**13.2p**	121.0p

In accordance with IAS 33 'Earnings per Share', basic and diluted EPS figures for the year ended 31 January 2020 have been restated and adjusted for: (a) the bonus factor of 1.1 to reflect the bonus element of the Firm Placing and Open Offer (note 33); and (b) the consolidation of the Company's shares during the year (note 33). Amounts as originally stated were (27.9p) for basic and diluted EPS, and 8.9p for basic and diluted Underlying Basic EPS.

13 BUSINESS COMBINATIONS AND DISPOSALS

(a) Acquisitions during the year ended 31 January 2021

There were no acquisitions in the year ended 31 January 2021.

(b) Disposals during the year ended 31 January 2021

(i) Healthcare business

During the year ended 31 January 2020, the Group made the decision to exit the Healthcare business and initiated an active programme to locate a buyer for its Healthcare operation. Having met the requirements of IFRS 5, the associated assets and liabilities were consequently presented as a held for sale disposal group in the statement of financial position as at 31 January 2020. The disposal group did not meet the requirements of IFRS 5 to be classified as a discontinued operation.

On 3 March 2020 the Group reached agreement for the sale of its Country Cousins and Patricia White's branded Healthcare businesses to Limerston Capital LLP for an enterprise value of £14.0m. Country Cousins and Patricia White's were introductory care agencies, and represented two of the three divisions comprising the Group's Healthcare business. The remaining division, Saga Care at Home, was sold on 31 May 2020 to a third-party care provider, Care By Us, for a nominal sum of £1.
This completed the Group's exit from the Healthcare business.

Details of the sale of the Healthcare business operation are as follows:

	2021 £'m
Cash consideration received (net of transaction costs)	**12.8**
Cash and short-term deposits disposed of as part of the transaction	**(1.4)**
Carrying value of net assets disposed	**(1.0)**
Gain on disposal before tax	**10.4**
Tax expense on gain	**–**
Gain on disposal after tax	**10.4**

The carrying amounts of assets and liabilities as at the date of disposal were:

	At date of disposal £'m
Intangible assets	0.2
Trade receivables and other receivable	1.0
Total assets	**1.2**
Trade and other payables	0.2
Total liabilities	**0.2**
Net assets disposed	**1.0**

Notes to the consolidated financial statements continued

13 BUSINESS COMBINATIONS AND DISPOSALS (CONTINUED)

(b) Disposals during the year ended 31 January 2021 (continued)

The following assets and liabilities were reclassified as held for sale in relation to the Healthcare business operation as at 31 January 2020:

	2020 £'m
Intangible assets	0.3
Property, plant and equipment	0.3
Trade receivables and other receivables	1.3
Cash and short-term deposits	1.5
Total assets	3.4
Trade and other payables	0.2
Total liabilities	0.2
Net assets directly associated with disposal group	3.2

(ii) Bennetts

During the year ended 31 January 2020, the Group made the decision to initiate an active programme to locate a buyer for its insurance biking brand within the Insurance segment, Bennetts. Having met the requirements of IFRS 5, the associated assets and liabilities were consequently presented as a held for sale disposal group in the statement of financial position as at 31 January 2020. The disposal group did not meet the requirements of IFRS 5 to be classified as a discontinued operation.

On 17 February 2020 the Group announced that it had reached agreement for the sale of Bennetts for an enterprise value of £26m to Atlanta Investment Holdings C Limited ('Atlanta'). Atlanta is part of The Ardonagh Group, one of the largest independent insurance brokers in the UK. Completion was subject to receiving regulatory approval and other closing conditions.

On 7 August 2020 the disposal of Bennetts Motorcycling Services Limited ('Bennetts') to Atlanta Investment Holdings C Limited was completed following the receipt of regulatory approvals, generating net disposal proceeds of £24.0m.

Details of the sale of Bennetts are as follows:

	2021 £'m
Cash consideration received (net of transaction costs)	**24.0**
Cash and short-term deposits disposed of as part of the transaction	**(9.5)**
Carrying value of net assets disposed	**(12.7)**
Gain on disposal before tax	**1.8**
Tax expense on gain	**–**
Gain on disposal after tax	**1.8**

The carrying amounts of assets and liabilities as at the date of disposal were:

	At date of disposal £'m
Goodwill	13.6
Intangible assets	3.2
Property, plant and equipment	0.1
Trade receivables and other receivable	11.2
Total assets	**28.1**
Provisions	0.2
Contract liabilities	0.9
Trade and other payables	14.3
Total liabilities	**15.4**
Net assets disposed	**12.7**

13 BUSINESS COMBINATIONS AND DISPOSALS (CONTINUED)

(b) Disposals during the year ended 31 January 2021 (continued)

The following assets and liabilities were reclassified as held for sale in relation to Bennetts as at 31 January 2020:

	2020 £'m
Goodwill	13.6
Intangible assets	3.3
Property, plant and equipment	0.3
Trade receivables and other receivables	9.9
Cash and short-term deposits	3.3
Total assets	30.4
Provisions	0.1
Contract liabilities	0.6
Trade and other payables	7.6
Total liabilities	8.3
Net assets directly associated with disposal group	22.1

(iii) Destinology

Early in the year, the Group made the decision to initiate an active programme to locate a buyer for its Travel segment business, Destinology. On 20 October 2020 the Group announced that it had sold Destinology Limited to Brooklyn Travel Limited for a nominal sum of £1. Net transaction costs of £0.2m were incurred in relation to the disposal.

Details of the sale of Destinology are as follows:

	2021 £'m
Cash consideration received (net of transaction costs)	**(0.2)**
Cash and short-term deposits disposed of as part of the transaction	**(1.6)**
Expense of non-cash items relating to disposal	**(1.0)**
Carrying value of net liabilities disposed	**0.2**
Loss on disposal before tax	**(2.6)**
Tax expense on gain	**–**
Loss on disposal after tax	**(2.6)**

The carrying amounts of assets and liabilities as at the date of disposal were:

	At date of disposal £'m
Intangible assets	1.0
Property, plant and equipment	0.9
Trade receivables and other receivable	0.3
Total assets	2.2
Financial liabilities	0.5
Contract liabilities	1.6
Trade and other payables	0.3
Total liabilities	2.4
Net liabilities disposed	(0.2)

(iv) Other

During the year, transaction costs of £1.0m (2020: £nil) were incurred in relation to other business disposals that did not complete.

Notes to the consolidated financial statements continued

14 GOODWILL

	Goodwill £'m
Cost	
At 1 February 2019	1,485.0
Reclassification to assets held for sale	(13.6)
At 31 January 2020 and 31 January 2021	**1,471.4**
Impairment	
At 1 February 2019	310.0
Charge for the year	383.0
At 31 January 2020	693.0
Charge for the year (note 16a)	59.8
At 31 January 2021	**752.8**
Net book value	
At 31 January 2021	**718.6**
At 31 January 2020	778.4

Goodwill deductible for tax purposes amounts to £nil (2020: £nil).

15 INTANGIBLE ASSETS

	Contracts £'m	Brands £'m	Customer relationships £'m	Software £'m	Total £'m
Cost					
At 1 February 2019	5.8	17.9	11.3	124.4	159.4
Additions and internally developed software	–	–	–	21.5	21.5
Disposals	–	–	–	(1.2)	(1.2)
Transfer of asset class	–	–	–	5.7	5.7
Reclassification to assets held for sale	(5.8)	(5.2)	(3.9)	(6.0)	(20.9)
At 31 January 2020	–	12.7	7.4	144.4	164.5
Additions and internally developed software	**–**	**–**	**–**	**13.2**	**13.2**
Disposals	**–**	**–**	**–**	**(1.2)**	**(1.2)**
Disposed of with subsidiary undertakings	**–**	**(12.7)**	**(7.4)**	**(4.8)**	**(24.9)**
At 31 January 2021	**–**	**–**	**–**	**151.6**	**151.6**
Amortisation and impairment					
At 1 February 2019	4.4	8.3	11.1	72.8	96.6
Amortisation	1.0	1.8	0.2	14.3	17.3
Impairment of assets	–	5.7	–	2.1	7.8
Disposals	–	–	–	(1.2)	(1.2)
Transfer of asset class	–	–	–	4.2	4.2
Reclassification to assets held for sale	(5.4)	(3.1)	(3.9)	(4.9)	(17.3)
At 31 January 2020	–	12.7	7.4	87.3	107.4
Amortisation	**–**	**–**	**–**	**12.4**	**12.4**
Impairment of assets	**–**	**–**	**–**	**0.1**	**0.1**
Disposals	**–**	**–**	**–**	**(1.0)**	**(1.0)**
Disposed of with subsidiary undertakings	**–**	**(12.7)**	**(7.4)**	**(3.8)**	**(23.9)**
At 31 January 2021	**–**	**–**	**–**	**95.0**	**95.0**
Net book value					
At 31 January 2021	**–**	**–**	**–**	**56.6**	**56.6**
At 31 January 2020	–	–	–	57.1	57.1

15 INTANGIBLE ASSETS (CONTINUED)

The net book value of software at 31 January 2021 includes internally generated software of £28.7m (2020: £27.1m) relating to the Group's Guidewire platform. Guidewire is the Group's insurance broking, policy administration and billing platform. The Guidewire platform has an expected useful economic life of 10 years, with 7 years of phase one expenditure remaining at 31 January 2021. Implementation and the commencement of amortisation of the Guidewire platform is on a phased basis, based on product re-platforming, and began in the year ended 31 January 2019.

The net book value of software at 31 January 2021 also includes internally generated software of £10.3m (2020: £7.9m) relating to the Group's Tigerbay platform. Tigerbay is the Group's travel booking reservation platform. The Tigerbay platform has an expected useful economic life of 10 years, with 8 years of phase one expenditure remaining at 31 January 2021. Implementation and the commencement of amortisation of the Tigerbay platform is on a phased basis, based on product re-platforming, and began in the year ended 31 January 2020.

The amortisation charge for the year is analysed as follows:

	2021 £'m	2020 £'m
Cost of sales	**0.6**	0.6
Administrative and selling expenses (note 4)	**11.8**	16.7
	12.4	17.3

During the year, the Group disposed of assets with a net book value of £0.2m (2020: £nil). Loss arising on disposal was £0.2m (2020: £nil).

During the year, borrowing costs of £1.1m (2020: £0.8m) have been capitalised in software in intangible assets. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings during the year, being 4.0% (2020: 3.6%).

16 IMPAIRMENT OF INTANGIBLE ASSETS

a. Goodwill

Goodwill acquired through business combinations has been allocated to CGUs for the purpose of impairment testing. The carrying value of goodwill by CGU is as follows:

	2021 £'m	2020 (restated) £'m
Insurance	**718.6**	718.6
Cruise	**–**	44.8
Tour Operations	**–**	15.0
	718.6	778.4

During the year ended 31 January 2020, the Group made structural changes to its Travel business such that the cash flows of the Cruise business are now managed independently of the Tour Operations businesses. This required a re-evaluation of the determination of the Group's CGUs, and the Travel excluding Destinology CGU was subdivided into separate Cruise and Tour Operations excluding Destinology CGUs. The goodwill asset previously allocated to the Travel excluding Destinology CGU was allocated to the Cruise and Tour Operations excluding Destinology CGUs based on their relative value-in-use measurements. The carrying value of the goodwill asset allocated to each of the Cruise and Tour Operations excluding Destinology CGUs as at 31 January 2020 have been restated to £44.8m (previous reported value: £35.8m) and £15.0m (previous reported value: £24.0m) reflecting a correction to the allocation calculation.

The Group tests all goodwill balances for impairment at least annually, and twice yearly if there exist indicators of impairment at the interim reporting date of 31 July. Due to the impact of the COVID-19 pandemic on the Group's earnings, the Group tested goodwill for impairment as at 31 July 2020 and 31 January 2021.The impairment test compares the recoverable amount of each CGU to the carrying value of its net assets including the value of the allocated goodwill.

The recoverable amount of each CGU has been determined based on a value-in-use calculation using cash flow projections from the Group's latest five-year financial forecasts to 2025/26, which are derived using past experience of the Group's trading combined with the anticipated impact of changes in macroeconomic and regulatory factors. A terminal value has been calculated using the Gordon Growth Model based on the fifth year of those projections and an annual growth rate of 2.0% (January 2020: 2.0%) as the expected long-term average growth rate of the UK economy. The cash flows have then been discounted to present value using a suitably risk-adjusted discount rate based on a market-participant view of the cost of capital and debt relevant to each industry. The pre-tax discount rates used for each CGU were as follows:

Notes to the consolidated financial statements continued

16 IMPAIRMENT OF INTANGIBLE ASSETS (CONTINUED)

a. Goodwill (continued)

The pre-tax discount rates used for each CGU were as follows:

	31 January 2021	31 July 2020	31 January 2020
Insurance	**9.8%**	9.9%	12.6%
Cruise*	**n/a**	11.7%	10.9%
Tour Operations	**n/a**	11.3%	12.2%

* The Cruise pre-tax discount rate as at 31 January 2020 has been restated to accurately reflect the impact of the tonnage tax regime on future cash flows.

The Group also considered a series of stress tests, both in terms of adverse impacts to either the cash flow projections or to the discount rate. For the cash flow stress tests, the impact of further prolonged COVID-19 lockdowns during 2021 was considered, both in terms of the impact on the resumption of Travel operations and the positive impact this could have on motor insurance claims experience, in combination with a more cautious terminal growth rate of 1.5% reflecting a more conservative outlook for growth in the UK economy. For the discount rate stress test, the Group applied risk premia of c.+1.0ppt for the Insurance CGU as at 31 January 2021, and +2.0ppt and 3.7ppt for the Cruise and Tour Operations CGUs respectively as at 31 July 2020.

For the Insurance CGU, the Group has also incorporated the expected impact of the publication of the FCA's findings from its market study into general insurance pricing and the impact this will likely have on new business pricing and retention rates, with a further stress test involving a more cautious outlook for the impact of this. The Group has also excluded the projected cash flow benefit of strategic initiatives that are not reflective of the business in its current condition. After considering the impact of cash flow and discount rate stresses to the recoverable amount, the Group remains comfortable that there remains headroom over and above the carrying value of the net assets including goodwill allocated to the Insurance CGU. This was the case at both the 31 July 2020 and 31 January 2021 testing points.

As at 31 July 2020, for both the Cruise and Tour Operations businesses, the underlying forecast cash flows were updated for the impact of the COVID-19 pandemic as assessed at that point in time, with the expectation then that ocean cruises would recommence in November 2020 and Tour Operations trading would remain suspended until April 2021. In addition to this, a further stress test scenario was considered that reflected the need for a further suspension of ocean cruises between January 2021 and May 2021, with a long-term impact on demand levels for both cruises and package holidays. As a result of the continued uncertainty and adverse impact of the COVID-19 pandemic on the travel industry, increases in perceived travel industry risk resulted in higher betas and cost of debt levels, particularly in Cruise in the first half of 2020. This led to a marked increase in the market-participant view of discount rates used in the calculation of recoverable amount, and particularly in increases in the top end of the range of discount rates considered for the discount rate stress test. Consequently, the Group determined that the recoverable amounts of the goodwill allocated to the Tour Operations and Cruise CGUs were below their respective carrying values and took the decision to impair in full the £59.8m goodwill allocated to Tour Operations and Cruise in the Group's interim results. Whilst the outlook for the travel industry has improved since then, characterised by an improvement in industry betas and cost of debt levels, goodwill impairments are irreversible, so the impairment charge remains in the full-year results. The headroom/(deficit) for each of the CGUs against the brought forward carrying value was as follows:

	Headroom/(deficit) £'m					
	Central scenario		Cash flow stress test scenario		Discount rate stress test scenario	
	31 January 2021	31 July 2020	31 January 2021	31 July 2020	31 January 2021	31 July 2020
Insurance	**216.4**	205.4	**72.4**	102.4	**108.0**	192.0
Cruise	**n/a**	18.0	**n/a**	(10.0)	**n/a**	(44.8)
Tour Operations	**n/a**	86.0	**n/a**	20.0	**n/a**	(15.0)

The headroom/(deficit) calculated is most sensitive to the discount rate and terminal growth rate assumed, or to changes in the projected cash flow of the CGU. A quantitative sensitivity analysis for each of these as at 31 January 2021 and its impact on the headroom/(deficit) against brought forward goodwill carrying values is as follows:

	Pre-tax discount rate		Terminal growth rate		Cash flow (annual)	
	+1.0ppt £'m	−1.0ppt £'m	+1.0ppt £'m	−1.0ppt £'m	+10% £'m	−10% £'m
Insurance	(113.0)	146.4	113.2	(87.3)	102.9	(102.9)

Given these headroom numbers the Directors consider that there is no reasonable possible change in the key assumptions made in their impairment assessment that would give rise to an impairment.

16 IMPAIRMENT OF INTANGIBLE ASSETS (CONTINUED)

b. Other intangible assets

Separately identifiable intangible assets are valued and their appropriate useful lives established at the time of acquisition. The carrying values of these assets and their remaining useful lives are reviewed annually for indicators of impairment. The Group has assessed the recoverable amount of intangible assets as at 31 January 2021 and concluded that an impairment of £0.1m to software assets is required in the Group's Central Costs division.

17 PROPERTY, PLANT AND EQUIPMENT

	Freehold land & buildings £'m	Long leasehold land & buildings £'m	Cruise ships £'m	Assets in the course of construction £'m	Plant & equipment £'m	Total £'m
Cost						
At 1 February 2019	45.0	8.5	104.0	101.0	54.5	313.0
Additions	–	0.1	236.2	40.3	5.4	282.0
Disposals	(0.4)	–	(22.6)	–	(1.0)	(24.0)
Transfer of asset class	(3.7)	0.9	67.0	(68.5)	12.5	8.2
Reclassification to assets held for sale	(1.1)	–	–	–	(2.4)	(3.5)
At 31 January 2020	39.8	9.5	384.6	72.8	69.0	575.7
Additions	**–**	**–**	**–**	**271.6**	**2.4**	**274.0**
Disposals	**–**	**(0.1)**	**(80.7)**	**–**	**(12.0)**	**(92.8)**
Disposed of with subsidiary undertakings	**–**	**(0.2)**	**–**	**–**	**(1.0)**	**(1.2)**
Transfer of asset class	**–**	**–**	**344.4**	**(344.4)**	**3.2**	**3.2**
Reclassification to assets held for sale	**(24.4)**	**–**	**–**	**–**	**–**	**(24.4)**
At 31 January 2021	**15.4**	**9.2**	**648.3**	**–**	**61.6**	**734.5**
Depreciation and impairment						
At 1 February 2019	9.2	2.5	76.0	–	43.9	131.6
Provided during the year	0.8	0.2	16.1	–	4.4	21.5
Impairment of assets	–	–	6.3	–	3.2	9.5
Disposals	(0.1)	–	(17.7)	–	(1.2)	(19.0)
Transfer of asset class	(4.3)	2.9	–	–	11.4	10.0
Reclassification to assets held for sale	(1.0)	–	–	–	(1.9)	(2.9)
At 31 January 2020	4.6	5.6	80.7	–	59.8	150.7
Provided during the year	**0.7**	**0.2**	**8.3**	**–**	**4.3**	**13.5**
Impairment of assets	**4.5**	**0.1**	**–**	**–**	**0.4**	**5.0**
Disposals	**(0.1)**	**(0.1)**	**(75.7)**	**–**	**(12.1)**	**(88.0)**
Disposed of with subsidiary undertakings	**–**	**(0.3)**	**–**	**–**	**(0.6)**	**(0.9)**
Transfer of asset class	**–**	**–**	**–**	**–**	**1.5**	**1.5**
Reclassification to assets held for sale	**(7.5)**	**–**	**–**	**–**	**–**	**(7.5)**
At 31 January 2021	**2.2**	**5.5**	**13.3**	**–**	**53.3**	**74.3**
Net book value						
At 31 January 2021	**13.2**	**3.7**	**635.0**	**–**	**8.3**	**660.2**
At 31 January 2020	35.2	3.9	303.9	72.8	9.2	425.0

The depreciation charge for the year is analysed as follows:

	2021 £'m	2020 £'m
Cost of sales	**9.7**	17.4
Administrative and selling expenses (note 4)	**3.8**	4.1
	13.5	21.5

During the year, the Group disposed of assets with a net book value of £4.8m (2020: £5.0m). Profit arising on disposal was £7.2m (2020: £0.5m).

Notes to the consolidated financial statements continued

17 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the year, borrowing costs of £2.1m (2020: £3.5m) have been capitalised in property, plant and equipment. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings during the year, being 4.0% (2020: 3.6%).

a. Impairment review of property, plant and equipment

As the Group is planning to vacate most of its properties (note 38), management has concluded that this constitutes an indicator of impairment and has duly conducted an impairment review of the Group's freehold land and buildings as at 31 January 2021, with the exception of the main Head Office building which will not be vacated. In relation to these freehold properties, value-in-use is negligible and so the Group has obtained market valuations to determine the fair value of each building. The outcome of these impairment reviews concluded that an impairment charge totalling £5.0m should be recognised against the Group's assets as at 31 January 2021. At the year end, the Group reclassified freehold land and buildings with a net book value of £16.9m to assets held for sale (note 38).

Due to the continued impact of the COVID-19 pandemic on the Group's operations, and particularly in Travel, with the suspension of the Cruise and Tour Operations businesses since March 2020, management concluded that indicators of impairment exist and conducted impairment reviews at 31 January 2021 for the Group's two ocean cruise ships, Spirit of Discovery and Spirit of Adventure. The impairment test compares the recoverable amount of each cruise ship to its carrying value.

The recoverable amount of each cruise ship has been determined based on a value-in-use calculation using cash flow projections from the Group's latest five-year financial forecasts to 2025/26, and applying a constant annual growth rate thereafter for subsequent periods until the end of the ship's useful economic life of 30 years, at which point a residual value of 15% has been assumed. This has then been discounted back to present value using a suitably risk-adjusted discount rate. The underlying forecast cash flows have been updated for the latest impact of the COVID-19 pandemic, with the expectation that ocean cruises recommence in June 2021 for Spirit of Discovery and in July 2021 for the inaugural cruise of Spirit of Adventure. In addition, a stress test of a further four-month delay to the resumption of ocean cruises and the potential adverse medium-term impact that the pandemic may have on demand for cruises have also been considered. The annual growth rate beyond the fifth year of management forecasts was also reduced to 1.5% in the stress test scenario, reflecting a more cautious outlook for long-term growth in the UK economy.

The cash flows have then been discounted to present value using a suitably risk-adjusted discount rate based on a market-participant view of the cost of equity and debt. The pre-tax discount rates used for the cruise ships were 11.8% (2020: 10.9%) for both vessels. As at 31 January 2021, the headroom/(deficit) for each of the ships against the carrying value was as follows:

	Headroom/(deficit) £'m	
	Central scenario	Stress test scenario
Spirit of Discovery	57.0	10.0
Spirit of Adventure	(17.0)	(49.0)

Based on these impairment tests, and looking at the probability of a range of outcomes, the Group remains comfortable that there is headroom over and above the carrying value of Spirit of Discovery. Given the headroom in these tests, the Directors consider that there is no reasonable possible change in the key assumptions made in their impairment assessment that would give rise to an impairment of this vessel. For Spirit of Adventure however, the carrying value of the asset would exceed its recoverable amount in both the central and stress test scenarios at the discount rate selected, and therefore management considered a range of other factors to test the reasonableness of the assumptions used. Those factors included additional data sources in the form of alternative views of the discount rate, useful economic life and enterprise valuations derived from EBITDA multiples of other publicly-traded cruise companies.

Firstly, the calculated discount rate of 11.8% was found to sit at the mid-point of a range of possible values that the Group's auditors would consider reasonable, that range being 10.3% to 13.2% as at 31 January 2021. Selection of a discount rate at the bottom of that range of 10.3% would leave a headroom of £30.0m in the central scenario, and a deficit of £5.0m in the stress-test scenario. Secondly, the useful economic life of 30 years was found to sit at the bottom end of a range of 30-40 years being adopted by the industry. Increasing the useful economic life by five years would increase the recoverable amount further by £7.0m. Lastly, using an enterprise valuation basis derived from EBITDA multiples of other publicly traded cruise companies implied a headroom of £15.0m. On this basis, considering the range of data available, the Group therefore concluded that no impairment of Spirit of Adventure was necessary.

17 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

a. Impairment review of property, plant and equipment (continued)

The headroom/(deficit) calculated is most sensitive to the discount rate and cash flows assumed. A quantitative sensitivity analysis for each of these as at 31 January 2021 and its impact on the headroom/(deficit) against carrying values is as follows:

	Pre-tax discount rate		Annual growth rate (beyond fifth year)		Cash flow (annual)		Useful economic life	
	+1.0ppt £'m	−1.0ppt £'m	+1.0ppt £'m	−1.0ppt £'m	+10% £'m	−10% £'m	+5 years	-5 years
Spirit of Discovery	(27.3)	31.6	17.3	(15.4)	34.4	(34.3)	8.4	(13.1)
Spirit of Adventure	(26.2)	30.4	16.8	(14.9)	32.4	(32.4)	7.0	(10.8)

18 RIGHT-OF-USE ASSETS

	Long leasehold land & buildings £'m	River cruise ships £'m	Plant & equipment £'m	Total £'m
Cost				
At 1 February 2019	13.5	16.1	9.4	39.0
Additions	0.2	15.9	3.4	19.5
Disposals	(0.2)	–	(5.4)	(5.6)
Transfer of asset class	–	–	0.9	0.9
Effect of modification of lease terms	–	(2.6)	–	(2.6)
At 31 January 2020	13.5	29.4	8.3	51.2
Additions	**–**	**–**	**0.8**	**0.8**
Disposals	**(1.9)**	**–**	**(0.5)**	**(2.4)**
Disposed of with subsidiary undertakings	**(1.1)**	**–**	**–**	**(1.1)**
Transfer of asset class	**–**	**–**	**(3.2)**	**(3.2)**
Effect of modification of lease terms	**(8.4)**	**(29.4)**	**–**	**(37.8)**
Other movements	**–**	**–**	**0.5**	**0.5**
At 31 January 2021	**2.1**	–	**5.9**	**8.0**
Depreciation and impairment				
At 1 February 2019	2.8	8.0	5.6	16.4
Provided during the year	1.0	10.4	2.0	13.4
Impairment of assets	–	–	0.2	0.2
Disposals	(0.2)	–	(4.9)	(5.1)
Transfer of asset class	–	–	0.6	0.6
At 31 January 2020	3.6	18.4	3.5	25.5
Provided during the year	**0.7**	**0.9**	**1.5**	**3.1**
Impairment of assets	**0.1**	**–**	**–**	**0.1**
Disposals	**(1.5)**	**–**	**(0.4)**	**(1.9)**
Disposed of with subsidiary undertakings	**(0.6)**	**–**	**–**	**(0.6)**
Transfer of asset class	**–**	**–**	**(1.5)**	**(1.5)**
Effect of modification of lease terms	**(0.7)**	**(19.3)**	**–**	**(20.0)**
Other movements	**–**	**–**	**0.5**	**0.5**
At 31 January 2021	**1.6**	–	**3.6**	**5.2**
Net book value				
At 31 January 2021	**0.5**	**–**	**2.3**	**2.8**
At 31 January 2020	9.9	11.0	4.8	25.7

Notes to the consolidated financial statements continued

18 RIGHT-OF-USE ASSETS (CONTINUED)

The depreciation charge for the year is analysed as follows:

	2021 £'m	2020 £'m
Cost of sales	**1.6**	11.4
Administrative and selling expenses (note 4)	**1.5**	2.0
	3.1	13.4

During the year, the Group disposed of assets with a net book value of £0.5m (2020: £0.5m). Loss arising on disposal was £0.4m (2020: £0.4m profit).

The total cash outflow for leases amounted to £5.0m (2020: £16.2m).

In the current year, modification of lease terms relating to river cruise ships resulted from the impact of the COVID-19 pandemic on the Travel business. Modification of lease terms relating to long leasehold land and buildings resulted from the Group's decision to initiate an active program to locate buyers for a number of its freehold properties (note 38) due to a relationship existing between the use of one of these freehold properties and the use of one of the long leasehold land buildings. In addition, the modification of lease terms relating to long leasehold land and buildings resulted in a gain of £3.2m being reported in the income statement.

19 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

a. Financial assets

	2021 £'m	2020 £'m
Fair value through profit or loss		
Foreign exchange forward contracts	**0.6**	0.1
Loan funds	**6.2**	7.8
Money market funds	**66.8**	45.9
	73.6	53.8
Fair value through profit or loss designated in a hedging relationship		
Foreign exchange forward contracts	**0.1**	1.0
Fuel oil swaps	**–**	0.1
	0.1	1.1
Fair value through other comprehensive income		
Debt securities	**261.9**	274.2
	261.9	274.2
Amortised cost		
Deposits with financial institutions	**24.2**	49.0
	24.2	49.0
Total financial assets	**359.8**	378.1
Current	**105.2**	126.4
Non-current	**254.6**	251.7
	359.8	378.1

Debt securities, loan funds, money market funds and deposits with financial institutions relate to monies held by the Group's insurance business and are subject to contractual restrictions and are not readily available to be used for other purposes within the Group.

Debt securities, where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets, are classified as fair value through OCI. On disposal of these debt securities, any related balance within the fair value reserve is reclassified to other gains/(losses) within profit or loss.

19 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

a Financial assets (continued)

Deposits with financial institutions, where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved by holding the asset in order to collect contractual cash flows, are classified as measured at amortised cost. The fair values of financial assets held at amortised cost are not materially different from their carrying amounts.

b. Financial liabilities

	2021 £'m	2020 £'m
Fair value through profit or loss		
Foreign exchange forward contracts	1.3	2.0
	1.3	2.0
Fair value through profit or loss designated in a hedging relationship		
Foreign exchange forward contracts	2.1	23.4
Fuel oil swaps	0.2	2.5
	2.3	25.9
Amortised cost		
Bond and bank loans (note 30)	817.1	624.3
Lease liabilities	4.4	28.6
Bank overdrafts	1.5	9.5
	823.0	662.4
Total financial liabilities	826.6	690.3
Current	10.4	95.6
Non-current	816.2	594.7
	826.6	690.3

The fair values of financial liabilities held at amortised costs are not materially different from their carrying amounts, since the interest payable on those liabilities is either close to current market rates or the borrowings are of a short-term nature.

All financial assets that are measured at FVTPL are mandatorily measured at FVTPL and all financial liabilities that are measured at FVTPL meet the definition of held for trading.

c. Fair values

Financial instruments held at fair value are valued using quoted market prices or other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, and comparison to similar instruments for which market observable prices exist. Assumptions and market observable inputs used in valuation techniques include foreign currency exchange rates and future oil prices.

The objective of using valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date which would have been determined by market participants acting at arm's length.

Observable prices are those that have been seen either from counterparties or from market pricing sources, including Bloomberg. The use of these depends upon the liquidity of the relevant market.

Financial instruments held at fair value have been categorised into a fair value measurement hierarchy as follows:

i) Level 1

These are valuation techniques that are based entirely on quoted market prices in an actively traded market and are the most reliable. All money market funds, loan funds and debt securities are categorised as Level 1 as the fair value is obtained directly from the quoted active market price.

Notes to the consolidated financial statements continued

19 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

c. Fair values (continued)

ii) Level 2

These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are quoted prices available for similar instruments in active markets.

The models incorporate various inputs including the credit quality of counterparties, interest rate curves and forward rate curves of the underlying instrument.

All the derivative financial instruments are categorised as Level 2 as the fair values are obtained from the counterparty, brokers or valued using observable inputs. Where material, credit valuation adjustment (CVA)/debit valuation adjustment (DVA) risk adjustment is factored into the fair values of these instruments. As at 31 January 2021, the marked-to-market values of derivative assets are net of a credit valuation adjustment attributable to derivative counterparty default risk.

The fair values are periodically reviewed by the Group's Treasury Committees.

iii) Level 3

These are valuation techniques for which any one or more significant inputs are not based on observable market data.

The following tables provide the quantitative fair value hierarchy of the Group's financial assets and financial liabilities that are held at fair value:

	As at 31 January 2021				As at 31 January 2020			
	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
Financial assets measured at fair value								
Foreign exchange forwards	–	0.7	–	0.7	–	1.1	–	1.1
Fuel oil swaps	–	–	–	–	–	0.1	–	0.1
Loan funds	6.2	–	–	6.2	7.8	–	–	7.8
Debt securities	261.9	–	–	261.9	274.2	–	–	274.2
Money market funds	66.8	–	–	66.8	45.9	–	–	45.9
Financial liabilities measured at fair value								
Foreign exchange forwards	–	3.4	–	3.4	–	25.4	–	25.4
Fuel oil swaps	–	0.2	–	0.2	–	2.5	–	2.5
Financial assets for which fair values are disclosed								
Deposits with institutions	–	24.2	–	24.2	–	49.0	–	49.0
Financial liabilities for which fair values are disclosed								
Bond and bank loans	–	817.1	–	817.1	–	624.3	–	624.3
Lease liabilities	–	4.4	–	4.4	–	28.6	–	28.6
Bank overdrafts	–	1.5	–	1.5	–	9.5	–	9.5

There have been no transfers between Level 1 and Level 2 and no non-recurring fair value measurements of assets and liabilities during the year (2020: none). The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

The values of the debt securities, money market funds and loan funds are based upon publicly available market prices.

Foreign exchange forwards are valued using current spot and forward rates discounted to present value. They are also adjusted for counterparty credit risk using credit default swap (CDS) curves. Fuel oil swaps are valued with reference to the valuations provided by third parties, which use current Platts index rates, discounted to present value.

19 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

d. Cash flow hedges

i) Forward currency risk

During the year ended 31 January 2021, the Group designated 285 foreign exchange forward currency contracts as hedges of highly probable foreign currency cash expenses in future periods. These contracts are entered into to minimise the Group's exposure to foreign exchange risk.

	Designated in the year		**At 31 Jan 2021**		At 31 Jan 2020	
Foreign currency cash flow hedging instruments	Volume	£'m	**Volume**	**£'m**	Volume	£'m
Euro (EUR)	101	(0.7)	**92**	**(0.7)**	245	(23.5)
US dollar (USD)	61	(1.1)	**82**	**(1.2)**	200	0.3
Other currencies	123	–	**113**	**(0.1)**	363	(0.9)
Total	285	(1.8)	**287**	**(2.0)**	808	(24.1)

Hedging instruments for other currencies are in respect of Australian dollars, Canadian dollars, Swiss francs, Japanese yen, New Zealand dollars, Norwegian krone, Thai baht, Chinese yuan, Danish krona and South African rand.

ii) Commodity price risk

The Group uses derivative financial instruments to mitigate the risk of adverse changes in the price of fuel. The Group enters into fixed price contracts (swaps) in the management of its fuel price exposures. These contracts are expected to reduce the volatility attributable to price fluctuations of fuel and are designated as cash flow hedges. Hedging the price volatility of forecast fuel purchases is in accordance with the risk management strategy outlined by the Board of Directors.

	Designated in the year		**At 31 Jan 2021**		At 31 Jan 2020	
Commodity cash flow hedging instruments	Volume	£'m	**Volume**	**£'m**	Volume	£'m
Hedging instruments	–	–	**22**	**(0.2)**	50	(2.4)

iii) Hedge maturity profile

The table below summarises the present value of the highly probable forecast cash flows that have been designated in a hedging relationship as at 31 January 2021. These cash flows are expected to become determined in profit or loss in the same period in which the cash flows occur.

Determination period	EUR £'m	USD £'m	Other currencies £'m	Currency hedges £'m	Fuel hedges £'m	Total £'m
1 February 2021 to 31 July 2021	–	2.5	–	2.5	(0.1)	2.4
1 August 2021 to 31 January 2022	18.2	15.5	3.0	36.7	(0.1)	36.6
1 February 2022 to 31 July 2022	16.6	15.3	1.7	33.6	–	33.6
1 August 2022 to 31 January 2023	12.0	11.8	0.5	24.3	–	24.3
1 February 2023 to 31 July 2023	0.1	0.3	–	0.4	–	0.4
Total	46.9	45.4	5.2	97.5	(0.2)	97.3

During the year, the Group recognised net gains of £6.0m (2020: £4.0m losses) on cash flow hedging instruments through OCI into the hedging reserve. Additionally, the Group recognised net gains of £16.3m (2020: £7.2m losses) through other comprehensive income into the hedging reserve, in relation to the specific hedging instrument for the acquisition of two new ships. The overall net gains were £22.3m (2020: £11.2m losses). The Group has recognised £nil gains (2020: £0.1m) through the income statement in respect of the ineffective portion of hedges measured during the year.

During the year the Group has de-designated 174 foreign currency forward contracts, with a transaction value of £46.6m, where the cash flows forecast are no longer expected to occur. Similarly, during the year the Group has de-designated 27 fuel oil swaps to 25% and 50%, with a transaction value of £4.9m, where the cash flows forecast are no longer expected to occur. During the year, the Group recognised a £2.5m gain (2020: £2.6m gain) through the income statement in respect of matured hedges which have been recycled from OCI. The Group also recognised a £2.7m loss (2020: £31.9m gain) in property, plant and equipment, in respect of matured hedges which have been recognised directly from the hedging reserve.

Notes to the consolidated financial statements continued

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings, and trade and other payables. The main purpose of the loans and borrowings financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include debt securities, deposits with financial institutions, money market funds, loan funds, and trade and other receivables, and cash and short-term deposits. The Group also enters into derivative transactions such as foreign exchange forward contracts, fuel and gas oil swaps and interest rate swaps to manage its exposures to various risks.

The Group is exposed to market risk, credit risk, liquidity risk, insurance risk and operational risk. The Group's senior management oversees these risks, supported by the Group Treasury function and Treasury Committees within the key areas of the Group that advise on financial risks and the appropriate financial risk governance framework for the Group. These functions and Committees ensure that the Group's financial risks are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities are for risk management purposes and are carried out by the Group's Treasury function. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken.

The Group manages concentration risk on its financial assets through a policy of diversification that is outlined in the Group Treasury Policy and approved by the Board. The policy defines the exposure limit by asset class and to third-party institutions based on the credit ratings of the individual counterparties, combined with the views of the Board. On a monthly basis, exposure to each asset class and counterparty is calculated and reported, and compliance with the policy is monitored.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

a. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. The Group is exposed to the following market risk factors:

- Foreign currency risk.
- Commodity price risk.
- Equity prices.
- Interest rate risk.

The Group has policies and limits approved by the Board for managing the market risk exposure. These set out the principles that the business should adhere to for managing market risk and establishing the maximum limits that the Group is willing to accept considering strategy, risk appetite and capital resources. The Group has the ability to monitor market risk exposure on a daily basis and has established limits for each component of market risk.

The Group uses derivatives for hedging its exposure to foreign currency, fuel oil prices and interest rate risks. The market risk policy explicitly prohibits the use of derivatives for speculative purposes. For risk exposures that the Group hedges and for which the Group applies hedge accounting, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the derivative counterparty. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument. The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Equity exposures are managed within allocation parameters agreed by the Board and with reference to agreed benchmarks.

i) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial asset or liability will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).

The Group uses foreign exchange forward contracts to manage the majority of its transaction exposures. The foreign exchange forward contracts, some of which are formally designated as hedging instruments, are entered into for periods consistent with the foreign currency exposure of the underlying transactions, generally from 1 to 24 months. The foreign exchange forward contracts vary with the level of expected foreign currency sales and purchases.

The following table demonstrates the sensitivity of the fair value of forward exchange contracts to a 5% change in US dollar and Euro exchange rates, with all other variables held constant. The Group's exposure to foreign currency changes for all other currencies is not material. The impact is shown net of tax at the current rate.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

a. Market risk (continued)

i) Foreign currency risk (continued)

	Sensitivity of +/– 5% forex rate change in	Effect on the fair value of forward exchange contracts	Effect on profit after tax and equity
2021	**EUR – Trading**	**+/ – £3.5m**	**+/ – £1.4m**
	USD	**+/ – £2.5m**	**+/ – £0.5m**
2020	EUR – Trading	+/ – £4.8m	+/ – £0.5m
	EUR – New ships	+/ – £11.0m	+/ – £0.0m
	USD	+/ – £2.9m	+/ – £0.3m

To the extent that forward exchange contracts are held as part of effective hedging relationships, any change to the fair value of the instrument will be offset by an equal and opposite change to the cost of the hedged item resulting in no effect on profit after tax and equity.

ii) Commodity price risk

The Group is affected by the price volatility of certain commodities. Its operating activities require the ongoing purchase of fuel and gas oil to sail its cruise ships and therefore require a continuous supply of fuel and gas oil. The volatility in the price of fuel and gas oil has led to the decision to enter into commodity fuel and gas oil swap contracts. These contracts are expected to reduce the volatility attributable to price fluctuations of fuel and gas oil. Managing the price volatility of forecast oil purchases is in accordance with the risk management strategy outlined by the Board of Directors.

The Group manages the purchase price using forward commodity purchase contracts based on future forecast fuel oil requirements.

The following table shows the sensitivity of the fair value of fuel oil swaps to changes in the US dollar exchange rate with all other variables held constant. The impact is shown net of tax at the current rate.

	Sensitivity of +/– 5% rate change in	Effect on profit after tax and equity
2021	**USD – Fuel oil price**	**+/ – £0.0m**
2020	USD – Fuel oil price	+/ – £0.0m

iii) Interest rate risk

Interest rate risk arises primarily from medium and long-term investments in fixed interest securities. The market value of these investments is affected by the movement in interest rates. This is managed by a policy of holding the majority of investments to maturity by closely matching asset and liability duration.

It is also ensured that the investment portfolio has a diversified range of investments such that there is a combination of fixed and floating rate securities, as well as other types of investments such as Retail Price Index (RPI) linked securities.

Interest rate risk also arises in respect of the Group's borrowings where the interest rate attaching to those borrowings is not fixed. Where the Group perceives there to be a significant interest rate risk, it manages its exposure to such risks by purchasing interest rate caps to limit the risk.

The following table shows the sensitivity of financial assets and liabilities to changes in the London inter-bank offered rate (LIBOR). The impact is shown net of tax at the current rate.

	Sensitivity of +/– 0.25% rate change in	Effect on profit after tax and equity
2021	**LIBOR**	**+/ – £0.4m**
2020	LIBOR	+/ – £0.2m

Notes to the consolidated financial statements continued

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

b. Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk in relation to its financial and reinsurance assets, outstanding derivatives, and trade and other receivables. The Group assesses its counterparty exposure in relation to the investment of surplus cash, fuel oil and foreign currency contracts, and undrawn credit facilities. The Group primarily uses published credit ratings to assess counterparty strength and therefore to define the credit limit for each counterparty in accordance with approved treasury policies.

The credit risk in respect of trade and other receivables is generally limited as payment from customers is generally required before services are provided. An exception to this in light of the Thomas Cook insolvency is agency debtors, where if a third-party tour operator takes a booking on behalf of the Travel business but is forced into liquidation, the Group would still be required to provide the service but would not receive the full amount owed from the third-party tour operator.
At 31 January 2021, the maximum exposure to credit risk for trade receivables by operating segment was as follows:

	2021 £'m	2020 £'m
Insurance	**39.9**	50.9
Travel	**2.2**	5.5
Other Businesses and Central Costs	**5.2**	6.8
	47.3	63.2
Reclassification to assets held for sale	**–**	(8.2)
	47.3	55.0

The variance between the quantum of the maximum exposure to credit risk for trade receivables (above) and total of trade receivables presented in 'Trade and other receivables' (note 23) primarily relates to insurance instalment gross premium debtors due from customers, for which a corresponding related creditor exists with third-party insurers for the net premium. In the event of payment obligation default by a customer no longer on risk, the impairment of the debtor balance by the Group would lead to a corresponding reduction in the related creditor with, or refund of net premium from, the third-party insurer. In the event of payment obligation default by a customer remaining on risk, the impairment of the debtor balance by the Group would not lead to a corresponding reduction in the related creditor with, or refund of net premium from, the third-party insurer, and the Group would bear the credit risk relating to the debtor balance.

The Group uses an allowance matrix to measure the expected credit losses of trade receivables from individual customers, which comprise a very large number of small balances. The loss allowance required for these receivables is calculated in line with the simplified method for trade receivables per IFRS 9, whereby lifetime expected credit losses are recognised irrelevant of the credit risk. The loss allowance is based on a combination of:

(i) aged debtor analysis;
(ii) historical experience of write offs for each receivable;
(iii) any specific indicators of credit deterioration observed; and
(iv) management judgement.

Loss rates are based on the probability of a receivable progressing through successive stages of delinquency to write off. Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group.

On that basis, the loss allowance as at 31 January 2021 and 31 January 2020 was determined as follows for trade receivables:

31 January 2021	**Current**	**< 30 days**	**30-60 days**	**61-90 days**	**91-120 days**	**> 120 days**	**Total**
Expected loss rate	**0%**	**25%**	**38%**	**29%**	**22%**	**63%**	
Gross carrying amount – trade receivables (note 23)	**£107.5m**	**£1.6m**	**£0.8m**	**£0.7m**	**£0.9m**	**£20.1m**	**£131.6m**
Loss allowance (note 23)	**£0.1m**	**£0.4m**	**£0.3m**	**£0.2m**	**£0.2m**	**£12.7m**	**£13.9m**

31 January 2020	Current	< 30 days	30-60 days	61-90 days	91-120 days	> 120 days	Total
Expected loss rate	1%	24%	38%	44%	43%	64%	
Gross carrying amount – trade receivables (note 23)	£108.7m	£3.8m	£2.6m	£2.7m	£4.4m	£23.8m	£146.0m
Loss allowance (note 23)	£1.0m	£0.9m	£1.0m	£1.2m	£1.9m	£15.2m	£21.2m

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

b. Credit risk (continued)

The loss allowance for trade receivables as at 31 January 2021 reconciles to the opening allowances as follows:

	2021 £'m	2020 £'m
Opening loss allowance at 1 February	**21.2**	15.9
(Decrease)/increase in loan loss allowance recognised in profit or loss during the year	**(5.5)**	7.3[1]
Receivables written off during the year as uncollectible	**(1.7)**	(1.9)[1]
Unused amount reversed	**(0.1)**	(0.1)
Closing loss allowance at 31 January	**13.9**	21.2

1 For the year ended 31 January 2020, the increase in the loss allowance recognised in profit or loss during the year, and the amount of receivables written off during the year as uncollectible, have both been restated due to an incorrect allocation between these classifications. The increase in loan loss allowance recognised in profit or loss during the year has decreased by £7.0m and the amount of receivables written off during the year as uncollectible has also decreased by £7.0m

Credit risk in relation to deposits, debt securities and derivative counterparties is managed by the Group's Treasury function in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed on a regular basis, and updated throughout the year subject to approval by the Board. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through any potential counterparty failure.

The Group is exposed to the risk of default on the reinsurance arrangements in its insurance business when amounts recoverable under those arrangements become due. Credit risk in respect of reinsurance arrangements is assessed at the time of entering into a reinsurance contract. The Group's reinsurance programme is only placed with reinsurers which meet the Group's financial strength criteria.

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 January 2021 and 31 January 2020 is the gross carrying amount except for derivative financial instruments. The Group's maximum exposure for financial guarantees and financial derivative instruments is noted under liquidity risk. None of the financial assets were impaired at the reporting date.

The Group's financial assets and reinsurance assets are analysed by Moody's rating as follows:

Ratings analysis

31 January 2021

£'m	AAA	AA	A	BBB	Unrated	Total
Debt securities	**23.1**	**73.9**	**71.5**	**93.4**	**–**	**261.9**
Money market funds	**66.8**	**–**	**–**	**–**	**–**	**66.8**
Deposits with financial institutions	**–**	**24.2**	**–**	**–**	**–**	**24.2**
Derivative assets	**–**	**–**	**0.2**	**0.5**	**–**	**0.7**
Loan funds	**–**	**–**	**–**	**–**	**6.2**	**6.2**
	89.9	**98.1**	**71.7**	**93.9**	**6.2**	**359.8**
Reinsurance assets	**–**	**39.7**	**31.9**	**–**	**–**	**71.6**
Total	**89.9**	**137.8**	**103.6**	**93.9**	**6.2**	**431.4**

31 January 2020

£'m	AAA	AA	A	BBB	Unrated	Total
Debt securities	15.3	117.5	54.1	87.3	–	274.2
Money market funds	45.9	–	–	–	–	45.9
Deposits with financial institutions	–	30.4	–	18.6	–	49.0
Derivative assets	–	–	0.7	0.5	–	1.2
Loan funds	–	–	–	1.6	6.2	7.8
	61.2	147.9	54.8	108.0	6.2	378.1
Reinsurance assets	–	36.4	26.5	–	0.6	63.5
Total	61.2	184.3	81.3	108.0	6.8	441.6

Notes to the consolidated financial statements continued

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

c. Liquidity risk

Liquidity risk is the risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due or can secure them only at excessive cost. The Group's approach to managing liquidity risk is to evaluate current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash or availability on its RCF. The Group manages its obligations to pay claims to policyholders as they fall due by matching the maturity of investments to the expected maturity of claims payments.

The table below analyses the maturity of the Group's financial liabilities and insurance contract liabilities on contractual payments. The analysis of non-derivative financial liabilities is based on the remaining period at the reporting date to the contractual maturity date. The analysis of claims outstanding is based on the expected dates on which the claims will be settled and is before discounting, gross of reinsurance.

31 January 2021

£'m	On demand	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Bond and bank loans	–	–	46.4	500.1	289.1	835.6
Interest on bond and bank loans	–	27.4	26.5	46.9	27.9	128.7
Insurance contract liabilities	–	88.9	64.3	92.7	144.8	390.7
Derivative liabilities	–	2.1	1.5	–	–	3.6
	–	118.4	138.7	639.7	461.8	1,358.6

31 January 2020

£'m	On demand	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Bond and bank loans	–	50.4	20.4	431.3	132.7	634.8
Interest on bond and bank loans	–	21.4	18.6	38.8	16.2	95.0
Insurance contract liabilities	–	69.3	53.2	107.6	179.9	410.0
Derivative liabilities	–	25.9	2.0	–	–	27.9
	–	167.0	94.2	577.7	328.8	1,167.7

In March 2021 the Group reached agreement of a one-year extension to the debt deferral on its cruise ship facilities (note 41). This has resulted in the debt repayments on the cruise ship facilities within the bond and bank loans profile disclosed above being amended for this one-year deferral.

d. Insurance risk

Insurance risk arises from the inherent uncertainties as to the occurrence, cost and timing of insured events that could lead to significant individual or aggregated claims in terms of quantity or value. This could be for a number of reasons, including weather-related events, large individual claims, changes in claimant behaviour patterns such as increased levels of fraudulent activities, the use of PPOs, prospective or retrospective legislative changes, unresponsive and inaccurate pricing or reserving methodologies and the deterioration in the Group's ability to effectively and efficiently handle claims while delivering excellent customer service.

The Group manages insurance risk within its risk management framework as set out by the Board. The key policies and processes of mitigating these risks have been implemented, which include underwriting partnership arrangements, reinsurance excess of loss contracts, pricing policies and claims management, and administration policies.

i) Underwriting and pricing risk

The Group primarily underwrites motor insurance for private cars in the UK. The book consists of a large number of individual risks which are widely spread geographically, which helps to minimise concentration risk. The Group has controls in place to restrict access to its products to only those risks that it wishes to underwrite.

The Group has management information to allow it to monitor underwriting performance on a continuous basis and the ability to make pricing and underwriting changes quickly. The Group undertakes detailed statistical analysis of underwriting experience for each rating factor and combinations of rating factors, to enable it to adjust pricing for emerging trends.

ii) Reserving risk

Reserving risk is the risk that insufficient funds have been set aside to settle claims as they fall due. The Group undertakes regular internal actuarial reviews and commissions external actuarial reviews at least once a year. These reviews estimate the future liabilities in order to consider the adequacy of the provisions.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

d. Insurance risk (continued)

ii) Reserving risk (continued)

Claims which are subject to PPOs are a significant source of uncertainty in the claim's reserves. Cash flow projections are undertaken for PPO claims to estimate the gross and net of reinsurance provisions required. PPO provisions are discounted to reflect expectations of future investment returns and cost inflation.

In the year to 31 January 2021, the Group has considered the additional latency risk to claims cost development caused by the impact of COVID-19 and has recognised an additional claims reserve above actuarial best estimate to cover this specific risk.

iii) Reinsurance

The Group purchases reinsurance to reduce the impact of individual large losses or accumulations from a single catastrophic event. During 2018, the Group entered into a funds-withheld quota share reinsurance contract that reinsures 80% of the Group's motor claims risks limited by a loss ratio cap of 130%, effective from 1 February 2019. Prior to this, the Group had a funds-withheld quota share reinsurance contract in place that reinsured 75% of the Group's motor claims risks limited by a loss ratio cap of 120%. The Group also purchases individual excess of loss protections for the motor portfolio to limit the impact of a single large claim. Similar protections are in place for all years for which the Group has underwritten motor business.

Reinsurance recoveries on individual excess of loss protections can take many years to collect, particularly if a claim is subject to a PPO. This means that the Group has exposure to reinsurance credit risk for many years. Reinsurers are therefore required to have strong credit ratings and their financial health is regularly monitored.

iv) Sensitivities

The following table demonstrates the impact on profit and loss and equity of a 5 percentage point variation in the recorded loss ratio at 31 January 2021 and 31 January 2020. The impact of a 5% change in claims outstanding is also shown at the same dates. The impact is shown net of reinsurance and tax at the current rate.

	2021	2020
Impact of 5 percentage point change in loss ratio	**+/ – £3.2m**	+/ – £3.6m
Impact of 5% change in claims outstanding	**+/ – £4.6m**	+/ – £5.9m
Impact of a 0.25 percentage point change in discount rate for PPOs	**+/ – £3.2m**	+/ – £3.3m

e. Operational risk

Effective operational risk management requires the Group to identify, assess, manage, monitor, report and mitigate all areas of exposure. The Group operates across a range of segments and operational risk is inherent in all of the Group's products and services, arising from the operation of assets, from external events and dependencies, and from internal processes and systems.

The Group manages its operational risk through the risk management framework agreed by the Board, and through the use of risk management tools which together ensure that operational risks are identified, managed and mitigated to the level accepted, and that contingency processes and disaster recovery plans are in place. Regular reporting is undertaken to segment boards and includes details of new and emerging risks, as well as monitoring of existing risks. Testing of contingency processes and disaster recovery plans is undertaken to ensure the effectiveness of these processes. The resilience of the Group's disaster recovery plans was demonstrated during the COVID-19 lockdown. The Group was able to quickly move office-based colleagues to working from home arrangements, ensuring that it was able to continue to support existing and new customers through the call centre and support functions.

All of the Group's operations are dependent on the proper functioning of its IT and communication systems; on its properties and other infrastructure assets; on the need to adequately maintain and protect customer and employee data and other information; and on the ability of the Group to attract and retain staff. Specific areas of operational risk by segment include:

i) Insurance

The Insurance segment is required to comply with various operational regulatory requirements primarily in the UK but also within Gibraltar for its underwriting business. To the extent that significant external events could increase the incidence of claims, these would place additional strain on the claims handling function but any financial impact of such an event is considered to be an insurance risk.

Notes to the consolidated financial statements continued

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

e. Operational (continued)

ii) Travel

The Travel segment operates two cruise ships which are the Group's largest trading assets. Risk to the operation of these cruise ships arises from the impact of mechanical or other malfunction, non-compliance with regulatory requirements, and from global weather and socio-economic events. The tour holidays operated by the segment are also affected by global weather and socio-economic events which impact either the Group directly or its suppliers. The Travel segment is in operation with multiple suppliers which minimises the impact of any socio-economic events affecting its suppliers. The COVID-19 pandemic has created an unprecedented challenge for the Group and a high level of uncertainty for all companies. Further detail relating to this is provided within the basis of preparation and going concern sections in note 2.1 on pages 136 to 138.

iii) Other Businesses and Central Costs

The financial services product business is required to comply with various operational regulatory requirements in the UK.

21 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

A structured entity is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual agreements. The Group has interests in unconsolidated structured entities in the form of investment funds comprising:

- bank loan funds; and
- money market funds.

The nature and purpose of the bank loan funds are to diversify the investment portfolio and enhance the overall yield, whilst maintaining an acceptable level of risk for the portfolio as a whole.

Bank loan funds invest in secured loans to companies rated below investment grade.

The nature and purpose of the money market funds is to provide maximum security and liquidity for the funds invested whilst also providing an adequate return. The money market funds used by the Group are all members of the Institutional Money Market Funds Association. They are thus required to maintain specified liquidity and diversification characteristics of their underlying portfolios, which comprise investment grade investments in financial institutions.

The Group invests in unconsolidated structured entities as part of its investment activities. The Group does not sponsor any of the unconsolidated structured entities.

At 31 January 2021, the Group's total interest in unconsolidated structured entities was £73.0m analysed as follows:

	Carrying value £'m	Interest income £'m	Fair value losses £'m
Loan funds	**6.2**	**0.2**	**(0.1)**
Money market funds	**66.8**	**0.1**	**–**

These investments are typically managed under credit risk management as described in note 20. The Group's maximum exposure to loss on the interests presented above is the carrying amount of the Group's investments. No further loss can be made by the Group in relation to these investments. For this reason, the total assets of the entities are not considered meaningful for the purposes of understanding the related risks and so have not been presented.

22 INVENTORIES

	2021 £'m	2020 £'m
Raw materials	**0.2**	0.3
Technical stocks	**1.5**	2.4
Finished goods	**1.8**	2.7
	3.5	5.4

Technical stocks are spare parts for the Group's cruise ships.

23 TRADE AND OTHER RECEIVABLES

	2021 £'m	2020 (re-presented) £'m
Trade receivables (note 20)	131.6	146.0
Loss allowance (note 20)	(13.9)	(21.2)
	117.7	124.8
Other receivables	33.0	25.2
Prepayments	11.4	36.8
Contract cost assets	2.9	2.6
Deferred acquisition costs	15.1	14.6
Other taxes and social security costs	3.0	5.0
	183.1	209.0

An explanation of how the Group manages and measures the credit risk of trade receivables can be found at note 20(b). The Group expects trade and other receivables to be normally settled within 12 months. Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

For the prior year, trade receivables and other receivables have been re-presented to reflect reclassification and additional analysis of assets to ensure comparability with the current year presentation.

24 TRUST ACCOUNTS

The Civil Aviation Authority (CAA) and Association of British Travel Agents (ABTA) regulated the Travel business conducted by the Group in the UK during the year. To comply with its regulatory obligations, the Group is required to arrange financial security to protect customer monies, in addition to making ATOL Protection Contributions, which the Group pays into the Air Travel Trust Fund.

From 25 September 2020, the Group changed its method of customer protection for ATOL licensable bookings from financial security bonds to paying customer monies into trust ('Trust Accounting'). Under Trust Accounting, all monies the Group receives from customers in respect of ATOL licensable holiday packages sold are held in trust until such time as the Group has fulfilled all its obligations to the customer. The trust is administered and controlled by an independent Trustee, PT Trustees Limited. Interest arising from the funds held on trust belongs to the Group.

With the introduction of Trust Accounting during the year, the Group is no longer required to hold financial security bonds in relation to ATOL bookings.

25 CASH AND CASH EQUIVALENTS

	2021 £'m	2020 £'m
Cash at bank and in hand	94.4	73.1
Short-term deposits	7.2	24.8
Cash and short-term deposits	101.6	97.9
Money market funds	66.8	45.9
Bank overdraft	(1.5)	(9.5)
Cash held by disposal groups	–	4.8
Cash and cash equivalents in the cash flow statement	166.9	139.1

Included within cash and cash equivalents are amounts held by the Group's travel and insurance businesses which are subject to contractual or regulatory restrictions (note 41). These amounts held are not readily available to be used for other purposes within the Group and total £91.5m (2020: £98.2m). Available cash excludes these amounts and any amounts held by disposal groups.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The bank overdraft is subject to a guarantee in favour of the Group's bankers and is limited to the amount drawn. The bank overdraft is repayable on demand.

Notes to the consolidated financial statements continued

26 TRADE AND OTHER PAYABLES

	2021 £'m	2020 (re-presented) £'m
Trade payables	**115.5**	115.7
Other payables	**5.1**	5.3
Other taxes and social security costs	**8.4**	12.4
Assets in the course of construction	**4.4**	5.2
Accruals	**41.7**	47.3
	175.1	185.9

All trade and other payables are current in nature. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

For the prior year, trade payables, other payables and accruals have been re-presented to reflect reclassification and additional analysis of liabilities to ensure comparability with the current year presentation.

27 RETIREMENT BENEFIT SCHEMES

The Group operates retirement benefit schemes for the employees of the Group consisting of defined contribution plans and a defined benefit plan.

a. Defined contribution plans

There are a number of defined contribution schemes in the Group. The total charge for the year in respect of the defined contribution schemes was £3.2m (2020: £3.6m).

The assets of these schemes are held separately from those of the Group in funds under the control of Trustees.

b. Defined benefit plan

The Group operates a funded defined benefit scheme, the Saga Pension Scheme, which is open to new members who accrue benefits on a career average salary basis. The assets of the scheme are held separately from those of the Group in independently administered funds.

The scheme is governed by the employment laws of the UK. The level of benefits provided depends on the member's length of service and average salary whilst a member of the scheme. The scheme requires contributions to be made to a separately administered fund which is governed by a Board of Trustees and consists of an equal number of employer and employee representatives. The Board of Trustees is responsible for the administration of the plan assets and for the definition of the investment strategy.

The long-term investment objectives of the Trustees and the Group are to limit the risk of the assets failing to meet the liabilities of the scheme over the long-term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of the scheme. To meet those objectives, the scheme's assets are invested in different categories of assets, with different maturities designed to match liabilities as they fall due. The investment strategy will continue to evolve over time and is expected to match the liability profile increasingly closely. The pension liability is exposed to inflation rate risks and changes in the life expectancy of members. As the plan assets include investments in quoted equities, the Group is exposed to equity market risk. The Group has provided a super security to the Trustees of the scheme, which ranks before any liabilities under the senior facilities agreement (as detailed in note 30). The value of the security is capped at £32.5m.

The fair value of the assets and present value of the obligations of the Saga defined benefit scheme are as follows:

	2021 £'m	2020 £'m
Fair value of scheme assets	**411.2**	372.3
Present value of defined benefit obligation	**(415.5)**	(377.8)
Defined benefit scheme liability	**(4.3)**	(5.5)

The present values of the defined benefit obligation, the related current service cost and any past service costs have been measured using the projected unit credit valuation method.

27 RETIREMENT BENEFIT SCHEMES (CONTINUED)

b. Defined benefit plan (continued)

The following table summarises the components of the net benefit expense recognised in the income statement, other comprehensive income and amounts recognised in the statement of financial position for the schemes for the year ended 31 January 2021:

	Fair value of scheme assets £'m	Defined benefit obligation £'m	**Defined benefit scheme liability £'m**
1 February 2020	372.3	(377.8)	**(5.5)**
Pension cost charge to income statement			
Current service cost paid in cash during the period	–	(5.4)	**(5.4)**
Non-cash current service cost uplift	–	(2.6)	**(2.6)**
Total current service cost	–	(8.0)	**(8.0)**
Net interest	6.3	(6.3)	**–**
Included in income statement	6.3	(14.3)	**(8.0)**
Benefits paid	(9.6)	9.6	**–**
Return on plan assets (excluding amounts included in net interest expense)	31.5	–	**31.5**
Actuarial changes arising from changes in demographic assumptions	–	6.2	**6.2**
Actuarial changes arising from changes in financial assumptions	–	(24.7)	**(24.7)**
Experience adjustments	–	(14.2)	**(14.2)**
Sub-total included in other comprehensive income	21.9	(23.1)	**(1.2)**
Total contributions by employer	10.7	(0.3)	**10.4**
31 January 2021	411.2	(415.5)	**(4.3)**

The following table summarises the components of the net benefit expense recognised in the income statement, other comprehensive income and amounts recognised in the statement of financial position for the schemes for the year ended 31 January 2020:

	Fair value of scheme assets £'m	Defined benefit obligation £'m	Defined benefit scheme liability £'m
1 February 2019	312.4	(315.2)	(2.8)
Pension cost charge to income statement			
Current service cost paid in cash during the period	–	(6.8)	(6.8)
Non-cash current service cost uplift	–	(0.2)	(0.2)
Total current service cost	–	(7.0)	(7.0)
Net interest	8.4	(8.3)	0.1
Included in income statement	8.4	(15.3)	(6.9)
Benefits paid	(9.7)	9.7	–
Return on plan assets (excluding amounts included in net interest expense)	51.3	–	51.3
Actuarial changes arising from changes in demographic assumptions	–	4.5	4.5
Actuarial changes arising from changes in financial assumptions	–	(61.4)	(61.4)
Experience adjustments	–	0.2	0.2
Sub-total included in other comprehensive income	41.6	(47.0)	(5.4)
Total contributions by employer	9.9	(0.3)	9.6
31 January 2020	372.3	(377.8)	(5.5)

Notes to the consolidated financial statements continued

27 RETIREMENT BENEFIT SCHEMES (CONTINUED)

b. Defined benefit plan (continued)

The major categories of assets in the Saga scheme are as follows:

	2021 £'m	2020 £'m
Equities	**51.7**	45.0
Bonds	**203.0**	222.7
Property and alternatives	**39.6**	24.5
Hedge funds	**99.8**	73.2
Insured annuities	**6.1**	3.9
Cash and other	**11.0**	3.0
Total	**411.2**	372.3

Equities and bonds are all quoted in active markets whilst property and hedge funds are not. Global financial markets have been monitoring and reacting to the COVID-19 pandemic and have incurred increased volatility and uncertainty since the onset of the pandemic. The COVID-19 pandemic is an unprecedented event and the eventual impact on the global economy and markets will largely depend on the scale and duration of the outbreak. The ultimate extent of the effect of this on the asset portfolio is not possible to estimate at this time.

The principal assumptions used in determining pension benefit obligations for the Saga scheme are shown below:

	2021	2020
Real rate of increase in salaries	**2.60%**	2.70%
Real rate of increase of pensions in payment	**2.70%**	2.70%
Real rate of increase of pensions in deferment	**2.55%**	2.65%
Discount rate – pensioner	**1.35%**	1.60%
Discount rate – non-pensioner	**1.45%**	1.70%
Inflation – pensioner	**2.80%**	2.80%
Inflation – non-pensioner	**2.60%**	2.70%
Life expectancy of a member retiring in 20 years' time – Male	**27.2 yrs**	27.3 yrs
Life expectancy of a member retiring in 20 years' time – Female	**29.0 yrs**	29.4 yrs

Following the RPI reform consultation which completed in November 2020, the Group has updated the inflation risk premium (IRP) applied when setting the RPI assumption (at 31 January 2021, an IRP of 0.3% p.a. before 2030 and 0.5% p.a. thereafter has been adopted, compared to an IRP of 0.3% p.a. at all terms in the prior year). The actuary has confirmed that the impact of the change in approach is a £6m decrease in the DBO.

The Group has also updated the assumed long-term gap between RPI and CPI (at 31 January 2021, an RPI-CPI gap of 0.8% p.a. before 2030 and nil therefore has been adopted, compared to a gap of 0.8% p.a. at all terms in the prior year). The actuary has confirmed that the impact of the change in approach is an £8m increase in the DBO.

Mortality assumptions are set using standard tables based on specific experience where available and allow for future mortality improvements. The Saga scheme assumption is that a member currently aged 60 will live on average for a further 26.0 years if they are male and on average for a further 27.7 years if they are female.

A quantitative sensitivity analysis for significant assumptions as at 31 January 2021 and their impact on the scheme liabilities is as follows:

Assumptions	Discount rate		Future inflation		Life expectancy		Future salary
Sensitivity	+/– 0.25%		+/– 0.25%		+/– 1 year		+/– 0.5%
	Increase	Decrease	Increase	Decrease	Increase	Decrease	
Impact £'m	(24.6)	23.2	18.3	(16.7)	14.8	(14.1)	0.0

Note: a positive impact represents an increase in the net defined benefit liability.

27 RETIREMENT BENEFIT SCHEMES (CONTINUED)

b. Defined benefit plan (continued)

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the pension liability recognised within the statement of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

The expected contribution to the Saga scheme for the next year is £5.2m and average duration of the defined benefit plan obligation at the end of the reporting period is 23 years. Formal actuarial valuations take place every three years for the scheme. The assumptions adopted for actuarial valuations are determined by the Trustees and are agreed with the Group and are normally more prudent than the assumptions adopted for IAS 19 purposes, which are best estimate. Where a funding deficit is identified, the Group and the Trustees may agree a deficit recovery plan to pay additional contributions above those needed to fund new pensions accruing in the scheme.

The latest valuation of the Saga scheme was at 31 January 2017. The pension trustees have largely completed the triennial valuation of the scheme as at 31 January 2020. Following discussions with the Company, the trustees are proposing a new deficit recovery plan totalling £39.0m over the next seven years, with the first payment of £4.2m paid in February 2021 and subsequent payments of £5.8m due each February thereafter until February 2027. Discussions with the trustees are ongoing but are expected to be concluded in the next two months. Under the previously agreed recovery plan, the Group made an additional payment of £3.0m during the year ended 31 January 2021. The total expected contributions in the year ending 31 January 2022 are £9.4m, inclusive of a £4.2m additional payment.

The Group has also agreed to pay additional amounts into an Escrow account should asset returns fall below an agreed level over set periods of time. Dependent upon the level of return on the scheme's assets between 31 January 2020 and 31 January 2027, any amount in the Escrow account will be released to either the Group or the scheme by 30 June 2027.

28 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

The analysis of gross and net insurance liabilities is as follows:

	2021 £'m	2020 £'m
Gross		
Claims outstanding	**329.5**	338.3
Provision for unearned premiums	**96.8**	105.3
Total gross liabilities	**426.3**	443.6

	2021 £'m	2020 £'m
Recoverable from reinsurers		
Claims outstanding	**65.2**	55.2
Provision for unearned premiums	**6.4**	6.9
Total reinsurers' share of insurance liabilities (as presented on the face of the statement of financial position)	**71.6**	62.1
Amounts recoverable under funds – withheld quota share agreements recognised within trade payables:		
– Claims outstanding	**147.1**	134.0
– Provision for unearned premiums	**55.9**	63.9
Total reinsurers' share of insurance liabilities after funds – withheld quota share	**274.6**	260.0
Analysed as:		
Claims outstanding	**212.3**	189.2
Provision for unearned premiums	**62.3**	70.8
Total reinsurers' share of insurance liabilities after funds – withheld quota share	**274.6**	260.0

Notes to the consolidated financial statements continued

28 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (CONTINUED)

	2021 £'m	2020 £'m
Net		
Claims outstanding	**264.3**	283.1
Provision for unearned premiums	**90.4**	98.4
Total net insurance liabilities	**354.7**	381.5
Amounts recoverable under funds – withheld quota share agreements recognised within trade payables:		
– Claims outstanding	**(147.1)**	(134.0)
– Provision for unearned premiums	**(55.9)**	(63.9)
Total net insurance liabilities after funds – withheld quota share	**151.7**	183.6
Analysed as:		
Claims outstanding	**117.2**	149.1
Provision for unearned premiums	**34.5**	34.5
Total net insurance liabilities after funds – withheld quota share	**151.7**	183.6

Reconciliation of movements in claims outstanding	2021 £'m	2020 (restated) £'m
Gross claims outstanding at 1 February	**338.3**	392.6
Less: reinsurance claims outstanding	**(189.2)**	(209.8)
Net claims outstanding at 1 February	**149.1**	182.8
Gross claims incurred	**131.4**	140.6[1]
Less: reinsurance recoveries	**(113.2)**	(109.8)[1]
Net claims incurred	**18.2**	30.8
Gross claims paid	**(140.2)**	(194.9)[1]
Less: received from reinsurance	**90.1**	130.4[1]
Net claims paid	**(50.1)**	(64.5)
Gross claims outstanding at 31 January	**329.5**	338.3
Less: reinsurance claims outstanding	**(212.3)**	(189.2)
Net claims outstanding at 31 January	**117.2**	149.1

1 Gross claims incurred and reinsurers' share of claims incurred for the year ended 31 January 2020 have been restated due to an incorrect allocation between these classifications. Gross claims incurred have decreased by £19.3m and reinsurers' share of claims incurred has decreased by £19.3m. As a result of these changes, gross claims paid and reinsurers' share of claims paid for the year ended 31 January 2020 have also been restated – gross claims paid have decreased by £19.3m and reinsurers' share of claims paid has decreased by £19.3m

28 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (CONTINUED)

Reconciliation of movements in the provision for net unearned premiums	2021 £'m	2020 £'m
Gross unearned premiums at 1 February	**105.3**	98.0
Less: unearned reinsurance premiums	**(70.8)**	(63.5)
Net unearned premiums at 1 February	**34.5**	34.5
Gross premiums written	**213.2**	241.2
Less: outward reinsurance premium	**(134.3)**	(153.0)
Net premiums written	**78.9**	88.2
Gross premiums earned	**(221.7)**	(233.9)
Less reinsurance premium earned	**142.8**	145.7
Net premiums earned (note 3a)	**(78.9)**	(88.2)
Gross unearned premiums at 31 January	**96.8**	105.3
Less: unearned reinsurance premiums	**(62.3)**	(70.8)
Net unearned premiums at 31 January	**34.5**	34.5

The net cost of purchasing reinsurance in 2021 was £7.8m (2020: £6.4m).

On 15 July 2019, the UK Government announced a change to the Ogden discount rate from −0.75% to −0.25%. The insurance liabilities presented here and on the face of the Group's balance sheet incorporate the effect of this change.

a. Discounting

Claims outstanding provisions are calculated on an undiscounted basis, with the exception of PPOs made by the courts as part of a bodily injury claim settlement. Claims outstanding provisions for PPOs are discounted at a rate of −1.5% (2020: −1.5%) representing the Group's view on long-term carer wage inflation less the expected return on holding the invested financial assets associated with these claims.

The value of claims outstanding before discounting was £390.7m (2020: £410.0m) gross of reinsurance and £133.4m (2020: £174.6m) net of reinsurance.

The period between the balance sheet date and the estimated final payment date was calculated using Ogden life expectancy tables, with appropriate adjustments where necessary for impaired life. The average life expectancy from PPO settlement date to the final PPO payment was 37 years (2020: 36 years) and the rate of investment return used to determine the discounted value of claims provisions was 2.0% (2020: 2.0%).

Notes to the consolidated financial statements continued

28 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (CONTINUED)

b. Analysis of claims incurred: claims development tables

The following tables detail the Group's initial estimate of ultimate gross and net claims incurred over the past 10 years and the re-estimation at subsequent financial period ends.

The following table analyses the gross incurred claims (before deducting reinsurance recoveries) on an accident year basis:

	Financial year ended 31 January												
Analysis of claims incurred	2012 £'m	2013 £'m	2014 £'m	2015 £'m	2016 £'m	2017 £'m	2018 £'m	2019 £'m	2020 £'m	2021 £'m	Total £'m	Claims paid £'m	Gross claims outstanding £'m
Accident year													
2012 and earlier	315.1	(47.2)	(42.3)	(36.2)	(40.0)	(21.4)	(17.4)	(11.4)	(7.5)	(3.6)	n/a	n/a	34.0
2013		321.2	(14.2)	(45.2)	(22.1)	(13.4)	(5.6)	(5.9)	(2.9)	(3.5)	208.4	(197.9)	10.5
2014			281.9	(18.9)	(25.7)	(7.6)	(11.1)	(10.6)	(2.6)	(3.9)	201.5	(192.8)	8.7
2015				271.3	(6.0)	(6.2)	(8.2)	(15.3)	(5.0)	(7.9)	222.7	(205.7)	17.0
2016					280.4	4.1	(19.3)	(21.7)	(9.1)	(5.7)	228.7	(209.6)	19.1
2017						197.2	4.7	(13.1)	(6.8)	(13.6)	168.4	(154.8)	13.6
2018							194.9	–	(5.8)	(11.1)	178.0	(139.6)	38.4
2019								189.8	1.0	0.7	191.5	(143.0)	48.5
2020									163.2	9.3	172.5	(117.4)	55.1
2021										154.7	154.7	(78.4)	76.3
	315.1	274.0	225.4	171.0	186.6	152.7	138.0	111.8	124.5	115.4			321.2
Claims handling costs	15.6	17.4	17.2	18.0	21.5	11.5	10.5	27.3	16.1	16.0			8.3
	330.7	**291.4**	**242.6**	**189.0**	**208.1**	**164.2**	**148.5**	**139.1**	**140.6**[1]	**131.4**			**329.5**

1 For the year ended 31 January 2020, gross claims incurred have been restated due to an incorrect allocation between gross claims incurred and reinsurers' share of claims incurred for that year. Gross claims incurred have decreased by £19.3m and reinsurers' share of claims incurred have decreased by £19.3m. In addition, gross claims incurred have been restated by £0.3m to agree to the income statement. Gross claims incurred have decreased by a further £0.3m for this correction.

The development of the associated loss ratios on the same basis is as follows:

	Financial year ended 31 January									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Accident year										
2012	77%	71%	63%	62%	57%	55%	52%	52%	52%	51%
2013		76%	72%	62%	56%	53%	52%	51%	50%	49%
2014			75%	70%	63%	61%	58%	55%	55%	54%
2015				81%	80%	78%	75%	71%	69%	67%
2016					87%	88%	82%	75%	73%	71%
2017						67%	69%	65%	62%	58%
2018							75%	75%	73%	69%
2019								80%	80%	80%
2020									70%	74%
2021										70%

28 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (CONTINUED)

b. Analysis of claims incurred: claims development tables (continued)

The following table analyses the net incurred claims (after deducting reinsurance recoveries) on an accident year basis:

	Financial year ended 31 January												
Analysis of claims incurred	2012 £'m	2013 £'m	2014 £'m	2015 £'m	2016 £'m	2017 £'m	2018 £'m	2019 £'m	2020 £'m	2021 £'m	Total £'m	Claims paid £'m	Net claims outstanding £'m
Accident year													
2012 and earlier	286.0	(45.8)	(42.4)	(20.2)	(29.6)	(28.3)	(15.3)	(11.4)	(7.5)	(3.6)	n/a	n/a	14.6
2013		315.4	(14.6)	(22.9)	(19.8)	(14.6)	(10.2)	(5.9)	(2.9)	(3.5)	221.0	(217.4)	3.6
2014			276.8	(14.7)	(23.4)	(11.0)	(9.8)	(10.6)	(2.6)	(3.9)	200.8	(192.1)	8.7
2015				219.1	5.3	(9.2)	(11.1)	(15.3)	(5.0)	(7.9)	175.9	(169.4)	6.5
2016					220.9	3.2	(15.1)	(21.7)	(9.1)	(5.7)	172.5	(158.6)	13.9
2017						94.0	1.5	(6.2)	(1.9)	(3.5)	83.9	(74.2)	9.7
2018							78.8	–	(1.6)	(3.2)	74.0	(64.4)	9.6
2019								71.8	1.0	0.1	72.9	(58.1)	14.8
2020									55.3	0.7	56.0	(45.3)	10.7
2021										42.2	42.2	(25.4)	16.8
	286.0	269.6	219.8	161.3	153.4	34.1	18.8	0.7	25.7	11.7			108.9
Claims handling costs	15.6	17.4	17.2	18.0	21.5	11.5	10.5	8.9	5.1	6.5			8.3
	301.6	**287.0**	**237.0**	**179.3**	**174.9**	**45.6**	**29.3**	**9.6**	**30.8**[1]	**18.2**			**117.2**

1 Net claims incurred have been restated by £0.3m to agree to the income statement.

The development of the associated loss ratios on the same basis is as follows:

	Financial year ended 31 January									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Accident year										
2012	76%	70%	62%	62%	57%	54%	53%	52%	52%	51%
2013		75%	72%	66%	62%	58%	56%	54%	54%	53%
2014			75%	71%	65%	62%	59%	56%	55%	54%
2015				67%	69%	66%	63%	58%	56%	54%
2016					70%	71%	66%	59%	56%	55%
2017						56%	56%	53%	52%	50%
2018							66%	66%	64%	62%
2019								70%	71%	71%
2020									63%	64%
2021										53%

Favourable claims development over the year has resulted in a £30.6m (2020: £29.6m) reduction in the net claims incurred in respect of prior years.

29 CONTRACT LIABILITIES

	2021 £'m	2020 £'m
Deferred revenue (note 3b)	**82.2**	153.2
	82.2	153.2
Current	**66.9**	150.2
Non-current	**15.3**	3.0
	82.2	153.2

Deferred revenue comprise amounts received within the Travel segment for holidays and cruises with departure dates after the reporting date, and insurance premiums and sales revenues received in the Insurance segment in respect of insurance policies which commence after the reporting date, and represents the performance obligations not yet satisfied as at 31 January 2021. Contract liabilities have decreased on the prior year due to the impact of the COVID-19 pandemic on the Travel business.

Notes to the consolidated financial statements continued

30 LOANS AND BORROWINGS

	2021 £'m	2020 £'m
Bond	**250.0**	250.0
Bank loans	**70.0**	140.0
Ship loans	**515.6**	234.8
Revolving credit facility	**–**	10.0
Accrued interest payable	**8.3**	3.7
	843.9	638.5
Less: deferred issue costs	**(26.8)**	(14.2)
	817.1	624.3

Term loan and RCF

The Group's bank facilities consist of a £250.0m seven-year senior unsecured bond (repayable May 2024), a £200.0m five-year term loan facility (repayable May 2023) and a £100.0m five-year RCF with an option to extend. In March 2019, the Group's banks agreed to extend the term on the RCF by one year with expiry in May 2023. The bond is listed on the Irish Stock Exchange.

At 31 January 2021, the Group had drawn £nil of its £100.0m RCF and since the May 2017 refinancing £130.0m of the term loan has been repaid.

In light of the significant impact of the COVID-19 pandemic on the business, especially Travel operations, the Group entered into discussions with its lending banks in early March 2020 to amend the terms of its bank debt. These discussions were concluded on 1 April 2020, with favourable amendments to banking covenants.

On 30 August 2020 the Group announced that it was at the advanced stage of a prospective £150.0m equity capital raise in order to strengthen its statement of financial position, improve liquidity and support the execution of its strategy plan. The prospective £150.0m equity raise was launched on 10 September 2020, structured as a Firm Placing and Open Offer.

The £150.3m equity subsequently raised (£138.7m net of issue costs) improved the Group's financial position by funding the reduction of the term loan to £70.0m and repayment of the drawn RCF, with the balance of the proceeds raised increasing available cash. The Group also agreed with its lending banks to extend the maturity of the remaining £70.0m term loan to May 2023 and amended certain bank covenants to provide additional headroom in stress test scenarios as follows:

- Increase in the leverage ratio (excluding Cruise) covenant at 31 July 2021 from 4.25x to 4.75x and at 31 October 2021 from 4.0x to 4.5x;
- Reduction in the Group interest cover covenant at 30 April 2021 from 2.0x to 1.25x, at 31 July 2021 from 3.0x to 1.5x, at 31 October 2021 from 3.0x to 1.75x and at 31 January 2022 from 3.5x to 2.5x.

In March 2021 the Group reached agreement to amend covenants on the term loan and RCF (note 41). The covenants within the Group's term loan and RCF have been amended as follows:

- Increase in the leverage ratio (excluding Cruise) covenant at 31 January 2022 from 4.00x to 4.25x;
- Reduction in the Group interest cover covenant at 31 July 2021 from 1.5x to 1.25x, at 31 October 2021 from 1.75 x to 1.25x and at 31 January 2022 from 2.5x to 1.5x.

In addition, the following amendments have also been made:

- The Group is subject to a minimum liquidity requirement of £40 million, which can be met either through cash or undrawn and committed facilities;
- The permitted indebtedness to the Cruise Group is £55m until September 2022, and then reduces to £30m (being £50m and £25m respectively permitted indebtedness in addition to the level of borrowing that was in place when the facility was originally agreed of £5m);
- Dividends remain restricted while leverage (excluding Cruise) is above 3.0x.

Interest on the bond is incurred at an annual interest rate of 3.375%. Interest on the term loan and RCF is incurred at a variable rate of LIBOR plus a bank margin which is linked to the Group's leverage ratio.

Cruise ship debt deferral

In June 2019, the Group drew down the financing for its cruise ship, Spirit of Discovery, of £245.0m. The financing for Spirit of Discovery represents a 12-year fixed rate sterling loan, backed by an export credit guarantee. The initial loan was repayable in 24 broadly equal instalments, with the first payment of £10.2m paid in December 2019. This financing is secured against Spirit of Discovery cruise ship asset.

30 LOANS AND BORROWINGS (CONTINUED)

Cruise ship debt deferral (continued)

The Board announced on 22 June 2020 that it had secured a debt holiday and covenant waiver for the Group's ship facilities. The Group's lenders agreed to a deferral of £32.1m in principal payments under the ship facilities that were due up to 31 March 2021. These deferred amounts will be paid between June 2021 and December 2024 for Spirit of Discovery and between September 2021 and March 2025 for Spirit of Adventure, and interest remains payable.

On 29 September 2020, the Group drew down the financing for its new cruise ship, Spirit of Adventure, of £280.8m. The financing for Spirit of Adventure represents a 12-year fixed rate sterling loan, backed by an export credit guarantee. The loan is repayable in 24 broadly equal instalments, with the first payment originally due six months after delivery in March 2021, but deferred to September 2021 as a result of the debt holiday described above. This financing is secured against Spirit of Adventure cruise ship asset.

In March 2021 the Group reached agreement of a one-year extension to the debt deferral on its cruise ship facilities (note 41). As part of an industry-wide package of measures to support the cruise industry, an extension of the existing debt deferral has been agreed to 31 March 2022. The key terms of this deferral are:

- All principal payments to 31 March 2022 (£51.8 million) are deferred and repaid over 5 years;
- All financial covenants until 31 March 2022 are waived;
- Dividends remain restricted while the deferred principal is outstanding;
- The Group is now subject to a minimum liquidity requirement of £40 million, which can be met through either cash or undrawn and committed facilities.

Interest on the Spirit of Discovery ship loan is incurred at an effective annual interest rate of 4.31% (including arrangement and commitment fees). Interest on the Spirit of Adventure ship loan is incurred at an effective annual interest rate of 3.30% (including arrangement and commitment fees).

At 31 January 2021, debt issue costs were £26.7m (2020: £14.2m) which have increased in the year following the draw down of the financing for the new cruise ship, Spirit of Adventure.

During the year, the Group charged £29.4m (2020: £19.5m) to the income statement in respect of fees and interest associated with the bond, term loan, ship loans and RCF. In addition, finance costs recognised in the income statement include £0.8m (2020: £1.2m) relating to interest and finance charges on lease liabilities and net fair value losses on derivatives are £nil (2020: £1.1m). The Group has complied with the financial covenants of its borrowing facilities during the current year and prior year.

31 PROVISIONS

	PMI £'m	Other £'m	Total £'m
At 1 February 2019	5.2	4.8	10.0
Utilised during the year	(1.5)	(2.6)	(4.1)
Released unutilised during the year	–	(0.5)	(0.5)
Charge for the year	–	2.4	2.4
	3.7	4.1	7.8
Reclassification to assets held for sale	–	(0.1)	(0.1)
At 31 January 2020	3.7	4.0	7.7
Utilised during the year	(2.8)	(1.2)	(4.0)
Released unutilised during the year	–	(1.1)	(1.1)
Charge for the year	4.0	5.1	9.1
At 31 January 2021	**4.9**	**6.8**	**11.7**

	PMI £'m	Other £'m	Total £'m
Current	4.9	6.2	11.1
Non-current	–	0.6	0.6
At 31 January 2021	**4.9**	**6.8**	**11.7**

	PMI £'m	Other £'m	Total £'m
Current	3.7	2.4	6.1
Non-current	–	1.6	1.6
At 31 January 2020	3.7	4.0	7.7

Notes to the consolidated financial statements continued

31 PROVISIONS (CONTINUED)

COVID-19 has led to a high number of private inpatient appointments and operations being delayed. This has had a favourable impact on the underwriting performance of the private medical insurance (PMI) product, resulting in a profit share due. Due to Group's public commitment to not profit from the impacts of COVID-19, a provision to offset this profit share has been made during the year. The provision represents that some of this upside may be returned to customers, however the quantum remains unknown since it is expected that as lockdowns begin to be lifted and hospitals 'catch up' on missed appointments, the profit share position will reduce during the next financial year.

Other provisions primarily comprise provisions for the return of insurance commission in respect of policies cancelled mid-term after the reporting date or as a result of being cancelled during the statutory cooling off period after the reporting date; credit hire and repair claims handling and litigation costs on income booked as at the reporting date; fleet insurance at the estimated cost of settling all outstanding incidents at the reporting date; and an employer liability provision relating to various Group-related, self-funded insurance arrangements. In addition, over the last year management have been working to identify areas where there is likely to be a requirement to remedy various errors that have had an adverse impact on customer outcomes. Management have also reviewed whether those issues identified necessitate a provision and have quantified a best estimate for this provision in such cases. Based on this quantification and analysis, management have recognised customer remediation provisions for these issues as at 31 January 2021.

All provisions are expected to be fully utilised over the next 12 months with the exception of the fleet insurance, credit hire and repair claims handling and litigation costs, and employer liability provisions. The timing of fleet insurance costs is uncertain and will depend upon the nature of each incident. The costs of debt recovery on credit hire and repair claims handling and litigation costs is uncertain and will depend upon the nature and timing of each claim. The settlement cash outflows from the employer liability provision depend on the timing of the settlement of claims.

These items are reviewed and updated annually.

32 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following tables analyse the cash and non-cash movements for liabilities arising from financing activities:

			Non-cash changes		
	2020 £'m	Cash flows £'m	New leases and lease modifications (note 18) £'m	Other £'m	**2021 £'m**
Lease liabilities (note 37)	28.6	(4.0)	(20.2)	–	**4.4**
Bank loans (note 30)	140.0	(70.0)	–	–	**70.0**
Ship loans (note 30)	234.8	280.8	–	–	**515.6**
Revolving credit facility (note 30)	10.0	(10.0)	–	–	**–**
Bond (note 30)	250.0	–	–	–	**250.0**
Deferred issue costs (note 30)	(14.2)	(17.4)	–	4.8	**(26.8)**

			Non-cash changes		
	2019 £'m	Cash flows £'m	New leases and lease modifications (note 18) £'m	Other £'m	2020 £'m
Lease liabilities (note 37)	27.7	(15.0)	15.9	–	28.6
Bank loans (note 30)	160.0	(20.0)	–	–	140.0
Ship loans (note 30)	–	234.8	–	–	234.8
Revolving credit facility (note 30)	30.0	(20.0)	–	–	10.0
Bond (note 30)	250.0	–	–	–	250.0
Deferred issue costs (note 30)	(3.0)	(7.9)	–	(3.3)	(14.2)

Included within 'Other' is the amortisation of deferred issue costs of £4.8m (2020: £3.4m) and the transfer of debt issue costs paid in the prior year from prepayments to deferred issue costs in the current year of £nil (2020: £6.7m).

Cash flows relating to bank loans comprise repayment of borrowings of £70.0m (2020: £20.0m).

Cash flows relating to ship loans comprise proceeds from borrowings of £280.8m (2020: £245.0m) less repayment of borrowings of £nil (2020: £10.2m).

Cash flows relating to the RCF comprise proceeds from borrowings of £50.0m (2020: £34.0m) less repayment of borrowings of £60.0m (2020: £54.0m).

33 CALLED UP SHARE CAPITAL

	Ordinary shares		
	Number	Nominal value £	Value £'m
Allotted, called up and fully paid			
As at 31 January 2019 and 31 January 2020	1,122,003,328	0.01	11.2
Issue of shares – 5 October 2020			
– First Firm Placing	224,400,000	0.01	2.2
– Second Firm Placing	124,183,026	0.01	1.2
– Placing and Open Offer	623,335,182	0.01	6.3
	971,918,208	0.01	9.7
Sub-total before share consolidation	2,093,921,536	0.01	20.9
Share consolidation – 13 October 2020	(1,954,326,767)		
Issue of shares – 18 November 2020	507,458	0.15	0.1
As at 31 January 2021	**140,102,227**	**0.15**	**21.0**

On 30 August 2020 the Group announced that it was at the advanced stage of a prospective £150m equity capital raise in order to strengthen its statement of financial position, improve liquidity and support the execution of its strategic plan. The prospective £150m equity raise was launched on 10 September 2020, structured as a Firm Placing and Open Offer.

The Group's Firm Placing was made up of two firm placings, both of which involved issuing shares to the Chairman, Roger De Haan. The First Firm Placing resulted in Roger De Haan subscribing for 224,400,000 new ordinary shares at a price of 27p per ordinary share. The Second Firm Placing resulted in Roger De Haan subscribing for 124,183,026 new ordinary shares at 12p per ordinary share (the Offer Price as if he were participating in the Open Offer as a qualifying shareholder). The Firm Placing was inter-conditional with the Placing and Open Offer.

Under the Placing and Open Offer the Company invited its shareholders to subscribe to the issue of 623,335,182 ordinary shares at an issue price of 12p per ordinary share on the basis of five new shares for every nine ordinary shares held. In addition to the Firm Placing described above, Roger De Haan subscribed for 204,250,307 new shares in the Placing and Open Offer, and, as a result, from admission held 26.4% of the enlarged share capital of the Company.

Under the Firm Placing and Open Offer, on 5 October 2020 the Company issued 971,918,208 new ordinary shares, raising £150.3m of funds which were utilised to repay part of the Group's term loan and repay in full the drawn RCF (note 30), with the balance of the proceeds raised increasing available cash. The issue was fully subscribed.

The share premium arising on the issue of the new ordinary shares was £140.6m. Transaction costs associated with the issue of the share capital of £11.6m were deducted from share premium.

On 13 October 2020 the Company undertook a consolidation of its shares, whereby for every 15 ordinary shares held of 1p nominal value, shareholders received 1 new consolidated share of 15p nominal value.

On 18 November 2020, Saga plc issued 507,458 new ordinary shares of 15p each, with a value of £0.1m, for transfer into an Employee Benefit Trust (EBT) to satisfy employee incentive arrangements.

Employee Benefit Trust

The EBT purchased 13,408,108 shares at their nominal value of £134,000 during the year ended 31 January 2015. There were no associated transaction costs.

During the year, employees exercised options over 67,567 of these shares which were transferred from the EBT into the direct ownership of the employee. Employees exercised 13,213,975 of these shares in prior periods. As a result of the share consolidation exercise described above, the remaining 126,566 shares (1p nominal value) became 8,437 shares (15p nominal value) on 13 October 2020. The remaining 8,437 shares have been treated as treasury shares at 31 January 2021.

Notes to the consolidated financial statements continued

34 RESERVES

Share-based payment reserve

Prior to vesting, the share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. More detail is provided in note 36.

Fair value reserve

The fair value reserve comprises the unrealised gains or losses of FVOCI assets pending subsequent recognition in profit or loss once the investment is derecognised.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in: (a) profit or loss as the hedged cash flows or items affect profit or loss; or (b) the statement of financial position as the hedged cash flows or items affect property, plant and equipment.

35 CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

For the purposes of the Group's capital management, capital comprises total equity of £680.7m (2020: £588.2m) as shown on the consolidated statement of financial position. The Group operates in a number of regulated markets and includes subsidiaries which are required to comply with specific requirements in respect of capital or other resources.

The Group's financial services businesses are regulated primarily by the FSC in Gibraltar and by the FCA in the UK; and the capital requirements of its Travel businesses are regulated by the CAA in the UK. It is the Group's policy to comply with the requirements of these regulators in respect of capital adequacy or other similar tests at all times.

The Group's regulated underwriting business is based in Gibraltar and regulated by the FSC. The underwriting business is required to ensure that it has a sufficient level of capitalisation in accordance with Solvency II.

The Group (and its subsidiaries) has complied with externally imposed capital requirements during the year.

(The amounts set out in the following three paragraphs are provisional and unaudited.)

The Group monitored its ability to comply with the requirements of Solvency II throughout the year to 31 January 2021, having previously received approval from the FSC for the Undertaking of Specific Parameters when applying the standard formula to measure capital requirements for this business under Solvency II rules. Under Solvency II, AICL remained well capitalised, and at 31 January 2021 available capital was £123.9m against a Solvency Capital Requirement of £77.0m, giving 161% coverage which has been adjusted to reflect the economic view by removing the benefit of the out of the money quota share arrangement. As at 31 January 2020, available capital was £86.2m against a Solvency Capital Requirement of £53.8m, giving 160% coverage, which did reflect the benefit of the quota share arrangement at that time.

The Group's regulated insurance distribution business is based in the UK and regulated by the FCA. Due to the nature of the business, the capital requirements are significantly less than the underwriting business but the Group is required to comply with the Adequate Resources requirements of Threshold Condition 2.4 of the FCA Handbook. The Group undertakes a rigorous assessment against the requirements of this Condition on an annual basis and, as a consequence of this, calculates and holds an appropriate amount of capital in respect of the insurance distribution business. The Minimum Regulatory Capital requirement of these businesses at 31 January 2021 was £5.3m (2020: £5.3m). Please refer to note 41 for events occurring after the reporting period which will impact this balance.

The regulated Travel businesses are required to comply with a main test based on liquidity. As of 31 January 2020 the CAA changed the liquidity test requirement to a fixed 70% coverage rate on the last day of each month, whereas previously it was a variable coverage rate from month to month, and has removed the leverage test requirement. The Group monitors its compliance with this test on a monthly basis including forward-looking compliance using budgets and forecasts. At 31 January 2021 and 31 January 2020, the Travel businesses had sufficient coverage against this covenant.

36 SHARE-BASED PAYMENTS

The Group has granted a number of different equity-based awards to employees and customers which it has determined to be share-based payments:

a. Share options and free shares offer granted at the time of the IPO

- On 29 May 2014, share options over 13,132,410 shares were granted to certain Directors and employees with no exercise price and no service or performance vesting conditions. There are no cash settlement alternatives.
- Eligible customers and employees who acquired their shares under the Customer or Employee Offers in the Prospectus received one bonus share for every 20 shares they acquired and held continuously for one year to 29 May 2015. As these were bonus shares, there was no exercise price and no cash settlement alternative.

b. Restricted Share Plan (RSP)

- The RSP is a discretionary executive share plan under which the Board may grant options over shares in Saga plc.
- On 24 June 2020, options over 12,134,706 shares were issued under the RSP to certain Directors and other senior employees which vest and become exercisable on the third anniversary of the grant date, subject to continuing employment.
- On 15 December 2020, options over 26,225 shares were issued under the RSP to certain Directors and other senior employees which vest and become exercisable on the third anniversary of the grant date, subject to continuing employment.

c. Long-Term Incentive Plan (LTIP)

- The LTIP is a discretionary executive share plan under which the Board may, within certain limits and subject to applicable performance conditions, grant options over shares in Saga plc.
- Up to 31 January 2017, these options are 50% linked to a non-market vesting condition, EPS, and 50% linked to a market vesting condition, Total Shareholder Return (TSR).
- From 1 February 2017 to 31 January 2018, these options were 60% linked to non-market vesting conditions (30% linked to basic EPS and 30% linked to organic EPS) and 40% linked to a market vesting condition, TSR.
- From 1 February 2018, these options were 60% linked to non-market vesting conditions (30% linked to organic EPS and 30% linked to return on capital employed (ROCE)) and 40% linked to a market vesting condition, TSR.
- From 1 February 2019, these options are 75% linked to non-market vesting conditions (50% linked to operational and strategic measures and 25% linked to ROCE) and 25% linked to a market vesting condition, TSR.

d. Deferred Bonus Plan (DBP)

- On 28 May 2020, share options over 1,337,581 shares were issued under the DBP to the Executive Directors reflecting their deferred bonus in respect of 2019/20, which vest and become exercisable on the third anniversary of the grant date. Under the DBP scheme, executives receive two-thirds of the bonus award in cash and one-third in the form of rights to shares of the Company.

e. Other share options

- On 2 December 2015, share options over 99,552 shares were issued to the Chief Marketing Officer at the time which were to vest on the second anniversary of his appointment, subject to continuing employment. Following the cessation of his employment, the vesting period was extended to 1 May 2020.

f. Employee Free Shares

- On 23 November 2020, 253,458 shares were awarded to eligible staff on the sixth anniversary of the IPO and allocated at nil cost; these shares become beneficially owned over a three-year period from allocation, subject to continuing service.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. With the exception of share options granted at the time of the IPO, if an employee ceases to be employed by the Group, the option rights will be forfeited, except in limited circumstances that are approved by the Board on a case-by-case basis

Notes to the consolidated financial statements continued

36 SHARE-BASED PAYMENTS (CONTINUED)

The table below summarises the movements in the number of share options outstanding for the Group and their weighted average exercise price:

	IPO options	RSP	LTIP	DBP	Other options	Employee Free Shares	Total
At 1 February 2020	194,133	–	18,835,712	1,003,882	99,552	3,371,966	23,505,245
Granted	–	12,134,706	–	1,337,581	–	–	13,472,287
Forfeited	–	(333,567)	(5,552,624)	–	–	(187,513)	(6,073,704)
Exercised	(67,567)	–	(649,039)	(380,330)	–	(727,471)	(1,824,407)
Sub-total before share consolidation	126,566	11,801,139	12,634,049	1,961,133	99,552	2,456,982	29,079,421
Share consolidation – 13 October 2020 (note 33)	(118,129)	(11,014,397)	(11,791,781)	(1,830,393)	(92,916)	(2,293,185)	(27,140,801)
Granted	–	26,225	–	–	–	253,458	279,683
Forfeited	–	–	–	–	–	(2,322)	(2,322)
Exercised	–	–	(1,033)	–	–	(5,004)	(6,037)
At 31 January 2021	8,437	812,967	841,235	130,740	6,636	409,929	2,209,944
Exercise price	£nil	£nil	£nil	£nil	£nil	£nil	£nil
Exercisable at 31 January 2021	8,437	–	11,585	5,168	–	61,174	86,364
Average remaining contractual life	0.0 years	2.4 years	1.2 years	2.0 years	0.0 years	2.0 years	1.8 years
Average fair value at grant	£27.75	£2.71	£10.27	£5.23	£30.33	£7.87	£6.87

The average fair values at grant date have been restated to reflect the impact of the share consolidation.

The weighted average share price at the date of exercise for share options exercised during the year ended 31 January 2021 was £2.42 (2020: £11.38).

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled and cash-settled share-based remuneration schemes operated by the Group.

	RSP	DBP	Employee Free Shares
Model used	Black-Scholes	Black-Scholes	Black-Scholes
Expected life of share option	3 years	3 years	3 years
Weighted average share price (£)	£2.71	£3.34	£2.77

As only limited historical data for the Group's share price is available, the Group has estimated the Company's share price volatility as an average of the volatilities of its TSR comparator group over a historical period commensurate with the expected life of the award immediately prior to the date of the grant.

For future valuations, at a date when sufficient Saga share price data becomes available, the Group intends to estimate the Company volatility directly from this data.

The total amount charged to the income statement in the year ended 31 January 2021 is £2.4m (2020: £2.1m). This has been charged to administrative and selling expenses £2.4m (2020: £2.1m).

The Group did not enter into any share-based payment transactions with parties other than employees during the current period.

37 COMMITMENTS AND CONTINGENCIES

a. Lease commitments

The Group leases various river cruise ships, offices, warehouses, equipment and vehicles. The contract length of the lease varies considerably and may include extension or termination options. Where it is reasonably certain that an extension option will be triggered in a contract, lease payments to be made in respect of the option are included in the measurement of the lease liability. Future minimum lease payments under lease contracts together with the present values of the net minimum lease payments are as follows:

	2021 £'m	2020 £'m
Within one year	**2.3**	9.8
Between one and five years	**2.2**	10.8
After five years	**0.1**	45.5
Total minimum lease payments	**4.6**	66.1
Less amounts representing finance charges	**(0.2)**	(37.5)
Present value of minimum lease payments	**4.4**	28.6

Please refer to note 18 for further details on modification of lease terms during the year.

As at 31 January 2021, the value of lease liabilities contracted for but not provided for in the financial statements in respect of right-of-use assets amounted to £92.7m (2020: £88.1m). These lease commitments relate to the river cruise vessels, Spirit of the Rhine and Spirit of Danube.

b. Commitments

As at 31 January 2021, the capital amount contracted for but not provided for in the financial statements, amounted to £nil (2020: £271.9m). For the year ended 31 January 2020 the capital amount contracted but not provided for, related to the purchase of the cruise ship, Spirit of Adventure, which the Group took delivery of on 29 September 2020.

c. Contingent liabilities

The CAA and ABTA regulate the Group's UK Tour Operations business. IATA and ABTA require the Group to put in place bonds to provide customer protection. At 31 January 2021, the Group had £21.0m (2020: £48.0m) of tour operating-related bonds in place.

38 ASSETS HELD FOR SALE

At the end of the year, the Group made the decision to initiate an active programme to locate buyers for a number of its freehold properties. Immediately before the classification of the properties to held for sale, their recoverable amounts were ascertained and this resulted in an impairment charge of £4.5m being recognised against the Group's freehold land and buildings assets (note 17a). At the point of reclassification to held for sale, the carrying values were considered to be equal to, or below, fair value less costs to sell and hence no revaluation at the point of reclassification was required. These properties are presented within the Insurance segment of the Group, are being actively marketed and the disposals are expected to be completed within 12 months of the end of the financial year. No gains or losses have been recognised with respect to the properties.

During the prior year, the Group made the decision to initiate an active programme to locate a buyer for its insurance biking brand, Bennetts, and its Healthcare segment. As at 31 January 2020, the requirements of IFRS 5 were met and accordingly Bennetts and the Healthcare segment were classified as separate disposal groups held for sale in the statement of financial position. Neither of the disposal groups met the requirements of IFRS 5 to be classified as discontinued operations. During the current year the Group completed the sale of these two operations. Further information on the completed disposals can be found in note 13.

39 SUBSIDIARIES

The entities listed below are subsidiaries of the Company or Group. All of the undertakings are wholly owned and included within the consolidated financial statements. The registered office address for all entities registered in England is Enbrook Park, Sandgate, Folkestone, Kent CT20 3SE. The registered office address of Acromas Insurance Company Limited is 57/63 Line Wall Road, Gibraltar. The registered office address of Saga Cruises GmbH is Industriegebiet Süd, 26871, Papenburg, Niedersachsen, Germany. The registered office address of Saffron Maritime Limited is Aspire Corporate Services Limited, PO Box 191, Elizabeth House, Ruettes Brayes, St Peter Port, Guernsey, GY1 4HW.

Name	Country of registration	Nature of business
Saga Personal Finance Limited	England	Delivery of regulated investment products
Saga Services Limited	England	Regulated Insurance distribution
Acromas Insurance Company Limited	Gibraltar	Insurance underwriting
CHMC Limited	England	Motor accident management

Notes to the consolidated financial statements continued

39 SUBSIDIARIES (CONTINUED)

Name	Country of registration	Nature of business
PEC Services Limited	England	Repairer of automotive vehicles
ST&H Limited	England	Tour operating
Titan Transport (UK) Limited	England	Tour operating
Titan Travel (UK) Limited	England	Tour operating
Saga Transport Limited	England	Tour operating
Saga Cruises Limited	England	Cruising
Saga Cruises IV Limited	England	Cruising
Saga Cruises V Limited	England	Cruising
Saga Cruises VI Limited	England	Cruising
Saga Cruises GmbH	Germany	Cruising
Saga Crewing Services Limited	England	Cruising
Saffron Maritime Limited	Guernsey	Cruising
MetroMail Limited	England	Mailing house
Saga Mid Co Limited	England	Debt service provider
Saga Publishing Limited	England	Publishing
Saga Membership Limited	England	Customer loyalty scheme
Driveline Group Limited	England	Holding company
CHMC Holdings Limited	England	Holding company
Saga 200 Limited	England	Holding company
Saga 300 Limited	England	Holding company
Saga 400 Limited	England	Holding company
Saga Group Limited	England	Holding company
Saga Holdings Limited	England	Holding company
Saga Leisure Limited	England	Holding company
Saga Properties Limited	England	Holding company
ST&H Group Limited	England	Holding company
Confident Services Limited	England	Dormant company
Driveline Europe Limited	England	Dormant company
Driveline Travel Limited	England	Dormant company
Enbrook Cruises Limited	Enbrook	Dormant company
Saga 500 Limited	England	Dormant company
Saga Coach Holidays Limited	England	Dormant company
Saga Communications Limited	England	Dormant company
Saga Cruises BDF Limited	England	Dormant company
Saga Cruises I Limited	England	Dormant company
Saga Cruises II Limited	England	Dormant company
Saga Cruises III Limited	England	Dormant company
Saga Flights.com Limited	England	Dormant company
Saga Funding Limited	England	Dormant company
Saga Healthcare Limited	England	Dormant company
Saga Holidays Limited	England	Dormant company
Saga Independent Living Limited	England	Dormant company
Saga Radio (North West) Limited	England	Dormant company
Saga Retirement Villages Limited	England	Dormant company
Saga Shipping Company Limited	England	Dormant company
Spirit of Adventure Limited	England	Dormant company
ST&H Transport Limited	England	Dormant company
Titan Aviation Limited	England	Dormant company
Titan Travel Holdings Limited	England	Dormant company
Titan Travel Limited	England	Dormant company

40 RELATED PARTY TRANSACTIONS

Roger De Haan was appointed as non-executive chairman of Saga plc on 5 October 2020, following his purchase of 36,855,555 shares in the Company (constituting 26.4% of issued share capital immediately after the capital raise and 26.31% of total issued capital as at 31 January 2021). The Company entered into a relationship agreement with Roger De Haan on 10 September 2020, which regulates the relationship between the Company and Roger De Haan and contains undertakings that transactions and arrangements with the shareholder will be conducted on an arm's length basis and on normal commercial terms.

On 6 April 2021, the Company entered into a working capital facility agreement with Roger De Haan, which allows the Company to draw down up to £10m with 20 days' notice to fund the short-term liquidity needs of its Cruise business. The agreement allows the Company to select a loan period of one, two, three or six months, or any other period agreed with Roger De Haan. Interest on the working capital facility agreement is incurred at a variable rate of LIBOR plus a bank margin which is linked to the Group's leverage ratio. Interest accrues on the facility and is payable on the last day of the period of the loan. The facility matures on 9 May 2023, at which point any outstanding amounts, including interest, must be repaid.

41 EVENTS AFTER THE REPORTING PERIOD

a. Regulated insurance distribution business – TC2.4 balance

The Group is in discussion with the FCA regarding the magnitude of the Threshold Condition 2.4 balance that the Retail Broking business holds as restricted cash and the potential need to hold an additional amount on a temporary basis as a result of COVID-19. Any additional temporary liquidity provision is not expected to be significant in a Group context and allowance has been made for this in going concern and viability assessments on a prudent basis.

b. Corporate and cruise ship facilities

In March 2021 the Group reached agreement to amend covenants on the term loan and RCF, and the agreement of a one-year extension to the debt deferral on its cruise ship facilities.

Term loan and RCF

The covenants within the Group's term loan and RCF have been amended as follows:

- Increase in the leverage ratio (excluding Cruise) covenant at 31 January 2022 from 4.00x to 4.25x;
- Reduction in the Group interest cover covenant at 31 July 2021 from 1.5x to 1.25x, at 31 October 2021 from 1.75 x to 1.25x and at 31 January 2022 from 2.5x to 1.5x.

In addition, the following amendments have also been made:

- The Group is subject to a minimum liquidity requirement of £40 million, which can be met either through cash or undrawn and committed facilities;
- The permitted indebtedness to the Cruise Group is £55m until September 2022, and then reduces to £30m (being £50m and £25m respectively permitted indebtedness in addition to the level of borrowing that was in place when the facility was originally agreed of £5m);
- Dividends remain restricted while leverage (excluding Cruise) is above 3.0x.

Cruise ship debt deferral

As part of an industry-wide package of measures to support the cruise industry, an extension of the existing debt deferral has been agreed to 31 March 2022. The key terms of this deferral are:

- All principal payments to 31 March 2022 (£51.8 million) are deferred and repaid over 5 years;
- All financial covenants until 31 March 2022 are waived;
- Dividends remain restricted while the deferred principal is outstanding;
- The Group is now subject to a minimum liquidity requirement of £40 million, which can be met through either cash or undrawn and committed facilities.

Company financial statements of Saga plc

Balance sheet

	Note	2021 £'m	2020 £'m
Non-current assets			
Investment in subsidiaries	2	**552.3**	552.3
Current assets			
Debtors – amounts falling due after more than one year	4	**412.5**	284.6
Debtors – amounts falling due within one year	4	**2.2**	3.0
Cash and short-term deposits		**0.1**	–
		414.8	287.6
Creditors – amounts falling due within one year	5	**(4.8)**	(4.0)
Net current assets		**410.0**	283.6
Creditors – amounts falling due after more than one year	6	**(248.9)**	(248.6)
Net assets		**713.4**	587.3
Capital and reserves			
Called up share capital	7	**21.0**	11.2
Share premium account		**648.3**	519.3
Profit and loss reserve		**38.2**	48.8
Share-based payment reserve		**5.9**	8.0
Total shareholders' funds		**713.4**	587.3

The Company has not presented its own profit and loss account as permitted by section 408(3) of the Companies Act 2006 (the 'Act'). The loss included in the financial statements of the Company, determined in accordance with the Act, was £14.2m (2020: £532.7m).

Company number: 08804263

The notes on pages 206 to 211 form an integral part of these financial statements.

Signed for and on behalf of the Board on 6 April 2021 by

E A SUTHERLAND
Group Chief Executive Officer

J B QUIN
Group Chief Financial Officer

Company financial statements of Saga plc

Statement of changes in equity

	Called up share capital £'m	Share premium account £'m	Retained earnings £'m	Share-based payment reserve £'m	Total equity £'m
At 31 January 2019	11.2	519.3	600.2	13.6	1,144.3
Loss for the financial year	–	–	(532.7)	–	(532.7)
Dividends paid	–	–	(25.8)	–	(25.8)
Share-based payment charge	–	–	–	2.1	2.1
Exercise of share options	–	–	7.1	(7.7)	(0.6)
At 31 January 2020	11.2	519.3	48.8	8.0	587.3
Loss for the financial year	**–**	**–**	**(14.2)**	**–**	**(14.2)**
Dividends paid	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Issue of share capital (note 7)	**9.8**	**140.6**	**–**	**–**	**150.4**
Transaction costs associated with issue of share capital	**–**	**(11.6)**	**–**	**–**	**(11.6)**
Share-based payment charge	**–**	**–**	**–**	**2.3**	**2.3**
Exercise of share options	**–**	**–**	**3.7**	**(4.4)**	**(0.7)**
At 31 January 2021	**21.0**	**648.3**	**38.2**	**5.9**	**713.4**

Notes to the Company financial statements

1.1 ACCOUNTING POLICIES

a. Accounting convention

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards (IAS) in conformity with the requirements of the Companies Act 2006, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements are prepared under the historical cost convention, as modified by derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006, and are prepared on a going concern basis (please refer to note 2.1 of the Saga plc consolidated accounts on pages 136 to 138 for assessment of the going concern basis for the Group and the Company).

The Company's financial statements are presented in sterling and all values are rounded to the nearest hundred thousand (£'m) except when otherwise indicated.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2021.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of IFRS 7 'Financial Instruments: Disclosures'.
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1.
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B-D, 40A-D, 111 and 134-136 of IAS 1 'Presentation of Financial Statements'.
- The requirements of IAS 7 'Statement of Cash Flows'.
- The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.
- The requirements of paragraphs 17 and 18A of IAS 24 'Related Party Disclosures'.
- The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- The requirements of paragraphs 45(b) and 46-52 of IFRS 2 'Share-based Payment'.

b. Investment in subsidiaries

Investment in subsidiaries are accounted for at the lower of cost less impairment and net realisable value and reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

c. Debtors

Trade and other debtors are initially recognised at fair value and, where the time value of money is material, subsequently measured at amortised cost using the effective interest rate method. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Amounts due from Group undertakings are classified as debtors. They have no fixed date of payment and are payable on demand. The amounts due from Group undertakings are disclosed at fair value.

1.1 ACCOUNTING POLICIES (CONTINUED)

d. Deferred tax

Deferred tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses, can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is dealt with in OCI.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

e. Share-based payments

The Company provides benefits to employees (including Directors) of Saga plc and its subsidiary undertakings, in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions'). The cost of equity-settled transactions is measured by reference to the fair value on the grant date and is recognised as an expense over the relevant vesting period, ending on the date on which the employee becomes fully entitled to the award.

Fair values of share-based payment transactions are calculated using Black-Scholes modelling techniques.

In valuing equity-settled transactions, assessment is made of any vesting conditions to categorise these into market performance conditions, non-market performance conditions and service conditions.

Where the equity-settled transactions have market performance conditions (that is, performance which is directly or indirectly linked to the share price), the fair value of the award is assessed at the time of grant and is not changed, regardless of the actual level of vesting achieved, except where the employee ceases to be employed prior to the vesting date.

For service conditions and non-market performance conditions, the fair value of the award is assessed at the time of grant and is reassessed at each reporting date to reflect updated expectations for the level of vesting. No expense is recognised for awards that ultimately do not vest.

At each reporting date prior to vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and, in the case of non-market conditions, the best estimate of the number of equity instruments that will ultimately vest or, in the case of instruments subject to market conditions, the fair value on grant adjusted only for leavers. The movement in the cumulative expense since the previous reporting date is recognised in the income statement, with the corresponding increase in share-based payments reserve.

Upon vesting of an equity instrument, the cumulative cost in the share-based payments reserve is reclassified to reserves.

f. Financial instruments

i) Financial assets

On initial recognition, a financial asset is classified as either amortised cost, FVOCI or FVTPL. The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The Company measures all financial assets at fair value at each reporting date, other than those instruments measured at amortised cost.

The Company's financial assets at amortised cost include amounts due from Group undertakings. The Company does not hold any financial assets classified as FVOCI or FVTPL.

Notes to the Company financial statements continued

1.1 ACCOUNTING POLICIES (CONTINUED)

f. Financial instruments (continued)

Financial assets at amortised cost

Initial recognition and measurement

A financial asset is classified at amortised cost if it meets both of the following conditions and is not elected to be designated as a FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows.
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement

These assets are subsequently measured at amortised cost using the EIR method. The amortised cost is reduced by impairment losses (see (ii) below). Impairment losses are recognised in profit or loss as they are incurred. Any gain or loss on derecognition is recognised in profit or loss immediately.

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or when the Company has transferred substantially all the risks and rewards relating to the asset to a third party.

ii) Impairment of financial assets

The ECL impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI.

The Company measures loss allowances at an amount equal to 12 month ECLs, except for trade receivables and contract assets that result from transactions within the scope of IFRS 15.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Measurement of ECLs

ECLs are measured as a probability-weighted estimate of credit losses. Credit losses are measured as the probability of default in conjunction with the present value of the Group's exposure. Loss allowances for ECLs on financial assets measured at amortised cost are deducted from the gross carrying amount of the assets, with a corresponding charge to the income statement.

iii) Financial liabilities

Initial recognition and measurement

All financial liabilities are classified as financial liabilities at amortised cost on initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities comprise loans and borrowings.

Subsequent measurement

After initial recognition, interest bearing loans and borrowings and other payables are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

g. Audit remuneration

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements.

1.2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the primary Company financial statements and notes to the Company financial statements.

Significant estimates

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results may therefore differ from those estimates.

The table below sets out those items the Company considers susceptible to changes in critical estimates and assumptions together with the relevant accounting policy.

Acc. policy	Items involving estimation	Sources of estimation uncertainty
2.3h	Investment in subsidiaries impairment testing	The Company determines whether investment in subsidiaries needs to be impaired when indicators of impairment exist. This requires an estimation of the value-in-use of the subsidiaries owned by the Company. The value-in-use calculation requires the Company to estimate the future cash flows expected to arise from the subsidiaries, discounted at a suitably risk-adjusted rate in order to calculate present value. Sensitivity analysis has been undertaken to determine the effect of changing the discount rate, the terminal value and future cash flows on the present value calculation, which is shown in note 2 on pages 209 and 210.

2 INVESTMENT IN SUBSIDIARIES

	£'m
Cost	
At 31 January 2019	4,132.2
Capital contributions arising from share-based payments	0.5
At 31 January 2020	4,132.7
Capital contributions arising from share-based payments	–
At 31 January 2021	**4,132.7**
Amounts provided for	
At 31 January 2019	3,062.4
Amounts provided in the year	518.0
At 31 January 2020	3,580.4
Amounts provided in the year	–
At 31 January 2021	**3,580.4**
Net book value	
At 31 January 2021	**552.3**
At 31 January 2020	552.3

See note 39 to the consolidated financial statements for a list of the Company's investments.

The Company has tested the investment in subsidiaries balance for impairment at 31 January 2021 due to the carrying value being in excess of the Company's market capitalisation and this constituting an indicator of impairment. The impairment test compares the recoverable amount of investment to its carrying value.

The recoverable amount of the investment has been determined based on a value-in-use calculation using cash flow projections from the Group's Board approved five-year plan to 2025/26. Terminal values have been included using 2.0% as the expected long-term average growth rate of the UK economy, and calculated using the Gordon Growth Model. The cash flows have then been discounted to present value using a suitably risk-adjusted discount rate derived from the Group's weighted average cost of capital, and risk adjusted for each of the Group's businesses based on relative industry betas and cost of debt levels. The recoverable amount is the value-in-use, being the sum of the value-in-use of the Group's CGUs and the present value of central costs less the market value of external debt and the net assets of the Company (excluding the carrying value of the investment in subsidiaries).

Notes to the Company financial statements continued

2 INVESTMENT IN SUBSIDIARIES (CONTINUED)

In the current year, the recoverable amount when compared against the carrying value of the investment in subsidiaries resulted in headroom of £342.0m in a central scenario. When considering an array of stress tests to the Group's projected cash flows in line with the reasonable worse-case assumptions outlined in note 2.1 of the Saga plc consolidated accounts on pages 136 to 138, combined with a lower terminal growth rate of 1.5%, the level of headroom reduced to £12.0m. Management therefore concluded that is was not necessary to impair the investment in subsidiaries, nor would it be appropriate to reverse any impairment already recognised in previous years at this point in time.

In the prior year, the recoverable amount when compared against the carrying value of the investment in subsidiaries resulted in a deficit of £518.0m, therefore management considered it necessary to impair the investment in subsidiaries balance to its value-in-use of £552.3m. An impairment charge of £518.0m was recognised in the year to 31 January 2020.

The surplus calculated is most sensitive to the discount rate and terminal growth rate assumed. A quantitative sensitivity analysis for each of these as at 31 January 2021 and its impact on the headroom/(deficit) against the carrying value of investment in subsidiaries is as follows:

	Pre-tax discount rate		Terminal growth rate	
	+1.0ppt £'m	−1.0ppt £'m	+1.0ppt £'m	−1.0ppt £'m
Impact	(199.5)	253.7	192.5	(151.3)

3 DIVIDENDS

The Company did not receive any dividends during the current year (2020: £nil).

4 DEBTORS

	2021 £'m	2020 £'m
Amounts falling due after more than one year		
Amounts due from Group undertakings	**412.5**	284.6
	412.5	284.6

	2021 £'m	2020 £'m
Amounts falling due within one year		
Deferred tax asset	**1.0**	1.2
Other debtors	**1.2**	1.8
	2.2	3.0

5 CREDITORS – AMOUNTS FALLING DUE IN LESS THAN ONE YEAR

	2021 £'m	2020 £'m
Other creditors	**3.0**	2.2
Accrued interest payable	**1.8**	1.8
	4.8	4.0

6 CREDITORS – AMOUNTS FALLING DUE IN MORE THAN ONE YEAR

	2021 £'m	2020 £'m
Bond	**250.0**	250.0
Unamortised issue costs	**(1.1)**	(1.4)
	248.9	248.6

Please refer to note 30 of the Saga plc consolidated accounts on pages 194 and 195 for further details relating to the bond.

7 CALLED UP SHARE CAPITAL

	Ordinary shares		
	Number	Nominal value £	Value £'m
Allotted, called up and fully paid			
As at 31 January 2019 and 31 January 2020	1,122,003,328	0.01	11.2
Issue of shares – 5 October 2020			
– First Firm Placing	224,400,000	0.01	2.2
– Second Firm Placing	124,183,026	0.01	1.2
– Placing and Open Offer	623,335,182	0.01	6.3
	971,918,208	0.01	9.7
Sub-total before share consolidation	2,093,921,536	0.01	20.9
Share consolidation – 13 October 2020	(1,954,326,767)		
Issue of shares – 18 November 2020	507,458	0.15	0.1
As at 31 January 2021	**140,102,227**	0.15	21.0

On 30 August 2020 the Company announced that it was at the advanced stage of a prospective £150m equity capital raise in order to strengthen the Group's statement of financial position, improve liquidity and support the execution of its strategy plan. The prospective £150m equity raise was launched on 10 September 2020, structured as a Firm Placing and Open Offer.

Under the Firm Placing and Open Offer, on 5 October 2020 the Company issued 971,918,208 new ordinary shares, raising £150.3m of funds which were utilised to repay part of the Group's term loan and repay in full the drawn RCF, with the balance of the proceeds raised increasing available cash. The issue was fully subscribed.

The share premium arising on the issue of the new ordinary shares was £140.6m. Transaction costs associated with the issue the share capital of £11.6m were deducted from share premium.

On 13 October 2020 the Company undertook a consolidation of its shares, whereby for every 15 ordinary shares held of 1p nominal value, shareholders received 1 new consolidated share of 15p nominal value.

On 18 November 2020, Saga plc issued 507,458 new ordinary shares of 15p each, with a value of £0.1m, for transfer into an EBT to satisfy employee incentive arrangements.

Please refer to note 33 of the Saga plc consolidated accounts on page 197 for further details on the movements in share capital during the year.

8 COMMITMENTS

The Company has provided guarantees for the Group's bond, term loan, ship debt, RCF and bank overdraft (please refer to notes 25 and 30 of the Saga plc consolidated accounts on pages 185, and 194 to 195, respectively for further details).