

Registration number: SC127074

Towergate Financial (Scotland) Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2017



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Towergate Financial (Scotland) Limited

Company Information

Directors	D C Ross A Erotocritou
Company secretary	J A Gregory
Registered office	150 St. Vincent Street Glasgow G2 5NE
Auditor	KPMG LLP 15 Canada Square Canary Wharf London E14 5GL

Towergate Financial (Scotland) Limited

Strategic Report for the Year Ended 31 December 2017

The directors present their strategic report for the year ended 31 December 2017 for Towergate Financial (Scotland) Limited ("the Company"). The strategic report provides a review of the business for the financial year and describes how the directors manage risks. The report outlines the developments and performance of the Company during the financial year, the position at the end of the year and discusses the main trends and factors that could affect the future. The Company is part of The Ardonagh Group Limited ("the Group").

Principal activities and business review

On 16 March 2015, all of the trading assets of the Company were sold and the Company ceased to trade. The Company does not trade and is in run-off.

The results for the Company show turnover of £Nil (18 month period ended 31 December 2016: £Nil) and loss before tax of £3.2m (18 month period ended 31 December 2016: profit £4.6m) for the year. At 31 December 2017 the Company had net assets of £6.6m (18 month period ended 31 December 2016: £9.6m).

A provision of £2.3m in respect of redress payments for historic Enhanced Transfer Value (ETV) advice has been recognised at 31 December 2017. An additional run-off provision of £0.3m was also recognised, whilst the existing Unregulated Collective Investments Schemes (UCIS) provision brought forward from 2016 has been settled in full during 2017.

The going concern note (part of accounting policies) on page 12, sets out the reasons why the directors believe that the preparation of the financial statements on the non-going concern basis is appropriate.

During the year the company received £Nil (18 month period ended 31 December 2016: £15.0m) of capital contributions from Towergate Insurance Limited, its indirect parent company, which had an impact on its financial position when compared with the prior year.

Outlook

The business operations are in run-off in an orderly manner and any remaining obligations will continue to be settled. It is the directors' intention to wind-up the Company once the run-off process has completed.

Key performance indicators

The directors consider the key performance indicator for the Company is ensuring its liabilities are settled fairly and expeditiously. The Company set performance targets for the year ahead and the directors monitor progress, recognising that the Company is dependent upon the continued financial support of Towergate Insurance Limited (a fellow Group subsidiary).

Principal risks and uncertainties

Risk management

The principal risk facing the Company is ensuring timely settlement of its liabilities, most significantly its ETV provision of £2.3m, which Towergate Financial (Group) Limited oversees as part of its position as a company in the wider Group. The directors believe that the Company has access to financial support to meet projected financial obligations over the coming year. This is based upon cash flow projections over a period of twelve months from the date of approval of the accounts and Towergate Insurance Limited's present intention to provide ongoing financial support, although the provision of such support is not a legally binding commitment.

As noted in the Outlook section the Company's operations are in run-off and the Company is managed on a non-going concern basis.

The principal risks and their mitigation are as follows:

Towergate Financial (Scotland) Limited

Strategic Report for the Year Ended 31 December 2017

Liquidity risk

Group Treasury monitors rolling forecasts of the Company's liquidity requirements. Such forecasting takes into consideration the Company's dependency on financial support from Towergate Insurance Limited.

Regulatory and legal risk

This is the risk of regulatory sanctions, material financial loss or loss to reputation suffered as a result of non compliance with laws, regulations and applicable administrative provisions.

Approved by the Board on 30 April 2018 and signed on its behalf by:



.....
A Erotocritou
Director

Towergate Financial (Scotland) Limited

Directors' Report for the Year Ended 31 December 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

Directors of the Company

The directors, who held office during the year, were as follows:

D C Ross

M S Mugge (resigned 2 March 2018)

A Erotocritou (appointed 15 March 2017)

Dividends

The directors do not recommend a final dividend payment to be made in respect of the financial year ended 31 December 2017 (18 month period ended 31 December 2016: £Nil).

Financial risk management objectives and policies

Details of financial risk management objectives and policies can be found in the strategic report within the 'Risk management' section on page 2.

Future developments

Details of future developments can be found in the strategic report within the 'Outlook' section on page 2.

Political donations

The Company has not made any political donations during the year (18 month period ended 31 December 2016: £Nil).

Going concern

The Company disposed of its trade and assets on 16 March 2015, and is in run-off. As a consequence, the financial statements of the Company have been prepared on a non-going concern basis.

Directors' liabilities

All directors benefit from qualifying third party indemnity provisions, subject to the conditions set out in the Companies Act 2006, in place during the financial period and at the date of this report. In certain circumstances, the Company can indemnify directors, in accordance with its Articles of Association, against costs incurred in the defence of legal proceedings brought against them by virtue of their office. Directors' and officers' liability insurance cover remains in place to protect all directors and senior managers.

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Towergate Financial (Scotland) Limited

Directors' Report for the Year Ended 31 December 2017

Reappointment of auditor

At the Board meeting last year KPMG LLP were reappointed as the Company's statutory auditors. During the year, a formal tender process took place for the Company, led by The Ardonagh Group Limited Audit Committee.

As a result of this tender process the Audit Committee recommended, and The Ardonagh Group Board approved on behalf of the Company, the proposed appointment of Deloitte LLP as an external auditor for the financial year ending 31 December 2018.

Approved by the Board on 30 April 2018 and signed on its behalf by:



A Erotocritou
Director

150 St. Vincent Street
Glasgow
G2 5NE

Towergate Financial (Scotland) Limited

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so (as explained in note 2, the directors do not believe that it is appropriate to prepare these financial statements on a going concern basis).

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

Independent Auditor's Report to the Members of Towergate Financial (Scotland) Limited

Opinion

We have audited the financial statements of Towergate Financial (Scotland) Limited (the "Company") for the year ended 31 December 2017, which comprise the Statement of Financial Position, Statement of Comprehensive Income and Statement of Changes in Equity and related notes, including a the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Emphasis of matter

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements which explains that the financial statements have not been prepared on a going concern basis for the reasons set out in that note.

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Independent Auditor's Report to the Members of Towergate Financial (Scotland) Limited

Directors' responsibilities

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

Auditor's responsibilities

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

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

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

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



.....
Rajan Thakrar (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

30 April 2018

Towergate Financial (Scotland) Limited

Statement of Comprehensive Income for the Year Ended 31 December 2017

	1 Jan 2017 to 31 December 2017	1 July 2015 to 31 December 2016
	Note	
		£
Turnover		-
Administrative expenses		<u>4,627,208</u>
Operating (loss)/profit	4	(3,179,974)
Exceptional loss on disposal of operations	5	<u>(2,716)</u>
(Loss)/profit before tax		(3,179,974)
Income tax credit	7	<u>178,851</u>
Total comprehensive (loss)/profit for the year/period		<u>(3,001,123)</u>

The above results were derived from discontinued operations.

The notes on pages 12 to 23 form an integral part of these financial statements.

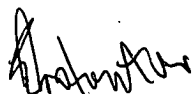
Towergate Financial (Scotland) Limited

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Statement of Financial Position as at 31 December 2017

	Note	2017 £	2016 £
Assets			
Current assets			
Trade and other receivables	8	9,067,994	10,166,661
Cash and cash equivalents	9	1,147,327	157,653
Other current financial assets	10	<u>22,730</u>	<u>155,396</u>
		<u>10,238,051</u>	<u>10,479,710</u>
Equity and liabilities			
Equity			
Called up share capital	11	45,000	45,000
Other reserves		15,000,000	15,000,000
Retained losses		<u>(8,483,152)</u>	<u>(5,482,029)</u>
		<u>6,561,848</u>	<u>9,562,971</u>
Current liabilities			
Trade and other payables	12	1,018,944	510,193
Provisions	13	<u>2,657,259</u>	<u>406,546</u>
		<u>3,676,203</u>	<u>916,739</u>
Total equity and liabilities		<u>10,238,051</u>	<u>10,479,710</u>

Approved by the Board on 30 April 2018 and signed on its behalf by:



.....
A Erotocritou
Director

The notes on pages 12 to 23 form an integral part of these financial statements.

Towergate Financial (Scotland) Limited

Statement of Changes in Equity for the Year Ended 31 December 2017

	Share capital £	Other reserves £	Retained losses £	Total £
At 1 January 2017	45,000	15,000,000	(5,482,029)	9,562,971
Total comprehensive loss	-	-	(3,001,123)	(3,001,123)
At 31 December 2017	<u>45,000</u>	<u>15,000,000</u>	<u>(8,483,152)</u>	<u>6,561,848</u>

	Share capital £	Other reserves £	Retained losses £	Total £
At 1 July 2015	45,000	-	(10,106,521)	(10,061,521)
Total comprehensive income	-	-	4,624,492	4,624,492
Capital contribution	-	15,000,000	-	15,000,000
At 31 December 2016	<u>45,000</u>	<u>15,000,000</u>	<u>(5,482,029)</u>	<u>9,562,971</u>

During the period ended 31 December 2016, the Company received £15,000,000 of capital contributions from Towergate Insurance Limited, its indirect parent company.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

1 Authorisation of financial statements

The Company is a private company limited by share capital incorporated and domiciled in the United Kingdom.

These financial statements for the year ended 31 December 2017 were authorised for issue by the Board on 30 April 2018 and the statement of financial position was signed on the board's behalf by A Erotocritou.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements were prepared in accordance with FRS 101 Reduced Disclosure Framework.

These financial statements have been prepared on a break up basis. The financial statements are presented in GBP sterling (£), which is also the Company's functional currency.

Summary of disclosure exemptions

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has taken advantage of the following disclosure exemptions under FRS 101 where relevant:

- (a) the requirements of IFRS 7 Financial Instruments: Disclosures and of paragraphs 91-99 of IFRS 13 Fair Value Measurement apart from those which are relevant for the financial statements which are held at fair value not held as part of a trading portfolio;
- (b) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to provide comparative period reconciliations in respect of outstanding shares, property, plant & equipment and intangible assets;
- (c) the requirements in paragraph 10(d) and 111 of IAS 1 Presentation of Financial Statements to prepare a Cash flow statement and the requirements in IAS 7 Statement of Cash Flows regarding the same;
- (d) the requirements in paragraph 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements, which includes the need to provide details on capital management;
- (e) the requirements of paragraphs 30 and 31 in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors regarding disclosure of new IFRS standards not yet effective at the reporting date and their potential impact;

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

2 Accounting policies (continued)

(f) the requirements in paragraphs 17 and 18A of IAS 24 Related Party Disclosures around the need to disclose information on key management personnel and details on related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member;

Equivalent disclosures are included in the Group's consolidated financial statements as required by FRS 101 where exemptions have been applied.

Judgments made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the Critical accounting policies and estimates disclosure on page 15.

Going concern

The Company disposed of their trade and assets on 16 March 2015. At 31 December 2017 the Company had net assets of £6.5m (31 December 2016: £9.6m) and net current assets of £6.5m (31 December 2016: net current assets of £9.6m). It is the directors' intention to wind up the Company once its liabilities have been settled. Consequently, the financial statements have been prepared on a non-going concern basis. As explained in the Risk Management paragraph in the Strategic Report on page 2, the company relies on Towergate Insurance Limited for financial support.

Tax

Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates taxable income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

In addition, the provision for run-off costs has been recognised as a result of the Company's decision to discontinue its trading activities and to wind-down its operations.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

2 Accounting policies (continued)

Financial assets

Financial assets are initially measured at fair value plus directly attributable transaction costs. The Company's financial assets include cash, trade and other receivables and other non-current financial assets. The subsequent measurement of financial assets depends on their classification.

Trade receivables are recognised initially at fair value and subsequently at amortised cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, dispute, default or delinquency in payments are considered indicators that the receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables.

Held to maturity financial assets are deposits held at banks with a maturity date of greater than three months from the reporting date.

Financial liabilities

Financial liabilities within the scope of IAS 39 are initially classified as financial liabilities at fair value plus directly attributable transaction costs. The Company's financial liabilities include trade and other payables. The subsequent measurement of financial liabilities depends on their classification.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period:

The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

Unregulated Collective Investment Schemes (UCIS)

Amounts have been provided for in respect of future obligations to pay redress costs and professional costs associated with independent file reviews in relation to past advice given to customers on Unregulated Collective Investment Schemes (UCIS).

The UCIS provision represents management's best estimate of the Company's liability in relation to these costs. This estimate is based on actual experience and uses a calculation of average redress costs, taking into account customer contact and response rates, and allows for the deduction of income distributions and surrender values from capital losses. This initial valuation was undertaken by an independent third party and has been re-assessed on a regular basis using the most up-to-date redress payment experience. No allowance has been made for possible insurance recoveries on the basis that there is insufficient basis to provide an estimate of the likely amounts.

Run-off provision

Amounts have been provided for the costs of winding down the activities of the Company. The cost includes professional and legal fees; levies from the FCA and professional indemnity insurance premiums.

The provision was calculated based on management's best estimate of the projections of the current monthly cost levels over the anticipated future period for which the costs will be incurred.

Enhanced Transfer Values (ETV)

The ETV provision represents management's best estimate of the Company's liability in relation to these costs. In previous years the Company has disclosed its potential liability in relation to these costs as a contingent liability, given that there were a number of uncertainties around the population and redress calculation.

The Company has now conducted a client contact programme which has enabled the ETV population to be refined, the FCA has recently published revised guidance on the calculation of redress and file reviews have been commenced; albeit this work is at a very early stage. This has enabled the Company to recognise a provision in relation to ETV liabilities for the current year end.

The provision will be reviewed and if necessary updated during the course of the redress programme as the Company gains experience of actual redress payments. (Further information can be seen in note 13).

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

4 Operating profit/(loss)

Arrived at after (crediting) /charging

	1 Jan 2017 to 31 December 2017	1 July 2015 to 31 December 2016
	£	£
ETV provision (reversal)/costs	2,303,000	-
UCIS provision (reversal)/costs	(68,331)	(4,089,715)
Run-off provision (reversal)/costs	316,703	-
Consultancy and legal fees	<u>628,603</u>	<u>(537,493)</u>

The audit fee of £4,200 (2016: £4,660) for the audit of this Company was paid by other Group entities for which no recharge was made.

Amounts receivable by the Company's auditor in respect of services to the Company, 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 of the Company's ultimate parent, The Ardonagh Group Limited.

5 Exceptional loss on sale of operations

On 16 March 2015, the Company sold its trading business to Palatine Private Equity for a consideration of £152,599. This disposal together with the termination of operations associated with the trading asset, generated an exceptional loss of £475,208 in the period to 30 June 2015. There were some additional items associated with the sale during the period to 31 December 2016 resulting in a further loss of £2,716.

	1 Jan 2017 to 31 December 2017	1 July 2015 to 31 December 2016
	£	£
Loss on sale of operations	<u>-</u>	<u>(2,716)</u>
Details of loss on sale		
	£	£
Transaction costs	-	(2,716)
Total exceptional loss on sale of operations	<u>-</u>	<u>(2,716)</u>

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

6 Directors' remuneration

Directors emoluments of £75,000 for services provided to this Company have been paid by other Group entities, which make no recharge to the Company.

7 Income tax

Tax charged/(credited) in the statement of comprehensive income

	1 Jan 2017 to 31 December 2017 £	1 July 2015 to 31 December 2016 £
Current taxation		
UK corporation tax	<u>(178,851)</u>	<u>-</u>

The differences are reconciled below:

	1 Jan 2017 to 31 December 2017 £	1 July 2015 to 31 December 2016 £
(Loss)/profit before tax	<u>(3,179,974)</u>	<u>4,624,492</u>
Corporation tax at standard rate	(612,036)	924,898
Increase from effect of revenues exempt from taxation	-	2,347
Increase from tax losses for which no deferred tax asset was recognised	382,621	917,889
Deferred tax credit relating to changes in tax rates or laws	-50,564	-
Movements in provisions	-	(1,845,677)
Other tax effects for reconciliation between accounting profit and tax expense (income)	-	543
Total tax credit	<u>(178,851)</u>	<u>-</u>

The value of tax losses for which no deferred tax asset was recognised is: 2017 £2,250,713 (2016 £5,399,347)

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. These reductions will reduce the Company's future current tax charge / credit accordingly.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

8 Trade and other receivables

	2017	2016
	£	£
Receivables from related parties	9,067,994	9,896,661
Other receivables	-	270,000
Total current trade and other receivables	9,067,994	10,166,661

The Company's receivables from related parties are stated at £9.1m (2016: £9.9m).

9 Cash and cash equivalents

	2017	2016
	£	£
Cash at bank	1,147,327	157,653

Cash at bank includes £972,763 (2016: £105,099) of restricted cash in relation to the disposal of the Towergate Financial business. This is held in segregated accounts as requested by the FCA.

£174,564 (2016: £52,554) of restricted cash is kept in segregated accounts for purposes of solvency and capital adequacy requirements imposed by the FCA.

10 Other current financial assets

The available for sale financial assets are comprised of unlisted investments.

	2017	2016
	£	£
Current financial assets		
Held to maturity financial assets	-	122,360
Available for sale financial assets	22,730	33,036
	22,730	155,396

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

10 Other current financial assets (continued)

Held to maturity assets represent cash placed on 12 month fixed term deposits during 2016. The cash placed on deposit represents restricted own funds.

Available for sale financial assets represents UCIS recovered assets at their fair value. They are categorised within level 2 of the fair value hierarchy. Where no professional valuation is available, they are recognised at their published net asset value with an appropriate adjustment applied to the published unit price to reflect their illiquid nature and potentially lower net realisable value.

11 Share capital

Allotted, called up and fully paid shares

	2017		2016	
	No.	£	No.	£
Ordinary of £1 each	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>

12 Trade and other payables

	2017	2016
	£	£
Current trade and other payables		
Amounts due to related parties	1,018,944	509,261
Other Taxes	-	932
	<u>1,018,944</u>	<u>510,193</u>

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

13 Provisions

	Run-off £	UCIS £	ETV £	Total £
At 1 January 2017	242,268	164,278	-	406,546
Increase/(Decrease) in provision	316,703	(68,331)	2,303,000	2,551,372
Provisions used	(204,712)	(95,947)	-	(300,659)
At 31 December 2017	<u>354,259</u>	<u>-</u>	<u>2,303,000</u>	<u>2,657,259</u>
Current liabilities	<u>354,259</u>	<u>-</u>	<u>2,303,000</u>	<u>2,657,259</u>

Run-off provision

Provides for costs associated with the winding-down of the Company's operations. These costs comprised of professional fees, legal fees, levies charged by the FCA and professional indemnity premiums. During 2017 a provision of £0.3m has been recognised in the Statement of Comprehensive Income for the year ended 31 December 2017. It is management's expectation that substantially all of the costs provided for will be incurred by 31 December 2019.

UCIS provision

Provides for the obligation to pay redress costs in relation to past advice given to customers on UCIS. It represents management's best estimate of the Company's liability in relation to these costs. £0.07m has been released in 2017 with a further £0.1m fully utilised in the year.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

13 Provisions (continued)

Enhanced Transfer Values (ETV)

As previously reported the Company has obligations to make redress payments in respect of historic pension transfer advice ("ETV"). The ETV business ceased in 2014 and the Company ceased trading in March 2015 following a trade and asset sale of its remaining activities.

Since the Company's last financial statements for the period ended 31 December 2016, a client contact programme has enabled the ETV population to be refined, the FCA has published revised guidance on the calculation of redress, and file reviews have commenced. In light of these developments management has now established a provision of £2.3 million representing the current estimate of the redress liabilities that will fall due.

In establishing this provision, the Directors have taken into account that the redress programme is at an early stage and there remains uncertainty regarding the ultimate cost, which may therefore differ materially from the present estimate. Specifically:

(i) the Directors obtained independent actuarial advice on a sample of cases to assist in estimating the average cost per redress case. In extrapolating the results to the entire population, the advisers have identified a +/- 20% risk of variation to the outcome; and

(ii) there remains uncertainty regarding the number of cases within the population where advice is determined to be unsuitable and the actual outcome may vary from management's present estimate, which has been based on a sample of cases reviewed to date. In arriving at the estimate of the population judged unsuitable management has taken into account the findings of a number of case reviews carried out by independent specialists. The redress programme is at an early stage and any variation in suitability rates will lead to an equal percentage change in the estimated provision.

Other sources of uncertainty, whilst considered less material, may include changes in economic inputs over the period of the redress programme, potential variances in redress methodology and any future changes in the ETV population.

The redress programme is currently expected to commence in Q3 2018 and last 24 months. As it progresses the results of case reviews will be used to further inform and update the provision as required.

The estimated cost and expenses of the review activities have been revised to £0.4 million and have been provided for separately within the "run-off" provision.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

14 Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with a number of related parties. The Company has taken the exemption under FRS 101 not to disclose transactions with key management personnel.

Business was also conducted, on an arm's length basis, within The Ardonagh Group Limited group of companies. The table below shows the transactions and balances with entities that form part of the group.

	31 December 2017	31 December 2017	31 December 2017 (Due to) /receivable	31 December 2016	31 December 2016	31 December 2016 (Due to) /receivable
	Paid to £	Received from £	from at year end £	Paid to £	Received from £	from at year end £
Towergate Financial (London) Limited	-	-	-	-	1,734	-
Towergate Financial (West) Limited	-	-	-	-	105,337	-
Towergate Financial (Edinburgh) Limited	-	-	(287,696)	-	-	(287,696)
Towergate Financial (North) Limited	-	-	-	-	11,360	-
Towergate Financial (East) Limited	-	-	-	122,783	-	-
Towergate Financial (Scotland) Holdings Limited	-	-	-	-	1,724	-
Towergate Financial (West) Holdings Limited	-	-	-	733	-	-
Towergate Financial (Group) Limited	-	509,684	(509,684)	-	402,724	-
Towergate Underwriting Group Limited	-	-	(221,564)	-	1,779	(221,565)
Towergate Insurance Limited	-	1,007,518	8,889,143	10,471,222	-	9,896,661

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

15 Parent and ultimate parent undertaking

The Group's majority shareholder is HPS Investment Partners LLC. At 31 December 2017, the ultimate parent company was The Ardonagh Group Limited (incorporated in Jersey, registered office address, 47 Esplanade, St Helier, Jersey, JE1 0BD). The Ardonagh Group Limited is the largest group in which the results are consolidated and its financial statements are available upon request from:

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