

Registration number: SC127074

Towergate Financial (Scotland) Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019



Towergate Financial (Scotland) Limited

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Towergate Financial (Scotland) Limited

Company Information

Directors	D C Ross D Cougill
Company secretary	D Clarke
Registered office	150 St. Vincent Street Glasgow G2 5NE
Auditor	Deloitte LLP 1 New Street Square London EC4A 3HQ United Kingdom

Towergate Financial (Scotland) Limited

Strategic Report for the Year Ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019 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 (2018: £Nil) and profit before tax of £939,367 (2018: £256,062) for the year. At 31 December 2019 the Company had net assets of £7,576,219 (2018: £6,638,437).

The provision in respect of redress payments for historic Enhanced Transfer Value ("ETV") advice has been reduced to £1.5m from £2.3m in 2018.

The going concern note (part of accounting policies) on page 13 sets out the reasons why the directors believe that the preparation of the financial statements on the non-going concern basis is appropriate.

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.

The unprecedented and rapidly evolving nature of the global Covid-19 pandemic (including the short-term and long-term effects thereof) creates unprecedented and extraordinary uncertainties for most business including Towergate Financial (Scotland) Limited. Consideration of the financial risk and future impact can be found in note 16.

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 Ardonagh Services Limited (formerly known as 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 £1.5m, 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 Ardonagh Services 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 above, the Company's operations are in run-off and the Company is managed on a non-going concern basis.

Towergate Financial (Scotland) Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

The principal risks and their mitigation are as follows:

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. This risk is mitigated by a proactive relationship with the Financial Conduct Authority, a dedicated compliance function, and a compliance monitoring programme.

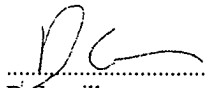
ETV redress risk

A provision continues to be recognised for estimated redress costs relating to historic unsuitable defined benefit pension transfer advice. The amount provided is particularly sensitive to changes in assumptions made for the percentage of the overall population judged to require redress and average redress costs. Independent actuarial consultants were engaged to provide a technical review of the redress exposure and other third-party specialists have reviewed sample ETV cases to assist in management's assessment of suitability. Redress payments commenced in 2019 and the experience gained is used to inform an update to the level of the provision at each reporting date. However, as the project is only partially complete there remains a degree of uncertainty regarding the ultimate cost of the redress, which therefore may differ materially from the current provision. As the outstanding cases are resolved, the level of uncertainty also reduces.

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 Ardonagh Services Limited.

Approved by the Board on 4 June 2020 and signed on its behalf by:


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D Cougill
Director

Towergate Financial (Scotland) Limited

Directors' Report for the Year Ended 31 December 2019

The directors present their annual report and the audited financial statements for the year ended 31 December 2019.

Directors of the Company

The directors, who held office during the year and up to the date of signing, were as follows:

D C Ross

D Cougill (appointed 23 August 2019)

A Erotocritou (resigned 23 August 2019)

Dividends

The directors do not recommend a final dividend payment to be made in respect of the financial year ended 31 December 2019 (2018: £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 (2018: £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 of the company and other fellow group companies 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.

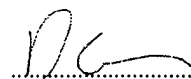
Disclosure of information to the auditors

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.

Appointment of auditors

The auditor, Deloitte LLP, are deemed to be reappointed under section 487 (2) of the Companies Act 2006.

Approved by the Board on 4 June 2020 and signed on its behalf by:



D Cougill
Director

Towergate Financial (Scotland) Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with the applicable laws 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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 Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Towergate Financial (Scotland) Limited

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Towergate Financial (Scotland) Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, which comprise:

- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Financial statements prepared other than on a going concern basis

We draw attention to note 2 in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of a going concern. Our opinion is not modified in respect of this matter.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Towergate Financial (Scotland) Limited

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

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements [set out on page 5], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

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

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.

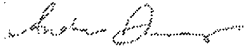
We have nothing to report in respect of these matters.

Use of our report

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

Towergate Financial (Scotland) Limited

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



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Andrew Downes (Senior Statutory Auditor)
For and on behalf of Deloitte LLP,
Statutory Auditor
London, United Kingdom

4 June 2020

Towergate Financial (Scotland) Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 £	2018 £
Turnover		-	-
Administrative expenses		<u>931,025</u>	<u>252,788</u>
Operating profit	4	931,025	252,788
Finance income	5	<u>8,342</u>	<u>3,274</u>
Profit before tax		939,367	256,062
Income tax expense	7	<u>(1,585)</u>	<u>(179,473)</u>
Total comprehensive income for the year		<u><u>937,782</u></u>	<u><u>76,589</u></u>

The above results were derived from discontinued operations.

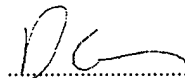
Towergate Financial (Scotland) Limited

(Registration number: SC127074)

Statement of Financial Position as at 31 December 2019

	Note	2019 £	2018 £
Current assets			
Trade and other receivables	8	8,889,109	8,889,111
Cash and cash equivalents	9	1,474,061	1,449,066
Financial assets at fair value through profit or loss	10	15,216	19,495
		<u>10,378,386</u>	<u>10,357,672</u>
Current liabilities			
Tax liabilities		83	590
Trade and other payables	11	1,246,850	1,244,760
Provisions	12	1,555,234	2,473,885
		<u>2,802,167</u>	<u>3,719,235</u>
Net current assets		<u>7,576,219</u>	<u>6,638,437</u>
Net assets		<u>7,576,219</u>	<u>6,638,437</u>
Capital and reserves			
Called up share capital	13	45,000	45,000
Other reserves		15,000,000	15,000,000
Retained losses		(7,468,781)	(8,406,563)
Total equity		<u>7,576,219</u>	<u>6,638,437</u>

Approved by the Board on 4 June 2020 and signed on its behalf by:



D Cougill
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 2019

	Share capital £	Other reserves £	Retained losses £	Total £
At 1 January 2019	45,000	15,000,000	(8,406,563)	6,638,437
Total comprehensive income	-	-	937,782	937,782
At 31 December 2019	<u>45,000</u>	<u>15,000,000</u>	<u>(7,468,781)</u>	<u>7,576,219</u>

	Share capital £	Other reserves £	Retained losses £	Total £
At 1 January 2018	45,000	15,000,000	(8,483,152)	6,561,848
Total comprehensive income	-	-	76,589	76,589
At 31 December 2018	<u>45,000</u>	<u>15,000,000</u>	<u>(8,406,563)</u>	<u>6,638,437</u>

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

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 General information

The Company is a private company limited by share capital incorporated in Scotland, United Kingdom. The address of the registered office can be found on page 1. The principal business activities of the Company are described in the Strategic Report on page 2. These financial statements for the year ended 31 December 2019 were authorised for issue by the Board on 4 June 2020 and the Statement of Financial Position was signed on the Board's behalf by D Cougill.

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 and under the historical cost convention, as modified by the revaluation of financial assets and liabilities measured at fair value.

The financial statements are presented in GBP sterling (£), which is also the Company's functional currency. Amounts shown are rounded to the nearest pound, unless stated otherwise.

Application of new and revised International Financial Reporting Standards ("IFRS")

IFRS 16 and other new standards are applicable for financial reporting periods starting on 1 January 2019 or later. These new standards did not have a material impact on the financial statements.

FRS 101 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:

- the requirements of IFRS 7 Financial Instruments: Disclosures and of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- 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;
- the requirements of paragraphs 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- 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;
- the requirements in paragraphs 17 and 18A of IAS 24 Related Party Disclosures and the requirements in IAS 24 to disclose related party transactions entered into between two or more members of the Group, provided that any subsidiary which is party to the transaction is wholly owned by such a member.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

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

Judgements 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 17.

Going concern

The Company disposed of their trade and assets on 16 March 2015. At 31 December 2018 the Company had net assets of £7.6m (2018: £6.6m). 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 Ardonagh Services Limited for financial support.

Taxation

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.

Current tax

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.

Financial instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument, and they are measured initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in Statement of Comprehensive Income.

Derecognition

Financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or the Company transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the Statement of Comprehensive Income. On derecognition of an investment in an equity instrument which the Company has elected on initial recognition to measure at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to the Statement of Comprehensive Income, but is transferred to retained earnings.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Financial liabilities

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires. The difference between the carrying value of the original financial liability and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss. Where 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.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Classification and subsequent measurement of financial assets

Financial assets are classified into one of the following two categories:-

- financial assets at amortised cost;
- financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into financial liabilities at amortised cost.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on their classification.

Financial assets classified as amortised cost

Financial assets that meet both of the following conditions are classified and subsequently measured at amortised cost:

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

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The Company's financial assets measured at amortised cost include trade and other receivables, and cash and cash equivalents.

The Company's trade receivables do not generally have a significant financing component, so and as such their transaction (invoiced) price is considered to be their amortised cost.

Financial assets classified as FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost are measured at FVTPL.

The Company's Unregulated Collective Investment Scheme ("UCIS") assets are classified as FVTPL. These assets do not meet the IFRS 9 'Financial Instruments' criteria for classification as amortised cost or FVOCI, because their cashflows do not represent solely payments of principal and interest.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition. They would only be reclassified if the Company were to change its business model for managing its financial assets, in which case the affected financial assets would be reclassified in the year following that change.

Impairment of financial assets

The Company assesses, on a forward-looking basis, the expected credit losses ("ECL") associated with its financial assets carried at amortised cost and FVTOCI. The Company recognises a loss allowance for such losses at each reporting date.

The Company recognises lifetime ECL for loans and trade and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors and by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected versus current conditions and the Company's view of economic conditions over the expected lives of the receivables, including the time value of money where appropriate. Scalar factors are typically based on GDP and unemployment rate forecasts.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12 months ECL.

The Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if; i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Cash and cash equivalents represent cash and deposits held with bank and financial institution counterparties. All cash and cash equivalents are assessed to have low credit risk at each reporting date as they are held with reputable banks and financial institution counterparties with, wherever possible, a minimum single A credit rating from both Moody's and S&P. The Company measures the loss allowance for such assets at an amount equal to 12 months ECL.

ECL is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. 12 months ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full.

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a longer or shorter default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession that the lender(s) would not otherwise consider;
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of the financial difficulties.

Write-off policy

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. A write-off constitutes a derecognition event. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in the Statement of Comprehensive Income.

Classification and subsequent measurement of financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

The Company's financial liabilities include trade and other payables. Trade payables are initially recognised at fair value and are subsequently measured at amortised cost.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Provisions

A provision is recognised where there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

The amount recognised as a provision is management's best estimate of the consideration required to settle the present obligation at the Statement of Financial Position date, taking into account the risks and uncertainties surrounding the obligation.

Where appropriate the Company discounts provisions to their present value. The unwinding of the provision discounting is included as an interest charge within finance costs in the Statement of Comprehensive Income.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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:

Critical judgements in applying accounting policies

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 Company has obligations to make redress payments in respect of historical pension transfer advice. The programme of redress commenced during 2019 and based on experience to date management's estimated total redress obligation has been reduced to £1.5m (2018: £2.3m).

The value of the provision is sensitive to various assumptions and in particular those made for the percentage of the overall population of cases judged as requiring redress and average redress costs. The redress programme remains at a relatively early stage and accordingly there is uncertainty regarding the ultimate cost, which may differ materially from management's present estimate. The provision will be informed and updated during the course of the redress programme based upon the experience of actual redress payments. See note 12 for further information.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

4 Operating profit

Arrived at after (crediting) /charging

	2019	2018
	£	£
ETV provision released	(801,400)	-
Run-off provision (decreased)/increased	(12,140)	36,021
Consultancy and legal fees	<u>-</u>	<u>(288,809)</u>

The audit fee of £7,564 (2018: £4,284) 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 Finance income

	2019	2018
	£	£
Finance income		
Interest income on bank deposits	<u>8,342</u>	<u>3,274</u>
Net finance income	<u>8,342</u>	<u>3,274</u>

6 Directors' remuneration

The emoluments of all directors are paid by other Group companies, which make no recharge to the Company. These directors are directors of The Ardonagh Group Limited and/or other fellow subsidiaries. Their total emoluments are included in the consolidated financial statements of The Ardonagh Group Limited.

All directors benefit from qualifying third-party indemnity provisions in place during the financial period and at the date of this report.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

7 Income tax

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

	2019 £	2018 £
Current taxation		
UK corporation tax	1,585	622
UK corporation tax adjustment to prior periods	-	178,851
	1,585	179,473

The differences are reconciled below:

	2019 £	2018 £
Profit before tax	939,367	256,062
Corporation tax at standard rate of 19% (2018: 19%)	178,480	48,652
Deferred tax not recognised	(158,274)	(42,974)
Deferred tax credit relating to changes in tax rates or laws	(18,621)	(5,056)
Tax adjustment in respect of prior years	-	178,851
Total tax charge/(credit)	1,585	179,473

Finance Bill 2016 enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the reduction in the UK rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%.

Deferred tax

The Company had a potential deferred tax asset of £1.2m (2018: £1.3m) in relation to tax losses and their timing differences of £7.0m (2018: £7.9m). This deferred tax asset has not been recognised in these accounts as it is not expected that the Company's future profitability will be sufficient to utilise it.

8 Trade and other receivables

	2019 £	2018 £
Trade and other receivables		
Receivables from other Group companies	8,889,109	8,889,111

The directors believe that the intercompany receivables are recoverable. The balances are unsecured, interest free and repayable on demand.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

9 Cash and cash equivalents

	2019	2018
	£	£
Cash at bank	<u>1,474,061</u>	<u>1,449,066</u>

Cash at bank includes £1,299,497 (2018: £1,274,502) of restricted cash relating to the disposal of the Towergate Financial business, recoveries from professional indemnity insurers and UCIS asset sales. This is held in segregated accounts as requested by the FCA.

£174,564 (2018: £174,564) 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

	2019	2018
	£	£
Current financial assets		
Financial assets at fair value through profit and loss	<u>15,216</u>	<u>19,495</u>

Financial assets at fair value through profit and loss assets represents UCIS recovered assets at their fair value. They are categorised within level 3 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.

As part of the UCIS redress process the Company was able to acquire, in some cases, illiquid assets held by claimants. These assets are classified as FVTPL and the Company intends to realise their cash value as soon as it is feasible to do so.

11 Trade and other payables

	2019	2018
	£	£
Current trade and other payables		
Amounts due to other Group companies	<u>1,246,850</u>	<u>1,244,760</u>

Amounts due to other Group companies are unsecured, interest free and payable on demand.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

12 Provisions

	Run-off £	ETV £	Total £
At 1 January 2019	170,885	2,303,000	2,473,885
Utilised during the year	(105,111)	-	(105,111)
Unused amounts reversed during the year	<u>(12,140)</u>	<u>(801,400)</u>	<u>(813,540)</u>
At 31 December 2019	<u>53,634</u>	<u>1,501,600</u>	<u>1,555,234</u>
Current liabilities	<u>53,634</u>	<u>1,501,600</u>	<u>1,555,234</u>

Run-off provision

Provides for costs associated with the winding-down of the Company's operations. These costs comprise professional fees, legal fees, fees and levies charged by the FCA and professional indemnity premiums. It is management's expectation that substantially all of the costs provided for will be incurred by 31 December 2020.

Enhanced Transfer Values (ETV) and run off costs provision

The Company has obligations to make redress payments in respect of past pension transfer advice. As reported in previous financial statements management established a provision initially of £2.3m for the estimated total cost of redress following progress with a client contact programme that enabled the ETV population to be refined, the FCA publishing revised guidance on the calculation of redress and commencement of file reviews. Management also explained they had obtained independent actuarial input into estimating average redress amounts and specialist input for a sample of cases to estimate suitability rates to help inform the estimated cost of redress. In view of the estimation uncertainty in key assumptions, including those for average redress costs and the suitability rate, management acknowledged and disclosed that the ultimate cost could vary materially from the £2.3m estimate, that the provision would be updated based on experience gained as the redress programme progressed and assessment scenarios included up to a 40% deterioration in the quantum of the ETV liabilities as well as a possible acceleration of the settlement profile of the redress cases.

The main redress programme commenced in Q3 2019 and the estimate for the overall cost of redress was decreased by £0.8m resulting in a provision of £1.5m at 31 December 2019.

Overall the experience to date remains broadly supportive of previous estimates of average redress costs per case, with some continued uncertainty regarding the number of cases that will ultimately be found to require redress as a result of unsuitable advice. 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.

Management still expect the redress programme to be substantially complete by the end of 2020. As the programme progresses, the results of case reviews will continue to be used to further inform and update the provision as required.

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

13 Share capital

Allotted, called up and fully paid shares

	2019		2018	
	No.	£	No.	£
Ordinary of £1 each	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>

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 fellow wholly owned subsidiaries or key management personnel.

Business was also conducted within The Ardonagh Group Limited group of companies. The table below shows the transactions and balances with entities that form part of the Group but are not wholly owned by The Ardonagh Group Limited.

	2019	2019	2019	2018	2018	2018
	Paid to	Received from	(Due to) / receivable from at year end	Paid to	Received from	(Due to) / receivable from at year end
	£	£	£	£	£	£
Towergate Financial (Edinburgh) Limited	-	-	(287,696)	-	-	(287,696)
Towergate Financial (Group) Limited	35	-	(735,465)	-	225,816	(735,500)
Towergate Underwriting Group Limited	-	-	(221,564)	-	-	(221,564)
Ardonagh Services Limited	-	35	8,889,108	-	-	8,889,143
Ardonagh Midco 3 Plc	-	2,124	(2,124)	-	-	-

Towergate Financial (Scotland) Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

15 Parent and ultimate parent undertaking

The Group's majority shareholder and ultimate controlling party at 31 December 2019 is HPS Investment Partners LLC. The parent company of the largest group that prepares group financial statements at 31 December 2019 that consolidate the Company is The Ardonagh Group Limited (incorporated in Jersey, registered office address 3rd Floor, 44 Esplanade, St Helier, Jersey JE4 9WG). The parent company of the smallest group that prepares group financial statements at 31 December 2019 that consolidate the Company is Ardonagh Midco 3 plc (incorporated in Great Britain, registered office 1 Minster Court, Mincing Lane, London, EC3R 7AA).

Financial statements for The Ardonagh Group Limited and Ardonagh Midco 3 plc are available on request from:

1 Minster Court
Mincing Lane
London
EC3R 7AA

16 Subsequent events

The directors have considered the guidance of the UK Financial Reporting Council and events relating to the spread of coronavirus (Covid-19) and have treated this as a non-adjusting subsequent event in these financial statements. The Covid-19 pandemic is an evolving situation and as such, the local and global economic impact is currently unknown but at this stage, the impact to the Company is considered to be limited.