

Registration number: 04493781

# Towergate Financial (East) Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018



## **Towergate Financial (East) Limited**

### **Contents**

Company Information	1
Strategic Report	2 to 3
Directors' Report	4 to 5
Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements	6
Independent Auditor's Report to the Members of Towergate Financial (East) Limited	7 to 9
Statement of Comprehensive Income	10
Statement of Financial Position	11
Statement of Changes in Equity	12
Notes to the Financial Statements	13 to 24

## **Towergate Financial (East) Limited**

### **Company Information**

**Directors** D C Ross  
D Cougill

**Company secretary** D Clarke

**Registered office** 4th Floor  
1 Minster Court  
Mincing Lane  
London  
EC3R 7AA

**Auditor** Deloitte LLP  
1 New Street Square  
London  
EC4A 3HQ  
United Kingdom

## **Towergate Financial (East) Limited**

### **Strategic Report for the Year Ended 31 December 2018**

The directors present their strategic report for the year ended 31 December 2018 for Towergate Financial (East) 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 (2017: £Nil) and profit before tax of £0.1m (2017: loss £52.2m) for the year. At 31 December 2018 the Company had net liabilities of £48.5m (2017: £48.1m).

A provision of £46.6m in respect of redress payments for historic Enhanced Transfer Value ("ETV") advice is unchanged since the prior period. An additional run-off provision of £1.5m was also recognised in the year ended 31 December 2018.

The going concern note (part of accounting policies) on page 14 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.

#### **Key performance indicators**

The directors consider the key performance indicator for the Company is ensuring its liabilities are settled fairly and expeditiously. The Company sets performance targets for the year ahead and the Company's 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 notably its ETV provision of £46.6m (2017: £46.6m), which Towergate Financial (Group) Limited oversees as part of its position as an intermediate holding company in the wider Group. The directors believe that the Company have 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 (East) Limited

### Strategic Report for the Year Ended 31 December 2018

The principal risks and their mitigation are as follows:

*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.

*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 22 Aug 2019 and signed on its behalf by:

  
Director

D. COUGILL

## **Towergate Financial (East) Limited**

### **Directors' Report for the Year Ended 31 December 2018**

The directors present their report and the financial statements for the year ended 31 December 2018.

#### **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

A Erotocritou (resigned 1 August 2019)

M S Mugge (resigned 2 March 2018)

The following director was appointed after the year end:

D Cougill (appointed 1 August 2019)

#### **Dividends**

The directors do not recommend a final dividend payment to be made in respect of the financial year ended 31 December 2018 (2017: £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 (2017: £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 have been prepared on a non-going concern basis. The Company is dependent upon the ongoing financial support of Ardonagh Services Limited, although the provision of such support is not legally binding.

#### **Directors' liabilities**

All directors of the company and 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.

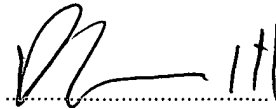
## Towergate Financial (East) Limited

### Directors' Report for the Year Ended 31 December 2018

#### Appointment of auditors

During the year ended 31 December 2018, 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 Limited board approved on behalf of the Company, the proposed appointment of Deloitte LLP as an external auditor for the financial year ended 31 December 2018. The auditor, Deloitte LLP, is deemed to be reappointed under section 487 (2) of the Companies Act 2006.

Approved by the Board on 22 Aug 2019 and signed on its behalf by:

  
.....  
Director

D. CAGILL

## **Towergate Financial (East) 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 the 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 Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 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.



## **Towergate Financial (East) Limited**

### **Independent Auditor's Report to the Members of Towergate Financial (East) Limited**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion the financial statements of Towergate Financial (East) Limited ("the Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss 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.

## **Towergate Financial (East) Limited**

### **Independent Auditor's Report to the Members of Towergate Financial (East) Limited**

#### **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 respect of these matters.

#### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, 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 FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **Report on other legal and regulatory requirements**

##### **Opinions on other matters prescribed by the Companies Act 2006**

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

- the information given in the strategic report and 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.

## **Towergate Financial (East) Limited**

### **Independent Auditor's Report to the Members of Towergate Financial (East) Limited**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters 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.



**Mark McIlquham (Senior Statutory Auditor)**  
**For and on behalf of Deloitte LLP**  
**Statutory Auditor**  
**London, United Kingdom**

Date:.....

22 Aug 2019 .

## Towergate Financial (East) Limited

### Statement of Comprehensive Income for the Year Ended 31 December 2018

	Note	2018 £	2017 £
<b>Turnover</b>		-	-
Administrative expenses		<u>76,586</u>	<u>(52,199,229)</u>
<b>Operating profit/(loss)</b>	4	<u>76,586</u>	<u>(52,199,229)</u>
Finance income		1,907	-
Finance costs		<u>(19,642)</u>	<u>(42,542)</u>
Net finance cost	5	<u>(17,735)</u>	<u>(42,542)</u>
<b>Profit/(loss) before tax</b>		58,851	(52,241,771)
Income tax (expense)/credit	7	<u>(481,224)</u>	<u>504,451</u>
<b>Total comprehensive loss for the year</b>		<u><u>(422,373)</u></u>	<u><u>(51,737,320)</u></u>

The operating loss for the year is derived wholly from discontinued operations.

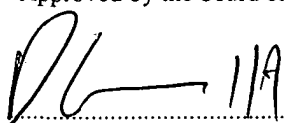
# Towergate Financial (East) Limited

(Registration number: 04493781)

## Statement of Financial Position as at 31 December 2018

	Note	2018 £	2017 £
<b>Assets</b>			
<b>Current assets</b>			
Income tax asset		3,457	500,691
Trade and other receivables	8	6,231,683	6,723,880
Cash and cash equivalents	9	3,537,333	1,137,463
Other financial assets	10	10,382	13,178
		<u>9,782,855</u>	<u>8,375,212</u>
<b>Total assets</b>		<u>9,782,855</u>	<u>8,375,212</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Called up share capital	11	3,294,341	3,294,341
Share premium		319,500	319,500
Other reserves		27,016,159	27,016,159
Retained losses		<u>(79,120,203)</u>	<u>(78,697,830)</u>
		<u>(48,490,203)</u>	<u>(48,067,830)</u>
<b>Current liabilities</b>			
Trade and other payables	12	7,823,525	3,233,007
Loans and borrowings	13	435,461	415,820
Provisions	14	<u>50,014,072</u>	<u>52,794,215</u>
		<u>58,273,058</u>	<u>56,443,042</u>
<b>Total equity and liabilities</b>		<u>9,782,855</u>	<u>8,375,212</u>

Approved by the board on 22 Aug 2019 and signed on its behalf by:

 11A D. COUGHLIN  
Director

The notes on pages 13 to 24 form an integral part of these financial statements.

# **Towergate Financial (East) Limited**

## **Statement of Changes in Equity for the Year Ended 31 December 2018**

	Note	Share capital £	Share premium £	Other reserves £	Retained losses £	Total £
At 1 January 2018	11	3,294,341	319,500	27,016,159	(78,697,830)	(48,067,830)
Total comprehensive loss		-	-	-	(422,373)	(422,373)
At 31 December 2018		<u>3,294,341</u>	<u>319,500</u>	<u>27,016,159</u>	<u>(79,120,203)</u>	<u>(48,490,203)</u>

	Note	Share capital £	Share premium £	Other reserves £	Retained losses £	Total £
At 1 January 2017	11	3,294,341	319,500	20,016,159	(26,960,510)	(3,330,510)
Total comprehensive loss		-	-	-	(51,737,320)	(51,737,320)
Capital contribution		-	-	7,000,000	-	7,000,000
At 31 December 2017		<u>3,294,341</u>	<u>319,500</u>	<u>27,016,159</u>	<u>(78,697,830)</u>	<u>(48,067,830)</u>

The notes on pages 13 to 24 form an integral part of these financial statements.

## **Towergate Financial (East) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **1 Authorisation of financial statements**

The Company is a private company limited by share capital incorporated and registered in England, 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 2018 were authorised for issue by the board on 22 August 2019 and the Statement of Financial Position was signed on the board's behalf by D. Coyle.

#### **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.

IFRS 9, IFRS 15 and other new standards are applicable for financial reporting periods starting on 1 January 2018 or later. These new standards did not have a material impact on the Company.

##### **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';
- (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 (East) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **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.

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 assets on 16 March 2015. At 31 December 2018 the Company had net liabilities of £48.5m (2017: £48.1m). 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.

#### **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.

#### **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 initially 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 (East) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **2 Accounting policies (continued)**

##### **Financial assets**

###### *Classification and subsequent measurement of financial assets*

The Company classifies its financial assets in the following measurement categories:

- Amortised cost less impairment;
- Fair value through other comprehensive income ("FVTOCI"); or
- Fair value through profit or loss ("FVTPL").

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

###### *Financial assets classified as amortised cost*

Financial assets that meet the following conditions are subsequently measured at amortised cost less impairment:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset 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.

These assets are held within a business model whose objective is to collect the contractual cash flows, and have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Thus, such assets are subsequently measured and carried at amortised cost in the Statement of Financial Position. The Company's trade receivables do not have a significant financing component and as such their transaction (invoiced) price is considered to be their amortised cost less impairment.

###### *Financial assets classified as FVTPL*

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

- Investments in equity instruments are classified as at FVTPL, unless the Company designates an equity investment as at FVTOCI on initial recognition.
- Debt instruments (including receivables) that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL.

Financial assets at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss to the extent they are not part of a designated hedging relationship. Interest earned on assets mandatorily required to be measured at FVTPL is recognised using a contractual interest rate. Dividend income from equity instruments measured at FVTPL is recognised in profit or loss as part of investment income when the right to payment has been established (provided that it is probable that the economic benefits will flow to the Company and that the amount of income can be measured reliably). This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

## **Towergate Financial (East) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **2 Accounting policies (continued)**

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. In the current year, the Company has not designated any debt investments that meet the amortised cost or FVTOCI criteria as being measured at FVTPL.

#### **Financial liabilities**

Financial liabilities are initially measured at fair value plus directly attributable transaction costs. The Company's financial liabilities are trade and other payables and borrowings.

(a) Trade and other payables represent amounts due to related parties. They are initially recognised at fair value and are subsequently measured at amortised cost;

(b) All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the statement of comprehensive income over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

#### *Impairment of financial assets*

The Company assesses, on a forward-looking basis, the expected credit losses ("ECL") associated with its debt instrument 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, 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.

## **Towergate Financial (East) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **2 Accounting policies (continued)**

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.

#### **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 statement of financial position 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:

##### *Run-off provision*

Amounts have been provided for the costs of the winding down of 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 enabled the Company to recognise a provision in relation to ETV liabilities during the prior period.

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 is disclosed within note 14).

## Towergate Financial (East) Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 4 Operating loss

Arrived at after charging/(crediting):

	2018 £	2017 £
UCIS provision reversals	-	(641,322)
Run-off provision costs	1,322,431	5,680,534
Consultancy and legal fees	(1,605,015)	768,640
ETV/UCIS costs	<u>-</u>	<u>46,547,000</u>

The audit fee of £4,284 (2017: £4,200) 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 and finance cost

	2018 £	2017 £
<b>Finance income</b>		
Interest income on bank deposits	1,907	-
<b>Finance costs</b>		
Interest on bank overdrafts and borrowings	-	(19,298)
Interest expense on other financing liabilities	<u>(19,642)</u>	<u>(23,244)</u>
Total finance costs	<u>(19,642)</u>	<u>(42,542)</u>
Net finance costs	<u>(17,735)</u>	<u>(42,542)</u>

Interest expense on other financing liabilities represents unwinding of discount calculated on provisions (note 14).

#### 6 Directors' remuneration

Directors emoluments of £Nil (2017: £75,000) for services provided to this Company have been paid by other Group entities, which make no recharge to the Company.

## Towergate Financial (East) Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 7 Income tax

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

	2018 £	2017 £
<b>Current taxation</b>		
UK corporation tax	(3,369)	(500,602)
UK corporation tax adjustment to prior periods	484,593	(3,849)
	<u>481,224</u>	<u>(504,451)</u>

The differences are reconciled below:

	2018 £	2017 £
Profit/(loss) before tax	<u>58,851</u>	<u>(52,241,771)</u>
Corporation tax at standard rate	11,181	(10,054,752)
Adjustment for prior periods	484,593	(3,849)
Increase from effect of capital contribution	-	1,351,734
Tax losses for which no deferred tax asset was recognised	(13,019)	7,244,980
Deferred tax (credit)/expense relating to changes in tax rates or laws	<u>(1,531)</u>	<u>957,436</u>
Total tax charge/(credit)	<u>481,224</u>	<u>(504,451)</u>

At 31 December 2018 the company had a potential deferred tax asset of £12.1m (2017: £12.2m) in relation to tax losses and other timing differences of £71.4m (2017: £71.5m). No deferred tax asset has been recognised in these accounts as the company is not expected to have taxable profit in future accounting periods.

A reduction in the UK corporation tax rate to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This reduction, from the existing rate of 19%, will reduce the Company's future current tax charge / credit accordingly.

## Towergate Financial (East) Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 8 Trade and other receivables

	2018	2017
	£	£
Receivables from other group companies	<u>6,231,683</u>	<u>6,723,880</u>

The Company's receivables from other group companies are stated at £6.2m (2017: £6.7m)

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

#### 9 Cash and cash equivalents

	2018	2017
	£	£
Cash at bank	<u>3,537,333</u>	<u>1,137,463</u>

Cash at bank includes £3,249,156 (2017: £849,286) 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.

£288,177 (2017: £288,177) 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

	2018	2017
	£	£
<b>Current financial assets</b>		
Financial assets at fair value through profit and loss	<u>10,382</u>	<u>13,178</u>

Financial assets at fair value through profit and loss 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.

## Towergate Financial (East) Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 11 Share capital

##### Allotted, called up and fully paid shares

	2018		2017	
	No.	£	No.	£
'A' Ordinary Shares of £1 each	119,341	119,341	119,341	119,341
'B' Ordinary Shares of £1 each	25,000	25,000	25,000	25,000
Preference Shares of £1 each	3,150,000	3,150,000	3,150,000	3,150,000
	<u>3,294,341</u>	<u>3,294,341</u>	<u>3,294,341</u>	<u>3,294,341</u>

The 'A' Ordinary Shares and 'B' Ordinary Shares have full voting rights, dividends rights and the right to participate in a distribution whether in a winding-up or reduction of capital or otherwise.

Preference shares carry no right to vote at any general meeting. Holders are entitled to receive a dividend at the rate of 10% per annum of the paid up value of each share in priority to the ordinary shareholders. The dividends accruing to the Preferred shareholders but not declared (and not included in the Statement of Financial Position) as at 31 December 2018 amount to £1,702,342 (2017: £1,702,342). On winding-up the holders are entitled to a distribution in priority to the other classes of shares.

#### 12 Trade and other payables

	2018	2017
	£	£
<b>Current trade and other payables</b>		
Amounts due to other group companies	7,111,526	2,727,008
Other payables	<u>711,999</u>	<u>505,999</u>
	<u>7,823,525</u>	<u>3,233,007</u>

Amounts due to other group companies are unsecured, interest free and repayable on demand. Interest is charged on other payables.

## Towergate Financial (East) Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 13 Loans and borrowings

	2018 £	2017 £
<b>Current loans and borrowings</b>		
Other borrowings	<u>435,461</u>	<u>415,820</u>

Other borrowings consist of two subordinated loans with Towergate Financial Group Limited, a fellow Group company. The first loan of £100k was entered into on 14 January 2009 and accrues interest at 4% plus LIBOR quarterly in arrears and is capitalised and added to the principal amount in accordance with the loan agreement. The second loan of £150k was entered into on 27 July 2009 and accrues interest at 10% per annum and is capitalised and added to the principal amount in accordance with the loan agreement.

#### 14 Provisions

	Run-off £	ETV £	Total £
At 1 January 2018	6,247,215	46,547,000	52,794,215
Increase in provision	1,501,891	-	1,501,891
Provisions used	<u>(4,282,034)</u>	<u>-</u>	<u>(4,282,034)</u>
At 31 December 2018	<u>3,467,072</u>	<u>46,547,000</u>	<u>50,014,072</u>
Current liabilities	<u>3,467,072</u>	<u>46,547,000</u>	<u>50,014,072</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. Additional costs of £1.5m were provided for in the year. It is management's expectation that substantially all of the costs provided for will be incurred by 31 December 2019.

##### *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.

In the prior period, a client contact programme 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 established a provision of £46.6 million representing the current estimate of the redress liabilities that will fall due. This provision is unchanged in the year ended 31 December 2018.



## **Towergate Financial (East) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **14 Provisions (continued)**

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 expected to commence in Q2 2019 and last up to 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 £3.5 million and have been provided for separately within the "run-off" provision.

## Towergate Financial (East) Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018

#### 15 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 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.

	2018	2018	2018	2017	2017	2017
			(Due to) /receivable			(Due to) /receivable
	Paid to	Received from	from at year end	Paid to	Received from	from at year end
Towergate Underwriting Group Limited	-	-	(209,044)	-	172	(209,044)
Towergate Financial (London) Limited	-	-	3,849	3,849	-	3,849
Ardonagh Services Limited (formerly known as Towergate Insurance Limited)	-	508,296	6,099,986	-	914,531	6,608,282
Towergate Financial (Group) Limited	-	3,968,608	(6,849,977)	-	2,484,847	(2,881,369)
M2 Financial Fees Limited	-	-	(52,415)	-	-	(52,415)
B.I.B (Darlington) Limited	-	-	-	173	-	-
Cullum Capital Ventures Limited	-	-	111,838	-	-	111,838
Ardonagh Midco 3 Plc	16,010	-	16,010	-	-	-

#### 16 Parent and ultimate parent undertaking

The Group's majority shareholder and controlling party is HPS Investment Partners LLC. At 31 December 2018, the ultimate parent company was The Ardonagh Group Limited (incorporated in Jersey, registered office address 44 Esplanade, St Helier, Jersey, JE4 9WG). The Ardonagh Group Limited is the largest group in which the results are consolidated. The parent company of the smallest group, which includes the Company and for which group accounts are prepared, is Ardonagh Midco 3 Plc, a company incorporated in Great Britain. Financial statements for The Ardonagh Group Limited and Ardonagh Midco 3 Plc are available on request from:

4th Floor  
1 Minster Court  
Mincing Lane  
London  
EC3R 7AA