

Registration number: 04493781

Towergate Financial (East) Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020



Towergate Financial (East) Limited

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Towergate Financial (East) Limited

Company Information

Directors	D C Ross D Cougill
Company secretary	D Clarke
Registered office	2 Minster Court Mincing Lane London EC3R 7PD United Kingdom
Auditor	Deloitte LLP 1 New Street Square London EC4A 3HQ United Kingdom

Towergate Financial (East) Limited

Strategic Report for the Year Ended 31 December 2020

The directors present their strategic report for the year ended 31 December 2020 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 (2019: £Nil) and profit before tax of £23.5m (2019: £3.8m) for the year. This profit before tax was driven by the ETV/UCIS income of £23.6m. At 31 December 2020 the Company had net liabilities of £21.1m (2019: £44.6m).

A provision of £44.1m in respect of redress payments for historical Enhanced Transfer Value ("ETV") advice has increased by £12.4m to £56.4m during the year. The closing balance of provision is £21.9m as at 31 December 2020 after taking into account of £34.5m payment made. An additional run-off provision of £1.4m was also recognised in the year ended 31 December 2020. Closing balance of run-off provision is £0.7m after taking into account of payment made of £2.8m.

The going concern note (part of accounting policies) on page 15 sets out the reasons why the directors believe that the preparation of the financial statements on a basis other than that of going concern 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, expected to be in 2021.

The unprecedented 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 (East) Limited. However, as the Company is in run-off and therefore not directly affected by the economic climate, the impacted is not expected to be material.

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 directors monitor progress, recognising that the Company is dependent upon the continued financial support of Ardonagh Services Limited, a fellow Group subsidiary.

The set performance target of the company was to progress the past business review in relation to historic advice on ETV pension transfers and pay redress to clients where this advice was found to be unsuitable. A substantial portion of the review was completed, despite the Covid-19 pandemic, with client redress paid of £34,330,001 in 2020, and the remainder of the review will complete before the end of 2021.

Towergate Financial (East) Limited

Strategic Report for the Year Ended 31 December 2020 (continued)

Principal risks and uncertainties

The principal risk facing the Company is ensuring timely settlement of its liabilities, most notably its ETV provision of £21.9m (2019: £44.1m), 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.

As noted in the Outlook section above, the Company's operations are in run-off and the Company is managed on a basis other than that of a going concern.

The principal risks and their mitigation are as follows:

Financial risk and impact of Covid-19

There is the risk of an adverse impact on business value or earnings capacity as well as the risk of inadequate cash flows to meet financial obligations. These risks are mitigated by proactive management of the business plan, by regular monitoring of cash flows against risk appetite and by a focus on debt collection.

The Company and Group have considered the wider operational consequences and ramifications of the Covid-19 pandemic. Although Covid-19 developments remain fluid, financial stress testing demonstrates the Group's financial resilience and operating flexibility.

The Group has sufficient liquidity to withstand a period of potential poor trading resulting from a sustained impact of Covid-19, although this has not materialised to date with the income impacts predominantly limited to the second quarter of 2020 and substantially offset by additional cost savings. The Group had available liquidity of £405.1m at 30 June 2021 and closely monitors available liquidity on an ongoing basis.

Insurance broking is a resilient and defensive market, which has historically had limited impact from past economic or capital market downturns. Ardonagh is highly diversified and not materially exposed to a single carrier, customer or market sector.

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. Furthermore, there is a control framework that has been rolled out and embedded within the culture throughout the Group to reduce the risk of errors and non-compliance.

Towergate Financial (East) Limited

Strategic Report for the Year Ended 31 December 2020 (continued)

Cyber-security and data protection

Our computer systems store information, some of which is sensitive personal data. Although we have taken reasonable and appropriate security measures to prevent unauthorised access to information stored in our databases and to ensure that our processing of personal data complies with the General Data Protection Regulations (GDPR), our technology may, on occasion, fail to adequately secure the private information we maintain in our databases and protect it from theft or inadvertent loss. Our systems, and the wider public infrastructure they rely on, may also be subject to attack preventing use and disrupting business operations.

The Company and Group has robust policies, business standards and control frameworks in place for both cyber security and data protection.

Following the appointment of the Group CISO at 2019 year-end, a 3-year group-wide Cyber Resilience Strategy was established, with all major areas of the Group developing related cyber remediation roadmaps (with a particular focus on related IT control environments) where required, to further review and enhance the maturity and capability of cyber and information security processes and controls across the Group. Appropriate mechanisms have also been embedded to help effectively track and manage related cyber risk across the Group.

The Company and Group continues to have a cyber insurance policy in place to mitigate financial risks associated with data breaches and cyber-attacks.

Future impact of Brexit

Brexit affects the ability of businesses to passport from the UK into other EU states and likewise into the UK from the EU. The Group's plans always assumed a no deal, 'hard' Brexit and as such the Group was prepared for Brexit. The direct impact on the Group's UK businesses is not significant because they conduct only limited business within the EU and, importantly, because the operating segments have implemented mitigation strategies (e.g. gaining direct authorisation in certain EU member states) to reduce the risk. However, the loss of passporting rights may affect the insurance markets in which the Group operates, possibly reducing insurance capacity, competition and choice.

Brexit could also extend the current Covid-19 induced general decline in economic conditions in the UK where the Group operates predominantly. The diversified business portfolio of the Group continues to mitigate the risk of a general decline in economic conditions and the Group's going concern stressed scenario modelling incorporates general economic declines, including from Brexit and Covid-19.

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.

Approved by the board on 10 September 2021..... and signed on its behalf by:


D Cougill
Director

Towergate Financial (East) Limited

Directors' Report for the Year Ended 31 December 2020

The directors present their annual report and the audited financial statements for the year ended 31 December 2020.

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

Dividends

The directors do not recommend a final dividend payment to be made in respect of the financial year ended 31 December 2020 (2019: £Nil).

Financial risk management objectives and policies

Details of financial risk management objectives and policies can be found in the Strategic Report within the 'Principal risks and uncertainties' section on page 3.

Future developments

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

Subsequent events

Details of subsequent events can be found in the Notes to the financial statements within the 'Subsequent events' section on page 28.

Political donations

The Company has not made any political donations during the year (2019: £Nil).

Going concern

The Company disposed of its trade and assets on 16 March 2015, and is in run-off. It is the directors intention to liquidate the Company once the run-off process has completed, expected to be towards the end of 2021. As a consequence, the financial statements have been prepared on a basis other than that of a going concern. The Company is dependent upon the ongoing financial support of Ardonagh Services Limited. No adjustments arose as a result of ceasing to apply the going concern basis.

Directors' indemnities

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.

Appointment of auditor

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

Towergate Financial (East) Limited

Directors' Report for the Year Ended 31 December 2020 (continued)

Approved by the Board on 10 September 2021 and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'DC' followed by a flourish and the year '21'.

D Cougill
Director

Towergate Financial (East) Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; 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 to disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 2020 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 18.

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.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 this gives rise to a material misstatement in the financial statements themselves. 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 (East) Limited

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and UK Tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

Towergate Financial (East) Limited

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

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC and regulatory authorities.

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

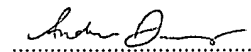
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.



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

Date: 10 September 2021

Towergate Financial (East) Limited

Statement of Comprehensive Income for the Year Ended 31 December 2020

	Note	2020 £	2019 £
Turnover		-	-
ETV/UCIS income	4	<u>23,557,914</u>	<u>3,840,577</u>
Operating profit	4	<u>23,557,914</u>	<u>3,840,577</u>
Finance income		10,293	27,884
Finance costs		<u>(19,394)</u>	<u>(19,781)</u>
Net finance (costs)/income	5	<u>(9,101)</u>	<u>8,103</u>
Profit before tax		23,548,813	3,848,680
Income tax expense	8	<u>-</u>	<u>(1,539)</u>
Profit for the year		<u><u>23,548,813</u></u>	<u><u>3,847,141</u></u>

The above results were derived wholly from discontinued operations. There were no items of other comprehensive income in the current or prior period.

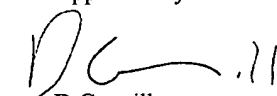
Towergate Financial (East) Limited

(Registration number: 04493781)

Statement of Financial Position as at 31 December 2020

	Note	2020 £	2019 £
Current assets			
Cash and cash equivalents	9	3,703,389	3,596,157
Trade and other receivables	10	5,689,111	5,559,153
Other current financial assets	11	-	9,388
		<u>9,392,500</u>	<u>9,164,698</u>
Current liabilities			
Trade and other payables	12	(7,356,867)	(7,157,149)
Borrowings	13	(474,637)	(455,243)
Provisions	14	(22,655,245)	(46,195,368)
		<u>(30,486,749)</u>	<u>(53,807,760)</u>
Net current liabilities		<u>(21,094,249)</u>	<u>(44,643,062)</u>
Net liabilities		<u>(21,094,249)</u>	<u>(44,643,062)</u>
Capital and reserves			
Share capital	15	3,294,341	3,294,341
Share premium		319,500	319,500
Other reserves		27,016,159	27,016,159
Retained losses		(51,724,249)	(75,273,062)
Total equity		<u>(21,094,249)</u>	<u>(44,643,062)</u>

Approved by the board on 10 September 2021 and signed on its behalf by:


D Cougill
Director

The notes on pages 14 to 28 form an integral part of these financial statements.

Towergate Financial (East) Limited

Statement of Changes in Equity for the Year Ended 31 December 2020

	Share capital £	Share premium £	Other reserves £	Retained losses £	Total £
At 1 January 2020	3,294,341	319,500	27,016,159	(75,273,062)	(44,643,062)
Total comprehensive profit	-	-	-	23,548,813	23,548,813
At 31 December 2020	<u>3,294,341</u>	<u>319,500</u>	<u>27,016,159</u>	<u>(51,724,249)</u>	<u>(21,094,249)</u>
	Share capital £	Share premium £	Other reserves £	Retained losses £	Total £
At 1 January 2019	3,294,341	319,500	27,016,159	(79,120,203)	(48,490,203)
Total comprehensive profit	-	-	-	3,847,141	3,847,141
At 31 December 2019	<u>3,294,341</u>	<u>319,500</u>	<u>27,016,159</u>	<u>(75,273,062)</u>	<u>(44,643,062)</u>

Other reserves reflects amounts totalling £27.0m the Company has received in capital contributions from Ardonagh Services Limited, its indirect parent company.

Towergate Financial (East) Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

1 General information

The Company is a private company limited by share capital incorporated and registered in England. 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 2020 were authorised for issue by the board on10 September 2021..... 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 and the Companies Act 2016.

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.

The financial statements have been prepared under the historical cost convention, as modified to use a different measurement basis where necessary to comply with FRS 101.

There are no standards, amendments to standards or interpretations which are effective for annual periods beginning on 1 January 2020 or not yet effective and that are expected to materially impact the Company's 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:

Towergate Financial (East) Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

- 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.

Equivalent disclosures are included in the Group's consolidated financial statements, as required by FRS 101 where exemptions have been applied. This information is included in the consolidated financial statements of The Ardonagh Group Limited as at 31st December 2020 and these financial statements may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

Judgements made by the directors in the application of these accounting policies that have a 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 judgements and key sources of estimation uncertainty disclosure on page 20.

Going concern

The Company disposed of their trade and assets on 16 March 2015. At 31 December 2020 the Company had net liabilities of £21.1m (2019: £44.6m). It is the directors' intention to liquidate the Company once its liabilities have been settled. Consequently, the financial statements have been prepared on a basis other than that of a going concern. As explained in the Principal risks and uncertainties section of the Strategic Report on page 2, the Company relies on Ardonagh Services Limited for financial support. No adjustments arose as a result of ceasing to apply the going concern basis.

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 recognised immediately in Statement of Comprehensive Income.

Towergate Financial (East) Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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.

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

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 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 their transaction (invoiced) price is considered to be their amortised cost.

Towergate Financial (East) Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Financial assets classified as FVTPL

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

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 fair value through other comprehensive income (FVOCI), because their cashflows do not represent solely payments of principal and interest.

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 following that change.

Towergate Financial (East) Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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. No financial instruments are subject to significant increase in credit risk as all under practical expedient for lifetime 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 (East) Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (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 and borrowings. Trade payables are initially recognised at fair value and are subsequently measured at amortised cost.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the Statement of Financial Position date. Borrowings are recognised initially at fair value, net of transactions costs incurred. They are subsequently measured at amortised cost using the effective interest rate method.

Towergate Financial (East) Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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. 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 statement of financial position date and the amounts reported for revenues and expenses during the period.

There were no key sources of estimation uncertainty made in the preparation of these financial statements and no critical adjustments that have a significant effect on the carrying amounts of assets and liabilities.

4 Operating profit

Arrived at after charging:

	2020	2019
	£	£
ETV provision increase	12,367,087	13,434,171
Run-off provision increase	<u>1,389,581</u>	<u>955,945</u>

The audit fee of £7,943 (2019: £7,564) 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.

Towergate Financial (East) Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

5 Finance income and finance cost

	2020	2019
	£	£
Finance income		
Interest income on bank deposits	10,293	27,884
Finance costs		
Interest expense on other financing liabilities	<u>(19,394)</u>	<u>(19,781)</u>
Net finance (costs)/income	<u>(9,101)</u>	<u>8,103</u>

Interest expense on other financing liabilities of £19,394 (2019: £19,781) represents amounts charged on a loan from an indirect parent company, see note 13.

6 Staff costs

The Company had no employees in the current year or the preceding period. All administration is performed by employees of the Group, for which no recharge is made to the Company.

7 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.

Towergate Financial (East) Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

8 Income tax

Tax charged in the statement of comprehensive income

	2020 £	2019 £
Current taxation		
UK corporation tax	-	1,539
UK corporation tax adjustment to prior periods	-	-
Total current taxation	-	1,539
Deferred taxation		
Arising from origination and reversal of temporary differences	1	-
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	-	-
Arising from changes in tax rates and laws	(1)	-
Total deferred taxation	-	-
Income tax expense in the statement of comprehensive income	-	1,539

The differences are reconciled below:

	2020 £	2019 £
Profit before tax	23,548,813	3,848,680
Corporation tax at standard rate of 19% (2019: 19%)	4,474,274	731,249
Deferred tax not recognised	(3,122,602)	(652,898)
Deferred tax credit relating to changes in tax rates or laws	(1,351,672)	(76,812)
Total tax charge	-	1,539

Deferred tax

In the March 2021 Budget, it was announced that the UK Corporation Tax Rate will rise from its current rate of 19% to 25% with effect from April 2023. UK deferred tax balances as at 31 December 2020 continue to be measured at a rate of 19% as this was the substantively enacted rate at that date.

The company did not recognise deferred tax assets as follows:

	2020 £	2019 £
Provisions	141,227	446,633
Losses	8,225,384	11,042,580
Unrecognised deferred tax assets	8,366,611	11,489,213

Towergate Financial (East) Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

8 Income tax (continued)

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.

9 Cash and cash equivalents

	2020 £	2019 £
Cash at bank	<u>3,703,389</u>	<u>3,596,157</u>

Cash at bank includes £3,415,213 (2019: £3,307,981) 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 (2019: £288,177) of restricted cash is kept in segregated accounts for purposes of solvency and capital adequacy requirements imposed by the FCA.

10 Trade and other receivables

	2020 £	2019 £
Current trade and other receivables		
Receivables from other Group companies	5,539,111	5,559,153
Other receivables	<u>150,000</u>	<u>-</u>
	<u>5,689,111</u>	<u>5,559,153</u>

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

11 Other current financial assets

	2020 £	2019 £
Current financial assets		
Financial assets at fair value through profit and loss	<u>-</u>	<u>9,388</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. The financial assets were disposed of in full during the year.

Towergate Financial (East) Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

12 Trade and other payables

	2020 £	2019 £
Current trade and other payables		
Amounts due to other Group companies	7,216,227	7,016,509
Other payables	<u>140,640</u>	<u>140,640</u>
	<u>7,356,867</u>	<u>7,157,149</u>

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

13 Loans and borrowings

	2020 £	2019 £
Current loans and borrowings		
Loans from related parties	<u>474,637</u>	<u>455,243</u>

Other borrowings consist of two subordinated loans with Towergate Financial (Group) Limited, an indirect parent 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 2020	2,142,386	44,052,982	46,195,368
Additional provisions made during the year	1,389,581	12,367,087	13,756,668
Utilised during the year	<u>(2,788,669)</u>	<u>(34,508,122)</u>	<u>(37,296,791)</u>
At 31 December 2020	<u>743,298</u>	<u>21,911,947</u>	<u>22,655,245</u>
Current liabilities	<u>743,298</u>	<u>21,911,947</u>	<u>22,655,245</u>

Towergate Financial (East) Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

14 Provisions (continued)

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 £1.4m were provided for in the year. It is management's expectation that substantially all of the costs provided for will be incurred by 30 June 2021.

Enhanced Transfer Values (ETV)

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 £44.1m 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, and that the programme remains open, management acknowledged and disclosed that the ultimate cost could vary materially from the £44.1m 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. Based on this settlement experience, additional case reviews progressing to settlement and input from specialists, the total redress cost estimate has been updated to £56.4m resulting in a provision of £21.9m at 31 December 2020 after allowing for the payments made of £34.5m.

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 2021. 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 (East) Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

15 Share capital

As at 31 December 2020, the Company has authorised ordinary share capital of £3,294,341 (2019: £3,294,341).

Allotted, called up and fully paid shares

	2020		2019	
	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	<u>3,150,000</u>	<u>3,150,000</u>	<u>3,150,000</u>	<u>3,150,000</u>
	<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 2020 amount to £2,332,342 (2019: £2,332,342). On winding-up the holders are entitled to a distribution in priority to the other classes of shares.

Towergate Financial (East) Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

16 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.

	2020	2020	2020	2019	2019	2019
	Paid to	Received from	(Due to) / receivable from at year end	Paid to	Received from	(Due to) / receivable from at year end
	£	£	£	£	£	£
Towergate Underwriting Group Limited	-	-	(209,044)	-	-	(209,044)
Towergate Financial (London) Limited	-	-	3,849	-	-	3,849
Ardonagh Services Limited	-	-	5,425,626	-	674,360	5,425,626
Towergate Financial (Group) Limited	-	199,719	(6,954,768)	94,928	-	(6,755,049)
M2 Financial Fees Limited	-	-	(52,415)	-	-	(52,415)
Cullum Capital Ventures Limited	-	-	111,838	-	-	111,838
Ardonagh Midco 3 Plc	-	-	19,379	3,369	-	19,379

17 Parent and ultimate parent undertaking

The Group's majority shareholder and ultimate controlling party at 31 December 2020 is HPS Investment Partners LLC. The parent company of the largest group and the ultimate parent company that prepares group financial statements at 31 December 2020 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 2020 that consolidate the Company is Ardonagh Midco 2 plc (incorporated in Great Britain, registered office address 2 Minster Court, Mincing Lane, London, EC3R 7PD). The immediate parent company of Towergate Financial (East) Limited is Towergate Financial (East) Intermediate Limited.

Financial statements for The Ardonagh Group Limited and Ardonagh Midco 2 plc are available on request from:

2 Minster Court
Mincing Lane
London
EC3R 7PD

Towergate Financial (East) Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

18 Subsequent events

The Company performed a review of events subsequent to the balance sheet date through the date the financial statements were issued and determined that there were no such events requiring recognition or disclosure in the financial statements.