

Registration number: 07476462

Towergate Insurance Limited

Annual Report and Financial Statements
for the Year Ended 31 December 2016

WEDNESDAY



L6FVQOGA

LD2

27/09/2017

#330

COMPANIES HOUSE

Towergate Insurance Limited

Contents

Company Information	1
Strategic Report	2 to 4
Directors' Report	5 to 6
Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements	7
Independent Auditor's Report to the members of Towergate Insurance Limited	8 to 9
Statement of Comprehensive Income	10
Statement of Financial Position	11 to 12
Statement of Changes in Equity	13
Notes to the Financial Statements	14 to 44

Towergate Insurance Limited

Company Information

Directors

P N Butler
C E Dandridge
V A Dombalagian
O J M Feix
S French
F Mackle
M S Mugge
D R Pietrzak
D C Ross
J I-Tiner
C Bouch

Company secretary J A Gregory

Registered office Towergate House
Eclipse Park
Sittingbourne Road
Maidstone
Kent
ME14 3EN

Auditors KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

Towergate Insurance Limited

Strategic Report for the Year Ended 31 December 2016

The directors present their strategic report for the year ended 31 December 2016 for Towergate Insurance 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 Sentry Holdings Limited Group ("the Group or Towergate"). Whilst Sentry Holdings Limited is the ultimate parent company, the directors of its subsidiary TIG Topco Limited ("Topco") manage the Group's operations on a daily basis.

Principal activities and business review

The principal activity of the Company is that of a non-trading holding company.

The results for the Company show a loss before tax of £41.1m (2015: £91.7m) for the year and turnover of £32.2m (2015: £29.0m). At 31 December 2016 the Company had net current liabilities of £274.0m (2015 restated: £226.8m) and net assets of £515.0m (2015: £554.5m).

Outlook

The directors do not expect there to be any changes in the nature of the business in 2017.

Key performance indicators

The directors of TIG Topco Limited manage the Group's operations on a divisional basis. For this reason, the Company's directors believe that a separate analysis for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business. The development, performance and position of the Group is discussed in the Group's annual report.

The key performance indicator for this company is the carrying value of its investments in subsidiaries, as these are the main assets of the Company. The performance of the subsidiary undertakings will determine whether an impairment to the carrying value is required and this is tested on a regular basis.

In the current year, the Company recognised an impairment charge of £68.0m due to the write down of investments held in Towergate Underwriting Group Limited and the Towergate Financial Group, (note 12).

Non-financial key performance indicators include staffing levels which have risen by 24% throughout the period. The Company actively encourages all employees to become involved in Group affairs and is also keen to encourage two way communications on relevant business issues. This is achieved through regular employee meetings and presentations by senior management and is supported by a Group wide communication plan. Further discussions on employee matters can be found in the directors' report.

Towergate Insurance Limited

Strategic Report for the Year Ended 31 December 2016

Principal risks and uncertainties

Risk management

The Company's performance and value, as a holding company of the Group, is integrated with its investment in the Company's subsidiaries. As such from the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are managed separately. Accordingly, the principal risks and uncertainties are discussed in the Group's annual report.

A principal risk of this holding Company is the trading performance of its subsidiaries. Trading performance in the subsidiaries could create the need for impairment leading to a reduction in net assets and distributable reserves of the Company. The subsidiaries set performance targets for the year ahead and performance is reviewed regularly against these targets. Reasons for under performance are monitored and mitigating actions are taken. Investments are reviewed for impairment to ensure the appropriate carrying value for each investment in the holding company's accounts.

Other principal risks and their mitigation are as follows:

Financial risk

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

Operational risk

There is the risk of losses arising from inadequate or failed internal processes or systems, from personnel and / or from external events. These are mitigated by having an Enterprise Risk Management Framework in place, which is owned by the Group Risk Officer. The framework requires all risks to have owners, and these owners have appropriate controls in place which are regularly monitored and significant changes to the risk escalated as required.

The Company's business depends on the ability of employees to process transactions using secure information systems. The capacity to service customers depends on storing, retrieving, processing and managing information. Interruption or loss of information processing capabilities through loss of stored data, the failure of computer equipment or software systems, a telecommunications failure or other disruption could have a material adverse effect on business, results of operations and financial condition. To mitigate these risks the Company has certain disaster recovery procedures in place and insurance to protect against such contingencies.

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 FCA (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 Company to reduce the risk of errors and non compliance.

Towergate Insurance Limited

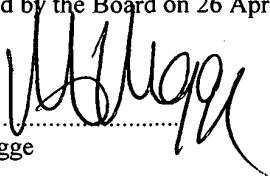
Strategic Report for the Year Ended 31 December 2016

Future impact of Brexit

As a business that operates in the UK predominantly the Company is affected by economic conditions in the United Kingdom (UK) and the associated possibility of decline in business and customer confidence. This risk has been exacerbated by the uncertainties surrounding the UK's decision to leave the European Union ("Brexit"). The typical small to medium-sized business (SME) customers and individual consumers of the Company's subsidiaries may be more vulnerable to any economic downturn than larger commercial customers, reducing or delaying insurance purchases or making premium payments.

The Brexit decision could lead to the UK leaving the single market for goods and services and the ability of businesses to passport between the UK and other EU states. The direct impact on the Company and its subsidiaries will not be significant because it currently conducts little business outside the UK, although there may be some effects on the insurance markets into which we place business.

Approved by the Board on 26 April 2017 and signed on its behalf by:



.....
M S Mugge
Director

Towergate Insurance Limited

Directors' Report for the Year Ended 31 December 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Directors of the Company

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

P N Butler (appointed 8 April 2016)

C E Dandridge (appointed 13 May 2016)

V A Dombalagian (appointed 16 December 2016)

O J M Feix

S French

F Mackle (appointed 5 August 2016)

P W Moore (resigned 3 January 2017)

M S Mugge

D R Pietrzak (appointed 8 March 2016)

D C Ross (appointed 9 March 2016)

J I Tiner

D Gopalan (resigned 8 March 2016)

T Robson-Capps (resigned 30 April 2016)

The following director was appointed after the year end:

C Bouch (appointed 3 January 2017)

Dividends

The directors do not recommend a final dividend payment to be made in respect of the financial year ended 31 December 2016 (2015: £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 3.

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 (2015: £Nil).

Employment of disabled persons

The Company's policy is to recruit disabled workers for those vacancies that they have the appropriate skills and technical ability to perform. Once employed, a career plan is developed to ensure that suitable opportunities exist for each disabled person. Employees who become disabled during their working life will be retrained if necessary and wherever possible will be given help with any necessary rehabilitation and training. The Company is prepared to modify procedures or equipment, wherever practicable, so that full use can be made of an individual's abilities.

Towergate Insurance Limited

Directors' Report for the Year Ended 31 December 2016

Employee involvement

Employees are key to the Company's success, so an appropriate remuneration package is offered which rewards an individual's performance and contribution to the organisation. The Company is also keen to encourage individual's personal development to ensure that they have the skills required to undertake their role. The Company places considerable value on the involvement of its employees and continues to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company and the Group as a whole. This is achieved by formal and informal meetings, circulation of the Company magazine and by encouraging employees to take part in regular employee engagement surveys.

Going concern

The Company's business activities, together with the factors likely to affect its future development are described in the strategic report on page 2. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the next twelve months. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further details of this assessment can be found in note 2 to these financial statements.

Directors' liabilities

All directors benefit from qualifying third party indemnity provisions, subject to the conditions set out in the Companies Act 2006, in place during the financial year and at the date of this report.

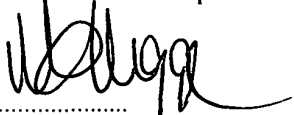
Disclosure of information to the auditor

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.

Reappointment of auditor

The auditors KPMG LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 26 April 2017 and signed on its behalf by:



.....
M S Mugge
Director

Towergate Insurance Limited

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Towergate Insurance Limited

Independent Auditor's Report to the members of Towergate Insurance Limited

We have audited the financial statements of Towergate Insurance Limited for the year ended 31 December 2016, set out on pages 10 to 44. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements (set out on page 7), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

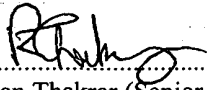
Towergate Insurance Limited

Independent Auditor's Report to the members of Towergate Insurance Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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


Rajan Thakrar (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL

26 April 2017

Towergate Insurance Limited

Statement of Comprehensive Income for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Turnover	4	32,193	29,018
Amortisation and other amounts written off intangibles	5	(660)	(917)
Administrative expenses		<u>(40,223)</u>	<u>(111,255)</u>
Operating loss	5	<u>(8,690)</u>	<u>(83,154)</u>
Acquisition, disposal costs & income	14	16,243	(359)
Impairment of investments	12	(68,059)	-
Finance income	6	31,862	143
Finance costs	6	<u>(11,759)</u>	<u>(8,375)</u>
Net finance income/(cost)	6	20,103	(8,232)
Share of net loss from associates	13	<u>(706)</u>	<u>-</u>
Loss before tax		(41,109)	(91,745)
Tax credit	9	<u>1,608</u>	<u>2,464</u>
Total comprehensive loss for the year		<u><u>(39,501)</u></u>	<u><u>(89,281)</u></u>

The above results were derived from continuing operations.

The notes on pages 14 to 44 form an integral part of these financial statements.

Towergate Insurance Limited

(Registration number: 07476462)

Statement of Financial Position as at 31 December 2016

		2016	As restated
	Note	£ 000	2015 £ 000
Assets			
Non-current assets			
Property, plant and equipment	10	7,903	561
Intangible assets	11	10,270	1,189
Investments in subsidiary undertakings	12	762,733	775,595
Investments in associates	13	6,495	-
Deferred tax assets	9	1,731	4,040
		<u>789,132</u>	<u>781,385</u>
Current assets			
Trade and other receivables	15	380,348	289,351
Income tax asset	9	7,724	-
Cash and cash equivalents	16	9,440	16,289
		<u>397,512</u>	<u>305,640</u>
Total assets		<u>1,186,644</u>	<u>1,087,025</u>

The notes on pages 14 to 44 form an integral part of these financial statements.

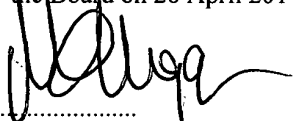
Towergate Insurance Limited

(Registration number: 07476462)

Statement of Financial Position as at 31 December 2016

	Note	2016 £ 000	As restated 2015 £ 000
Equity and liabilities			
Equity			
Called up share capital	17	1,407,307	1,407,307
Share premium reserve		117,980	117,980
Other reserves		32,862	32,862
Retained losses		(1,043,182)	(1,003,681)
		<u>514,967</u>	<u>554,468</u>
Non-current liabilities			
Provisions	21	124	67
Current liabilities			
Trade and other payables	22	526,688	384,266
Loans and borrowings	18	141,038	130,211
Income tax liability		-	342
Provisions	21	3,827	17,671
		<u>671,553</u>	<u>532,490</u>
Total liabilities		<u>671,677</u>	<u>532,557</u>
Total equity and liabilities		<u>1,186,644</u>	<u>1,087,025</u>

Approved by the Board on 26 April 2017 and signed on its behalf by:



.....
M S Mugge
Director

Towergate Insurance Limited

Statement of Changes in Equity for the Year Ended 31 December 2016

	Share capital £ 000	Share premium £ 000	Capital contribution £ 000	Retained losses £ 000	Total £ 000
At 1 January 2016	1,407,307	117,980	32,862	(1,003,681)	554,468
Total comprehensive loss	-	-	-	(39,501)	(39,501)
At 31 December 2016	<u>1,407,307</u>	<u>117,980</u>	<u>32,862</u>	<u>(1,043,182)</u>	<u>514,967</u>

	Share capital £ 000	Share premium £ 000	Capital contribution £ 000	Retained losses £ 000	Total £ 000
At 1 January 2015	1,407,307	117,979	-	(914,400)	610,886
Total comprehensive loss	-	-	-	(89,281)	(89,281)
Other share premium reserve movements	-	1	-	-	1
Capital contribution	-	-	32,862	-	32,862
At 31 December 2015	<u>1,407,307</u>	<u>117,980</u>	<u>32,862</u>	<u>(1,003,681)</u>	<u>554,468</u>

The notes on pages 14 to 44 form an integral part of these financial statements.

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

1 Authorisation of financial statements

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

The financial statements for the year ended 31 December 2016 were authorised for issue by the Board on 26 April 2017 and the statement of financial position was signed on the Board's behalf by M S Mugge.

2 Accounting policies

Basis of preparation

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

As a wholly owned subsidiary of Sentry Holdings Limited, the Company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare group accounts, and its results are included in the consolidated accounts of its ultimate parent.

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

Summary of disclosure exemptions

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

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

- (a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-Based Payment because the arrangement concerns instruments of another group entity;
- (b) the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64 (q)(ii), B66 and B67 of IFRS 3 Business Combinations which includes among other exemptions the requirement to include a comparative period reconciliation for goodwill;
- (c) the requirements of paragraph 33(c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the cash flows of discontinued operations;
- (d) the requirements of IFRS 7 Financial Instruments: Disclosures and of paragraphs 91-99 of IFRS 13 Fair Value Measurement apart from those which are relevant for the financial statements which are held at fair value not held as part of a trading portfolio;
- (e) 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;

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

(f) 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;

(g) 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;

(h) 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;

(i) 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;

(j) the requirements of paragraphs 134(d) - 134(f) and 135(c) - 135(e) of IAS 36 Impairment of Assets in respect of disclosure of assumptions on which projections used in the impairment review are based and sensitivity analysis.

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

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.

Judgments made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the Critical accounting policies and estimates disclosure on page 22.

Reclassification of interest payable

During the year, management identified that interest payable of £8.2m which was previously recognised as part of trade and other payables should have been classified as borrowings in the statement of financial position on pages 11 and 12 for the comparative as at 31 December 2015. The reclassification aligns the interest payable with its nature as a consequence of borrowings. There were no changes to the recognition and measurement basis of interest payable as a result of the reclassification, the reclassification has no impact on the net assets or the income statement of the Company.

Reclassification of subordinated loan

In addition, the Company has reclassified £122.0m loan notes from non-current to current loans and borrowings in the statement of financial position on pages 11 and 12 for the comparative period as at 31 December 2015. The reclassification aligns the loan with the terms of the subordinated loan agreement which states the balance is repayable on demand and should have been disclosed as a current liability. There were no changes to the recognition and measurement basis of the loan as a result of the reclassification. The reclassification increases net current liabilities to £226.8m with no impact on the net assets or the income statement of the Company.

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

Going concern

The financial statements of the Company have been prepared on a going concern basis. At 31 December 2016 the Company had net assets of £515.0m (31 December 2015: £554.5m) and net current liabilities of £274.0m (31 December 2015 restated: £226.8m). The net assets include amounts receivable from related parties of £377.4m (31 December 2015: £286.7m), and amounts due to related parties of £501.0m (31 December 2015: £367.0m).

TIG Finco Plc, the immediate parent of the Company, has indicated that it is its current intention that, for at least 12 months from the date of approval of these financial statements, it will continue to make available sufficient funds as are needed by the Company to enable it to continue trading.

The directors believe the going concern basis to be appropriate following their assessment of the Company's financial position and its ability to meet its obligations as and when they fall due. In reaching their view on preparation of the Company's financial statements on a going concern basis, the directors have considered the letter of support provided by the Company's parent entity in addition to the anticipated future cash flows of the Towergate Group which were subjected to stress testing and sensitivity analysis to ensure that the Group is able to cope with reasonably foreseeable adverse trading and cash flow outcomes. In addition, the directors have considered the following transactions which were executed in early 2017:

The Group secured additional funding totaling up to £65m from Madison Dearborn Partners (MDP) and HPS Investment Partners LLC (HPS). Proceeds from these initiatives will be applied towards achievement of the Group's key strategic transformation initiatives. The additional funding comprises:

- A £40m rights issue offered by TIG Topco Limited to existing shareholders and subscribed for in its entirety by MDP and one minority shareholder.
- A £17m term loan facility which was made available to TIG Finco plc by MDP and HPS from 1 April 2017 and drawn down on 19 April 2017. The loan agreement provides that any amounts drawn under it can be repaid in cash or converted to equity at the option of TIG Finco plc on or before 31 December 2017.
- A further tranche of £8m that can be utilised once the £17m term loan facility has been utilised in full. The loan agreement provides that this facility is to be repaid using any amounts received in relation to the Group's recoveries in relation to certain professional indemnity insurance claims, or using amounts from the earn-out of consideration relating to the disposal of the Group's investment in The Broker Network Limited and Countrywide Insurance Management Limited (Broker Network). If the further tranche is not repaid in full by these means, then any amounts drawn under it can be converted to equity on or before 31 December 2017.

The Group expects to recover an amount from the earn-out of consideration relating to the disposal of Broker Network that completed in July 2016 (and for which the terms were amended and updated in April 2017). Under the previous terms of the sale agreement, no amounts were recognised as recoverable, but the directors expect to receive an amount of up to £17.2m under the revised terms.

When preparing the Company's financial statements on a going concern basis, the directors have considered uncertainties facing the Group, including the potential liabilities arising from the past business review of enhanced transfer value ("ETV") and unregulated collective investment schemes ("UCIS") products that existed at the statement of financial position date of 31 December 2016:

- a contingent liability has been disclosed in the consolidated financial statements of the Group in respect of a potential liability arising from the past business review for ETV products. There are a number of material uncertainties and it is not yet possible to make a reliable estimate of the Group's ultimate liability and related payment profile. The directors believe any potential payments are unlikely to commence before 2018; and

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

• a provision of £10.7m is recognised in the consolidated financial statements of the Group in respect of future payments of UCIS liabilities. The Group is comfortable that the quantum of this provision is adequate and the cash outflows will complete during 2017.

On the basis of the directors' assessment of the Company's financial position and of the Group's ability to continue to provide such support as might be required, the directors have a reasonable expectation that the Company will be able to continue to operate for at least the next twelve months. Therefore the annual financial statements have been prepared on a going concern basis.

Turnover

(a) Management charge

For the year ended 31 December 2015 the Company calculated a year end management fee which was charged to certain (direct and indirect) trading subsidiaries. The management fee receivable was shown as turnover in the statement of comprehensive income.

For the year ended 31 December 2016 the Company has recharged the costs incurred to certain (direct and indirect) trading subsidiaries throughout the year. The management fee receivable (the total of the recharged costs) is shown as turnover in the statement of comprehensive income.

(b) Other income

Other income relates to incentive payments received from suppliers.

Tax

The tax credit for the period comprises current and deferred tax. Tax is recognised in the income statement, 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. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity.

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.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Leasehold improvements	Over the remaining life of the lease
Fixtures and fittings	15% per annum straight line or over 6 years
Motor vehicles	25% per annum straight line
Furniture and office equipment	20% per annum straight line
Computer hardware	25% per annum straight line

Intangible assets

(a) Trademarks, patents and licences

Trademarks with finite useful lives are stated at cost less accumulated amortisation and impairment loss if any. Separately acquired trademarks and licences are shown at historical cost.

Trademarks, licences (including software) and brand intangible assets exist through business combinations when they are separable or arise from contractual or other legal rights. Their fair value has been calculated as the sum of the present value of projected royalty payments that would be paid to licence the right to use the brand. These assets are amortised on a straight line basis over their estimated useful lives of five years, which considers the Group's track record of retaining brands for a period and experience of the insurance broker market.

(b) Computer software

Acquired computer software licences exist either through business combinations when they are separable or are purchased separately and are capitalised on the basis of the costs incurred to acquire them. Their fair value has been calculated by using the net book value acquired.

Where software development projects are incomplete, costs are capitalised as software under construction and included within intangible assets. These costs are not subject to amortisation until completion of the project.

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

(c) Internally generated computer software

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development of computer software (or from the development phase of an internal project) is recognised if and only if all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in statement of comprehensive income in the period when it is incurred.

Subsequent to initial recognition, internally-generated intangible assets when ready for use as intended by management are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(d) Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Trademarks, patents and licences	Straight line over 5 years
Computer software	Straight line over 4 years
Internally generated software development costs	Straight line over 4 years

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

Impairment of fixed assets

The carrying amounts of the Company's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable and at least annually, in the case of goodwill. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to income-generating units. A cash-generating unit is the smallest identifiable group of assets that generates income that is largely independent of the income streams from other assets or groups of assets.

Calculation of recoverable amount

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Reversals of impairment

An impairment loss is reversed on intangible assets other than goodwill only if subsequent external events reverse the effect of the original event which caused the recognition of the impairment or the loss arose on an intangible asset with a readily ascertainable market value and that market value has increased above the impaired carrying amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Fixed asset investments

Fixed asset investments are stated at historical cost less provision for impairment for any diminution in value.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at banks with a maturity date of less than three months from the reporting date and other short-term highly liquid investments.

Contingent consideration

Contingent consideration is measured at fair value on acquisition date and relates to either a deferred portion of the purchase price or relates to the future acquisition by the Company of a minority shareholding. Contingent consideration which is a deferred portion of the purchase price is provided in full at the date of acquisition and reduced in future periods if the full amount is not considered to be payable. Contingent consideration related to the future purchase of minority interests in fellow subsidiaries is valued according to an agreed calculation based on the results of the relevant company, this contingent consideration is revalued annually.

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 group 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.

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Share capital

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

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid to publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Financial assets and liabilities

Financial assets within the scope of IAS 39 are initially measured at fair value plus directly attributable transaction costs. The Company's financial assets include cash, trade and other receivables and other non-current financial assets. The subsequent measurement of financial assets depends on their classification.

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

Interest bearing loans and borrowings are initially measured at fair value less directly attributable transaction costs and are subsequently measured using the effective interest method.

Borrowings

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 income statement 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.

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 reporting date.

Financial guarantees

Contracts meeting the definition of a financial guarantee, including inter-group financial guarantee contracts, are recognised at fair value under IAS 39, or under IFRS 4 where the conditions required in order to regard it as an insurance contract are satisfied. This is determined on a contract by contract basis, depending on whether the risk transferred represents a financial risk or an insurance risk.

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the statement of financial position at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of the investment.

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 year.

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

Internally-generated software development

Internally generated software development expenditure is capitalised only where there is a clearly defined project, the expenditure is separately identifiable, the outcome of the project can be assessed with reasonable certainty, aggregate costs are expected to be more than covered by related revenues and adequate resources exist to enable the project to be completed.

Impairment of assets

The Company tests annually whether investments in subsidiaries and other assets that have indefinite useful lives suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount of an asset or a cash generating unit is determined based on the higher of fair market value less costs to sell and a value in use calculation prepared on the basis of management's assumptions and estimates. This determination requires significant judgement. In making this judgement the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investment, including factors such as industry and sector performance, changes in regional economies and operational and financing cash flow.

Income taxes

Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

Errors and omissions liability

During the ordinary course of business the Company can be subject to claims for errors and omissions. A statement of financial position provision is established in respect of such claims when it is probable that the liability has been incurred and the amount of the liability can be reasonably estimated.

The Company analyses its litigation exposures based on available information, including external legal consultation where appropriate, to assess its potential liability.

The outcome of the currently pending and future proceedings cannot be predicted with certainty. Thus, an adverse decision in a current or future lawsuit could result in additional costs that are not covered, either wholly or partially, under insurance policies and are in excess of the presently established provisions. It is possible therefore that the financial position, results of operations or cash flows of the Company could be materially affected by the unfavourable outcome of litigation.

Whilst the Company is not a regulated trading company, the total Group errors and omissions liability is held on the Company's statement of financial position and the estimation is therefore material to these financial statements.

Estimated useful lives

Assets, other than assets with indefinite useful lives, are carried at historical cost less amortisation or depreciation calculated to write off the cost of such assets over their estimated useful lives.

Management determines the estimated useful lives and related amortisation or depreciation charges at acquisition. The estimated useful life is reviewed annually and the amortisation or depreciation charge is revised where useful lives are subsequently found to be different to those previously estimated.

Long term incentive plans

The Company operates a number of Long Term Incentive Plans (LTIPs), under which the Company receives services from employees as consideration for cash settled incentives which vest over a number of years based on achievement against certain performance measures and/or service conditions. The incentives are paid to participants at the end of the relevant performance and/or service period (the 'performance period'), in some instances interim payments are made but in all instances participants must then remain in employment for a further period (the 'clawback period') in order to retain the full value of their pay out.

The Company recognises an expense in respect of LTIPs over the vesting period, which is deemed to commence when the Company makes participants aware of their right to participate in the LTIP and ends on conclusion of the clawback period.

Where an LTIP is payable in instalments the Company recognises an expense either based on (i) the staged vesting approach or (ii) the plan's benefit formula, depending on the specific facts and circumstances of the relevant award. Where benefits are materially higher in later years the expense is recognised on a straight-line basis over the vesting period.

At the end of each reporting period the Company revises its estimate of the expected pay out, it recognises the impact of the revision to original estimate, if any, in the income statement with a corresponding adjustment to the related provision (during the performance period) or prepayment (during the clawback period) as relevant.

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

4 Turnover

The analysis of the Company's turnover for the year from continuing operations is as follows:

	2016 £ 000	2015 £ 000
Other income	33	51
Management charge	32,160	28,967
	<u>32,193</u>	<u>29,018</u>

Turnover consists entirely of income generated in the United Kingdom.

5 Operating loss

Arrived at after charging/(crediting)

	2016 £ 000	2015 £ 000
Depreciation expense	188	160
Amortisation expense	660	917
Auditor's remuneration: audit of these financial statements	51	48
Intercompany bad debt provision and write off	(1)	37,725
Intercompany bad debt provision release	(3,552)	(1,950)
Operating lease expense - property	<u>239</u>	<u>223</u>

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, Sentry Holdings Limited.

During the year ended 31 December 2015, the Company made an adjustment to a provision against intercompany debt due from Towergate Partnership Limited, Towergate Holdings II Limited and Towergate Finance plc of £1.9m, reflecting the movement in these balances prior to the group's acquisition on 02 April 2015.

During the year ended 31 December 2016, the Company made an adjustment to a provision against intercompany debt due from the Towergate Financial group of £3.6m, reflecting the movement in the Towergate Financial intercompany balances in the period.

The intercompany bad debt provision as at 31 December 2015 of £37.7m relates to debts due from Towergate Financial (East) Intermediate Limited, Towergate Financial (West) Holdings Limited, Towergate Financial (Scotland) Holdings Limited, Towergate Financial (East) Holdings Limited, Towergate Financial (North) Holdings Limited, Towergate Financial (Group) Limited and Smartlandlord.co.uk totalling £38.0m. This was due to uncertainty of receiving these amounts following trade disposals by various companies within the Towergate Financial Group and company's liquidation respectively. Offset by £0.3m write off of an intercompany creditor which is no longer payable due to liquidation activity of a dormant entity in the Group.

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

6 Finance income and finance costs

	2016 £ 000	2015 £ 000
Finance income		
Interest income on bank deposits	-	79
Dividend income	31,862	64
Total finance income	<u>31,862</u>	<u>143</u>
Finance costs		
Interest on bank overdrafts and borrowings	(638)	(225)
Interest expense on other financing liabilities	(11,121)	(8,150)
Total finance costs	<u>(11,759)</u>	<u>(8,375)</u>
Net finance income/(costs)	<u>20,103</u>	<u>(8,232)</u>

In the year ended 31 December 2016, the Company received dividends totalling £31.9m from Broker Network Holdings Limited (£23.4m) and Countrywide Insurance Management Limited (£8.5m).

In the year ended 31 December 2016, the interest expense on the £122.0m subordinated loan, charged at 8.85% per annum totalled £10.8m (2015: £8.1m).

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

7 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2016 £ 000	2015 £ 000
Wages and salaries	13,737	43,770
Social security costs	2,759	6,373
Pension costs, defined contribution scheme	183	319
	<u>16,679</u>	<u>50,462</u>

The average number of persons employed by the Company (including directors) during the year, analysed by category was as follows:

	2016 No.	2015 No.
Administration	385	315
Management	26	17
	<u>411</u>	<u>332</u>

The Company incurs payroll costs on behalf of other companies within the Group. The table above present the net cost incurred by the Company after recharges have taken place. In the year ended 31 December 2016, £7.7m (2015: £5.3m) has been recharged to certain (direct and indirect) subsidiaries of the Company. The staff cost remaining in the Company and charged to the statement of comprehensive income totals £15.2m (2015: £50.5m which includes a £27.2m LTIP adjustment in the period).

8 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 TIG Topco Limited and a number of fellow subsidiaries and it is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries. Their total emoluments are included in the consolidated financial statements of TIG Topco Limited.

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

9 Income tax

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

	2016 £ 000	2015 £ 000
Current taxation		
UK corporation tax	(7,724)	-
UK corporation tax adjustment to prior periods	<u>3,808</u>	<u>191</u>
	<u>(3,916)</u>	<u>191</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	2,309	(2,545)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	<u>(1)</u>	<u>(110)</u>
Total deferred taxation	<u>2,308</u>	<u>(2,655)</u>
Tax credit in the statement of comprehensive income	<u>(1,608)</u>	<u>(2,464)</u>

The tax on ordinary activities for the year is higher than the standard rate of corporation tax in the UK (2015: higher than the standard rate of corporation tax in the UK) of 20% (2015: 20.25%).

The differences are reconciled below:

	2016 £ 000	2015 £ 000
Loss before tax	<u>(41,109)</u>	<u>(91,745)</u>
Corporation tax at standard rate	(8,223)	(18,578)
Adjustment for prior periods	3,807	81
Loss on disposal of trade	-	73
Effect of loan relationships: connected parties	-	1,735
Effect of expenses not deductible in determining taxable profit (tax loss)	115	22,072
Increase from effect of capital allowances depreciation	27	575
Increase from effect of revenues exempt from taxation	(3,248)	(5,877)
Deferred tax expense (credit) relating to changes in tax rates or laws	224	-
Decrease from effect of dividends from UK companies	(6,373)	-
Decrease from changes in tax provisions due to legislation	(1,555)	(2,545)
Impairment adjustments	<u>13,618</u>	<u>-</u>
Total tax credit	<u>(1,608)</u>	<u>(2,464)</u>

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. These reductions will reduce the Company's future current tax charge / credit accordingly.

The deferred tax asset at 31 December 2016 has been calculated based on the rates disclosed in the above paragraph.

Deferred tax

Deferred tax assets

	Asset £ 000
2016	
Accelerated tax depreciation	1,719
Provisions	12
Other items	-
	<u>1,731</u>
2015	
Accelerated tax depreciation	1,670
Provisions	2,370
Other items	-
	<u>4,040</u>

It is anticipated that the Company will have sufficient profitability in future years to ensure the utilisation of the capital allowances claim.

Deferred tax movement during the year:

	At 1 January 2016 £ 000	Recognised in income £ 000	At 31 December 2016 £ 000
Accelerated tax depreciation	1,670	49	1,719
Provisions	2,370	(2,358)	12
Other items	-	-	-
Net tax assets	<u>4,040</u>	<u>(2,309)</u>	<u>1,731</u>

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

Deferred tax movement during the prior year:

	At 1 January 2015 £ 000	Recognised in income £ 000	At 31 December 2015 £ 000
Accelerated tax depreciation	1,302	368	1,670
Provisions	44	2,326	2,370
Other items	39	(39)	-
Net tax assets	<u>1,385</u>	<u>2,655</u>	<u>4,040</u>

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

10 Property, plant and equipment

	Leasehold improvements £ 000	Fixtures and fittings £000	Motor vehicles £ 000	Computer hardware £ 000	Furniture and office equipment £ 000	Total £ 000
Cost or valuation						
At 1 January 2016	66	107	51	705	120	1,049
Additions	-	8	-	7,518	4	7,530
At 31 December 2016	66	115	51	8,223	124	8,579
Depreciation						
At 1 January 2016	1	16	51	389	31	488
Charge for the year	7	18	-	138	25	188
At 31 December 2016	8	34	51	527	56	676
Carrying amount						
At 31 December 2016	58	81	-	7,696	68	7,903
At 31 December 2015	65	91	-	316	89	561

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

11 Intangible assets

	Trademarks, patents and licenses £ 000	Internally generated software development costs £ 000	Software under construction £ 000	Computer software £ 000	Total £ 000
Cost or valuation					
At 1 January 2016	46	120	-	5,272	5,438
Additions	-	-	6,844	2,897	9,741
At 31 December 2016	46	120	6,844	8,169	15,179
Amortisation					
At 1 January 2016	25	66	-	4,158	4,249
Amortisation charge	9	29	-	622	660
At 31 December 2016	34	95	-	4,780	4,909
Carrying amount					
At 31 December 2016	12	25	6,844	3,389	10,270
At 31 December 2015	21	54	-	1,114	1,189

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

12 Investments in subsidiary undertakings

Investment in subsidiary undertakings	£ 000
Cost or valuation	
At 1 January 2016	1,489,026
Additions	57,000
Disposals	<u>(37,005)</u>
At 31 December 2016	<u>1,509,021</u>
Provision for impairment	
At 1 January 2016	713,431
Impairment	68,059
Eliminated on disposals	<u>(35,202)</u>
At 31 December 2016	<u>746,288</u>
Carrying amount	
At 31 December 2016	<u><u>762,733</u></u>
At 31 December 2015	<u><u>775,595</u></u>

Additions in 2016 relate to a £37.0m capital contribution to members of the Towergate Financial group, (Towergate Financial (East) Limited, Towergate Financial (North) Limited and Towergate Financial (Scotland) Limited). This investment was subsequently fully impaired in the year in recognition of the fact that the Towergate Financial Group is in run off following the disposal of the trade and assets in 2015. The Company also subscribed to a further £20.0m share capital in Towergate Underwriting Group Limited, a fellow Group subsidiary.

Disposals made in 2016 relate to Countrywide Insurance Management Limited, a wholly owned subsidiary of the Company. The transaction completed on 1 July 2016 resulting in the investment cost of £36.9m being eliminated on disposal and release of the £35.2m provision. The remaining £0.1m disposed of in 2016 relates to liquidations of dormant subsidiaries.

The recoverable amount of the Company's investments in subsidiaries has been determined as the higher of fair value less costs to sell (FVLCS) or its Value-in-use (VIU), in accordance with the Company's accounting policy.

For the year end 31 December 2016, FVLCS is deemed to be the appropriate valuation.

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

The FVLCS is considered a Level 3 valuation in the fair value hierarchy, as it is not based on observable market data. The FVLCS has been derived first by performing a valuation of the wider Group and then by allocating that valuation to each subsidiary investment.

The Group's FVLCS has been calculated by adding the value derived for the Group's equity to the fair value of its outstanding debt, less a reasonable allowance for costs to sell. The Group's equity valuation is based on a weighted average value of the price per share paid in two recent shareholder transactions. Full details and sensitivity analysis is provided in the financial statements of the Group.

The FVLCS of each investment in subsidiary was derived based on its net assets and by allocating its relative proportion of the Group FVLCS, on the basis of forecast EBITDA attributable to that entity for 2017, as derived from the three-year plan. This most accurately reflects the perspective of external market participants as it incorporates the Company's future investment plans and strategic objectives for each investment in subsidiary.

Following the annual review of the recoverable amount of the Company's investments in Subsidiaries, it was found that the recoverable amount of its investment in Towergate Underwriting Group Limited exceeded its carrying value due to a reduction in the net asset position of this entity. An impairment charge of £31.0m has been recognised in the year.

For all other investments, the recoverable amount exceeded the respective carrying value and no impairment was necessary for the year ended 31 December 2016.

Details of the subsidiaries as at 31 December 2016 are as follows. Unless otherwise shown, the registered office is Towergate House, Eclipse Park, Sittingbourne Road, Maidstone, Kent, ME14 3EN:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2016	2015
AIUA Holdings Limited	Dormant	England	100%	100%
Broker Network Holdings Limited (1)	Holding company	England	100%	100%
Cullum Capital Ventures Limited (and subsidiaries)	Holding company	England	100%	100%
Duncan Pocock (Holdings) Limited	Dormant	England	100%	100%
Eclipse Park Acquisitions Limited	Dormant	England	100%	100%
Folgate (HHHB) Limited	Dormant	England	100%	100%
Fusion Insurance Holdings Limited (and subsidiaries)	Holding company	England	100%	100%
GHBC Limited	Dormant	England	100%	100%

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2016	2015
JW Group Limited (2)	Dormant	England	100%	100%
Paymentshield Group Holdings Limited (and subsidiaries) (3)	Holding company	England	100%	100%
SMG Professional Risks Limited	Dormant	England	100%	100%
Towergate Chase Parkinson Limited	Dormant	England	100%	100%
Towergate Financial (Group) Limited (and subsidiaries)	Holding company	England	71%	71%
Towergate Holiday Homes Underwriting Agency Limited	Dormant	England	100%	100%
Bishopsgate Insurance Brokers Limited (4)	Insurance Broking	England	100%	100%
Towergate Risk Solutions Limited (and subsidiaries)	Holding company	England	100%	100%
Towergate TLC Limited	Dormant	England	100%	100%
Towergate Underwriting Group Limited	Insurance broking	England	100%	100%
Towergate Wilsons Limited	Dormant	England	100%	100%
Towergate Property Management Limited	Dormant	England	100%	100%
Towergate Management Services Limited	Dormant	England	100%	100%
The Folgate Partnership Limited	Dormant	England	100%	100%

(1) Registered office address is Hexagon House Grimbald Crag Close, St James Business Park, Knaresborough, North Yorkshire, HG5 8PJ

(2) Registered office address is Davidson House, 57 Queen Charlotte Street, Edinburgh, EH6 7YD

(3) Registered office address is Paymentshield House, Wight Moss Way, Southport, Merseyside, PR8 4HQ

(4) Registered office address is 55 Bishopsgate, London, EC2N 3AS

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

13 Investments in associates

Investment in associates

	£ 000
Cost or valuation	
At 1 January 2016	-
Additions	7,201
Share of loss for the year	(706)
At 31 December 2016	<u>6,495</u>
Provision for impairment	
At 1 January 2016	-
Provision	-
At 31 December 2016	<u>-</u>
Carrying amount	
At 31 December 2016	<u>6,495</u>
At 31 December 2015	<u>-</u>

On 1 July 2016 the Company acquired a 19.9% share in Bravo Investment Holdings Limited (Bravo), incorporated and based in the UK. Just prior to this, Bravo acquired The Broker Network Limited and Countrywide Insurance Management Limited from Towergate.

There is a shareholder agreement in place in respect of the Company's holding in Bravo which includes certain minority protection rights, rights in respect of share transfers and a long term option arrangement over the remaining shares in Bravo. This option is exercisable by the Company at or above market value and therefore the associated derivative has no fair value.

The registered office of Bravo Investment Holdings Limited is Devonshire House, 4th Floor, 1 Mayfair Place, London, W1J 8AJ.

Details of the associates as at 31 December 2016 are as follows:

Name of associate	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2016	2015
Bravo Investment Holdings Limited +	Holding Company	England	19.9%	0%

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

+ indicates accounted for using the equity method

Summarised financial information

Please find below summarised unaudited financial information in respect of the Company's associate:

	At 31 December 2016 £ 000
Non-current assets	41,982
Current assets	22,950
Non-current liabilities	(28,641)
Current liabilities	(19,019)
Equity attributable to the owners of the Company	<u>17,272</u>
	<u>For the period 1 July 2016 to 31 December 2016 £ 000</u>
Revenue	<u>7,450</u>
Loss after tax	<u>(3,545)</u>

14 Disposals

The Company held 100% of the issued share capital of Countrywide Insurance Management Limited.

On 1 July 2016, the Company disposed of its investment of 100% of the issued share capital in Countrywide Insurance Management Limited.

Gain on disposal of Countrywide Insurance Management Limited:

Proceeds received	11,378
Investment in associate	7,201
Costs to sell	(617)
Write off investment	<u>(1,719)</u>
Gain on disposal	<u>16,243</u>

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

15 Trade and other receivables

	2016 £ 000	2015 £ 000
Receivables from related parties	377,378	286,677
Prepayments	2,375	2,447
Other receivables	595	227
Total current trade and other receivables	380,348	289,351

Receivables from related parties are stated after deducting a bad debt provision of £31.6m (2015: £37.7m).

16 Cash and cash equivalents

	2016 £ 000	2015 £ 000
Cash at bank	9,440	16,289

Cash at bank includes £Nil (2015: £Nil) which constitutes restricted client money and insurer money and £6.1m (2015: £0.3m) in office accounts which are considered restricted and not available to pay the general debts of the Company.

17 Share capital

Allotted, called up and fully paid shares

	No. 000	2016 £ 000	No. 000	2015 £ 000
Ordinary A of £0.01 each	3.000	-	3.000	-
Deferred B of £1,407,307,331 each	0.001	1,407,307	0.001	1,407,307
	<u>3.001</u>	<u>1,407,307</u>	<u>3.001</u>	<u>1,407,307</u>

The A ordinary shares have attached to them full voting, dividend and capital (including on winding up) rights. They do not confer any rights of redemption.

The B deferred share has attached to it the right to receive a fixed, cumulative, preferential dividend from the company in any amount of 0.000001% of the nominal value of the B deferred share per annum on a return of capital (including winding up). The holder of the B Deferred share has the right to receive £0.01 per B Deferred share (should more be issued) for each £0.10 received by a holder of A Ordinary shares per A Ordinary share, provided that each holder of an A Ordinary share receives the full nominal amount paid up on each A Ordinary share held and a further £1,000,000 per A Ordinary share held. The B Deferred share does not have voting rights or the right to receive notice of general meetings of the company attached to it, the B Deferred share does not confer any rights of redemption.

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

18 Loans and borrowings

	2016 £ 000	As restated 2015 £ 000
Current loans and borrowings		
Bank interest payable	106	106
Interest payable on loan notes	18,932	8,105
Loan notes	122,000	122,000
	<u>141,038</u>	<u>130,211</u>

In prior periods, the Company had presented interest payable in trade and other payables. However, the Company has reclassified interest payable to loans and borrowings in the comparative period to align the liability with its nature as a consequence of borrowings. For more details, please refer to note 2.

On 2 April 2015 the Company entered into a subordinated loan agreement with TIG Finco Plc, an immediate parent of the Company. The loan bears interest at a fixed rate of 8.85% per annum and the principal amount (including any interest accrued) is repayable on demand. In recognition of the repayment terms, this balance was reclassified from non-current to current liabilities in the comparative period.

19 Obligations under leases and hire purchase contracts

Operating leases

The total future value of minimum lease payments is as follows:

	2016 £ 000	2015 £ 000
Within one year	310	260
In two to five years	956	1,039
In over five years	-	1,298
	<u>1,266</u>	<u>2,597</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £0.2m (2015: £0.2m).

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

20 Pension and other schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £0.2m (2015: £0.3m).

Contributions totalling £0.7m (2015: £0.7m) were payable to the scheme at the end of the year and are included in creditors.

21 Provisions

	E & O £ 000	Long term incentive plan £ 000	Dilapidations £ 000	Total £ 000
At 1 January 2016	2,244	15,427	67	17,738
Additional provisions	4,740	(804)	-	3,936
Provisions used	(3,157)	(14,572)	-	(17,729)
Unwinding of discounted amount	-	-	6	6
At 31 December 2016	<u>3,827</u>	<u>51</u>	<u>73</u>	<u>3,951</u>
Non-current liabilities	<u>-</u>	<u>51</u>	<u>73</u>	<u>124</u>
Current liabilities	<u>3,827</u>	<u>-</u>	<u>-</u>	<u>3,827</u>

Long term incentive plan provision - provided for the long-term incentive plan costs triggered by the Group acquisition in 2015, all amounts have been settled under this scheme during 2016. Three new LTIP schemes were established by the Group in 2016, the Company utilises one of these being Leadership; the amounts which will ultimately vest are dependent on achievement against various performance measures (including Group EBITDA and individual Contribution targets) and/or service conditions. The incentives are paid to participants at the end of the relevant performance and/or service period, for one scheme this is in 2018 and for the other two schemes an interim payment is due in 2017, the amount of which will be deducted from the final payments due in 2019.

Errors and omissions (E & O) provision - In the normal course of business the Group may receive claims in respect of errors and omissions. A provision has been made in respect of outstanding errors and omissions claims.

Dilapidations provision - provides for the estimated amounts payable for dilapidation on each property at the end of the lease term.

Over 1 year provisions are discounted at the rate of 8.75%. The finance charge relating to unwinding of the discount has been charged to the income statement.

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

22 Trade and other payables

	2016	As restated
	£ 000	£ 000
Accrued expenses	12,251	8,644
Amounts due to related parties	500,978	367,036
Social security and other taxes	4,591	4,762
Outstanding defined contribution pension costs	721	733
Other payables	7,837	2,781
Contingent consideration	310	310
	<u>526,688</u>	<u>384,266</u>

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

23 Commitments

Guarantees

On 2 April 2015 the Group completed a financing and recapitalisation process. At that date Towergate Finance Plc sold its immediate subsidiary, the Company, to TIG Finco Plc. On the same date TIG Finco Plc issued £425.0m of 8.75% Senior Secured Notes and £75.0m of Floating Rate Super Senior Secured Notes. The obligations of TIG Finco Plc under the 8.75% Senior Secured Notes and the Floating Rate Super Senior Secured Notes are guaranteed by TIG Midco Limited, the immediate parent company of TIG Finco Plc and all its material and certain other subsidiaries. These companies are listed below:

Berkeley Alexander Limited	Protectagroup Limited
Capital & County Insurance Brokers Limited	Richard V Wallis & Co Limited
Countrywide Insurance Management Limited	Roundcroft Limited
Cox Lee & Co Limited	T F Bell Holdings Limited
Crawford Davis Insurance Consultants Limited	T L Risk Solutions Limited
Cullum Capital Ventures Limited	Towergate Insurance Limited
Four Counties Finance Limited	The T F Bell Group Limited
Fusion Insurance Holdings Limited	Three Counties Insurance Brokers Limited
Fusion Insurance Services Limited	Towergate London Market Limited
HLI (UK) Limited	Townfrost Limited
Just Insurance Brokers Limited	CCV Risk Solutions Limited
Managing Agents Reference Assistance Services Limited	Eclipse Park Acquisitions Limited
Moffatt & Co Limited	Towergate Risk Solutions Limited
Paymentsshield Holdings Limited	Broker Network Holdings Limited
Paymentsshield Limited	Oyster Risk Solutions Limited
Portishead Insurance Management Limited	Paymentsshield Group Holdings Limited
Protectagroup Holdings Limited	Towergate Underwriting Group Limited
Protectagroup Acquisitions Limited	The Broker Network Limited

Some of the companies noted above have ceased trading since 2 April 2015 and other companies in the Group have commenced trading or have become material subsidiaries. Due to these changes on 4 November 2016 the Group companies comprising the entities which guarantee and secure the obligations of TIG Finco Plc under the 8.75% Senior Secured Notes and the Floating Rate Super Senior Secured Notes were amended in order to ensure that the guarantor / chargor group reflected the material entities within the Group.

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

Antur Insurance Services Limited	Morgan Law Limited
Arista Insurance Limited	Paymentshield Holdings Limited
Berkeley Alexander Limited	Paymentshield Limited
B.I.B (Darlington) Limited	Roundcroft Limited
Bishop Skinner Insurance Brokers Limited	Bishopsgate Insurance Brokers Limited (previously Towergate London Market Limited)
Cullum Capital Ventures Limited	Townfrost Limited
Dawson Whyte Limited	CCV Risk Solutions Limited
Four Counties Finance Limited	Towergate Risk Solutions Limited
Four Counties Insurance Brokers Limited	Broker Network Holdings Limited
Fusion Insurance Holdings Limited	Oyster Risk Solutions Limited
Fusion Insurance Services Limited	Paymentshield Group Holdings Limited
Managing Agents Reference Assistance Services Limited	Towergate Underwriting Group Limited
Moffatt & Co Limited	Towergate Insurance Limited

These guarantees have been treated under IFRS 4 in line with the accounting policy described in note 2.

Contractual Commitments

As at 31 December 2016 the Company was contractually committed to expenditure in relation to business transformation projects totalling £12.0m, £3.0m in 2017 and £9.0m in 2018. Of the total, £6.4m relates to expenditure on intangible assets and £0.8m relates to property, plant and equipment purchases.

Broker Network disposal

As part of the consideration on the sale of Broker Network, the Group will receive a contingent consideration of up to £17.2m if certain events and performance measures occur. Equally, the Group could have an ownership dilution in Bravo Investment Holdings Limited (Bravo) of up to its full share of the capital of 19.9% if certain events and performance measures occur. As at 31 December 2016 the Group expects the performance measures are to be met and hence recognised no asset/liability. Nevertheless, both a contingent asset and liability should be disclosed as a result of the above arrangement. As more information on the performance of Bravo becomes available, a value may be assigned to the reverse earn out or the deferred consideration receivable which will lead to the recognition of a liability or an asset respectively.

Rateable value of business properties

The Valuation Office Agency (VOA, an executive agency of HMRC) which is responsible for setting the Rateable Value of all business properties in England and Wales may have to change the way properties are valued due to a Supreme Court decision. The amount of any liability remains uncertain at the stage, the VOA have committed to reviewing the Rateable Values and will contact Towergate again before 31 March 2018.

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

24 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 exemptions under FRS 101 not to disclose transactions with fellow wholly owned subsidiaries or key management personnel information.

Business was also conducted, on an arm's length basis, within the Sentry Holdings 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 Sentry Holdings Limited.

	2016	2016	2016	2015	2015	2015
			(Due to)			(Due to)
			/receivable			/receivable
	Paid to	Received	from at	Paid to	Received	from at
	£ 000	from	year end	£ 000	from	year end
		£ 000	£ 000		£ 000	£ 000
Towergate Financial (London) Limited*	397	-	365	-	387	(32)
Towergate Financial (West) Limited	-	229	(3,085)	2,502	-	(2,856)
Towergate Financial (Huddersfield) Limited	-	-	-	744	-	-
Towergate Financial (North) Limited	-	3,450	(3,766)	-	(191)	(316)
Towergate Financial (Scotland) Limited	-	10,528	(9,897)	68	-	631
Towergate Financial (East) Intermediate Limited *	1,609	-	2,959	-	831	1,350
Towergate Financial (East) Limited	-	7,240	(7,523)	-	782	(283)
Towergate Financial (West) Holdings Limited *	4,103	-	4,124	-	46	21
Towergate Financial (Scotland) Holdings Limited *	1,966	-	2,617	1	-	651
Towergate Financial (East) Holdings Limited *	5,099	-	6,731	-	2,316	1,632
Towergate Financial (North) Holdings Limited *	5,554	-	5,997	-	299	443
Towergate Financial (Group) Limited *	-	22,248	8,764	8,491	-	31,012
Oyster Risk Solutions Limited	1,295	-	12,121	1,337	-	10,826
Execcover Limited	21	-	21	-	2	-
B.I.B. Underwriters Limited	2,216	-	9,574	4,062	-	7,358
Oyster Property Insurance Specialists Limited	-	36	1,553	1,589	-	1,589

Towergate Insurance Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

* In 2015, the Company made a provision against intercompany debt from the Towergate Financial Group companies as disclosed in note 5. A further adjustment to the provision has been made in 2016 to fully provide against amounts receivable. As a result, there are no balances due to be received from these companies.

25 Ultimate parent company

On 2 April 2015, HPS Investment Partners LLC, formerly known as Highbridge Principal Strategies LLC became the Group's majority shareholder when its investment in Sentry Holdings Limited (incorporated in Jersey, registered office 22 Grenville Street, St Helier, Jersey, JE4 8PX) acquired a direct interest in TIG Topco Limited (incorporated in Jersey, registered office address, 47 Esplanade, St Helier, Jersey, JE1 0BD). and indirect interests in Towergate Insurance Limited and its subsidiaries. At 31 December 2016, the ultimate parent company was Sentry Holdings Limited. Sentry Holdings Limited is the largest group in which the results are consolidated. These consolidated financial statements are available upon request from:

Towergate House
Eclipse Park
Sittingbourne Road
Maidstone
Kent
ME14 3EN

26 Subsequent events

Capital Contribution

On 25 April 2017 the Company made a capital contribution of £7.0m to Towergate Financial (East) Limited. Towergate Financial (East) Limited is an indirect subsidiary of the Company and is regulated by the FCA. The capital contribution was made to ensure that Towergate Financial (East) Limited has sufficient regulatory capital to meet the minimum requirements set by the FCA.

The capital contribution was reflected as an increase to the investment in Towergate Financial (East) Limited in the Company's books. This investment was subsequently fully impaired in recognition of the fact that Towergate Financial (East) Limited is in run off following the disposal of its trade and assets in 2015.

Finance Transformation

On 12 January 2017 and 24 April 2017 Towergate made two announcements regarding proposals in relation to its Finance function that may result in redundancies. Following those announcements 165 employees were placed into consultation periods. In line with the requirements of IAS 10, no provision has been recognised in this regard as at 31 December 2016.