

Registration number: 07476462

Towergate Insurance Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2017

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Towergate Insurance Limited

Company Information

Directors	P N Butler C E Dandridge V A Dombalagian S French F Mackle D C Ross J I Tiner C Bouch M Y A Boulanger A Cusaro M W Raino A Erotocritou
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Company secretary	G C Gouriet
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Registered office	Towergate House Eclipse Park Sittingbourne Road Maidstone Kent ME14 3EN
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Auditors	KPMG LLP 15 Canada Square Canary Wharf London E14 5GL
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Towergate Insurance Limited

Strategic Report for the Year Ended 31 December 2017

The directors present their strategic report for the year ended 31 December 2017 for Towergate Insurance Limited ("the Company" or "TIL"). 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

The principal activity of the Company is that of a non-trading holding company. The Company incurs costs on behalf of the Group and its subsidiary companies and makes recharges to these companies.

The results for the Company show a loss before tax of £52.1m (2016:£41.1m) for the year and turnover of £37.1m (2016: £32.2m). At 31 December 2017 the Company had net current liabilities of £204.0m (2016: 274.0m) and net assets of £637.5m (2016: £515.0m). To ensure the Company continues trading Ardonagh Midco 3 Plc has indicated that it is its current intention that, for at least twelve months from the date of approval of these financial statements, it will continue to make available sufficient funds as needed by the Company.

On 22 June 2017 Ardonagh Fincó plc ("Fincó"), the immediate parent company of TIL, repaid its outstanding debt and acquired a number of holding and trading entities through Nevada Investments Topco Limited, an indirect subsidiary of Fincó. As part of these transactions and the repayment/issuance of debt within the Group, the Company issued £180.8m of additional share capital. Further details on the share issue and debt transactions can be found in notes 17 and 23.

Outlook

In January 2018 the Company sold its 19.9% shareholding in Bravo Investment Holdings Limited ("Bravo") to Nevada Investment Holdings 2 Limited, a related party of the Group due to its common shareholders as discussed in Subsequent events note on page 43.

The directors do not expect there to be any further changes in the nature of the business in 2018.

Key performance indicators

The directors of the Group 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 £7.0m due to the write down of investments held in the Towergate Financial Group. A further £27.8m impairment was provided in the year against the investment in Fusion Insurance Holdings Limited, a fellow wholly owned subsidiary. Further information of these impairment charges can be found in Note 12.

Towergate Insurance Limited

Strategic Report for the Year Ended 31 December 2017

During the year ended 31 December 2017, the Company made an adjustment to a provision against intercompany debt due from the Towergate Financial Group of £3.9m, reflecting the movement in the Towergate Financial intercompany balances in the period. These balances are deemed unrecoverable and hence have been fully impaired.

Non-financial key performance indicators include staffing levels which have risen by 14% (2016: 24%) during the year, due to transfers of staff performing central and service functions into the Company, which performs a significant amount of the central service functions for the Group. 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.

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 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. 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 Company and its subsidiaries' business plan, regular monitoring of cash flows against risk appetite and a focus on debt collection by the Company and its subsidiaries.

Operational risk

There is the risk of losses arising from inadequate or failed internal processes or systems, from personnel and / or from external events. The Group is committed to undertaking a series of activities that are linked to the Transformation strategy. These activities are targeted at driving operational effectiveness, cost synergies, and better management of operational risks and have involved substantial investment in systems and technology. In addition, the Group continues to follow a stated strategy of continued development in our people and corporate culture.

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.

Towergate Insurance Limited

Strategic Report for the Year Ended 31 December 2017

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.

Strategic and commercial risk

There are risks of changes to the competitive and economic environment. This is mitigated by a robust strategy and planning process, regular monitoring of economic and competitive environment and diversification of product lines and channels.

General Data Protection Regulation

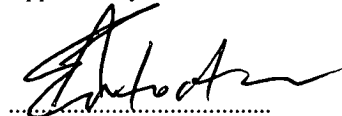
Our computer systems store information about our customers, some of which is sensitive personal data. Database privacy, identity theft and related computer and internet issues are matters of growing public concern and are subject to changes in rules and regulations. Our failure to adhere to or successfully implement processes in response to changing regulatory requirements in this area could result in legal liability or harm to our reputation. Although we have taken reasonable and appropriate security measures to prevent unauthorised access to information stored in our database and to ensure that our processing of personal data complies with the relevant data protection regulations, our technology may fail to adequately secure the private information we maintain in our databases and protect it from theft or inadvertent loss.

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 22 August 2018 and signed on its behalf by:



A Erotocritou
Director

Towergate Insurance Limited

Directors' Report for the Year Ended 31 December 2017

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

Directors of the Company

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

P N Butler

C E Dandridge

V A Dombalagian

O J M Feix (resigned 22 December 2017)

S French

F Mackle

P W Moore (resigned 3 January 2017)

M S Mugge (resigned 2 March 2018)

D R Pietrzak (resigned 15 November 2017)

D C Ross

J I Tiner

C Bouch (appointed 3 January 2017)

M Y A Boulanger (appointed 15 November 2017)

A Cusaro (appointed 22 December 2017)

The following directors were appointed after the year end:

M W Raino (appointed 31 January 2018)

A Erotocritou (appointed 2 March 2018)

Dividends

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

Financial risk management objectives and policies

Details of financial risk management objectives and policies can be found in the strategic report within the 'Risk management' section on page 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 (2016: £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 2017

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. In reaching their view on the preparation of the Company's financial statements on a going concern basis, the Directors have also considered the letter of support provided by Ardonagh Midco 3 Plc. 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

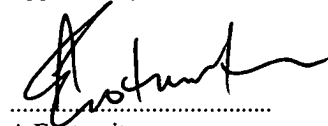
Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of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

Reappointment of auditor

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

As a result of this tender process the Audit Committee recommended, and The Ardonagh Group Limited Board approved on behalf of the Company, the proposed appointment of Deloitte LLP as external auditor for the financial year ending 31 December 2018. The appointment of Deloitte LLP is subject to finalisation of terms of engagement and KPMG LLP's completion of the audit for the year ending 31 December 2017 and resignation as auditor.

Approved by the Board on 22 August 2018 and signed on its behalf by:



A Erotocritou
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 and applicable law (United Kingdom Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

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

Opinion

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

In our opinion the financial statements:

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

Basis for opinion

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

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

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

Directors' responsibilities

As explained more fully in the their 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; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

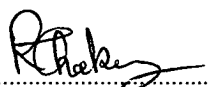
Auditor's responsibilities

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

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

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

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



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

22 August 2018

Towergate Insurance Limited

Statement of Comprehensive Income for the Year Ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
Turnover	4	37,131	32,193
Amortisation	5	(1,612)	(660)
Administrative expenses		<u>(62,543)</u>	<u>(40,223)</u>
Operating loss	5	<u>(27,024)</u>	<u>(8,690)</u>
Gain on disposal of investment	13	12,398	16,243
Impairment of investments	12	<u>(34,841)</u>	<u>(68,059)</u>
Finance income	6	9,331	31,862
Finance costs	6	<u>(10,804)</u>	<u>(11,759)</u>
Net finance (cost)/income	6	(1,473)	20,103
Share of Associated Companies' Earnings	14	<u>(1,139)</u>	<u>(706)</u>
Loss before tax		(52,079)	(41,109)
Tax (charge)/credit	9	<u>(6,154)</u>	<u>1,608</u>
Total comprehensive loss for the year		<u><u>(58,233)</u></u>	<u><u>(39,501)</u></u>

The above results were derived from continuing operations.

The notes on pages 14 to 43 form an integral part of these financial statements.

Towergate Insurance Limited

(Registration number: 07476462)

Statement of Financial Position as at 31 December 2017

	Note	2017 £ 000	2016 £ 000
Assets			
Non-current assets			
Property, plant and equipment	10	7,455	7,903
Intangible assets	11	13,926	10,270
Investments in subsidiary undertakings	12	814,892	762,733
Investments in associates	14	5,356	6,495
Deferred tax assets	9	-	1,731
		<u>841,629</u>	<u>789,132</u>
Current assets			
Trade and other receivables	15	470,667	380,348
Income tax asset	9	3,299	7,724
Cash and cash equivalents	16	12,274	9,440
		<u>486,240</u>	<u>397,512</u>
Total assets		<u><u>1,327,869</u></u>	<u><u>1,186,644</u></u>

The notes on pages 14 to 43 form an integral part of these financial statements.


Towergate Insurance Limited

(Registration number: 07476462)

Statement of Financial Position as at 31 December 2017

	Note	2017 £ 000	2016 £ 000
Equity and liabilities			
Equity			
Called up share capital	17	1,588,078	1,407,307
Share premium reserve		117,980	117,980
Capital contribution		32,862	32,862
Retained earnings		<u>(1,101,415)</u>	<u>(1,043,182)</u>
		<u>637,505</u>	<u>514,967</u>
Non-current liabilities			
Provisions	21	97	124
Current liabilities			
Trade and other payables	22	534,874	526,688
Loans and borrowings	18	151,729	141,038
Provisions	21	<u>3,664</u>	<u>3,827</u>
		<u>690,267</u>	<u>671,553</u>
Total liabilities		<u>690,364</u>	<u>671,677</u>
Total equity and liabilities		<u><u>1,327,869</u></u>	<u><u>1,186,644</u></u>

Approved by the Board on 22 August 2018 and signed on its behalf by:



 A Erotocritou
 Director

The notes on pages 14 to 43 form an integral part of these financial statements.

Towergate Insurance Limited

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

	Share capital £ 000	Share premium £ 000	Capital contribution £ 000	Retained losses £ 000	Total £ 000
At 1 January 2017	1,407,307	117,980	32,862	(1,043,182)	514,967
Total comprehensive loss	-	-	-	(58,233)	(58,233)
New share capital issued	180,771	-	-	-	180,771
At 31 December 2017	<u>1,588,078</u>	<u>117,980</u>	<u>32,862</u>	<u>(1,101,415)</u>	<u>637,505</u>

	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>

The notes on pages 14 to 43 form an integral part of these financial statements.

Towergate Insurance Limited

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

1 Authorisation of financial statements

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

The financial statements for the year ended 31 December 2017 were authorised for issue by the Board on 22 August 2018 and the statement of financial position was signed on the Board's behalf by A Erotocritou.

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 The Ardonagh Group 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;

Towergate Insurance Limited

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

2 Accounting policies (continued)

(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;

(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.

Towergate Insurance Limited

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

2 Accounting policies (continued)

Going Concern

The financial statements of the Company have been prepared on a going concern basis. At 31 December 2017 the Company had net assets of £637.5m (2016: £515.0m) and net current liabilities of £204.0m (2016: £274.0m). The net current liabilities include amounts receivable from related parties of £264.9m (2016: £377.4m), and amounts due to related parties of £510.9m (2016: £501.0m). The Company was one of a number of group companies who at 31 December 2017 guaranteed bank and bond debt owed by Ardonagh Midco 3 Plc, an intermediate holding company in the group.

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 with the support offered by Ardonagh Midco 3 Plc. In reaching their view on the preparation of the Company's financial statements on a going concern basis, the Directors have considered the going concern position of the Company and the Group and its ability to meet its obligations as and when they fall due. This assessment of the Group's position included:

- The current capital structure and liquidity of the Group and its base case and stressed cash flow forecasts over the calendar years 2018 and 2019.
- The principal risks facing the Group and its systems of risk management and internal control.

In June 2018 the Group issued a further £98.3m of 8.375% senior secured notes of which £45.0m was used to fully repay outstanding borrowings under the Group's Revolving Credit Facility.

Key assumptions made in the base case are that the Group:

- Invest to complete the major business transformation projects involving the finance function and broker systems consolidation and achieves the projected synergies
- Continues to benefit from the revolving credit facility which was undrawn at 30 June 2018.
- Commences settlement of Enhanced Transfer Value (ETV) pension redress payments payable by its Towergate Financial subsidiary businesses in the third quarter of 2018 and completes the redress exercise over a 24-month period.

Key stress scenarios the Directors have considered are:

- A shortfall in base case projected operating cash flows due to adverse economic conditions, project over-spend and project delays.
- Other potential cashflow reductions through contract buy-outs and Towergate legacy issues.
- Deterioration in the quantum and acceleration of the settlement profile of the ETV liabilities compared to the base case
- Mitigating actions within Management's control such as delaying capital expenditure and reduction in discretionary spend. This action could be utilised if trading performance and cash flows are not in line with the reforecast and can be managed by temporary spending deferrals
- Other mitigating factors such as raising additional debt, additional shareholder support, and the potential sale of non-core assets from the Group.

Following their assessment of the Company's and the Group's financial position and ability to continue and its ability to meet its obligations as and when they fall due, 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.

Towergate Insurance Limited

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

2 Accounting policies (continued)

Turnover

(a) Management charge

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 enforcement 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.

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

Towergate Insurance Limited

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

2 Accounting policies (continued)

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.

(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.

Towergate Insurance Limited

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

2 Accounting policies (continued)

(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

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.

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.

Towergate Insurance Limited

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

2 Accounting policies (continued)

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.

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.

Towergate Insurance Limited

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

2 Accounting policies (continued)

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 LTIP's 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 ward, 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 repayment (during the clawback period) as relevant.

Financial assets

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.

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

Financial liabilities

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

Towergate Insurance Limited

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

2 Accounting policies (continued)

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.

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:

Impairment of assets

The Company tests annually whether investments 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 cost to sell and a value in use calculations 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.

Towergate Insurance Limited

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

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Errors and omissions liability

During the ordinary course of business, Towergate Insurance Limited and its subsidiaries 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. In 2017 the provision was £3.5m (2016: £3.8m)

4 Turnover

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

	2017	2016
	£ 000	£ 000
Other income	79	33
Management charge	37,052	32,160
	<u>37,131</u>	<u>32,193</u>

Turnover consists entirely of income generated in the United Kingdom.

The management charge noted in the table above reflects cost recharges made to other companies in the Towergate Group. The management charge includes the staff costs recharge as disclosed in note 7.

5 Operating loss

Arrived at after charging/(crediting)

	2017	2016
	£ 000	£ 000
Depreciation expense	2,409	188
Amortisation expense	1,612	660
Auditor's remuneration: audit of these financial statements	104	51
Intercompany bad debt provision	3,880	-
Intercompany bad debt provision release	-	(3,553)
Operating lease expense - property	-	239
Restructuring obligations	<u>181</u>	<u>-</u>

Towergate Insurance Limited

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

5 Operating loss (continued)

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.

During the year ended 31 December 2017, the Company made an adjustment to a provision against intercompany debt due from the Towergate Financial Group of £3.9m, reflecting the movement in the Towergate Financial intercompany balances in the period. These balances are deemed unrecoverable and hence have been fully impaired.

6 Finance income and finance costs

	2017 £ 000	2016 £ 000
Finance income		
Interest income on bank deposits	385	-
Interest receivable from related parties	8,946	-
Dividend income	-	31,862
Total finance income	<u>9,331</u>	<u>31,862</u>
Finance costs		
Interest on bank overdrafts	-	(638)
Interest expense on loans and borrowings	(10,804)	(11,121)
Total finance costs	<u>(10,804)</u>	<u>(11,759)</u>
Net finance (costs)/income	<u>(1,473)</u>	<u>20,103</u>

As at 31 December 2017 the Company was due a total of £8.9m of interest on loans to other group undertakings. The amounts due were as follows: £1.3m Nevada Investments 4 Limited; £2.0m Nevada Investments 7 Limited; £1.5m Nevada Investorco Limited; £2.4m Nevada Investments 3 Limited; £0.2m Price Forbes Holdings Limited; and £1.5m Lunar 101 Limited.

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). No dividends were received for the year ended 31 December 2017.

In the year ended 31 December 2017, the interest expense on the £122.0m subordinated loan, charged at 8.85% per annum totalled £10.8m (2016: £10.8m).

Towergate Insurance Limited

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

7 Staff costs

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

	2017	2016
	£ 000	£ 000
Wages and salaries	13,622	13,737
Social security costs	4,157	2,759
Pension costs, defined contribution scheme	188	183
	<u>17,967</u>	<u>16,679</u>

	2017	2016
	No.	No.
Administration	436	385
Management	34	26
	<u>470</u>	<u>411</u>

The Company incurs payroll costs on behalf of other companies within the Group. The table above presents the net cost incurred by the Company after recharges have taken place. In the year ended 31 December 2017, £15.6m (2016: £7.7m) 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 £17.9m (2016: £15.2m).

8 Directors' remuneration

Directors emoluments of £175,000 for services provided to this Company have been paid by other Group entities, which make no recharge to the Company.

Towergate Insurance Limited

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

9 Income tax

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

	2017 £ 000	2016 £ 000
Current taxation		
UK corporation tax	(3,299)	(7,724)
UK corporation tax adjustment to prior periods	<u>7,722</u>	<u>3,808</u>
	<u>4,423</u>	<u>(3,916)</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	1,755	2,309
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	<u>(24)</u>	<u>(1)</u>
Total deferred taxation	<u>1,731</u>	<u>2,308</u>
Tax expense/(credit) in the statement of comprehensive income	<u><u>6,154</u></u>	<u><u>(1,608)</u></u>

The differences are reconciled below:

	2017 £ 000	2016 £ 000
Loss before tax	<u>(52,079)</u>	<u>(41,109)</u>
Corporation tax at standard rate	(10,025)	(8,223)
Adjustment for prior periods	7,722	3,807
Effect of expenses not deductible in determining taxable profit (tax loss)	7,838	13,733
Amount of deferred tax expense (income) relating to the origination and reversal of temporary differences	(15)	27
Increase from effect of revenues exempt from taxation	(2,386)	(3,248)
Decrease (increase) from tax losses for which no deferred tax asset was recognised	1,629	-
Deferred tax expense (credit) relating to changes in tax rates or laws	1,391	224
Decrease from effect of dividends from UK companies	-	(6,373)
Decrease from changes in tax provisions due to legislation	<u>-</u>	<u>(1,555)</u>
Total tax charge/(credit)	<u><u>6,154</u></u>	<u><u>(1,608)</u></u>

Towergate Insurance Limited

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

9 Income tax (continued)

Deferred tax

Deferred tax assets

	Asset £ 000
2016	
Accelerated tax depreciation	1,719
Provisions	12
	<u>1,731</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 2017 £ 000	Recognised in income £ 000	At 31 December 2017 £ 000
Accelerated tax depreciation	1,719	(1,719)	-
Provisions	12	(12)	-
Net tax assets	<u>1,731</u>	<u>(1,731)</u>	<u>-</u>

Deferred tax movement during the prior 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
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 2017

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 2017	66	115	51	8,223	124	8,579
Additions	17	-	26	1,918	-	1,961
At 31 December 2017	83	115	77	10,141	124	10,540
Depreciation						
At 1 January 2017	8	34	51	527	56	676
Charge for the year	7	17	1	2,361	23	2,409
At 31 December 2017	15	51	52	2,888	79	3,085
Carrying amount						
At 31 December 2017	68	64	25	7,253	45	7,455
At 31 December 2016	58	81	-	7,696	68	7,903

Towergate Insurance Limited

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

11 Intangible assets

	Trademarks, patents and licenses £ 000	Internally generated software costs £ 000	Software under construction £ 000	Computer software £ 000	Total £ 000
Cost or valuation					
At 1 January 2017	46	120	6,844	8,169	15,179
Revaluation	-	-	(94)	-	(94)
Additions	-	261	5,070	432	5,763
Transfer between intangible asset classes	-	-	(3,255)	3,255	-
Intercompany transfer	-	-	(140)	-	(140)
At 31 December 2017	46	381	8,425	11,856	20,708
Amortisation					
At 1 January 2017	34	95	-	4,780	4,909
Amortisation charge	10	22	-	1,580	1,612
Impairment	-	261	-	-	261
At 31 December 2017	44	378	-	6,360	6,782
Carrying amount					
At 31 December 2017	2	3	8,425	5,496	13,926
At 31 December 2016	12	25	6,844	3,389	10,270

Towergate Insurance Limited

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

12 Investments in subsidiary undertakings

Investment in subsidiary undertakings	£ 000
Cost or valuation	
At 1 January 2017	1,509,021
Additions	<u>87,000</u>
At 31 December 2017	<u>1,596,021</u>
Provision for impairment	
At 1 January 2017	746,288
Impairment	<u>34,841</u>
At 31 December 2017	<u>781,129</u>
Carrying amount	
At 31 December 2017	<u><u>814,892</u></u>
At 31 December 2016	<u><u>762,733</u></u>

In 2017, additions of £7m relate to a 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 £34m share capital in Towergate Underwriting Group Limited, £45m in Geo Underwriting Services Limited (formerly known as Fusion Insurance Services Limited) via Fusion Insurance Holdings Limited and £1m CCV Risk Solutions Limited, all fellow Group subsidiaries.

Towergate Property Management Limited, previously a wholly owned dormant subsidiary of the company, was dissolved on 24 October 2017. The value of the investment held by the Company was equal to £2 being the value of the share capital.

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 2017, FVLCS is deemed to be the appropriate valuation.

Towergate Insurance Limited

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

12 Investments in subsidiary undertakings (continued)

Impairment review

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 2018, 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 Fusion Insurance Holdings Ltd exceeded its carrying value due to a reduction in its proportionate share of the FVLCS of the Group and the Underwriting division in which the entity sits. An impairment charge of £27.8m has been recognised in the year. The impairment charge has been driven by a requirement to undertake remedial action across a number of portfolios in the Group's Underwriting division, leading to reduced premium income but improved underwriting loss performance in future years. This essential action ensures the future continuity with our capacity providers. In addition to remediation, the investments made within GEO Speciality and GEO International have taken longer than anticipated to actively start trading. All investments and new product offerings are now fully live for 2018.

For all other investments, the recoverable amount exceeded the respective carrying value and no impairment was necessary for the year ended 31 December 2017.

Details of the subsidiaries as at 31 December 2017 are as follows. 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	
			2017	2016
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%

Towergate Insurance Limited

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

12 Investments in subsidiary undertakings (continued)

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2017	2016
Folgate (HHHB) Limited	Dormant	England	100%	100%
Fusion Insurance Holdings Limited (and subsidiaries)	Holding company	England	100%	100%
GHBC Limited	Dormant	England	100%	100%
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	85.1%	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	0%	100%
Towergate Management Services Limited	Dormant	England	100%	100%

Towergate Insurance Limited

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

12 Investments in subsidiary undertakings (continued)

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2017	2016
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 Paymentsshield House, Wight Moss Way, Southport, Merseyside, PR8 4HQ

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

On 28 May 2018 the following wholly owned subsidiaries were formally dissolved at Companies House: Folgate (HHHB) Limited; Folgate Risk Solutions (Oxted) Limited; SMG Professional Risks Limited; Towergate Holiday Homes Underwriting Agency Limited; Towergate Management Services Limited; and Agricultural Insurance Underwriting Agencies Limited.

13 Disposals

On 22 March 2016 the Company agreed to sell its holding in Countrywide Insurance Management Limited to funds advised by HPS, the majority shareholder of the Ardonagh Group. The transaction completed on the 1 July 2016. The consideration was satisfied in part by the allotment of approximately 19.9% of the shares in the acquisition vehicle, Bravo Investment Holdings Limited, and partially through initial cash consideration. As part of the sale a contingent consideration of up to £17.2m could be receivable if certain events and performance measures occurred in the period to 30 September 2017. During 2017 the Company recorded a £12.4m contingent consideration asset in relation to the Bravo sale. This was received in January 2018.

Towergate Insurance Limited

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

14 Investments in associates

Investment in associates

	£ 000
Cost or valuation	
At 1 January 2017	6,495
Share of loss for the year	(1,139)
At 31 December 2017	<u>5,356</u>
Provision for impairment	
At 1 January 2017	-
Provision	-
At 31 December 2017	<u>-</u>
Carrying amount	
At 31 December 2017	<u>5,356</u>
At 31 December 2016	<u>6,495</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 the Group.

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.

The Company's interest in Bravo was disposed of on 19 January 2018. For further details on this disposal please see note 26 - Subsequent Events.

Details of the associates as at 31 December 2017 are as follows:

Name of associate	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2017	2016
Bravo Investment Holdings Limited +	Holding Company	England	19.9%	19.9%

+ The associate is accounted for using the equity method

Towergate Insurance Limited

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

14 Investments in associates (continued)

Summarised financial information

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

	At 31 December 2017	At 31 December 2016
	£ 000	£ 000
Non-current assets	66,411	41,982
Current assets	38,875	22,950
Non-current liabilities	(68,470)	(28,641)
Current liabilities	(25,266)	(19,019)
	<hr/>	<hr/>
Equity attributable to the owners of the Company	11,550	17,272
	<hr/>	<hr/>
	For the period 1 January 2017 to 31 December 2017	For the period 1 July 2016 to 31 December 2016
	£ 000	£ 000
Revenue	23,151	7,450
	<hr/>	<hr/>
Loss after tax	(5,722)	(3,545)
	<hr/>	<hr/>

15 Trade and other receivables

	2017	2016
	£ 000	£ 000
Receivables from related parties	264,937	377,378
Loans to related parties	180,771	-
Accrued income	3	-
Prepayments	2,272	2,375
Other receivables	22,684	595
	<hr/>	<hr/>
Total current trade and other receivables	470,667	380,348
	<hr/>	<hr/>

Receivables from related parties are stated after deducting a bad debt provision of £35.4m (2016: £31.6m).

16 Cash and cash equivalents

	2017	2016
	£ 000	£ 000
Cash at bank	12,274	9,440
	<hr/>	<hr/>

Cash at bank includes £Nil (2016: £Nil) which constitutes restricted client money and insurer money and £0.1m (2016: £6.1m) in office accounts which are considered restricted and not available to pay the general debts of the Company.

Towergate Insurance Limited

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

17 Share capital

Allotted, called up and fully paid shares

	No.	2017 £	No.	2016 £
Ordinary A of £0.01 each	18,077,142,755	180,771,428	3,000	30
Deferred B of £1,407,307,331 each	1	1,407,307,331	1	1,407,307,331
	<u>18,077,142,756</u>	<u>1,588,078,759</u>	<u>3,001</u>	<u>1,407,307,361</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.

New shares allotted

During the year 18,077,139,755 Ordinary 'A' shares having an aggregate nominal value of £180,771,398 were allotted for an aggregate consideration of £180,771,398.

The new shares were issued to Ardonagh Finco plc to facilitate the aquisition and financing transaction which completed on 22 June 2017.

Towergate Insurance Limited

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

18 Loans and borrowings

	2017 £ 000	2016 £ 000
Current loans and borrowings		
Bank interest payable	-	106
Interest payable on loan notes	29,729	18,932
Loan notes	122,000	122,000
	<u>151,729</u>	<u>141,038</u>

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.

19 Obligations under leases and hire purchase contracts

Operating leases

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

	2017 £ 000	2016 £ 000
Within one year	328	310
In two to five years	657	956
	<u>985</u>	<u>1,266</u>

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 (2016: £0.2m).

Contributions totalling £0.7m (2016: £0.7m) were payable to the scheme at the end of the year and are included in creditors.

Towergate Insurance Limited

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

21 Provisions

	E & O	Long term incentive plan	Dilapidations	Other provisions	Total
	£ 000	£ 000	£ 000	£ 000	£ 000
At 1 January 2017	3,827	51	73	-	3,951
Debit / (credit) to statement of comprehensive income	2,365	(2)	-	181	2,544
Provisions used	(2,709)	(49)	-	-	(2,758)
Unwinding of discounted amount	-	-	6	-	6
Rate change on unwind	-	-	18	-	18
At 31 December 2017	<u>3,483</u>	<u>-</u>	<u>97</u>	<u>181</u>	<u>3,761</u>
Non-current liabilities	<u>-</u>	<u>-</u>	<u>97</u>	<u>-</u>	<u>97</u>
Current liabilities	<u>3,483</u>	<u>-</u>	<u>-</u>	<u>181</u>	<u>3,664</u>

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.

Long-term incentive plan (LTIP) provision - All of the costs have been incurred during 2017 and the provision fully released.

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

Other provisions relate to obligations from restructuring the finance function.

Over 1 year provisions are discounted at the rate of 1.9%. 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 2017

22 Trade and other payables

	2017	2016
	£ 000	£ 000
Accrued expenses	13,522	12,251
Amounts due to related parties	510,871	500,978
Social security and other taxes	7,406	4,591
Outstanding defined contribution pension costs	741	721
Other payables	2,024	7,837
Contingent consideration	310	310
	<u>534,874</u>	<u>526,688</u>

23 Commitments

Guarantees

On 2 April 2015, Ardonagh Finco Plc (formerly known as TIG Finco plc), an intermediate holding company, issued £425.0m of 8.75% senior secured notes and £75.0m of floating rate super senior secured notes. For details of the obligations of certain group companies in relation to guaranteeing these notes please refer to the consolidated financial statements of the Company (formerly named TIG Topco Limited) for the year ended 31 December 2016.

On 25 May 2017 Ardonagh Midco 3 plc, a newly incorporated intermediate holding company, entered into a £90m super senior revolving credit facility (the RCF). The RCF contemplated an additional £30m of uncommitted funds.

On 20 June 2017, Ardonagh Midco 3 Plc issued £400.0m of 8.375% senior secured notes and USD520.0m of 8.625% senior secured notes (together, the Notes). On 22 June 2017, all outstanding amounts due under the £425.0m senior secured notes and £75.0m floating rate super senior secured notes issued by Ardonagh Finco Plc in April 2015 were settled.

On 20 December 2017 Ardonagh Midco 3 plc issued an additional £55.0m of 8.375% senior secured notes which are fungible with the existing GBP senior secured notes issued on 20 June 2017. On the same date the commitments under the RCF were increased to £105.0m. During the second quarter of 2018 the commitments under the RCF were further increased to £120m.

On 8 June 2018, Ardonagh Midco3 plc issued an additional £98.3m of 8.375% senior secured notes which are fungible with the existing GBP senior secured notes issued on 20 June 2017. These notes were issued at a premium of £1.5m.

On 20 June 2018 the amount drawn down on the RCF of £45m was repaid in full.

The obligations of Ardonagh Midco 3 Plc under the Midco 3 notes are guaranteed by Ardonagh Midco 2 Plc, the immediate parent company of Ardonagh Midco 3 Plc and all its material and certain other subsidiaries. These subsidiaries are listed below:

Nevada Investment Holdings 5 Limited
Nevada Investment Holdings 6 Limited

Morgan Law Limited
Paymentshield Group Holdings Limited

Towergate Insurance Limited

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

23 Commitments (continued)

Nevada Investment Holdings 7 Limited	Paymentshield Holdings Limited
Nevada Investments TopCo Limited	Paymentshield Limited
Nevada Investments Holdings Limited	Paymentshield Services Limited
Nevada InvestorCo Limited	Ardonagh Finco Plc (formerly TIG Finco Plc)
Nevada Investments 1 Limited	Towergate Insurance Limited
Nevada Investments 2 Limited	Towergate Risk Solutions Limited
Nevada Investments 3 Limited	Towergate Underwriting Group Limited
Nevada Investments 4 Limited	PFHI Limited (guarantor only)
Nevada Investments 5 Limited	Price Forbes & Partners Limited (guarantor only)
Nevada Investments 6 Limited	Price Forbes Holdings Limited (guarantor only)
Nevada Investments 7 Limited	Direct Group Limited
Arista Insurance Limited	Direct Group Property Services Limited
Broker Network Holdings Limited	Direct Newco Limited
CCV Risk Solutions Limited	Direct Validation Services Limited
Cullum Capital Ventures Limited	Millennium Insurance Brokers Limited
Four Counties Insurance Brokers Limited	Direct Group Topco Limited
Fusion Insurance Holdings Limited	Chase Templeton Group Limited
Geo Underwriting Services Limited (formerly Fusion Insurance Services Limited)	Chase Templeton Holdings Limited
Lunar 101 Limited	Chase Templeton Limited
Bishopsgate Insurance Brokers Limited	

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

Towergate Insurance Limited

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

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 exemption under FRS 101 not to disclose transactions with key management personnel.

Business was also conducted, on an arm's length basis, within The Ardonagh Group Limited group of companies. The table below shows the transactions and balances with entities that form part of the group but are not wholly owned by the Ardonagh Group Limited.

	2017	2017	2017	2016	2016	2016
			(Due to)			(Due to)
		Received	/receivable		Received	/receivable
	Paid to	from	from at	Paid to	from	from at
	£ 000	£ 000	year end	£ 000	£ 000	year end
Towergate Financial (London) Limited*	-	-	365	397	-	365
Towergate Financial (West) Limited	486	-	(2,599)	-	229	(3,085)
Towergate Financial (Huddersfield) Limited	-	-	-	-	-	-
Towergate Financial (North) Limited	1,537	-	(2,229)	-	3,450	(3,766)
Towergate Financial (Scotland) Limited	1,007	-	(8,889)	-	10,528	(9,897)
Towergate Financial (East) Intermediate Limited *	-	-	2,959	1,609	-	2,959
Towergate Financial (East) Limited	915	-	(6,608)	-	7,240	(7,523)
Towergate Financial (West) Holdings Limited *	-	-	4,124	4,103	-	4,124
Towergate Financial (Scotland) Holdings Limited *	-	-	2,617	1,966	-	2,617
Towergate Financial (East) Holdings Limited *	-	-	6,731	5,099	-	6,731
Towergate Financial (North) Holdings Limited *	-	-	5,997	5,554	-	5,997
Towergate Financial (Group) Limited *	3,881	-	12,645	-	22,248	8,764
Oyster Risk Solutions Limited	1,779	-	13,900	1,295	-	12,121
Execcover Limited	-	-	-	21	-	21
B.I.B. Underwriters Limited	3,111	-	12,685	2,216	-	9,574
Oyster Property Insurance Specialists Limited	-	71	1,482	-	36	1,553
The Ardonagh Group Ltd	-	10,804	(10,804)	-	-	-
Sentry Holdings Limited	81	-	81	-	-	-

Towergate Insurance Limited

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

24 Related party transactions (continued)

* 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.

* The balances due from Towergate Financial companies are deemed not recoverable and provisions of £3.9m have been made against them, see note 5.

25 Ultimate parent company

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

Towergate House
Eclipse Park
Sittingbourne Road
Maidstone
Kent
ME14 3EN

Towergate Insurance Limited

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

26 Subsequent events

At 31 December 2017 the Company owned 19.9% of the voting shares in Bravo Investments Holdings Limited (Bravo) which had acquired The Broker Network Limited and Countrywide Insurance Management Limited from the Towergate Group. In January 2018 the Company received £30.0m cash from Nevada Investment Holdings 2 Limited in respect of the sale of its 19.9% shareholding in Bravo. Nevada Investments Holdings 2 Limited is a related party of the Group due to its common shareholders. The cash received plus an additional £1.2m is subject to a contingent clawback clause mechanism based on the equity value at 1 January 2020. On disposal of the associate £10.0m of the cash received was recognised as consideration with the balance recorded as deferred proceeds resulting in a gain on disposal of £4.6m.

When the Company owned 19.9% of Bravo there was an agreement in place in respect of the equity of Bravo which included certain minority protection rights, rights in respect of share transfers and a long-term option arrangement over the remaining shares in Bravo. This option was exercisable by the Company at or above market value and therefore the associated derivative had no fair value. This agreement was retained with minor amendments after the disposal of the associate.

On 28 May 2018 the following wholly owned subsidiaries were formally dissolved at Companies House: Folgate (HHHB) Limited; Folgate Risk Solutions (Oxted) Limited; SMG Professional Risks Limited; Towergate Holiday Homes Underwriting Agency Limited; Towergate Management Services Limited; and Agricultural Insurance Underwriting Agencies Limited.

On 8 June 2018, Ardonagh Midco 3 plc issued an additional £98.3m of 8.375% senior secured notes at a premium of £1.5m.

At 31 December 2017 £30m had been drawn on the RCF. A further £15m was drawn in the first quarter of 2018. On 20 June 2018 the full amount drawdown on the RCF of £45m was repaid. During the second quarter of 2018 the available RCF was increased to £120m.