

**Towergate Underwriting Group Limited**

**Directors' report and financial statements  
for the year ended 31 December 2013  
Registered number 04043759**

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## **Directors' report and financial statements**

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## **Strategic report**

The Strategic Report provides a review of the business for the financial year and describes how we 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 forms part of the Towergate PartnershipCo Group.

### **Principal activities and business review**

The results for Towergate Underwriting Group Limited show profits before tax and amortisation of goodwill of £36m (2012: £52m) and a pre-tax profit after amortisation of £10m (2012: £24m) for the year. The Company has net assets of £503m (2012: £508m). Operating profit has declined in 2013 due to additional costs related to investments in Group infrastructure and capabilities, and the review of legacy balances.

The principal activity of the Company during the year was the provision of insurance intermediary services. The Company's business comprises specialist insurance underwriting agencies and brokers in both the standard and non-standard general insurance and broking sectors.

### **Business Objectives**

The Company continues to emphasise the importance of putting customers first - this is fundamental to the business. By treating every customer fairly and consistently, focussing on providing them with the best products, advice and service, the Company can build loyalty and advocacy, which in turn will strengthen reputation and support profits. Serving customers well involves dealing with complaints promptly and effectively, handling claims appropriately, having high standards around underwriting & pricing, and taking a customer-focussed approach to sales and marketing. Developing a strong customer base assists in developing income growth, another objective of the business. The Company aims to both increase retention rates and attract new customers.

The company also aspires to create a high performance culture, creating excellent customer service through highly engaged employees. The Company aims to attract, develop and promote the best talent and to create a supportive environment in which every employee continuously learns and develops. The Company's culture and competitive remuneration packages enable us to attract and retain key staff. This will also be achieved by creating a shared understanding of our strategic goals and objectives, building the capability of our managers and leaders to manage performance and by every employee having the knowledge, skill and capability to perform their role.

### **Principal risks and uncertainties**

The Company has a comprehensive strategy for the identification, mitigation and management of risk. A wide ranging assessment of business risks has been undertaken resulting in the compilation of a risk register. The risk register is subject to discussion at regular Risk Management Committee meetings and our ongoing risk management ensures we have appropriate reporting from the business which will highlight changes of our risk profile to the Risk Management Committee. The risks are managed and monitored to be within the agreed risk appetite. If a risk exceeds appetite management actions will be put in place to bring it within appetite.

The principal risks and uncertainties and their mitigation are as follows.

#### *Strategic and Commercial Risk*

There are risks of changes to the competitive and / or 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.

#### *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 close relationship with a number of debt providers.

## **Strategic report (continued)**

### *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.

Our business depends on the ability of our employees to process transactions using secure information systems. Our capacity to service our customers depends on storing, retrieving, processing and managing information. Interruption or loss of our 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 our business, results of operations and financial condition. To mitigate these risks we have 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, a dedicated compliance function, and a compliance monitoring programme in place. 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.

### *Volatility in Premiums and Insurance Market Cycle*

We derive most of our revenue from commissions and fees for underwriting and broking services. Our commissions are generally based on insurance premiums, which are cyclical in nature and may vary widely based on market conditions. A significant reduction in commissions, along with general volatility or declines in premiums, could have a material adverse effect on our business, results of operations and financial condition. This risk is mitigated by ensuring that we have a wide range of products and by diversifying our portfolio. This should reduce the effect of cycle on one specific class of business.

### *Underwriting Capacity Risk*

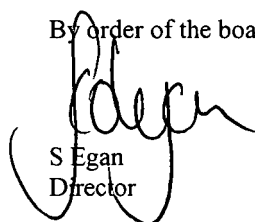
We are an insurance intermediary and depend on insurance companies providing us with insurance underwriting capacity and products. The underwriting capacity of insurance companies depends on, among other things, their ability to procure reinsurance, over which we have no control. To retain underwriting capacity, we also need to maintain satisfactory loss ratios for our insurance company partners.

## **Key performance indicators**

Financial key performance indicators are Gross Written Premium and commission and fees income as a percentage of premium.

Non financial key performance indicators are staffing levels which have increased during 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 director's report.

By order of the board



S Egan  
Director

28 April 2014

## **Directors' report**

The directors present their annual report and the audited financial statements for the year ended 31 December 2013.

### **Political and charitable contributions**

The company made charitable contributions of £17,098 (2012: £18,654) and political contributions of £nil (2012: £nil) during the year

### **Proposed dividend**

No dividends were paid or proposed during the year (2012: £nil).

### **Directors**

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

MS Hodges  
S Egan  
J Strachan (non-executive, Chairman)  
M P Rea  
CA Nathan  
PG Cullum (non-executive)  
AC Homer (non-executive)

### **Employment policies**

Employees are key to the Group's success, so an appropriate remuneration package is offered which rewards an individual's performance and contribution to the organisation. The Group is also keen to encourage individual's personal development to ensure that they have the skills required to undertake their role.

The Group'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 Group is prepared to modify procedures or equipment, wherever practicable, so that full use can be made of an individual's abilities.

### **Creditor policies**

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

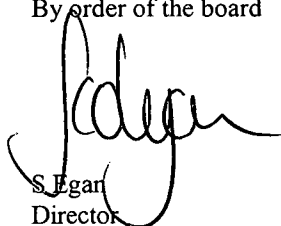
### **Disclosure of information to auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### **Auditors**

Our auditor, KPMG Audit Plc, has instigated an orderly wind down of business. The board has decided to put KPMG LLP forward to be appointed as auditors and the resolution concerning their appointment will be put forward for approval at the forthcoming board meeting.

By order of the board

  
S Egan  
Director

Date: 28 April 2014

## **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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 judgments and 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 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 Underwriting Group Limited**

We have audited the financial statements of Towergate Underwriting Group Limited (Company Number: 04043759) for the year ended 31 December 2013 set out on pages 6 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 auditors' 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 auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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 (APB'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](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on 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 2013 and of its profit 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.

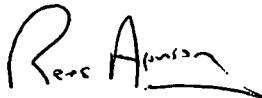
### **Opinion on other matter prescribed by the Companies Act 2006**

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

### **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.



**Rees Aronson (Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL  
28 April 2014

## Profit and Loss Account for the year ended 31 December 2013

	<i>Note</i>	2013 £	2013 £	2012 £	2012 £
<b>Turnover</b>					
Continuing operations		219,530,144		220,426,578	
Acquisitions		1,890,671		554,016	
Discontinued operations		5,848,415		-	
		<hr/>		<hr/>	
			227,269,230		220,980,594
Amortisation of intangibles	7	(26,250,117)		(27,127,000)	
Administrative expenses		(208,517,938)		(172,544,976)	
		<hr/>		<hr/>	
<b>Operating (loss) / profit</b>					
Continuing operations		(10,689,136)		21,243,132	
Acquisitions		167,976		65,486	
Discontinued operations		3,022,335		-	
		<hr/>		<hr/>	
			(7,498,825)		21,308,618
Profit on disposal of portfolio	17	17,384,176		2,838,172	
		<hr/>		<hr/>	
<b>Profit on ordinary activities before interest</b>	2	9,885,351		24,146,790	
Other interest receivable and similar income		26,630		661,271	
Interest payable and similar charges	5	(1,662)		(6,277)	
		<hr/>		<hr/>	
<b>Profit on ordinary activities before taxation</b>		9,910,319		24,801,784	
Tax on profit on ordinary activities	6	(5,232,581)		(12,628,565)	
		<hr/>		<hr/>	
<b>Retained profit for the financial year</b>		4,677,738		12,173,219	
		<hr/> <hr/>		<hr/> <hr/>	

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

The notes on pages 9 to 24 form part of these financial statements.

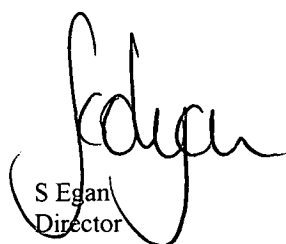


## Balance Sheet as at 31 December 2013

	Note	2013 £	2013 £	2012 £	2012 £
<b>Fixed assets</b>					
Intangible assets	7	326,314,727		364,533,684	
Tangible assets	8	24,244,790		24,475,051	
Investments	9	54,208		54,208	
			<b>350,613,725</b>		<b>389,062,943</b>
<b>Current assets</b>					
Debtors	10	326,054,303		316,144,303	
Cash at bank and in hand	11	113,957,961		95,368,119	
			<b>440,012,264</b>		<b>411,512,422</b>
<b>Creditors: amounts falling due within one year</b>	12	<b>(279,363,205)</b>		<b>(289,753,104)</b>	
<b>Net current assets</b>			<b>160,649,059</b>		<b>121,759,318</b>
<b>Total assets less current liabilities</b>			<b>511,262,784</b>		<b>510,822,261</b>
<b>Creditors: amounts falling due after more than one year</b>	13		<b>(5,220,717)</b>		<b>(214,267)</b>
<b>Provisions for liabilities and charges</b>	14		<b>(2,600,580)</b>		<b>(2,497,668)</b>
<b>Net assets</b>			<b>503,441,487</b>		<b>508,110,326</b>
<b>Capital and reserves</b>					
Called up share capital	18		<b>503,260,510</b>		<b>503,260,510</b>
Profit and loss account	19		<b>(334,665)</b>		<b>4,334,174</b>
Other Reserves	19		<b>515,642</b>		<b>515,642</b>
<b>Equity shareholders' funds</b>			<b>503,441,487</b>		<b>508,110,326</b>

The notes on pages 9 to 24 form part of these financial statements.

These financial statements were approved by the board of directors on 28 April 2014 and were signed on its behalf by:

  
S Egan  
Director

## **Reconciliation of movements in shareholders' funds**

### **For the year ended 31 December 2013**

	2013 £	2012 £
<b>Profit for the financial year</b>	<b>4,677,738</b>	12,173,219
Increase in share capital	-	650,164
Share incentive plan (note 22)	<b>16,403</b>	(24,230)
Deemed distribution (note 1)	<b>(9,362,980)</b>	-
	<hr/>	<hr/>
<b>Net (decrease) / increase in shareholders' funds</b>	<b>(4,668,839)</b>	12,799,153
Opening shareholders' funds	<b>508,110,326</b>	495,311,173
	<hr/>	<hr/>
<b>Closing shareholders' funds</b>	<b>503,441,487</b>	508,110,326
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At the date of the deemed distribution the Company had sufficient distributable reserves. Distributable reserves are analysed further in Note 19.

The notes on pages 9 to 24 form part of these financial statements

## **Notes**

### **1 Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### **Basis of preparation**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and under historical cost accounting rules.

As the Company is a wholly owned subsidiary of a company incorporated in Great Britain, the Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Towergate PartnershipCo Limited the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities in which the group has a 100% shareholding (or investees of the group qualifying as related parties). The consolidated financial statements of Towergate PartnershipCo Limited within which the company is included, can be obtained from the address given in note 23.

During the year the Company sold a portfolio, Towergate Underwriting Commercial Property London, to a fellow subsidiary for consideration of £1. This resulted in a loss on disposal of £9,362,980. Shortly after the disposal of the portfolio, the acquiring group company, which had no other trade, was disposed of externally to the Group for consideration of £9,250,000. To comply with the principles of FRS5 'Reporting the Substance of Transactions' this sale and the subsequent loss on disposal have been presented in this set of financial statements as a deemed distribution from reserves. This presentation increases the reported profit on disposal in the profit and loss account by £9,362,980 to £17,384,176 and increases the profit on ordinary activities before interest, the profit on ordinary activities before taxation and the retained profit for the financial year by the same amount. The loss on disposal is presented as a distribution from reserves within the Reconciliation of Shareholders Funds. There is no impact on retained reserves or the results of the Group as a consequence of this presentation.

#### **Going concern**

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### **Intangible fixed assets and amortisation**

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on acquisition is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. This is generally taken as twenty years.

#### **Tangible fixed assets and depreciation**

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments on a straight line basis over their estimated useful economic lives as follows:

Leasehold improvements	-	over the remaining life of the lease
Computer equipment	-	25% per annum
Fixtures and fittings	-	15% per annum or 6 years
Furniture and equipment	-	20% per annum
Motor vehicles	-	25% per annum

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. Capitalised software development expenditure is included within Computer Software.

## **Notes (Continued)**

### **1 Accounting policies (continued)**

#### **Leases**

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

#### **Impairment of fixed assets and goodwill**

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. 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 income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

Impairment losses recognised in respect of income-generating units are allocated first to reduce the carrying amount of any goodwill allocated to income-generating units. An income 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*

The recoverable amount of fixed assets is the greater of their net realisable value and the value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

#### *Reversals of impairment*

An impairment loss is reversed on intangible assets and 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.

#### **Post retirement benefits**

The Group operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting year.

#### **Employee share incentive plans**

Towergate Partnership Limited, an intermediate parent company, has employee share incentive plans which entitle certain directors and employees of the company to benefit upon the sale or a listing of Towergate group.

Where a member of the Company's group grants cash-settled awards to the Company's employees, and the Company has no obligation to settle the award, the Company accounts for these share-based payments as equity settled.

The grant date fair value of the share incentive plan awards is recognised as an expense with a corresponding increase in equity over the period that the employee becomes unconditionally entitled to the awards. Fair value at grant date is calculated as the expected final value of the award at the vesting date less an amount which recognises future events which may impact on the future realisation of the award.

#### **Taxation**

The charge for taxation is based on the profit for the period and takes into account taxation deferred. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

## Notes (Continued)

### 1 Accounting policies (continued)

#### Turnover

Turnover comprises net commission receivable on business inception during the year. To the extent that the Company is contractually obliged to provide services after this date, a suitable proportion of income is deferred and recognised over the life of the relevant contracts to ensure that revenue appropriately reflects the cost of fulfilment of these obligations. Profit commission is recognised when notified. Marketing contributions are received in advance of premium being written on behalf of the insurers. The income is deferred and then recognised as in line with the volume of premium written or when it is guaranteed as non-refundable.

#### Interest bearing borrowings

Immediately after issue, debt is stated at the fair value of the consideration received less issue costs. Finance costs comprise interest and issue costs, these costs are charged through finance costs over the term of the debt.

#### Insurance transactions, client money and insurer money

The company records on its balance sheet amounts due to and from clients and insurers, and money held on behalf of clients and insurers in relation to the insurance transactions that the company handles on behalf of those parties. In accordance with the requirements of the Financial Conduct Authority, client money is held in bank accounts governed by Trust Deeds established for the benefit of such clients. Insurer money is held in accordance with the agreements in place between the insurer and the company. Amounts held in trust cannot be called upon on insolvency of the company, however interest received on all of these cash balances is recognised and reflected as revenue in these financial statements as the company has the right to such interest in accordance with the terms of business agreed with clients and insurers. The cash at bank balances presented in these financial statements represents the aggregation of the money held for the benefit of the company, clients and insurers.

### 2 Profit on ordinary activities before taxation

	2013 £	2012 £
<b>Profit on ordinary activities before interest is stated after charging:</b>		
Auditors' remuneration:		
- Audit of these financial statements	249,360	207,461
Depreciation:		
- Owned	11,721,178	10,530,280
- Leased	17,557	16,007
Operating lease rentals		
- Land and buildings	9,598,662	8,582,378
- Other	162,007	178,164
(Profit) / loss on disposal of fixed assets	195,369	91,365

Amounts receivable by the Company's auditor in respect of services to the Company and its associates, 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, Towergate PartnershipCo Limited.

### 3 Remuneration of directors

The emoluments of all directors of the company are paid by other group companies. The directors of Towergate Underwriting Group Limited are directors of the ultimate parent company and / or 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. Accordingly, no details are included for emoluments in respect of the directors. Where directors of the company are also directors of the ultimate parent company their total emoluments are included in the aggregate of directors' emoluments disclosed in the financial statements of the ultimate parent company.

## **Notes (Continued)**

### **4 Staff numbers and costs**

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

	<b>Number of employees 2013</b>	<b>Number of employees 2012</b>
Administration	<b>3,021</b>	<b>2,970</b>

The aggregate payroll costs of these persons were as follows:

	<b>2013 £</b>	<b>2012 £</b>
Wages and salaries	<b>88,290,327</b>	<b>77,010,049</b>
Social security costs	<b>9,425,873</b>	<b>9,033,728</b>
Pension costs	<b>3,908,487</b>	<b>3,254,573</b>
	<b>101,624,687</b>	<b>89,298,350</b>

### **5 Interest payable and similar charges**

	<b>2013 £</b>	<b>2012 £</b>
Finance charges re finance leases and hire purchase contracts	<b>1,662</b>	<b>6,277</b>

## Notes (Continued)

### 6 Taxation

	2013 £	2012 £
UK corporation tax at 23.25% (2012: 24.5%)	8,041,937	12,239,655
Adjustments in respect of prior periods	620,928	1,989,951
Deferred tax	(3,430,284)	(1,601,041)
	<u>5,232,581</u>	<u>12,628,565</u>

The current tax charge for the year is higher (2012: higher) than the standard rate of corporation tax of 23.25% (2012: 24.5%). The differences are explained below.

	2013 £	2012 £
Current tax reconciliation		
Profit on ordinary activities before tax	9,910,319	24,801,784
Current tax at 23.25% (2012: 24.5%)	2,304,149	6,076,437
Effects of:		
Expenses not deductible for tax purposes	458,705	145,649
Short term timing differences	823,875	64,995
Amortisation	5,717,202	6,238,900
Profit on disposal of portfolios	(4,041,821)	(695,352)
Depreciation in excess of capital allowances	2,779,827	409,026
	<u>8,041,937</u>	<u>12,239,655</u>

Current and future tax charges are affected by the degree to which amortisation of goodwill is not allowable for tax purposes and entertaining is disallowed.

The Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 20% by April 2015. A reduction in the rate from 25% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012, and a further reduction to 21% (effective from 1 April 2014) and then 20% (effective 1 April 2015) was enacted on 17 July 2013.

This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2013 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge.

## Notes (Continued)

### 7 Intangible fixed assets

	Purchased Goodwill	Goodwill Businesses purchased from Towergate group companies		Total Goodwill	Trademarks	Total
		Previously Recognised	Not previously recognised			
	£	£	£	£	£	£
<b>Cost</b>						
At beginning of the year	26,985,346	82,381,087	437,945,841	547,312,274	307,357	547,619,631
Additions	15,601,532	1,559,814	7,596,686	24,758,032	-	24,758,032
Disposals to Towergate Group Companies	(4,255,837)	-	(47,309,016)	(51,564,853)	(307,357)	(51,872,210)
Disposals	-	(383,360)	(726,640)	(1,110,000)	-	(1,110,000)
At end of year	38,331,041	83,557,541	397,506,871	519,395,453	-	519,395,453
<b>Amortisation</b>						
At beginning of the year	8,098,149	27,776,351	146,904,091	182,778,591	307,356	183,085,947
Charged in year	1,218,281	4,160,534	20,871,302	26,250,117	-	26,250,117
Disposals to Towergate Group Companies	(555,307)	-	(15,050,197)	(15,605,504)	(307,356)	(15,912,860)
Disposals	-	(118,281)	(224,197)	(342,478)	-	(342,478)
At end of year	8,761,123	31,818,604	152,500,999	193,080,726	-	193,080,726
<b>Net Book Value</b>						
At 31 December 2013	29,569,918	51,738,937	245,005,872	326,314,727	-	326,314,727
At 31 December 2012	18,887,197	54,604,736	291,041,750	364,533,683	1	364,533,684

All goodwill arising on acquisition is amortised over a twenty-year period.

During the year the Company purchased books of business from various Towergate companies (note 15).

#### Impairment testing

During the year the directors have reviewed the carrying value of their intangible assets being goodwill arising from acquisitions (note 15). The review indicated that the reportable segments' recoverable amount exceeded its carrying amount and consequently no impairment was required. The recoverable amount of the reportable segments has been calculated with reference to its value in use. The key assumptions of this calculation are shown below:

	2013
Period over which management has projected cash-flows	5 years
Growth rate used to extrapolate cash flows	2.5%
Discount rate – Insurance Brokers	15.8%
Discount rate – Direct	14.6%
Discount rate - Underwriting	14.4%



## Notes (Continued)

### 8 Tangible fixed assets

	Leasehold Improvements £	Motor Vehicles £	Computer Hardware £	Computer Software	Furniture & equipment £	Fixtures & Fittings £	Total £
<b>Cost</b>							
At beginning of year	5,777,867	154,157	12,906,628	34,431,893	4,640,781	8,911,116	66,822,442
Reclassification	-	-	(48,231)	53,773	(5,542)	-	-
Inter company transfer	-	-	659	54,185	-	-	54,844
Acquisitions from Towergate Group Companies	-	-	1,230,807	5,678,795	80,835	28,737	7,019,174
Additions	121,910	16,300	892,152	8,289,787	167,771	256,012	9,743,932
Disposals	(282,495)	(53,893)	(1,138,004)	(1,455,719)	(396,265)	(140,323)	(3,466,699)
Disposals to Towergate Group Companies	(4,296)	-	(105,248)	(698,117)	(25,809)	(20,432)	(853,902)
At end of year	5,612,986	116,564	13,738,763	46,354,597	4,461,771	9,035,110	79,319,791
<b>Depreciation</b>							
At beginning of year	3,460,367	96,642	9,190,165	19,316,216	3,732,336	6,551,665	42,347,391
Reclassification	(6)	-	(9,139)	12,332	(3,199)	12	-
Inter company transfer	-	-	41	3,387	-	-	3,428
Additions from Towergate Group Companies	-	-	839,536	3,847,929	72,105	12,872	4,772,442
Depreciation on disposals	(265,066)	(46,921)	(1,133,151)	(1,269,394)	(394,970)	(138,247)	(3,247,749)
Charge for year	535,148	24,817	1,945,245	7,900,257	342,077	991,191	11,738,735
Disposals to Towergate Group Companies	(3,771)	-	(77,959)	(422,287)	(22,849)	(12,380)	(539,246)
At end of year	3,726,672	74,538	10,754,738	29,388,440	3,725,500	7,405,113	55,075,001
<b>Net book value</b>							
At 31 December 2013	1,886,314	42,026	2,984,025	16,966,157	736,271	1,629,997	24,244,790
At 31 December 2012	2,317,500	57,515	3,716,463	15,115,677	908,445	2,359,451	24,475,051

Included above are assets held under finance leases and hire purchase contracts as follows:

	2013 £	2012 £
<b>Net book value</b>		
Motor vehicles	9,603	23,545
<b>Depreciation charged during year</b>		
Motor vehicles	17,557	16,007

## Notes (Continued)

### 9 Investments

	Unlisted Investments £
<b>Cost (or valuation)</b>	
At beginning and end of year	54,208
<b>Provisions</b>	
At beginning and end of year	-
<b>Net book value</b>	
At 31 December 2013	54,208
At 31 December 2012	54,208

### 10 Debtors

	2013 £	2012 £
Insurance debtors	117,280,646	139,789,831
Amounts owed by group undertakings	185,471,774	158,358,800
Other debtors	10,270,423	2,595,714
Deferred tax asset	7,286,922	3,838,003
Deferred consideration receivable	20,000	-
Prepayments and accrued income	5,724,538	11,561,955
	<u>326,054,303</u>	<u>316,144,303</u>

The deferred tax asset noted above is due to differences between accumulated depreciation and capital allowances. The deferred tax asset will be recoverable in more than 12 months.

### 11 Cash at bank and in hand

Cash at Bank includes £78,673,433 (2012: £75,579,728) which constitutes client money. During the course of 2013 management initiated a programme to strengthen the control framework and centralise the processing of client money. As part of this process management identified that £12.8m of client and insurer monies was misallocated to an unrestricted group account from November 2007 to January 2011. As soon as the misallocation was confirmed management transferred £12.8m to the client money and insurer accounts. The FCA has been notified and discussions with them regarding this matter are on-going.

The amounts previously reported at 31st December 2012 as constituting client money were based on the balances that had been transferred to the client and insurer monies accounts at those dates rather than representing the total client and insurer monies held by the group and were therefore understated. These balances have been adjusted in the current period to reflect the total client and insurer monies held by the group. The total cash at bank remains unchanged. There is no change to the profit and loss account or net assets as a result of this restatement.

Cash at Bank also includes £12,695,000 (2012: £17,100,000) held in office accounts which are considered restricted. The decrease in the period is due to a reduction of £4,405,000 in amounts required to be held as restricted for regulatory purposes as agreed by the FCA.

## Notes (Continued)

### 12 Creditors: amounts falling due within one year

	2013 £	2012 £
Insurance creditors	178,069,263	187,847,128
Amounts owed to group undertakings	76,724,214	69,347,458
Corporation tax	8,166,644	12,188,448
Taxation and social security	2,453,668	2,388,721
Other creditors	5,515,465	6,935,287
Accruals and deferred income	7,445,415	9,423,493
Deferred consideration	981,014	1,616,428
Obligations under finance leases and hire purchase contracts	7,522	6,141
	<u>279,363,205</u>	<u>289,753,104</u>

### 13 Creditors: amounts falling due after one year

	2013 £	2012 £
Obligations under finance leases and hire purchase contracts	8,454	-
Deferred consideration	5,206,231	214,267
Other creditors	6,032	-
	<u>5,220,717</u>	<u>214,267</u>

### 14 Provisions for liabilities and charges

	FRS 5 Provision for future claims handling expenses £
At beginning of year	2,497,668
Debit to profit and loss account for the year	102,912
	<u>2,600,580</u>
At end of year	<u>2,600,580</u>

The FRS 5 provision has been made in line with the recommendations made in Application Note G in order to defer sufficient income to meet post placement and claims handling costs of business.

## Notes (Continued)

### 15 Acquisitions (net assets)

On the dates shown the Company acquired the books of business from various Towergate group companies as detailed below. The consideration initially was left outstanding on the intercompany account and has subsequently been satisfied in full.

	Date of Acquisition	Total Assets £	Liabilities £	Net assets £	Goodwill £	Consideration £
TL Risk Solutions Limited (Healthcare portfolio)	01 January 2013	163,146	(163,146)	-	2,600,000	2,600,000
Towergate Insurance Limited (Retail cost centre)	01 January 2013	6,161,536	(6,161,536)	-	-	-
Towergate Insurance Limited (Underwriting cost centre)	01 January 2013	3,702,375	(3,702,375)	-	-	-
Grenville Westinsure Limited	31 March 2013	499,598	(499,598)	-	343,500	343,500
Harry Fort Insurance Brokers Limited	31 March 2013	185,781	(185,781)	-	473,000	473,000
JB International Insurance Brokers Limited	31 March 2013	403,057	(403,057)	-	1,140,000	1,140,000
Cullum Capital Ventures Limited (IT cost centre)	1 April 2013	1,619,885	(1,619,885)	-	-	-
Walter Ainsbury & Son Limited (Healthcare portfolio)	01 May 2013	-	-	-	1,400,000	1,400,000
TL Risk Solutions Limited (Credit portfolio)	31 August 2013	48,623	(48,623)	-	-	-
Chorlton Cloughley Group Limited	30 September 2013	349,218	(349,218)	-	1,000,000	1,000,000
Ellis Bates Insurance Brokers Limited	31 October 2013	815,775	(815,775)	-	2,200,000	2,200,000
Satisfied by intercompany account subsequently settled						9,156,500

### 16 Acquisitions (fair value)

The book value of the assets and liabilities acquired may be analysed as follows. No fair value adjustments arose in relation to tangible assets and liabilities.

	Tangible assets £	Debtors £	Cash at bank and in hand £	Creditors due within one year £	Net assets £
TL Risk Solutions Limited (Healthcare portfolio)	-	163,146	-	(163,146)	-
Towergate Insurance Limited (Retail cost centre)	101,148	6,060,388	-	(6,161,536)	-
Towergate Insurance Limited (Underwriting cost centre)	562,132	3,140,243	-	(3,702,375)	-
Grenville Westinsure Limited	15,034	357,045	127,519	(499,598)	-
Harry Fort Insurance Brokers Limited	247	103,098	82,436	(185,781)	-
JB International Insurance Brokers Limited	14,202	751	388,104	(403,057)	-
Cullum Capital Ventures Limited (IT cost centre)	1,523,300	96,585	-	(1,619,885)	-
Walter Ainsbury & Son Limited (Healthcare portfolio)	-	-	-	-	-
TL Risk Solutions Limited (Credit portfolio)	-	48,623	-	(48,623)	-
Chorlton Cloughley Group Limited	13,584	177,974	157,660	(349,218)	-
Ellis Bates Insurance Brokers Limited	17,085	532,328	266,362	(815,775)	-

The results for the period attributable to acquired operations are shown on the face of the profit and loss account as acquisitions.

## Notes (Continued)

### 17 Disposals

The following portfolios were disposed of during the year.

	Proceeds £	Date of disposal
Towergate Underwriting Commercial Property Romford	11,028,042	01 January 2013
Norwich and Peterborough Insurance Brokers	2,793,463	01 May 2013
Towergate Home & Protect	32,300,000	30 June 2013
British Insurance	19,300,000	30 June 2013
TRS Kirkcaldy	125,000	03 September 2013

The net assets disposed of with these portfolios were as follows:

	Towergate Home & Protect £	British Insurance £	Towergate Underwriting Commercial Property Romford £	TRS Kirkcaldy £	Norwich and Peterborough Insurance Brokers £	Total £
<b>Tangible assets</b>	44,342	246,069	21,636	-	2,609	314,656
<b>Investments</b>	-	-	-	-	-	-
<b>Debtors</b>	18,313,696	7,530,742	12,583,190	-	788,162	39,215,790
<b>Cash</b>	498,604	205,718	327,776	-	696,057	1,728,155
<b>Total assets</b>	18,856,642	7,982,529	12,932,602	-	1,486,828	41,258,601
<b>Creditors</b>	(6,380,879)	(2,245,362)	(11,304,560)	-	(1,486,828)	(21,417,629)
<b>Net assets</b>	12,475,763	5,737,167	1,628,042	-	-	19,840,972
<b>Net book value of goodwill</b>	765,219	16,944,930	7,050,223	767,522	2,793,463	28,321,357
<b>Satisfied by:</b>						
<b>Cash</b> - Initial consideration	32,300,000	19,300,000	11,028,042	125,000	2,793,463	65,546,505
<b>Profit / (loss) on disposal</b>	19,059,018	(3,382,097)	2,349,777	(642,522)	-	17,384,176

In addition to the above, Towergate Underwriting Commercial Property London, a portfolio owned by Towergate Underwriting Group Limited, was disposed of to a fellow Group subsidiary during the year for consideration of £1. This sale resulted in a loss on disposal of £9,362,980 and disposal of goodwill with a NBV of £8,405,514 and has been treated as a deemed distribution in this set of financial statements. Further information can be found in Note 1 'Basis of Preparation'.

## Notes (Continued)

### 18 Called up share capital

	2013 £	2012 £
<b>Authorised</b>		
Ordinary shares of £1 each	650,000,000	650,000,000
	<u>                    </u>	<u>                    </u>
<b>Allotted, called up and fully paid</b>		
Ordinary shares of £1 each	503,260,510	503,260,510
	<u>                    </u>	<u>                    </u>

### 19 Profit and loss account and other reserves

	2013 £	2012 £
<b>Profit and loss account</b>		
At beginning of year	4,334,174	(7,814,815)
Profit for the financial year	4,677,738	12,173,219
Share incentive plan (note 22)	16,403	(24,230)
Deemed distribution (note 1)	(9,362,980)	-
	<u>                    </u>	<u>                    </u>
At end of year	(334,665)	4,334,174
	<u>                    </u>	<u>                    </u>

	2013 £	2012 £
<b>Other Reserves</b>		
At beginning and end of year	515,642	515,642
	<u>                    </u>	<u>                    </u>

### 20 Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	2013 Land & Buildings	2013 Other	2012 Land & Buildings	2012 Other
Operating leases which expire:				
Within one year	234,930	22,609	735,831	18,973
Within two to five years	3,380,543	117,650	2,621,806	164,326
Over five years	5,634,266	5,998	5,696,800	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
	9,249,739	146,257	9,054,437	183,299
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

## Notes (Continued)

### 21 Pension scheme

The Group operates a defined contribution pension scheme, which is open to the employees. The pension cost charge for the period represents contributions payable by the Company to the fund and amounted to £3,908,487 (2012: £3,254,573). The amounts outstanding at 31<sup>st</sup> December 2013 were £260,728 (2012: £250,963).

### 22 Share-based payments

Towergate Partnership Limited (an intermediate Parent company) operates a long term incentive plan which is restricted to employees and directors of Towergate group. Participants are selected on a discretionary basis and upon vesting receive a benefit based on the sales price of shares in the ultimate Parent. The vesting conditions of the award are an exit, defined as a 90% sale of shares, or a listing of Towergate group. The timing of such an event is uncertain, but for the purposes of accounting for the plan, the awards have been deemed to vest in 2017.

Fair value at grant date is calculated as the expected final value of the award at the vesting date less an amount which recognises future events which may impact on the future realisation of the award.

The total (income)/ expense recognised for the year arising from employee share schemes are as follows:

	2013 £	2012 £
(Credit)/charge for the year:		
Cash-settled award to Company employees granted by Parent and treated as equity accounted.	16,403	(24,230)
	<u>16,403</u>	<u>(24,230)</u>

### 23 Parent undertaking

The Company's immediate parent company is Towergate Insurance Limited and ultimate parent company at 31 December 2013 was Towergate PartnershipCo Limited. Both the immediate and ultimate parent companies are incorporated in England and Wales.

The consolidated financial statements of the ultimate parent company are available to the public and may be obtained from:

Towergate House  
Eclipse Park  
Sittingbourne Road  
Maidstone  
Kent ME14 3EN

## Notes (Continued)

### 24 Related party disclosures

During the year, business was conducted, on an arm's length basis, with the Open International group, which was a related party at the Balance Sheet date.

Balances due from the Open International group at the Balance Sheet date total £4,296,119 (2012: £924,273). The amount payable in the year was £20,411,299.

Business was also conducted, on an arms length basis, within the Towergate PartnershipCo 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 Towergate PartnershipCo Limited.

	2013 Paid to	2013 Received from	2013 (Due to) /Receivable from at year end	2012 Paid to	2012 Received from	2012 (Due to)/ Receivable from at year end
	£	£	£	£	£	£
Hayward Aviation Limited	1,307,683	24,924	(301,326)	1,363,280	162,146	(320,828)
The Hayward Holding Group Limited	20,526	2,640	(1,208)	-	-	-
Moray Firth Insurance Brokers Limited	37	267,524	144,328	113	420,553	239,652
Oyster Risk Solutions Limited	9,373	511,285	130,310	28	533,884	434,829
Towergate Financial (East) Intermediate Limited	-	563	-	-	-	-
Towergate Financial (East) Limited	-	49,963	(185,737)	-	495,483	538,171
Towergate Financial (Scotland) Limited	4,973	1,151	(190,007)	-	228,076	584,660
Towergate Financial (Scotland) Holdings Limited	-	749	-	-	-	-
Towergate Financial (North) Holdings Limited	-	37,248	-	-	-	-
Towergate Financial (North) Limited	-	42,425	(43,584)	6,663	180,188	174,949
Towergate Financial (West) Limited	-	13,189	(227,405)	-	744,609	2,055,020
CCG Financial Services Limited	-	-	-	-	404,539	-
Towergate Financial (London) Limited	-	565	(148,032)	594,551	476,571	166,484
Towergate Financial (Group) Limited	38,359	-	29,415	90,484	377,625	441,076
Ainsbury Insurance Brokers Limited	-	-	-	93	182,940	-
Antur (West Wales) Limited	-	26,726	850	1,018	483,344	-
Antur Insurance Services Limited	138	777,156	158,325	-	77,713	-
B.I.B (Darlington) Acquisitions Limited	-	-	-	-	195,952	-
B.I.B (Darlington) Limited	4,556	681,299	70,931	2,334	391,680	-
B.I.B Underwriters Limited	19,157	386,670	73,899	4,256	344,159	-
Bishop Skinner Insurance Brokers Holdings Limited	-	766	-	-	-	-
Bishop Skinner Insurance Brokers Limited	-	1,987,139	405,451	-	-	-
Execover Limited	-	364	121	-	-	-
Chorlton Cloughley Group Limited	-	-	-	-	284,946	-
CCG Financial Services Limited	1,632	61,154	5,512	-	-	-
Fenton Insurance Solutions Limited	-	858,418	124,857	209	600,331	-



## Notes (Continued)

### 24 Related party disclosures (continued)

	2013	2013	2013	2012	2012	2012
	Paid to	Received	(Due to) /Receivable	Paid to	Received	(Due to)/ Receivable
	£	from	from at	£	from	from at
		£	year end		£	year end
			£			£
Morgan Law Limited	3,978	662,189	121,618	-	2,663	-
Goodwood Insurance Services Limited	-	-	-	-	2,663	-
Arthur Marsh & Son Limited	1,258	770,272	116,339	-	585,538	-
Oyster Property Insurance Services Limited	20,931	77,195	(14,267)	5,368	6,614	-
Suddards & Davies Associates Limited	255	80,212	12,938	3,563	20,589	-
Walter Ainsbury & Son Limited	-	-	-	-	2,229	-

### 25 Controlling party

There was no controlling party at 31 December 2013.

### 26 Contingent liabilities

#### Guarantees

On 10 May 2013 Towergate Finance Plc completed a partial refinancing of the Group's borrowings and outstanding bank debt at that date of £394million was repaid in full. As part of the refinancing a new £85million Revolving Credit Facility with a syndicate of banks, led by Lloyds Banking Group plc ("Towergate Facilities") was put in place and Senior Secured Floating Rate Notes of £396million were issued by Towergate Finance Plc. In addition, £14.6million of Senior Secured Notes were exchanged for additional 10.5% Senior Notes.

The obligations of Towergate Finance plc under the Towergate Facilities as well as its obligations under the Floating Rate Senior Secured Notes, the 8.5% Senior Secured Notes and the 10.5% Senior Notes are guaranteed by Towergate Holdings II Limited and all its material and certain other subsidiaries. These companies are listed below:

Towergate Finance plc  
Towergate Holdings II Limited  
Towergate Insurance Limited  
Fusion Insurance Holdings Limited  
Fusion Insurance Services Limited  
The Hayward Holding Group Limited  
Hayward Aviation Limited  
Paymentshield Group Holdings Limited  
Paymentshield Holdings Limited  
Paymentshield Limited  
Broker Network Holdings Limited  
The Broker Network Limited  
The TF Bell Group Limited  
TF Bell Holdings Limited  
Townfrost Limited  
Towergate Underwriting Group Limited  
Towergate Risk Solutions Limited  
Towergate London Market Limited  
Oyster Risk Solutions Limited  
TL Risk Solutions Limited  
Cullum Capital Ventures Limited

**Notes (Continued)**

**26 Contingent liabilities (continued)**

Four Counties Finance Limited  
Capital & County Insurance Brokers Limited  
Three Counties Insurance Brokers Limited  
CCV Risk Solutions Limited  
Just Insurance Brokers Limited  
Cox Lee & Co Limited  
Portishead Insurance Management Limited  
HLI (UK) Limited  
Berkeley Alexander Limited  
Protectagroup Acquisitions Limited  
Protectagroup Holdings Limited  
Protectagroup Limited  
Crawford Davis Insurance Consultants Limited  
Roundcroft Limited  
Richard V Wallis & Co Limited  
Moffatt & Co Limited  
Countrywide Insurance Management Limited  
Eclipse Park Acquisitions Limited  
Managing Agents Reference Assistance Services Limited

**E&O Provisions**

In the normal course of business, the company may receive claims in respect of errors and omissions. No material adverse financial impact is expected to arise from these claims.