Quarterly report

For the quarter ended 31 March 2017

Issued: 8 May 2017

Table of contents

General

This quarterly report should be read in conjunction with the unaudited interim condensed consolidated financial statements of TIG Finco Plc (Finco) and TIG Topco Limited (Topco), together the Companies, for the period ended 31 March 2017. A link to the unaudited interim condensed consolidated financial statements can be found in appendix 3 of this report. Sentry Holdings Limited (Sentry) is the ultimate parent company of Topco and Finco and is the largest group in which the results will be consolidated.

This quarterly report presents unaudited pro forma financial information and other pro forma data for the period ended 31 March 2017 for Finco and Topco and its subsidiary companies (together, Towergate or Group).

This quarterly report is prepared using the recognition and measurement principles of International Financial Reporting Standards (IFRS's) as a basis, adjusted to present pro forma financial information (as further set out in appendix 1). The unaudited interim condensed consolidated financial statements published in appendix 3 have been prepared in accordance with IAS 34 (Interim Financial Reporting) as adopted by the European Union.

Recent developments

The following items have been noted as updates to ongoing matters or items to bring to the attention of the reader:

- Settlements and continued discussions with the Financial Conduct Authority (FCA) in relation to historical client and insurer money issues and advice provided by the Towergate Financial businesses (TF)
- Disposals
- Additional funding and Group debt
- IT transformation
- Closure of Retail Unit and changes to the Finance function
- Senior management and board changes
- Post balance sheet events

FCA

During Q3 2013 the Group identified that £15.0 million (m) of client and insurer monies had been misallocated to an unrestricted account between November 2007 and January 2011. As soon as the misallocation was confirmed, management transferred £15.0m to the relevant client and insurer accounts. The FCA concluded its investigation in July 2016 and the resulting fine has been reflected in the results contained in this report.

The Group remains in discussions with the FCA in connection with past advice provided by TF on pension Enhanced Transfer Values (ETV). It is not yet possible to make a reliable estimate of the Group's ultimate ETV liability given the number of material uncertainties that continue to exist including the announcement in August 2016 that the FCA intends to consult on whether to update the methodology used to calculate the levels of redress due in cases of unsuitable advice in respect of pension transfers. In March 2017 the FCA issued the consultation paper. Until the consultation has completed, which is expected around the end of Q3 2017, the FCA has halted all customer redress.

In 2015 £19.8m was recognised as management's best estimate of future obligations to pay Unregulated Collective Investment Schemes (UCIS) redress costs and during 2016 payments have been charged against this provision.

Disposals

On 22 March 2016, the Group agreed to sell the entire issued share capital of The Broker Network Limited and Countrywide Insurance Management Limited, each a wholly owned subsidiary of the Group, (together, Broker Network) to funds advised by HPS (the Broker Network sale). The transaction completed on 1 July 2016. The consideration for the acquisition was satisfied in part by the allotment to Towergate of approximately 19.9% of the shares in the acquisition vehicle, Bravo Investment Holdings Limited and partially through an initial cash consideration of £29.0m. In addition, under the original terms of the Broker Network sale contingent consideration of up to a further £17.2m may be receivable if certain events and performance measures occur (the Earn Out). At 31 December 2016 the Group expected the performance measures to be met but not exceeded and hence no asset was recognised. At 31 March 2017, based on the latest projections, the Group now expects the performance measures to be exceeded and has recognised £2.7m as the fair value of the contingent consideration receivable.

Subsequently, the terms of the contingent consideration agreement have been amended and were updated in April 2017. The Directors expect to receive an amount of up to £17.2m under the revised terms, inclusive of the £2.7m already recognised in the period under the terms of the original agreement.

Additional funding and Group debt

On 29 January 2017 the Group secured additional funding totalling up to £65m from Madison Dearborn Partners LLC (MDP) and HPS Investments Partners LLC, (HPS). Proceeds from these initiatives will be applied towards achievement of the Group's key strategic transformation initiatives. The additional funding comprises:

- A £40m rights issue offered by Topco to existing shareholders and subscribed for in its entirety by MDP and one minority shareholder. In advance of the completion of the rights issue MDP entered into an arrangement to provide an interim loan facility to Finco of £25m, which was then converted to equity as part of the rights issue.
- A £17m term loan facility which was made available to Finco by MDP and HPS from 1 April 2017 and drawn down on 19 April 2017. The loan agreement provides that any amounts drawn under it can be repaid in cash or converted to equity at the option of Finco on or before 31 December 2017.
- A further tranche of £8m that can be utilised once the £17m term loan facility has been utilised in full. The loan agreement provides that this further facility is to be repaid using any amounts received in relation to the Group's recoveries in relation to certain professional indemnity insurance claims, or using amounts from the Earn Out relating to the disposal of the Group's investment in Broker Network. If the further facility is not repaid in full by these means, then any amounts drawn under it can be converted to equity on or before 31 December 2017.

IT Transformation

Towergate's IT Transformation Program (ITTP) initiative, approved by the Board in February 2016, has now largely delivered with a few remaining areas to complete around some of the off-net businesses (businesses that have never been connected to core Towergate IT services so have been locally supported) and final roll-out of telephony around Skype for Business and CCPro (a third part solution) for Cloud-based contact centre functionality.

Some key metrics of the programme are:

- Migrated 220 applications to the new environment whilst decommissioning 2,500.
- Migrated 700 servers whilst decommissioning 850.
- Migrated 6,000 accounts whilst decommissioning 10,000.
- Deployed 4,500 new end user laptops and PCs.

Towergate now relies heavily on three key suppliers:

- BT for all network servers including security, routing and performance management and telephony (CCPro and mobile);
- Microsoft for Data Centre, PC operating systems and productivity tools (Outlook, Office, OneDrive, Yammer etc.); and
- Accenture for Helpdesk support, service remediation and management.

Disaster recovery around individual services as well as networks and the data centre as a whole are managed and tested on a regular basis.

In addition to ITTP, Towergate has now completed the first deployment of an Acturis solution, in Manchester, as part of the Broker Systems Enhancement programme that will reduce the number of different policy administration systems that are in use.

Closure of Retail Unit and changes to the Finance function

On 12 January 2017 Towergate announced the closure of its Manchester Retail Unit (formerly known as Small Business Unit). As a result of this announcement 176 of the Group's employees were placed at risk of redundancy. Separately, on 12 January 2017 and 24 April 2017 Towergate made two announcements regarding proposals in relation to its Finance function. Following those announcements 165 employees were placed into consultation periods.

Senior management and board changes

There have been a number of senior management and board changes since 1 January 2017 including:

- Clive Bouch was appointed to the Board as an independent Non-executive director on 3 January 2017.
- Philip Moore resigned from his role as an independent Non-executive director on 3 January 2017.
- On 2 February 2017 it was announced that Mark Mugge would be focussing on strategic financial initiatives and that Antony Erotocritou would be taking on the role of Deputy Chief Financial Officer.
- On 2 February 2017 it was announced that Steve Wood would be leaving his role as Chief Executive Officer for Paymentshield. Kay Martin has taken executive responsibility for Paymentshield with Rob Evans leading the day to day activities.
- Paul Dilley joined as Chief Executive Officer for Underwriting on 2 March 2017.

Post balance sheet events

Acquisition of Nevada Investments Topco Limited (Nevada or the Nevada acquisition)

On 8 May 2017 Topco entered into a sale and purchase agreement (SPA) to acquire the entire issued share capital of Nevada, the indirect holding company of Autonet Insurance Services Limited and PFIH Limited, which conduct insurance intermediation and related services. Nevada entered into SPAs to acquire controlling interests in Ryan Direct Group Limited (RDG) and Chase Templeton Limited (CT) on 13 April 2017 and 2 May 2017 respectively, each of which also conduct insurance intermediation and related services, and which are anticipated to complete within three months of the date of the relevant SPA. All three SPAs are subject to regulatory approvals and other customary conditions to completion.

Nevada is currently owned by funds managed by HPS, the Group's majority shareholder, and MDP, a significant shareholder of the Group, and accordingly the Directors consider the acquisition to be a related party transaction. The fair value of the consideration for the Nevada acquisition is currently anticipated to be £255m, subject to customary completion adjustments.

The consideration for the acquisition of Nevada will be satisfied by the issue of non-transferable convertible equity certificates to the vendors, which will convert into ordinary shares of Topco on the occurrence of certain events subsequent to completion. At or within two business days following completion of the acquisition of Nevada, Topco will also offer existing shareholders a right to participate pro rata in the issue of convertible equity certificates for a cash subscription price.

Broker Network disposal

The Group expects to recover an amount from the Earn Out of consideration relating to the Broker Network disposal that completed in July 2016 (and for which the terms were amended and updated in April 2017). The Directors expect to receive an amount of up to £17.2m under the revised terms.

Finance transformation project

On 24 April 2017 Towergate made an announcement regarding proposals in relation to its Finance function. Following this announcement 133 employees were placed into consultation periods.

Change of company name

On 8 May 2017 the shareholders of Topco resolved to change the name of Topco to KIRS Group Limited. The proposed change in name will be effective upon its registration by the JFSC Companies Registry, the Jersey registrar of companies.

Presentation of financial and other information

This quarterly report is prepared by the Group in connection with the indentures relating to the £425.0m senior secured notes and £75.0m super senior secured notes (together the Notes) issued by Finco on 2 April 2015 and the shareholder agreement completed on 4 November 2016 (SHA).

The unaudited interim condensed consolidated financial statements mentioned in appendix 3 have been prepared in accordance with IAS 34 (Interim Financial Reporting) as adopted by the European Union.

On 22 March 2016, the Group agreed to sell the entire issued share capital of The Broker Network Limited and Countrywide Insurance Management Limited, each a wholly owned subsidiary of the Group, and the assets of Broker Network Underwriting, a trading style of Towergate Underwriting Group Limited (together, Broker Network) to funds advised by HPS. In accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the criteria for Broker Network to be classified as "held for sale" were then met. Consequently, the assets and liabilities of Broker Network have been classified as "held for sale" in the unaudited interim condensed consolidated statement of financial position. The disposal meets the definition of a discontinued operation as Broker Network represents a separate major line of business for which the cash flows can be clearly distinguished from the rest of the Group. The unaudited financial information presented in this quarterly report is therefore on a pro forma basis as if Broker Network had not been part of the Group.

On 4 November 2016, the Group completed an agreement with funds advised by HPS which provided the Group with a five year loan facility that is secured against the future cash flows attributable to a Paymentshield home and contents book of business (Secured Loan). As a result of this, Lunar 101 Limited and Paymentshield Services Limited became unrestricted subsidiaries of the Group. In compliance with the indentures relating to the Notes, financial and other information is required to be presented separately for the groups comprising the unrestricted and restricted subsidiaries of the Group. This breakdown can be found in appendix 2.

The unaudited financial information of the Group presented in this quarterly report, and considered in management's discussion and analysis of financial condition and results of operations, has been prepared on a pro forma basis in order to present a two-year financial track record. Adjustments have therefore been made in respect of the Broker Network sale by the subtraction of the results of the disposed business for the period 1 January 2016 to 30 June 2016.

Topco entered into a SPA on 8 May 2017 with the aim of acquiring the entire share capital of Nevada. More information is provided in Recent developments. However, as this occurred after the end of the reporting period for these quarterly results, the unaudited financial information presented in this quarterly report does not recognise the operations and financial position resulting from this potential transaction.

Certain data contained in these financial results, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables may not conform exactly to the total figure given for that column or row.

These financial results include certain financial measures and ratios, including EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and certain leverage and coverage ratios that are not presented in accordance with IFRS.

EBITDA

In these financial results, references to EBITDA are to profit or loss on ordinary activities before interest payable and similar charges, tax, depreciation and amortisation of intangibles. Accordingly, EBITDA can be extracted from the consolidated financial statements of Finco, Topco and TIL by taking profit or loss on ordinary activities and adding back interest payable and similar charges, tax, depreciation and amortisation of intangibles.

Adjusted EBITDA

References to Adjusted EBITDA represent EBITDA as adjusted for gains and losses on the disposal of businesses, group reorganisation and regulatory costs, acquisition and financing costs, movement in value of contingent consideration costs, asset write-downs in connection with business restructuring, business investment costs, consultancy on regulatory matters, acquisition costs, levy costs and finance legacy review costs.

EBITDA-based measures

EBITDA-based measures are not presented as measures of the results of operations. EBITDA-based measures have important limitations as an analytical tool, and should not be considered in isolation or as substitutes for analysis of the Group's results of operations. Management believes that the presentation of EBITDA-based measures is helpful to investors as a measure of the operating performance and ability to service debt. EBITDA-based measures may not be comparable to similarly titled measures used by other companies.

EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and leverage and coverage ratios are not measurements of financial performance under IFRS and should not be considered as alternatives to other indicators of the Group's operating performance, cash flows or any other measure of performance derived in accordance with IFRS.

Segmental analysis is presented in this financial information. From time to time structural changes are made within the business and trading businesses may move between the reported segments. When this occurs financial information is restated in respect of the corresponding prior year period to facilitate the discussion and analysis of the results.

Forward looking statements

This report contains forward looking statements in relation to certain of Towergate's plans and current goals and expectations, in particular but not limited to its future financial condition, performance and results. This report does not include any plans, goals and expectations emerging from the acquisition of Nevada considering the fact that this remains subject to regulatory approvals and other completion adjustments.

The forward-looking statements can be identified by the use of forward-looking terminology, including the words "aims", "believes", "estimates", "anticipates", "expects", "intends", "may", "will", "plans", "predicts", "assumes", "shall", "continue" or "should" or, in each case, their negative or other variations or comparable terminology or by discussions of strategies, plans, objectives, targets, goals, future events or intentions. By their very nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Towergate's control, including but not limited to those below. As a result, Towergate's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in any forward-looking statements made by Towergate.

Risk Factors

Many factors may cause the Group's operations, financial condition, liquidity and the development of the industries in which it operates to differ materially from those expressed or implied by the forward-looking statements contained in this report. The Group treats these as risks to its objectives and takes a systematic approach to the management of risks. Risk factors include but are not limited to:

Economic environment and market risks:
- Short and medium term uncertainties following the UK's decision to start the process to leave the European Union with potential effects on the wider economy, international and domestic insurance capacity providers, and access to European markets.
- Volatility in markets such as a downturn in the property market leads to less insurance business.
- Fluctuations in interest and foreign exchange rates could affect the Sterling value of payments we have to make.
- Competition for business, including pressure from consolidators, affects our ability to maintain or grow market share.

Financial and business risks:
- Volatility or declines in the premiums on which the Group's commission are based and/or declines in commission rates.
- The Group relies on insurance companies providing it with underwriting capacity and on third-party brokers and other intermediaries to distribute its products, and if these companies decide they no longer want to do business with Towergate it will significantly impact our income.
- Acting outside the scope of delegated underwriting or claims authority from insurance companies and liabilities arising from errors and omissions claims against the Group.
- The Group's high level of debt is costly to service, restricting the ability to fund strategic initiatives.

Regulatory risks:
- Legislative, taxation and regulatory changes. Material changes to which the Group must respond are, for example, General Data Protection Regulation and the Insurance Distribution Directive.
- Regulatory inquiries or enforcement actions, including potential for regulatory sanctions and fines, could affect the Group's ability to operate or the profit generated from its activities.
- Risk relating to conflicts of interest and transactions with affiliated companies.

Operational risks:
- Interruption or loss of information processing systems or failure to maintain secure information systems.
- The ability to gain technological expertise and apply technology effectively.
- The ability to retain senior management and underwriters, account executives, sales personnel and other client facing employees.

The potential acquisition of Nevada as discussed in Recent developments has associated risks which include but are not limited to:

- Failure to complete the Nevada acquisition or failure to realise the anticipated benefits of the Nevada acquisition or that those benefits may take longer to realise than expected.
- Uncertainties about the effect of the Nevada acquisition on employees, customers, suppliers, business partners and other persons with whom we have a business relationship and which may have an adverse effect on us.
- Adverse variances in transaction and integration costs.

New risks can emerge from time to time, and it is not possible for the Group to predict all such risks, nor can it assess the impact of all such risks on its business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those expected.

Any forward-looking statements are only made as of the date of this report, and the Group does not intend, and does not assume any obligation, to update forward-looking statements set forth in this report. Readers of this document should interpret all subsequent written or oral forward-looking statements attributable to the Group or to persons acting on its behalf as being qualified by the cautionary statements in this report. As a result, readers of this document should not place undue reliance on these forward-looking statements.

Summary unaudited pro forma financial information and other data

The pro forma financial information presented in this section has been prepared in accordance with the information given in appendix 1 and is for the full Group. A breakdown of the unrestricted and restricted groups can be found in appendix 2.

The adjustments made in order to present the unaudited pro forma financial information have been made based on available information and assumptions that the boards of the Companies, as applicable, believe are reasonable. The unaudited pro forma financial information is for informational purposes only and does not purport to present what the Group's results would actually have been had the disposal of Broker Network not occurred on the date presented, nor should it be used as the basis of projections of the results of operations or financial condition for any future period.

The unaudited pro forma financial information should be read in conjunction with the unaudited interim condensed consolidated financial statements of Finco and Topco for the period ended 31 March 2017, together with management's discussion and analysis of financial condition and results of operations. Unless otherwise stated, the results and financial position of Finco and Topco are the same.

The following tables provide a summary of the pro forma consolidated statement of comprehensive income, pro forma consolidated statement of financial position, statutory interim condensed consolidated cash flows and reconciliation of the loss on ordinary activities to Adjusted EBITDA.

Pro forma consolidated statement of comprehensive income

	Finco 2017 £000	**Topco(1) 2017 £000**	Finco 2016 £000	Topco(1) 2016 £000
Quarter ended 31 March				
Commission and fees	**77,666**	**77,666**	76,656	76,656
Other income	**170**	**170**	62	62
Investment income	**20**	**20**	43	43
Salaries and associated costs	**(44,491)**	**(44,977)**	(48,736)	(49,138)
Other operating costs	**(34,626)**	**(34,727)**	(24,752)	(24,815)
Depreciation and amortisation charges	**(11,845)**	**(11,845)**	(10,898)	(10,898)
Share of loss from associate	**(52)**	**(52)**	-	-
Group operating loss	**(13,158)**	**(13,745)**	(7,625)	(8,090)
Finance costs	**(12,109)**	**(12,109)**	(11,473)	(11,473)
Finance income	**15**	**15**	29	29
Loss before taxation	**(25,252)**	**(25,839)**	(19,069)	(19,534)
Income tax credit	**1,889**	**1,889**	1,933	1,933
Loss on continuing operations	**(23,363)**	**(23,950)**	(17,136)	(17,601)

(1) Topco includes additional costs associated with the Group board, primarily directors' fees.

Pro forma consolidated statement of financial position

	Finco 2017 £000	**Topco 2017 £000**	Finco 2016 £000	Topco 2016 £000
As at 31 March				
Intangible assets	**650,772**	**650,772**	676,609	676,609
Property, plant and equipment	**22,346**	**22,346**	8,534	8,534
Other non-current assets	**23,012**	**23,012**	13,122	13,122
Cash and cash equivalents	**148,315**	**148,315**	179,317	179,317
Held to maturity assets	**13,508**	**13,508**	-	-
Trade and other receivables and current tax asset	**63,139**	**63,166**	50,864[1]	44,796
Available-for-sale asset	**3,136**	**3,136**	-	-
Current liabilities	**(235,386)[2]**	**(209,895)[3]**	(222,345)	(227,668)[3]
Non-current liabilities	**(576,946)**	**(576,946)**	(565,821)	(565,821)
Net assets	**111,896**	**137,414**	140,280	128,889

(1) The 2016 Finco balance includes additional costs in relation to Topco of £6.1m which is eliminated in the Topco statement of financial position.
(2) The 2017 Finco balance includes additional costs in relation to Topco of £24.5m which is eliminated in the Topco statement of financial position.
(3) Topco includes an additional £1.2m accrued professional fees (2016: provision of £4m and £1.2m accrued settlement and professional fees) in the statement of financial position.

Statutory interim condensed consolidated cash flows

	Finco 2017 £000	**Topco 2017 £000**	Finco 2016 £000	Topco 2016 £000
Period ended 31 March				
Cash flows from operating activities				
Net cash inflow / (outflow) from operations	**30,047**	**(9,953)**	5,087	5,087
Exceptional items[1]	**(12,014)**	**(12,014)**	(4,780)	(4,780)
Decrease in net insurance broking creditors	**(1,468)**	**(1,468)**	(9,951)	(9,951)
Net interest received and investment income	**34**	**34**	77	77
Net cash inflow / (outflow) from operating activities	**16,599**	**(23,401)**	(9,567)	(9,567)
Cash flows from investing activities				
Disposal of business	**(3)**	**(3)**	-	-
Purchase of intangible fixed assets	**(4,299)**	**(4,299)**	(844)	(844)
Purchase of property, plant and equipment	**(4,440)**	**(4,440)**	(442)	(442)
Deferred consideration received	-	-	130	130
Net cash outflow from investing activities	**(8,742)**	**(8,742)**	(1,156)	(1,156)
Cash flows from financing activities				
Proceeds from issue of shares	**-**	**40,000**	-	-
Proceeds from borrowings	**25,000**	**25,000**	-	-
Repayment of borrowings	**(25,000)**	**(25,000)**		
Debt financing	**(2,630)**	**(2,630)**	(2,563)	(2,563)
Net cash inflow / (outflow) from financing activities	**(2,630)**	**37,370**	(2,563)	(2,563)
Increase / (decrease) in net cash	**5,227**	**5,227**	(13,286)	(13,286)

(1) Exceptional items include group reorganisation costs and regulatory costs as described on page 16.

Reconciliation of loss on ordinary activities to Adjusted EBITDA

	Finco 2017 £000	**Topco[1] 2017 £000**	Finco 2016 £000	Topco[1] 2016 £000
Quarter ended 31 March				
Loss on continuing operations	**(23,363)**	**(23,950)**	(17,136)	(17,601)
Add back / (deduct from):				
Finance costs[2]	**12,109**	**12,109**	11,473	11,473
Income tax credit	**(1,889)**	**(1,889)**	(1,933)	(1,933)
Depreciation and amortisation charges	**11,845**	**11,845**	10,898	10,898
Share of loss from associate	**52**	**52**	-	-
EBITDA	**(1,246)**	**(1,833)**	3,302	2,837
Add back / (deduct):				
Group reorganisation costs	**3,128**	**3,128**	826	826
Regulatory costs	**716**	**716**	3,655	3,655
Asset write-downs in connection with business restructuring[3]	**(250)**	**(250)**	-	-
Business investment costs[4]	**9,752**	**9,752**	387	387
Consultancy on regulatory matters	**170**	**170**	9	9
Adjusted EBITDA	**12,270**	**11,683**	8,179	7,714
Adjusted EBITDA margin	**15.80%**	**15.04%**	10.67%	10.06%

(1) Topco includes additional costs associated with the Group board, primarily directors' fees.
(2) Finance costs are comprised of interest payable on bank loans, the Notes, finance charges payable in respect of finance leases and hire purchase contracts and certain other charges.
(3) Represents PAYE and NIC liabilities in relation to legacy EBT schemes inherited with past acquisitions.
(4) Represents investment costs which are incurred for the purposes of generating future EBITDA and value growth. Business investments costs will include, amongst other things: recruitment and compensation costs paid in relation to market professionals recruited from competitors and the costs of recruitment, appointment of executive, non-executive and specialist advisers, provisions for buildings vacated and other costs related to the Group's transformation programs.

Management's discussion and analysis of financial condition and results of operations

Significant factors affecting results of operations

Commissions and fees

Insurance brokers and underwriting agents derive the majority of their revenue from commissions and fees. Commissions are generally based on insurance premiums and negotiated commission rates. Fees are paid for individual services based on negotiated amounts. Commission income has seen an improved quarter on quarter trend, due to:

- Insurance Broking achieving improved net commission margins;
- Paymentshield continuing to achieve strong growth in new business; and
- Underwriting seeing a small reduction, due to actions taken to ensure the long-term profitability of the business.

Seasonality

The Group experiences some seasonality in the volumes of insurance policies transacted and, consequently, in commission and fees. Historically less business is transacted in the first quarter than in the second and third quarters, before declining again in the fourth quarter.

Group financial performance

The following discussion and analysis compares pro forma consolidated results of operations for the quarter ended 31 March 2017 for Finco and Topco.

The tables below set out the commission and fees and other income and Adjusted EBITDA results for the divisions:

Quarter ended 31 March	Finco 2017 £000	Topco 2017 £000	Finco 2016 £000	Topco 2016 £000
Commission and fees and other income				
Insurance Broking	**51,966**	**51,966**	50,518	50,518
Underwriting	**15,048**	**15,048**	16,193	16,193
Paymentshield	**10,652**	**10,652**	9,946	9,946
Central	**170**	**170**	61	61
	77,836	**77,836**	76,718	76,718
Adjusted EBITDA				
Insurance Broking	**4,773**	**4,773**	813	813
Underwriting	**1,194**	**1,194**	1,506	1,506
Paymentshield	**6,303**	**6,303**	5,860	5,860
Central	**-**	**(587)**[(1)]	-	(465)[(1)]
	12,270	**11,683**	8,179	7,714

(1) Topco includes additional costs associated with the Group board, primarily directors' fees.

Description and performance of key line items

Set out below is an explanation of the results for the period analysed by individual line items within the Group's consolidated statement of comprehensive income.

Commission and fees and Other income

Commissions and fees represents income received from third parties net of commissions paid to sub-agents and brokers. When a sub-agent or broker refers a customer to the Group, it typically shares that commission with the sub-agent or broker. For the purposes of the analysis of results below, commission and fees are analysed by division. Income from trading deals with insurers is included in commission and fees.

Other income represents income received from non-core trading activities, including rental income from the sub-let of vacant properties.

Insurance Broking:

The Insurance Broking turnaround has continued to drive significant improvement, with both income growth and expense savings delivering an increase in Adjusted EBITDA to £4.8m. Retention and new business are broadly flat year on year with improved net commission margins driving top line income growth.

Underwriting:

Income is down year on year with remedial actions taken to address underlying profitability. Adjusted EBITDA is down 20.7% to £1.2m. Underwriting is seeing signs of stabilisation with improved retention and new business levels maintained.

Paymentshield:

Paymentshield continued to see strong new business growth, with Household Panel achieving a record high in March since its launch in 2012. Adjusted EBITDA increased by 7.6% to £6.3m with the new extended capacity deal with RSA and some benefit from back book retention.

Investment income

Investment income represents the interest received on restricted cash.

Investment income has remained broadly in line with the same period in 2016.

Salaries and associated expenses

Salaries and associated expenses represent the costs of staff and staff related costs incurred in the operations of the Group and will include staff-related costs for exceptional spend not in the normal course of operations.

Salaries and associated expenses have decreased in the three months ended 31 March 2017 by £4.3m (8.8%) at Finco and by £4.2m (8.6%) at Topco.

Other operating expenses

Other operating expenses represent all other administrative costs and will include exceptional spend not in the normal course of operations of the Group.

Other operating expenses increased in the three months ended 31 March 2017 by £9.9m (39.7%) at Finco and £9.9m (39.8%) at Topco compared to the same period in 2016. This is primarily due to an increase in business investment costs which includes costs incurred in relation to the Group's transformation programs and provisions for buildings vacated.

Depreciation and amortisation charges

Depreciation and amortisation charges represent the depreciation charge on tangible assets and the amortisation of intangible assets.

Depreciation and amortisation charges have increased by £0.9m (8.7%) for both Finco and Topco in the three months ended 31 March 2017 compared to the same period in 2016.

Finance costs

Finance costs represent the interest and other financing costs of the Group.

Finance costs have increased by £0.6m (5.5%) for both Finco and Topco in the three months to 31 March 2017 which is partially due to the interest due on the new Secured Loan.

Finance income

Finance income represents the interest on available cash and the changes in fair value of the financial instruments in the statement of financial position.

Finance income has remained broadly in line with the same period in 2016.

Share of loss from associate

Share of operating loss from associate represents the Groups 19.9% share of the results of Broker Network.

Share of operating loss from associate was £0.1m for both Finco and Topco for the three months to 31 March 2017.

Income tax credit

An income tax credit arises on the unwinding of the deferred tax liability.

Exceptional costs

Group change programmes

During 2016 and 2017 the Group has undertaken a number of change programmes. The programmes were designed to improve efficiency across the business, to build regulatory resilience, to position the Group to exploit future scale advantages and to enhance the customer proposition. These programmes have been separately disclosed in the Reconciliation of loss on ordinary activities to Adjusted EBITDA (page 13).

Group reorganisation costs

In Q4 2015, Towergate began a business transformation programme aimed to drive efficiencies and income growth. This programme includes initiatives to transform the IT infrastructure, simplify and automate processes and redeploy resources in finance, change the property footprint, and a reorganisation and restructure of the Insurance Broking business to grow the Advisory sales force.

In the period to 31 March 2017 the Group's reorganisation initiatives had an aggregate cost of £3.1m for Finco and Topco (2016: £0.8m).

Regulatory costs

The Group has incurred exceptional regulatory costs of £0.7m in 2017 (2016: £3.7m). These items represented ongoing costs in respect of various legacy FCA related matters, and 2016 included an amount of £2.6m for the potential fine to be levied by the FCA in relation to historical client and insurer money issues.

Financial strength

On a pro forma basis Finco had net assets of £111.9m (2016: £140.3m) and net current liabilities of £7.3m (2016: net current assets of £7.8m) as at 31 March 2017. Topco had net assets of £137.4m (2016: £128.9m) and net current assets of £18.2m (2016: net current liabilities of £3.6m). The Group held capital for regulatory requirements within its regulated companies of £19.3m at 31 March 2017 (2016: £19.9m).

Cash flow

The statutory net cash flow for the three months to 31 March 2017 was an inflow of £5.2m for both Finco and Topco (2016: outflow of £13.3m) and included spend in relation to exceptional items of £12.0m (2016: £4.8m).

The cash outflow from investing activities expenditure on intangibles and property, plant and equipment being in excess of proceeds from past disposals.

The positive cash flows from financing activities for 2017 reflects receipt of funds from the rights issue offset by the cost of servicing the Group's debt. In 2016 there was an outflow as a result of the servicing of the Notes.

Contractual obligations

The following table summarises material contractual commitments as of 31 March 2017:

	Total £m	Less than 1 year £m	1-5 years £m	More than 5 years £m
Senior secured notes	425.0	-	425.0	-
Floating rate super senior secured notes	75.0	-	75.0	-
Secured Loan	25.8	4.3	21.5	-
Operating leases	62.1	15.0	38.9	8.2
Deferred consideration	1.0	0.9	0.1	-
Other obligations	0.1	0.1	-	-
Contractual commitments (1)	14.4	5.4	9.0	-
Total contractual obligations	603.4	25.7	569.5	8.2

Deferred consideration

Deferred consideration is payable in respect of certain acquisitions based on the performance of the acquired business typically in the 24 month period following the acquisition.

Operating leases

Contractual obligations for operating leases reflect the Group's annual commitments under non-cancellable operating leases.

Off balance sheet arrangements

The Group had no off balance sheet arrangements at 31 March 2017.

Contingent assets and liabilities

Enhanced Transfer Values (ETV)

The Group remains in discussion with the FCA about past advice provided by the TF Group businesses on ETV. Independent file reviews have been shared with the FCA.

In August 2016, the FCA announced that it intended to consult in autumn 2016 to update the methodology used to calculate the levels of redress due in cases of unsuitable advice on transfers from defined benefit occupational pension schemes (DB) to personal pensions. The FCA announcement stated that "*it would not expect it to be fair for the firm to attempt to settle the complaint on a 'full and final' basis until the outcome of the consultation is known*". In March 2017 the FCA issued the consultation paper. There will now be a consultation period of at least three months whilst responses to the paper are collated and considered by the FCA. Until the consultation has completed, around the end of Q3 2017, the FCA has halted all customer redress.

Payment of redress is expected to occur once customers have been contacted and the redress methodology has been approved by the FCA. Redress payments are expected to start in 2018.

Given the number of uncertainties that continue to exist, it is not yet possible to make a reliable estimate of the Group's ultimate ETV related liability. However, purely for the purposes of developing business plans and cash flow projections for the Group, it has adopted a range of £45.0m to £65.0m in potential redress costs, excluding costs and expenses. This range is consistent with previous disclosures.

This internal range is derived from a set of assumptions based on currently available information. As explained above, in view of these uncertainties all assumptions are subject to change and the Group can give no assurances as to whether its ultimate liability will be within this range or not. The ultimate liability for ETV may, therefore, be materially different.

(1) Various subsidiaries within the Group were contractually committed to expenditure in relation to business transformation projects totalling £14.4m, of which £5.4m in 2017 and £9.0m in 2018. Of the total, £8.5m relates to expenditure on intangible assets and £1.1m relates to property, plant and equipment.

As there is a material difference between the upper and lower levels of the redress range, an acknowledgement that the ultimate liability may fall significantly outside this range and conclusions from the FCA consultation are outstanding the Group is recognising the potential ETV redress costs as a contingent liability at 31 March 2017.

Recoveries – ETV and UCIS

Recoveries may be possible for ETV and UCIS, either from third parties or under the Group's insurance arrangements, both of which the Group continues to pursue. The maximum recoverable amount under insurance arrangements is £12.0m, although the ultimate extent and timing of any recovery remains uncertain.

In addition, as part of the Group's UCIS redress process it can acquire, in some cases, the illiquid assets held by claimants. Where this happens the Group will attempt to realise the value of the assets to partially offset its costs in relation to the UCIS redress process. This will be subject to agreement with individual claimants and as such the extent of the opportunity remains uncertain. Illiquid assets acquired during the year are disclosed as available-for-sale assets.

As at 31 March 2017 the Group recovered assets with an estimated fair value of £0.5m (31 December: £0.5m).

Broker Network disposal

As part of the consideration on the sale of Broker Network, the Group will receive contingent consideration of up to £17.2m (31 December 2016: £17.2m) if certain performance measures are exceeded, including £2.7m consideration recognised in the period. Equally, the Group could have an ownership dilution in Bravo Investment Holdings Limited (Bravo) of up to its full share capital of 19.9% if certain performance measures are not met. As at 31 December 2016 the Group expected the performance measures to be met but not exceeded and hence recognised no asset/liability. At 31 March 2017, the Group has recognised £2.7m of contingent consideration receivable based on the latest fair value of the expected consideration to be received.

As more information on the performance of Bravo becomes available, a value may be assigned to the reverse earn out or the value of the deferred consideration receivable may change which will lead to the recognition of a liability or a change in the asset value respectively.

The terms of the contingent consideration agreement have been amended and updated in April 2017, please refer to Recent developments, Disposals for further details.

Rateable value of business properties

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

Appendices

Table of contents

1. Detailed unaudited pro forma financial information and other data

On 4 November 2016, the Group completed an agreement with funds advised by the Group majority shareholder, HPS, which provided the Group with a five year loan facility that is secured against the future cash flows of a Paymentshield home and contents book of business. As a result of this Lunar 101 Limited and Paymentshield Services Limited became unrestricted subsidiaries of the Group. In compliance with the indentures relating to the Notes, financial and other information is required to be presented separately for the groups comprising the unrestricted and restricted subsidiaries of the Group. The tables included in appendix 1 present information for the Group including Lunar 101 Limited and Paymentshield Services Limited. For information relating to the restricted Group please see appendix 2.

1.1 Pro forma consolidated statement of comprehensive income and other pro forma data for the three months ended 31 March 2017

	Finco[(1)] £000	Pro forma adjustments for disposals[(2)] £000	**Pro forma Finco £000**	Additional costs in Topco[(3)] £000	**Pro forma Topco £000**
Three months ended 31 March 2017					
Commission and fees	77,666	-	**77,666**	-	**77,666**
Other income	170	-	**170**	-	**170**
Investment income	20	-	**20**	-	**20**
Salaries and associated costs	(44,491)	-	**(44,491)**	(486)	**(44,977)**
Other operating costs	(34,626)	-	**(34,626)**	(101)	**(34,727)**
Depreciation and amortisation charges	(11,845)	-	**(11,845)**	-	**(11,845)**
Share of loss from associate[(4)]	(52)	-	**(52)**	-	**(52)**
Group operating loss	(13,158)	-	**(13,158)**	(587)	**(13,745)**
Analysed as:					
Group operating loss before exceptional items	(9,314)	-	**(9,314)**	(587)	**(9,901)**
Group reorganisation costs	(3,128)	-	**(3,128)**	-	**(3,128)**
Regulatory costs	(716)	-	**(716)**	-	**(716)**
Group operating loss	(13,158)	-	**(13,158)**	(587)	**(13,745)**
Finance costs[(5)]	(12,109)	-	**(12,109)**	-	**(12,109)**
Finance income[(6)]	15	-	**15**	-	**15**
Loss before taxation	(25,252)	-	**(25,252)**	(587)	**(25,839)**
Income tax credit[(7)]	1,889	-	**1,889**	-	**1,889**
Loss on continuing operations	(23,363)	-	**(23,363)**	(587)	**(23,950)**
Profit on sale of discontinued operations	2,674	(2,674)	-	-	-
Total comprehensive loss for the period	(20,689)	(2,674)	**(23,363)**	(587)	**(23,950)**

(1) The information in this column has been derived from the unaudited interim condensed consolidated financial statements for Finco as of and for the three months ended 31 March 2017 included elsewhere in this annual report.

(2) The pro forma adjustments for disposals represents the removal of the additional profit on disposal resulting from the amendment of the terms of the earn out following the Broker Network sale.

(3) Topco includes additional costs associated with the Group board, primarily directors' fees.

(4) Share of operating loss in associate represents the Group's income from its investment in Bravo Investment Holdings Limited.

(5) Finance costs are comprised of interest payable on bank loans, the Notes, finance charges payable in respect of finance leases and hire purchase contracts and certain other charges.

(6) Finance income represents the interest receivable on own funds.

(7) The Group will not incur a corporation tax charge for 2017.The income tax credit relates to the movement in deferred tax.

1.1 Pro forma consolidated statement of comprehensive income and other pro forma data for the three months ended 31 March 2017

	Finco £000	Pro forma adjustments for disposals £000	**Pro forma Finco £000**	Additional costs in Topco £000	**Pro forma Topco £000**
Three months ended 31 March 2017					
Available cash[(1)]	24,982	-	**24,982**	-	**24,982**
EBITDA	1,428	(2,674)	**(1,246)**	(587)	**(1,833)**
Adjusted EBITDA	12,270	-	**12,270**	(587)	**11,683**
Adjusted EBITDA margin	-	-	**15.80%**	-	**15.04%**
Adjusted EBITDA 12 months to 31 March 2017	53,248	-	**53,248**	(1,790)	**51,458**
Capital expenditure	8,737	-	**8,737**	-	**8,737**
Adjusted net senior secured borrowings[(2)]	-	-	**475,018**	-	**475,018**
Adjusted net total borrowings[(2)]	-	-	**501,918**	-	**501,918**
Adjusted net interest expense[(3)]	-	-	**11,926**	-	**11,926**
Ratio of Adjusted net senior secured borrowings to Adjusted EBITDA[(2)]	-	-	**8.92x**	-	**9.23x**
Ratio of Adjusted net total borrowings to Adjusted EBITDA[(2)]	-	-	**9.43x**	-	**9.75x**
Ratio of Adjusted EBITDA to Adjusted net interest expense[(3)]	-	-	**1.03x**	-	**0.98x**
Turnover by division					
Insurance Broking	51,966	-	**51,966**	-	**51,966**
Underwriting	15,048	-	**15,048**	-	**15,048**
Paymentshield	10,652	-	**10,652**	-	**10,652**
Central	170	-	**170**	-	**170**
Adjusted EBITDA by division					
Insurance Broking	4,773	-	**4,773**	-	**4,773**
Underwriting	1,194	-	**1,194**	-	**1,194**
Paymentshield	6,303	-	**6,303**	-	**6,303**
Central	-	-	**-**	(587)	**(587)**

(1) Available cash of £25.0m excludes restricted cash of £123.3m. Restricted cash consists of client money in respect of insurance premiums due to insurance companies and insurance company money in respect of claims payments due to policyholder; cash deposits kept for the purposes of solvency, capital adequacy and any other requirements imposed by the FCA; cash deposits held for settlement of claims in relation to the disposal of the TF business as imposed by the FCA; and rent deposits.

(2) For the purposes of calculating Adjusted net senior secured borrowings deferred consideration and redemption liability on non-controlling interest put options have been excluded. Adjusted net senior secured borrowings and Adjusted net total borrowings have been adjusted for the pro forma available cash of £25.0m. The ratios of Adjusted net senior secured borrowings to Adjusted EBITDA and Adjusted net total borrowings to Adjusted EBITDA are calculated by reference to the pro forma Adjusted EBITDA.

(3) Adjusted net interest expense represents net interest expense on pro forma Adjusted total borrowings. The ratios of Adjusted EBITDA to Adjusted net interest expense is calculated by reference to the pro forma Adjusted EBITDA for the three months ended 31 March 2017 of £12.3m for Finco and £11.7m for Topco.

1.2 Pro forma consolidated statement of comprehensive income and other pro forma data for the three months ended 31 March 2016

	Finco[1] £000	Pro forma adjustments for disposals[2] £000	**Pro forma Finco £000**	Additional costs in Topco[3] £000	**Pro forma Topco £000**
Three months ended 31 March 2016					
Commission and fees	76,783	(127)	**76,656**	-	**76,656**
Other income	62	-	**62**	-	**62**
Investment income	43	-	**43**	-	**43**
Salaries and associated costs	(48,809)	73	**(48,736)**	(402)	**(49,138)**
Other operating costs	(24,782)	30	**(24,752)**	(63)	**(24,815)**
Depreciation and amortisation charges	(10,899)	1	**(10,898)**	-	**(10,898)**
Group operating loss	(7,602)	(23)	**(7,625)**	(465)	**(8,090)**
Analysed as:					
Group operating profit before exceptional items	(3,121)	(23)	**(3,144)**	(465)	**(3,609)**
Group reorganisation costs	(826)	-	**(826)**	-	**(826)**
Regulatory costs	(3,655)	-	**(3,655)**	-	**(3,655)**
Group operating loss	(7,602)	(23)	**(7,625)**	(465)	**(8,090)**
Finance costs[4]	(11,473)	-	**(11,473)**	-	**(11,473)**
Finance income[5]	29	-	**29**	-	**29**
Loss before taxation	(19,046)	(23)	**(19,069)**	(465)	**(19,534)**
Income tax credit[6]	1,933	-	**1,933**	-	**1,933**
Loss on continuing operations	(17,113)	(23)	**(17,136)**	(465)	**(17,601)**
Profit for the period from discontinued operations, net of tax	793	(793)	**-**	-	**-**
Total comprehensive loss for the period	(16,320)	(816)	**(17,136)**	(465)	**(17,601)**

(1) The information in this column has been derived from the unaudited interim condensed consolidated financial statements for Finco as of and for the three months ended 31 March 2016 included elsewhere in this annual report.

(2) The pro forma adjustments for disposals represents the removal of the profit on disposal for Broker Network. The Broker Network Limited and Countrywide Insurance Management Limited results have been classed as discontinued operations in the Finco unaudited interim condensed consolidated financial statements.

(3) Topco includes additional costs associated with the Group board, primarily directors' fees.

(4) Finance costs are comprised of interest payable on bank loans, the Notes, finance charges payable in respect of finance leases and hire purchase contracts and certain other charges.

(5) Finance income represents the interest receivable on own funds.

(6) The Group did not incur a corporation tax charge for 2016.The income tax credit relates to the movement in deferred tax.

1.2 Pro forma consolidated statement of comprehensive income and other pro forma data for the three months ended 31 March 2016

	Finco £000	Pro forma adjustments for TIL, disposals £000	**Pro forma Finco £000**	Additional costs in Topco £000	**Pro forma Topco £000**
Three months ended 31 March 2016					
Available cash[1]	48,296	(1,772)	**46,524**	-	**46,524**
EBITDA	3,326	(24)	**3,302**	(465)	**2,837**
Adjusted EBITDA	8,203	(24)	**8,179**	(465)	**7,714**
Adjusted EBITDA margin	-	-	**10.67%**	-	**10.06%**
Adjusted EBITDA 12 months to 31 March 2016	50,373	-	**50,373**	(2,134)	**48,239**
Capital expenditure	954	-	**954**	-	**954**
Adjusted net senior secured borrowings[2]	-	-	**453,476**	-	**453,476**
Adjusted net total borrowings[2]	-	-	**457,010**	-	**457,010**
Adjusted net interest expense[3]	-	-	**11,221**	-	**11,221**
Ratio of Adjusted net senior secured borrowings to Adjusted EBITDA[2]	-	-	**9.00x**	-	**9.40x**
Ratio of Adjusted net total borrowings to Adjusted EBITDA[2]	-	-	**9.07x**	-	**9.47x**
Ratio of Adjusted EBITDA to Adjusted net interest expense[3]	-	-	**0.73x**	-	**0.69x**
Turnover by division					
Insurance Broking	50,518	-	**50,518**	-	**50,518**
Underwriting	16,193	-	**16,193**	-	**16,193**
Paymentshield	9,946	-	**9,946**	-	**9,946**
Broker Network	127	(127)	**-**	-	**-**
Central	61	-	**61**	-	**61**
Adjusted EBITDA by division					
Insurance Broking	813	-	**813**	-	**813**
Underwriting	1,506	-	**1,506**	-	**1,506**
Paymentshield	5,860	-	**5,860**	-	**5,860**
Broker Network	24	(24)	**-**	-	**-**
Central	-	-	**-**	(465)	**(465)**

(1) Available cash of £46.5m excludes restricted cash of £144.3m (£144.3m of restricted cash includes £11.5m held by Broker Network). Restricted cash consists of client money in respect of insurance premiums due to insurance companies and insurance company money in respect of claims payments due to policyholder; cash deposits kept for the purposes of solvency, capital adequacy and any other requirements imposed by the FCA; cash deposits held for settlement of claims in relation to the disposal of the TF business as imposed by the FCA; and rent deposits.

(2) For the purposes of calculating Adjusted net senior secured borrowings deferred consideration and redemption liability on non-controlling interest put options have been excluded. Adjusted net senior secured borrowings and Adjusted net total borrowings have been adjusted for the pro forma available cash of £46.5m. The ratios of Adjusted net senior secured borrowings to Adjusted EBITDA and Adjusted net total borrowings to Adjusted EBITDA are calculated by reference to the pro forma Adjusted EBITDA.

(3) Adjusted net interest expense represents net interest expense on pro forma Adjusted total borrowings. The ratios of Adjusted EBITDA to Adjusted net interest expense is calculated by reference to the pro forma Adjusted EBITDA for the three months ended 31 March 2016 of £8.2m for Finco and £7.7m for Topco.

1.3 Pro forma consolidated statement of financial position as at 31 March 2017

As at 31 March 2017	Finco[2] £000	Additional costs in Topco £000	Topco £000
Non-current assets			
Intangible assets	**650,772**	-	**650,772**
Property, plant and equipment	**22,346**	-	**22,346**
Investment in associate	**6,443**	-	**6,443**
Available-for-sale assets	**152**	-	**152**
Deferred tax assets	**16,417**	-	**16,417**
	696,130	-	**696,130**
Current assets			
Cash and cash equivalents	**148,315**	-	**148,315**
Held to maturity asset	**13,508**	-	**13,508**
Trade and other receivables	**63,069**	27	**63,096**
Available-for-sale asset	**3,136**	-	**3,136**
Current tax asset[1]	**70**	-	**70**
	228,098	27	**228,125**
Current liabilities			
Trade and other payables	**(187,123)**	[3]25,491	**(161,632)**
Borrowings	**(19,698)**	-	**(19,698)**
Other financial liability	**(162)**	-	**(162)**
Provision for other liabilities and charges	**(28,403)**	-	**(28,403)**
	(235,386)	25,491	**(209,895)**
Net current (liabilities) / assets	**(7,288)**	25,518	**18,230**
Non-current liabilities			
Trade and other payables	**(11,150)**	-	**(11,150)**
Borrowings	**(517,150)**	-	**(517,150)**
Other financial liability	**(132)**	-	**(132)**
Deferred tax liabilities	**(41,421)**	-	**(41,421)**
Provision for other liabilities and charges	**(7,093)**	-	**(7,093)**
	(576,946)	-	**(576,946)**
Net assets	**111,896**	25,518	**137,414**

(1) Current tax asset has arisen due to a refund due in respect of an overpaid tax on account payment from previous years offset by tax where companies within the Group are not able to utilise losses held by other Group companies.

(2) The information in this column has been derived from the unaudited interim condensed consolidated financial statements for Finco as of and for the three months ended 31 March 2016 included elsewhere in this annual report.

(3) Topco includes additional costs in relation to Finco of £24.5m which is eliminated in the Topco statement of financial position. Topco also includes an additional £1.2m accrued professional fees in the statement of financial position.

1.4 Pro forma consolidated statement of financial position as at 31 March 2016

As at 31 March 2016	Finco[2] £000	Pro forma adjustments for disposals[3]	**Pro forma Finco £000**	Additional costs in Topco £000	**Topco £000**
Non-current assets					
Intangible assets	676,609	-	**676,609**	-	**676,609**
Property, plant and equipment	8,534	-	**8,534**	-	**8,534**
Investment in associate	-	-	**-**	-	**-**
Available-for-sale assets	152	-	**152**	-	**152**
Deferred tax assets	12,970	-	**12,970**	-	**12,970**
	698,265	-	**698,265**	-	**698,265**
Current assets					
Cash and cash equivalents	179,317	-	**179,317**	-	**179,317**
Assets held for sale	31,288	(31,288)	**-**	-	**-**
Trade and other receivables	50,864	-	**50,864**	[4](6,068)	**44,796**
	261,469	(31,288)	**230,181**	(6,068)	**224,113**
Current liabilities					
Liabilities held for sale	(12,234)	12,234	**-**	-	**-**
Trade and other payables	(155,299)	-	**(155,299)**	[5](5,323)	**(160,622)**
Borrowings	(15,689)	-	**(15,689)**	-	**(15,689)**
Current tax liabilities[1]	(223)	-	**(223)**	-	**(223)**
Provision for other liabilities and charges	(51,134)	-	**(51,134)**	-	**(51,134)**
	(234,579)	12,234	**(222,345)**	(5,323)	**(227,668)**
Net current assets / (liabilities)	26,890	(19,054)	**7,836**	(11,391)	**(3,555)**
Non-current liabilities					
Trade and other payables	(14,088)	-	**(14,088)**	-	**(14,088)**
Borrowings	(494,707)	-	**(494,707)**	-	**(494,707)**
Deferred tax liabilities	(50,131)	-	**(50,131)**	-	**(50,131)**
Provision for other liabilities and charges	(6,895)	-	**(6,895)**	-	**(6,895)**
	(565,821)	-	**(565,821)**	-	**(565,821)**
Net assets / (liabilities)	159,334	(19,054)	**140,280**	(11,391)	**128,889**

(1) Current tax liabilities have arisen where companies within the Group are not able to utilise losses held by other Group companies.

(2) The information in this column has been derived from the unaudited interim condensed consolidated financial statements for Finco as of and for the quarter ended 31 March 2016 included elsewhere in this annual report.

(3) The pro forma adjustments for the disposal of Broker Network on 22 March 2016 represent the assets and liabilities at 31 March 2016 contained within the Finco interim condensed consolidated statement of financial position at this date.

(4) The intercompany balance in relation to Topco includes additional costs of £6.0m which is eliminated in the Topco statement of financial position.

(5) Topco includes an additional provision of £4m and £1.2m accrued settlement and legal fees in the statement of financial position.

2. <u>Disclosure of restricted and unrestricted subsidiaries</u>

On 4 November 2016, the Group completed an agreement with funds advised by the Group majority shareholder, HPS, which provided the Group with a five year loan facility that is secured against the future cash flows of a Paymentshield home and contents book of business. As a result of this Lunar 101 Limited and Paymentshield Services Limited became unrestricted subsidiaries of the Group. In compliance with the indentures relating to the Notes, financial and other information is required to be presented separately for the groups comprising the unrestricted and restricted subsidiaries of the Group which is included below.

2.1 Pro forma consolidated statement of comprehensive income and other pro forma data for the three months ended 31 March 2017 for the restricted Group

	Pro forma Finco(1) £000	Lunar Group(2) £000	Consolidation adjustments(3) £000	**Restricted Pro forma Finco £000**	Additional costs in Topco(4) £000	**Restricted Pro forma Topco £000**
Three months ended 31 March 2017						
Commission and fees	77,666	-	-	**77,666**	-	**77,666**
Other income	170	-	-	**170**	-	**170**
Investment income	20	-	-	**20**	-	**20**
Salaries and associated costs	(44,491)	-	-	**(44,491)**	(486)	**(44,977)**
Other operating costs	(34,626)	(80)	-	**(34,706)**	(101)	**(34,807)**
Depreciation and amortisation charges	(11,845)	-	-	**(11,845)**	-	**(11,845)**
Share of loss from associate	(52)	-	-	**(52)**	-	**(52)**
Group operating loss	(13,158)	(80)	-	**(13,238)**	(587)	**(13,825)**
Analysed as:						
Group operating profit before exceptional items	(9,314)	(80)	-	**(9,394)**	(587)	**(9,981)**
Group reorganisation costs	(3,128)	-	-	**(3,128)**	-	**(3,128)**
Regulatory costs	(716)	-	-	**(716)**	-	**(716)**
Group operating loss	(13,158)	(80)	-	**(13,238)**	(587)	**(13,825)**
Finance costs	(12,109)	687	(1,048)	**(12,470)**	-	**(12,470)**
Finance income	15	(1,048)	1,048	**15**	-	**15**
Loss before taxation	(25,252)	(441)	-	**(25,693)**	(587)	**(26,280)**
Income tax credit	1,889	49	(49)	**1,889**	-	**1,889**
Total comprehensive loss for the period	(23,363)	(392)	(49)	**(23,804)**	(587)	**(24,391)**

(1) The information in this column has been derived from appendix 1.1 and is the Finco pro forma Group results.

(2) The information in this column has been derived from the unaudited condensed consolidated financial statements for Lunar as of and for the three months ended 31 March 2017.

(3) The consolidation adjustments are the reversal of full Group consolidation journals that are no longer applicable for the restricted Group.

(4) The information in this column has been derived from appendix 1.1 and is the additional costs in Topco.

2.1 Pro forma consolidated statement of comprehensive income and other pro forma data for the three months ended 31 March 2017 for the restricted Group

	Pro forma Finco £000	Lunar Group £000	Consolidation adjustments £000	**Restricted Pro forma Finco £000**	Additional costs in Topco £000	**Restricted Pro forma Topco £000**
Three months ended 31 March 2017						
Available cash	24,982	(2,268)	-	**22,714**	-	**22,714**
EBITDA	(1,246)	(1,128)	1,048	**(1,326)**	(587)	**(1,913)**
Adjusted EBITDA	12,270	(1,128)	1,048	**12,190**	(587)	**11,603**
Adjusted EBITDA margin	-	-	-	**15.70%**	-	**14.94%**
Adjusted EBITDA 12 months to 31 March 2017	53,248	(1,854)	1,174	**53,168**	(587)	**52,581**
Capital expenditure	8,737	-	-	**8,737**	-	**8,737**
Adjusted net senior secured borrowings	475,018	2,268[(1)]	-	**477,286**	-	**477,286**
Adjusted net total borrowings	501,918	(23,105)[(2)]	-	**478,813**	-	**478,813**
Adjusted net interest expense	11,926	(687)	1,048	**12,287**	-	**12,287**
Ratio of Adjusted net senior secured borrowings to Adjusted EBITDA	8.92x	-	-	**8.98x**	-	**9.08x**
Ratio of Adjusted net total borrowings to Adjusted EBITDA	9.43x	-	-	**9.01x**	-	**9.11x**
Ratio of Adjusted EBITDA to Adjusted net interest expense	1.03x	-	-	**0.99x**	-	**0.94x**
Turnover by division						
Insurance Broking	51,966	-	-	**51,966**	-	**51,966**
Underwriting	15,048	-	-	**15,048**	-	**15,048**
Paymentshield	10,652	-	-	**10,652**	-	**10,652**
Central	170	-	-	**170**	-	**170**
Adjusted EBITDA by division						
Insurance Broking	4,773	-	-	**4,773**	-	**4,773**
Underwriting	1,194	-	-	**1,194**	-	**1,194**
Paymentshield	6,303	(1,128)	1,048	**6,223**	-	**6,223**
Central	-	-	-	**-**	(587)	**(587)**

(1) Adjusted net senior secured borrowings has been adjusted for Lunar's pro forma available cash of £2.2m.

(2) Adjusted net total borrowings has been adjusted for Lunar's pro forma available cash of £2.2m and the Secured Loan.

2.2 Pro forma consolidated statement of financial position for the restricted Group as at 31 March 2017

As at 31 March 2017	Pro forma Finco(1) £000	Lunar Group(2) £000	Consolidation adjustments(3) £000	**Restricted Pro forma Finco £000**	Additional costs in Topco(4) £000	**Rrestricted Pro forma Topco £000**
Non-current assets						
Intangible assets	650,772	-	-	**650,772**	-	**650,772**
Property, plant and equipment	22,346	-	-	**22,346**	-	**22,346**
Investment in associate	6,443	-	5,772	**12,215**	-	**12,215**
Available-for-sale assets	152	-	-	**152**	-	**152**
Other financial asset	-	(25,378)	25,378	**-**	-	**-**
Deferred tax assets	16,417	-	-	**16,417**	-	**16,417**
	696,130	(25,378)	31,150	**701,902**	-	**701,902**
Current assets						
Cash and cash equivalents	148,315	(2,268)	-	**146,047**	-	**146,047**
Held to maturity assets	13,508	-	-	**13,508**	-	**13,508**
Trade and other receivables	63,069	-	896	**63,965**	27	**63,992**
Available-for-sale asset	3,136	-	-	**3,136**	-	**3,136**
Current tax asset	70	99	(49)	**120**	-	**120**
Other financial asset	-	(5,778)	5,778	**-**	-	**-**
	228,098	(7,947)	6,625	**226,776**	27	**226,803**
Current liabilities						
Trade and other payables	(187,123)	896	(896)	**(187,123)**	25,491	**(161,632)**
Borrowings	(19,698)	3,747	-	**(15,951)**	-	**(15,951)**
Other financial liability	(162)	162	(5,778)	**(5,778)**	-	**(5,778)**
Provision for other liabilities and charges	(28,403)	-	-	**(28,403)**	-	**(28,403)**
	(235,386)	4,805	(6,674)	**(237,255)**	25,491	**(211,764)**
Net current (liabilities) / assets	(7,288)	(3,142)	(49)	**(10,479)**	25,518	**15,039**
Non-current liabilities						
Trade and other payables	(11,150)	-	-	**(11,150)**	-	**(11,150)**
Borrowings	(517,150)	22,086	-	**(495,064)**	-	**(495,064)**
Other financial liability	(132)	132	(25,378)	**(25,378)**	-	**(25,378)**
Deferred tax liabilities	(41,421)	-	-	**(41,421)**	-	**(41,421)**
Provision for other liabilities and charges	(7,093)	-	-	**(7,093)**	-	**(7,093)**
	(576,946)	22,218	(25,378)	**(580,106)**	-	**(580,106)**
Net assets / (liabilities)	111,896	(6,302)	5,723	**111,317**	25,518	**136,835**

(1) The information in this column has been derived from appendix 1.3 and is the Finco pro forma balance sheet.

(2) The information in this column has been derived from the unaudited condensed consolidated financial statements for Lunar at the period ended 31 March 2017.

(3) The consolidation adjustments are the reversal of full Group consolidation journals that are no longer applicable for the restricted Group.

(4) The information in this column has been derived from appendix 1.3 and is the additional costs in Topco.

2.3 Statutory consolidated cash flow for the restricted Group for the three months ended 31 March 2017

	Finco[(1)] £000	Lunar Group[(2)] £000	Consolidation adjustments[(3)] £000	**Restricted Finco £000**	Additional items in Topco[(4)] £000	**Restricted Topco £000**
Three months ending 31 March 2017						
Cash flows from operating activities						
Net cash inflow / (outflow) from operations	30,047	-	(2,056)	**27,991**	(40,000)	**(12,009)**
Exceptional items	(12,014)	-	-	**(12,014)**	-	**(12,014)**
Increase in net insurance broking creditors	(1,468)	-	-	**(1,468)**	-	**(1,468)**
Net interest received and investment income	34	-	-	**34**	-	**34**
Net cash inflow / (outflow) from operating activities	16,599	-	(2,056)	**14,543**	(40,000)	**(25,457)**
Cash flows from investing activities						
Disposal of business	(3)	-	-	**(3)**	-	**(3)**
Purchase of intangible fixed assets	(4,440)	-	-	**(4,440)**	-	**(4,440)**
Purchase of property, plant and equipment	(4,299)	-	-	**(4,299)**	-	**(4,299)**
Net cash outflow from investing activities	(8,742)	-	-	**(8,742)**	-	**(8,742)**
Cash flows from financing activities						
Proceeds from share issue	-	-	-	**-**	40,000	**40,000**
Proceeds from borrowings	25,000	-	-	**25,000**	-	**25,000**
Repayment of borrowings	(25,000)	-	-	**(25,000)**	-	**(25,000)**
Proceeds from financial asset	-	(2,056)	2,056	**-**	-	**-**
Debt financing	(2,630)	227	-	**(2,403)**	-	**(2,403)**
Net cash outflow / (inflow) from financing activities	(2,630)	(1,829)	2,056	**(2,403)**	40,000	**37,597**
Increase / (decrease) in net cash	5,227	(1,829)	-	**3,398**	-	**3,398**

(1) The information in this column has been derived from the statutory cash flow shown in the main body of the report.

(2) The information in this column has been derived from the unaudited condensed consolidated financial statements for Lunar for the three months ended 31 March 2017.

(3) The consolidation adjustments are the reversal of full Group consolidation journals that are no longer applicable for the restricted Group.

(4) The Topco cash flow relates to the rights issue discussed on page 4.

3. Unaudited interim condensed consolidated financial statements

For Appendix numbers 3.1 and 3.2 please go to:

http://www.towergate.com/investor-relations/results-presentations