

**PINNACLE INSURANCE PLC**  
Company Registration Number: 1007798

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**31 December 2017**

# PINNACLE INSURANCE PLC

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# PINNACLE INSURANCE PLC

## Company Information

Directors:	G Binet (Chairman) P J Box * M Haderer N D Rochez * A M Wigg FCA M J Lorimer LLB (Hons) Solicitor S.L.P.F Chevalet  * Independent Non-Executive Director
Company Secretary:	M J Lorimer LLB (Hons) Solicitor
Registered Office:	Pinnacle House A1 Barnet Way Borehamwood Hertfordshire WD6 2XX
Actuarial Function Holder: (Long-term fund)	M Haderer
Independent Auditor:	Deloitte LLP 2 New Street Square London EC4A 3BZ
Principal Bankers:	Barclays Bank PLC 54 Lombard Street London EC3P 3AH

# PINNACLE INSURANCE PLC

## STRATEGIC REPORT

Pinnacle Insurance plc ("the Company") was formed in 1971 and has established itself as a provider of personal lines insurance, principally within the UK. The Company underwrites Creditor, Warranty and Pet insurance products.

The Company is a subsidiary of Cardif Pinnacle Insurance Holdings plc (the "UK Parent"), a member of the BNP Paribas Cardif group, a worldwide provider of insurance and savings products. The Company is part of the global banking group BNP Paribas SA ("the Group"), a European leader in banking and financial services, with a Standard and Poor's long-term rating of A (Stable outlook). The Group has one of the largest international banking networks, with a presence in 75 countries and employs more than 189,000 employees.

The Strategic Report ("the Report") has been prepared for the Company specifically and therefore provides greater emphasis to the matters which are significant to the Company. It has been prepared solely to provide additional information to facilitate an assessment of how the Directors have performed their duty to promote the success of the Company.

The Report has been prepared in accordance with section 414c of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

### BUSINESS REVIEW

#### **Pre-tax profit**

The Company reported a pre-tax profit of £4.9m (2016: loss of £0.1m) resulting from the Company's improved performance in Pet combined with the run-off of Household and Motor. In addition, further operational efficiencies were achieved resulting in a further reduction in overheads.

The performance of the Company's revenue segments is discussed in detail below.

#### **Gross Written Premiums (GWP)**

##### ***Creditor***

The Creditor market remains weak, through a combination of low consumer and low distributor demand. Gross written premiums reduced 31% to £31.3m (2016: £45.4m) reflecting:

- the continued low level of activity across the sector;
- termination of contracts with unprofitable partners; and
- downward repricing.

##### ***Household and Motor***

The Company ceased writing business in these lines in 2015 and consequently gross written premium decreased to negative £0.04m (2016: £0.5m) in household and negative £0.09m (2016: negative £0.9m) in motor due to premium cancellation and refunds.

Business will continue to run off in 2018 and subsequent years for long tail personal injury claims arising on the Motor book.

## PINNACLE INSURANCE PLC

### STRATEGIC REPORT (continued)

#### **Pet**

The Company offers lifetime, per condition and time limited products. Policies are sold under the Helpucover brand direct to consumer and through aggregators. The business also operates through partnerships with consumer brands and a number of smaller niche intermediaries. Gross written premium of £16.6m was broadly in line with 2016.

#### **Warranty**

Gross written premiums for Warranty business decreased by 43% to £5.4m (2016: £9.4m). The decrease reflects lower motor warranty volumes distributed through BNP Paribas Cardif Limited (formerly known as Warranty Direct Limited) reflecting the competitive environment.

#### **Long-Term business**

Long-term business includes business underwritten for mortgage loan protection, leasing creditor and standard of living guarantee income products. This business is in run-off and gross written premiums decreased to £1.3m in 2017 (2016: £1.8m).

### KEY PERFORMANCE INDICATORS

Key Performance Indicators (KPI's) are measures by reference to which the performance or position of the Company can be assessed effectively. The Company's management monitor the progress of the Company, including both general and long-term business, by reference to the following KPIs:

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Gross Written Premiums	54,379	72,807
Net Earned Premiums	63,561	107,744
Technical Result	19,638	13,326
Investment Income	3,214	6,538
Administration Expenses	(17,944)	(20,008)
Profit / (Loss) Before Tax	4,908	(144)
Technical Ratio	69%	88%
Claims Ratio	28%	44%
Commission Ratio	41%	43%

**Gross Written Premiums (GWP):** represents the total premiums written in a given year before deductions of reinsurance and ceding commission. GWP decreased in the year by £18.4m (25%) largely due to Motor Warranty and continued run off in Creditor business lines.

**Net Earned Premiums (NEP):** represents the portion of the policy's premium that applies to the expired portion of the policy. The NEP of £63.6m decreased by £44.2m substantially due to the exit from the Motor (£10.3m) and Household (£19.1m) and declining premium on Creditor (£9.1m) and Motor Warranty (£5.3m) partly offset by an increase in Pet of £0.4m.

**Technical Result:** represents the balance of earned income less incurred claims, commission and profit share payments, net of associated reinsurance balances.

The technical result improved by £6.3m in 2017 mainly from improved claims ratio in Pet and Motor.

## PINNACLE INSURANCE PLC

### STRATEGIC REPORT (continued)

**Investment Income:** Investment income represents the portfolio investment income, including the impact of marked to market revaluations, foreign exchange movements and realised losses on investments.

The investment portfolio comprises bonds, cash and term deposits of high credit quality. The total portfolio was valued at £251.5m at 31 December 2017 (2016: £268.3m) of which 44% was in bonds, 43% in deposits with credit institutions and 13% in cash and cash equivalents.

Total net investment return for the year is £3.2m (2016: £6.5m) which comprises interest earned on financial investments of £5.5m (2016: £6.7m), realised losses on bonds of £2.5m (2016: £1.7m) and unrealised gains of £0.2m (2016: £1.0m).

**Administration Expenses:** Administration expenses represent those operating expenses incurred by the Company which are not classified as either acquisition or claims handling costs. Administration expenses decreased by £2.1m to £17.9m (2016: £20.0m) mainly due to a continued focus on operational efficiencies.

**Technical Ratio:** Reflects the profitability of the general business before direct and indirect costs and is calculated as the sum of commission and net incurred claims expressed relative to NEP. The technical ratio improved from 88% in 2016 to 69% in 2017 due to lower claims costs in the year. The commission cost remained broadly in line with prior year.

**Claims Ratio:** Calculated as net claims incurred expressed as a percentage of NEP. The claims ratio in 2017 decreased to 28% (2016: 44%) due to claims settled in Motor and Household.

**Commission Ratio:** Commission expense incurred expressed as a percentage of NEP. The Commission ratio of 41% (2016: 43%) remained broadly in line with prior year.

## PINNACLE INSURANCE PLC

### STRATEGIC REPORT (continued)

#### PRINCIPAL RISKS AND UNCERTAINTIES

The Company's activities expose the business to a number of key risks which have the potential to affect the Company's ability to achieve its business objectives. The Board is responsible for ensuring that an appropriate structure for managing these risks is maintained. The key risks and risk mitigation framework are highlighted below:

<b>Risk</b>	<b>Impact on Company</b>	<b>Mitigation of risk</b>
<b>Insurance risk</b>	The Company's business is to accept insurance risk which is appropriate to enable the Company to meet its objectives.	Within a Board approved underwriting policy and agreed risk appetites, the Company seeks to balance this insurance risk with the pursuit of appropriate reward in the form of sufficient levels of insurance premiums. Particular attention is paid to actual and forecast loss ratios (claims over premiums).
<b>Operational risk</b>	Operational risk is the risk of loss resulting from inadequate internal processes, human or system errors, or from external events.	The Company seeks to manage this risk exposure through continual enhancement of its systems and controls, and ensuring appropriately experienced personnel are in place throughout the organisation. Local incident and Head Office reporting and investigation procedures are well established.
<b>Reserving risk</b>	Reserving risk is associated with insurance risk after the coverage is expired and it occurs when claims provisions make insufficient allowance for claims, claims handling expenses and reinsurance bad debts provisions. There is a possibility that the Company's management do not make sufficient provision for exposures which could affect the Company's earnings and capital.	The Company's actuarial team uses a range of recognised actuarial techniques to project GWP, monitor claims development patterns and determine claims provisions. The Board of Directors review the reserving position quarterly. Claims provisions are also reviewed annually by external consulting actuaries who provide independent opinions to the Company confirming that in their view the Company's provisions are within a range of acceptable best estimates.
<b>Credit risk</b>	The Company's exposure to credit risk arises from its direct insurance trading activities, the exposure to the reinsurance it purchases and those of its investment activities. The risk is that in the absence of appropriate guidelines and procedures the Company might not be able to limit its credit exposure which could affect its earnings.	The Company, through the Board and the Investment Committee, seeks to limit, as far as is practical, exposure to credit risk from its investment activities. To achieve this objective it has established guidelines, procedures and monitoring requirements to manage credit risk. Particular attention has been paid to the quality of investment counterparties. In addition, the finance function reviews intermediaries' internal processes and periodically visits their premises to test controls and monitor credit risk.

## PINNACLE INSURANCE PLC

### STRATEGIC REPORT (continued)

<b>Risk</b>	<b>Impact on Company</b>	<b>Mitigation of risk</b>
<b>Liquidity risk</b>	Liquidity risk is the risk that sufficient financial resources are not available in cash to enable the Company to meet obligations as they fall due.	The Company, through the Board and the Investment Committee, seeks to limit exposure to liquidity risk by ensuring liquidity is optimally managed and that all known cash flows can be met out of readily available sources of funding. The Company maintains a strong liquidity position by holding its assets predominantly in investment grade fixed income securities, call accounts and readily tradable corporate bonds.
<b>Market risk</b>	Market risk is the risk arising from fluctuations in the values of, or income from the Company's assets due to fluctuations in interest rates and/or exchange rates.	The Company has a low risk appetite for this type of risk which has been translated into a policy allowing the Company to invest predominantly in short-term bonds or cash to match the short-tail nature of most of its claims. Longer duration assets are purchased to better match with longer duration Motor liabilities. The risk is managed by the Board through the Investment Committee.
<b>Conduct risk</b>	Conduct Risk refers to the risks attached to how the company and its staff conduct their business in the market place and in respect of our customers and suppliers. Failure to create, manage and monitor the appropriate internal controls to understand and manage the company's Conduct Risks could result in regulatory sanctions and/or fines, reputation damage and loss of business.	The Company operates a Treating Customers Fairly (TCF) forum, which meets on a monthly basis, to review all issues of possible customer detriment under existing TCF guidelines and is fully supported by the whole company. The Financial Ombudsman Service (FOS) team monitors and disseminates FOS complaints, decisions and guidance. The Company's Conduct and Customer Committee meets quarterly to review all aspects of Conduct Risk.
<b>General Data Protection Regulation</b>	The General Data Protection Regulation (GDPR) comes into force on 25 May 2018. GDPR strengthens data protection for individuals and requires the Company to have in place appropriate technical and organisational measures to meet the Regulation's requirements and protect data subject's rights. The maximum possible penalties for failing to comply with GDPR are significantly higher than under current data protection regulation.	The Company is undertaking a project to update the technical and organisational measures in place with regards to individuals personal data, in accordance with the Regulation. The project is overseen by an Executive Sponsor and takes into account BNP Paribas Cardif requirements and external advice. Data mapping has been completed. Customer journeys including websites are on track to comply with the new requirements by 25 May 2018 (the deadline for implementation). A remediation programme for existing business and existing contracts has been agreed with the Group.



## PINNACLE INSURANCE PLC

### STRATEGIC REPORT (continued)

#### OTHER UNCERTAINTY

**Payment Protection Insurance (PPI) Complaints:** In August 2010, the former UK financial services regulator, the Financial Services Authority, published Policy Statement (PS10/12) in relation to the assessment and redress arising from PPI complaints. Management closely monitor the exposure to the PPI complaints and have taken appropriate action to mitigate the impact on the Company resulting in a provision of £9.5m (2016: £9.5m). See note 17 for detail.

**Taxation changes:** Following Brexit referendum, there is a risk that Corporation tax, Insurance Premium Taxes and Value Added Tax (VAT) may change which could impact on the Company's resources and liquidity requirements.

There is currently no expected impact on the Company's financial statements of the UK leaving the EU. The Company's Board is continuing to monitor the impact it may have in the future.

#### FUTURE DEVELOPMENTS

The Board and the ultimate Shareholder, BNP Paribas Cardif have defined in conjunction with management the following strategic agenda in 2018:

- Process simplification and digitalisation to drive efficiencies with the objective of delivering an efficient operating model;
- Maximise value from in force creditor business including the exit of uneconomic products and portfolios;
- Build Pet and Extended Motor Warranty propositions; and
- Investigate the development of an additional insurance product.

Looking ahead the Board is focused on ensuring the operating model and cost base remains appropriate to the level of revenue. It anticipates marginal growth in revenue through Pet and Motor Warranty offset by the declining Creditor.

#### GOING CONCERN

During the year, the Company made a profit after tax of £4.9m (2016: loss of £0.1m). The Company also has considerable financial resources, which include cash and cash equivalents of £32.2m (2016: £20.1m) and an investment portfolio of £219.3m (2016: £248.1m) as at the year-end. In addition, the Company undertakes an ongoing assessment of its Solvency Capital Requirement, including consideration of the Company's sensitivity to risk, alongside quarterly monitoring of the annual budget and forecasts. As such, after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### APPROVAL

This report was approved by the Board of directors on 19 April 2018 and signed on its behalf by:



**Director**  
A M Wigg

# PINNACLE INSURANCE PLC

## DIRECTORS' REPORT

The Directors present this report together with the Strategic Report, financial statements and Auditor's Report, For the year ended 31 December 2017.

### **BUSINESS REVIEW AND ACTIVITIES**

The principal activities of the Company are set out in the Strategic Report on page 3. The information that fulfils the Companies Act requirements of the business review is included in the Strategic Report on pages 3 to 8. This includes a review of the development of the business of the Company during the year and of likely future developments in its business. Details of the principal risks and uncertainties are included in the Strategic Report.

### **RESULTS AND DIVIDEND**

The results of the Company for the year are set out on page 22. The profit after taxation for the year was £4.9m (2016: Loss of £0.1m). There were no dividends paid or declared in the year.

### **CAPITAL STRUCTURE**

Details of the Company's authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 16. The Company has one class of ordinary shares which carry full voting, dividends and capital distribution (including on winding up) right. They do not confer any rights of redemption.

### **DIRECTORS AND THEIR INTERESTS**

The Directors who held office throughout the year (unless stated otherwise) were:

G Binet (Chairman)  
P J Box \*  
M Haderer  
N D Rochez \*  
A M Wigg FCA  
M J Lorimer LLB (Hons) Solicitor  
S.L.P.F Chevalet

\* Independent Non-Executive Director

### **POLITICAL CONTRIBUTIONS**

No political contributions were made during the year (2016: £nil).

## PINNACLE INSURANCE PLC

### DIRECTORS' REPORT (continued)

#### DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

#### EMPLOYEE INVOLVEMENT AND CONSULTATION

A fellow subsidiary of Cardif Pinnacle Insurance Holdings plc, Cardif Pinnacle Insurance Management Services plc, provides staff management services and recharges all staff costs to the Company and wider UK Group.

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings, newsletters and journals, which are regularly published on the Company's intranet. Employees' representatives are consulted regularly on a wide range of matters affecting their current and future interests.

#### ACTUARIAL VALUATION

An actuarial valuation was carried out as at 31 December 2017 in respect of the long-term fund. A report has been prepared by the Actuarial function holder (Long-term fund) advising the Board on this valuation.

#### CORPORATE GOVERNANCE

The Company is not listed and accordingly there is no requirement to comply with the October 2014 UK Corporate Governance Code. Key Corporate Governance arrangements of the Company are highlighted below:

##### *The Board*

The Directors are responsible to the shareholder for ensuring that the Company is appropriately managed and that it achieves its objectives. The Board meets regularly to determine the Company's strategic direction, to review the Company's operating and financial performance and to oversee that the Company is adequately resourced and effectively controlled. The governance regime is summarised as follows:

##### *Board Committees*

The Board has established the following Committees to oversee and debate important issues of policy and oversight outside the main Board meetings:

- Risk and Audit Committee (Chairman: P J Box);
- Investment Committee (Chairman: A M Wigg);
- Remuneration Committee (Chairman: N D Rochez);
- Risk Forum \* (Chairman: A M Wigg);
- Underwriting and Credit Risk Committee \* (Chairman: M Haderer);
- Internal Control Committee \* (Chairman: M J Lorimer) and
- Conduct and Customer Committee \* (Chairman: M J Lorimer).

During the year, the Chairman of each Committee or their representatives provided the Board with a summary of the key issues considered at the meetings of each Committee.

\* Committees report to the Risk and Audit Committee.

## PINNACLE INSURANCE PLC

### DIRECTORS' REPORT (continued)

#### **Directors' attendance**

The Company requires Directors to attend all meetings of the Board and the Committees on which they serve and to devote sufficient time to the Company in order to perform their duties. The attendance of the Directors at the Board and Committee meetings, of which they are a member, held in 2017 was as follows:

	Board	Risk and Audit Committee	Investment Committee	Remuneration Committee	Conduct and Customer Committee	Underwriting and Credit Risk Committee	Internal Controls Committee
<b>Number of meetings held</b>	<b>7</b>	<b>5</b>	<b>4</b>	<b>2</b>	<b>4</b>	<b>3</b>	<b>3</b>
G Binet	5	*	*	*	*	*	*
P J Box	7	5	*	2	*	*	*
S Chevalet	7	*	*	2	*	*	*
M Haderer	7	*	*	*	2	3	3
M J Lorimer	7	*	*	*	4	3	2
N D Rochez	7	5	*	2	*	*	*
A M Wigg	7	*	4	*	4	2	2

\* indicates not a member of that Committee

#### **Internal controls**

The Board has the overall responsibility for maintaining the systems of internal control of the Company and for monitoring their effectiveness, while the implementation of internal control systems is the responsibility of the executive management. The Company's systems of internal control are designed to manage, rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material financial misstatement or loss.

The systems are designed to:

- safeguard assets;
- maintain proper accounting records;
- provide reliable financial information;
- identify and manage business risks;
- maintain compliance with appropriate legislation and regulation; and
- identify and adopt best practice.

## PINNACLE INSURANCE PLC

### DIRECTORS' REPORT (continued)

The principal features of the control framework and the methods by which the Board satisfies itself that it is operating effectively are detailed below.

#### **Control environment**

The Company has an established governance framework, the key features of which include:

- Corporate Governance manual including matters reserved for the Board and Terms of Reference for each of the Board's Committees;
- Clear organisational structure, with documented delegation of authority from the Board to executive management;
- Policy framework, which sets out risk management and control standards for the Company's operations; and
- Defined procedures for the approval of major transactions and capital allocation.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company which has operated throughout 2017 and up to the date of signing this report. The Company's risk management and control framework is designed to support the identification, assessment, monitoring, management and control of risks that are significant to the achievement of its business objectives. The Company has a set of formal policies which govern the management and control of both financial and non-financial risks.

The Board via Internal Audit has conducted a review of the effectiveness of the Group's systems of internal control. Where weaknesses were identified as part of the control review, mitigating actions have been taken or plans put in place. These are monitored by the appropriate Committee on behalf of the Board.

#### **Risk and Audit Committee**

The Risk and Audit Committee is chaired by Mr P J Box who is an independent Non-Executive Director. The other members of the Committee are Mr N D Rochez, independent Non-Executive Director, Mr Henri-Brice Salle, Head of Risk Transfer, BNP Paribas Cardif and Mr J-F Bourdeaux, the Global Head of Compliance and Control, BNP Paribas Cardif. The Chief Executive Officer, Director of Finance, Head of Internal Audit and other representatives from the Company's parent company internal audit and control functions are regular attendees. The partner of the Company's external auditor, who is responsible for the external audit, attends meetings regularly. The Chairman and other members of executive management are also invited to attend on an ad hoc basis. The outcomes of meetings are reported to the Board.

The Committee's principal duties are to:

- coordinate and have oversight of the Company's financial reporting process, specifically;
  - Integrity of the financial statements
  - Review and monitor the reserving process and recommend to the Board; and
  - Valuation of assets and impairment reviews.
- monitor compliance function;
- have oversight of internal and external audit functions;
- have oversight of the systems of internal control;
- review matters relating to legal, risk and compliance;
- provide assurance on the effectiveness of the Company's risk management; and
- considers the performance of the external auditor.

The Committee has unrestricted access to Company documents and information, as well as to employees of the Company and the external auditor.

The Committee meets periodically with internal and external auditors without management present.

## PINNACLE INSURANCE PLC

### DIRECTORS' REPORT (continued)

#### INTERNAL AUDIT FUNCTION

The Company is part of the Group which has a centralised independent internal audit function, which provides assurance to the Risk and Audit Committee and to the Board as to the effectiveness of Company's internal systems and controls, making recommendations and monitoring progress against those recommendations as appropriate.

#### DISCLOSING INFORMATION TO THE AUDITOR

Each of the persons who is a Director as at the date of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP has expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:



**Director**  
M J Lorimer

19 April 2018

## **PINNACLE INSURANCE PLC**

### **DIRECTORS' RESPONSIBILITY STATEMENT**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**PINNACLE INSURANCE PLC**  
**INDEPENDENT AUDITOR'S REPORT**  
**TO THE MEMBERS OF PINNACLE INSURANCE PLC**

**Report on the audit of the financial statements**

**Opinion**

**In our opinion the financial statements:**

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Pinnacle Insurance plc (the 'company') which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Summary of our audit approach**

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>• Revenue recognition – earning patterns applied to the unearned premium reserve; and</li> <li>• Valuation of technical provisions – IBNR reserve relating to motor bodily injury claims.</li> </ul>
<b>Materiality</b>	<p>We determined materiality for the company to be £1.91m which is below 2% of the three-year average gross written premium figure.</p>
<b>Scoping</b>	<p>Audit work to respond to the risks of material misstatement was planned and performed directly by the audit engagement team, with no use of component auditors.</p>



**PINNACLE INSURANCE PLC**  
**INDEPENDENT AUDITOR'S REPORT**  
**TO THE MEMBERS OF PINNACLE INSURANCE PLC**

**Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

**We have nothing to report in respect of these matters.**

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Revenue recognition – earning patterns of unearned premium reserve (“UPR”)**

**Key audit matter description**



ISA (UK) 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

Pinnacle Insurance Plc earns revenue through premium income. Revenue is recognised at the point which a contract of insurance is on-risk, driven by the timing and terms of the agreements with the policyholders. Pinnacle Insurance must defer its recognition of the premium income in line with the period of time for which Pinnacle Insurance is on-risk. However, the selection of an appropriate earning pattern is an area of significant management judgement, and therefore, this key audit matter is focused on the appropriateness of the patterns and methodology used to defer premium income over periods for which Pinnacle Insurance is on-risk, specifically on multi-year and other non-annual policies.

For further details please see Note 1 – Accounting policies, Note 3 – Segmental analysis and Note 17 – Insurance liabilities.

## PINNACLE INSURANCE PLC

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PINNACLE INSURANCE PLC

#### How the scope of our audit responded to the key audit matter



We have gained a detailed understanding of the end to end revenue process, including the process of adjusting revenue with the movement in unearned premium reserve; which is intrinsically linked to the calculation of the unearned premium reserve through use of the determined earning patterns. We assessed whether there were any key controls present regarding the determination of earning patterns used to defer premium income.

We have worked closely with our internal actuarial specialist team to assess the suitability of the methodologies and assumptions used for a sample of earning patterns, to determine whether they appropriately fit the risk profile.

We have tested the completeness and accuracy of the underlying data used in the company's actuarial calculations.

We have considered whether the premium recognition policies are compliant with applicable accounting standards and recalculated the earned and unearned premium income balances on a sample basis and agreed the underlying data to the audited gross written premium listings.

#### Key observations



No material misstatements have been noted with respect to our revenue recognition testing.

We have concluded that the earning patterns applied to the Pet, Creditor and Warranty lines of business are reasonable.

#### Valuation of technical provision – IBNR reserve

#### Key audit matter description



The company's general insurance claims reserve total amounts to £81.4m. The valuation of insurance reserves requires significant judgement in the selection of key methodologies and assumption, and has been identified as a potential fraud risk area. We have identified the IBNR balance within the general insurance reserve as being inherently uncertain, due to the unavailability of reported claims data present within an IBNR calculation. More specifically, we have focused on motor bodily injury claims as the key audit matter, due to its significant impact on the results of the company and its involvement of a detailed actuarial assessment. The ultimate number and value of large bodily injury claims is inherently uncertain and volatile, driven by the low frequency and high severity nature of the claims as well as the long settlement periods.

The key judgements are:

- the methods used to carry out actuarial calculations; and
- the frequency and severity of excess bodily injury claims.

For further details please see Note 1 – Accounting policies and Note 17 – Insurance liabilities.

## PINNACLE INSURANCE PLC

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PINNACLE INSURANCE PLC

#### How the scope of our audit responded to the key audit matter



We have gained a detailed understanding of the end to end reserving process. We have identified the key controls within the reserving cycle and have evaluated the design and implementation of these controls.

We have worked with our internal actuarial specialist team to:

- challenge the suitability of the methodology and assumptions used in estimating the ultimate number of large bodily injury claims by benchmarking the results against industry experience;
- review the results of the work performed by the company's independent actuarial advisor; and
- assess whether the reserving methodology has been applied consistently across periods and evaluate emerging trends for consistency with management's calculations.

We have reconciled claims data per source systems and third party bordereaux to that used by the company's actuarial department, as well as testing samples of other relevant data which feeds into the actuarial models.

#### Key observations



Deloitte have concluded that the methodology and assumptions used by Pinnacle Insurance to value the IBNR reserve on large bodily injury claims are reasonable.

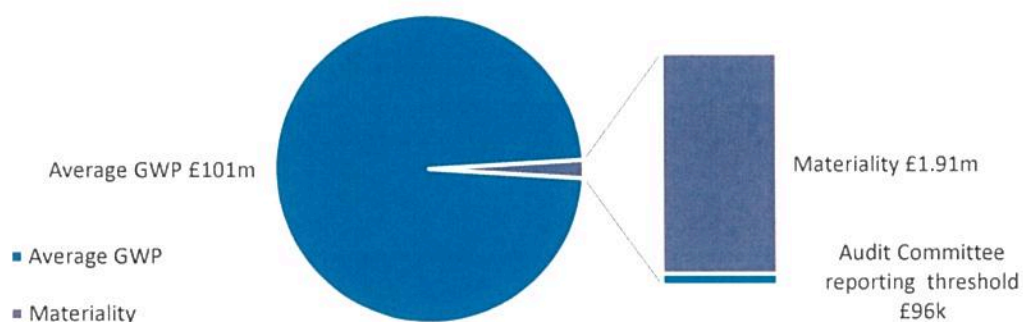
#### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Materiality</b>	£1.91m
<b>Basis for determining materiality</b>	<p>2% of the three-year average of gross written premium</p> <p>We used the average of gross written premium over three years because although the company ceased to write motor and household policies in 2015, elements of these policies are still present in the insurance reserves; and three years is deemed to be the best representation of average number of years until run off across the various classes of business.</p>
<b>Rationale for the benchmark applied</b>	We determined that gross written premium is the critical benchmark for the company as the users of the financial statements have an interest in the revenue generating capacity of Pinnacle Insurance Plc.

**PINNACLE INSURANCE PLC**  
**INDEPENDENT AUDITOR'S REPORT**  
**TO THE MEMBERS OF PINNACLE INSURANCE PLC**



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £96k, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

#### **An overview of the scope of our audit**

The scope of our audit was determined by obtaining an understanding of the company and its environment, including internal controls and assessing the risk of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

#### **Other information**

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

***We have nothing to report in respect of these matters.***

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

**PINNACLE INSURANCE PLC**  
**INDEPENDENT AUDITOR'S REPORT**  
**TO THE MEMBERS OF PINNACLE INSURANCE PLC**

### **Responsibilities of directors**

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As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of our report**

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

### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the Companies Act 2006**

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In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**PINNACLE INSURANCE PLC**  
**INDEPENDENT AUDITOR'S REPORT**  
**TO THE MEMBERS OF PINNACLE INSURANCE PLC**

**Matters on which we are required to report by exception**

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*Adequacy of explanations received and accounting records*

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

***We have nothing to report in respect of these matters.***

- we have not received all the information and explanations we require for our audit; or
- 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.

*Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

***We have nothing to report in respect of this matter.***

**Other matters**

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*Auditor tenure*

Following the recommendation of the BNP Paribas group audit committee, Deloitte were appointed by the company as joint auditors to the group, and were therefore appointed as auditors of Pinnacle Insurance Plc to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 December 2012 to 31 December 2017.

*Consistency of the audit report with the additional report to the audit committee*

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).



Elanor Gill (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
19 APRIL 2018

**PINNACLE INSURANCE PLC**  
**Income Statement**  
**For the year ended 31 December 2017**

	Notes	2017 £'000	2016 £'000
<b>Income</b>			
Gross written premiums	3	54,379	72,807
Less: reinsurance premiums		<u>(763)</u>	<u>(2,029)</u>
Net written premiums		53,616	70,778
Change in the gross provision for unearned premiums	17	9,958	38,419
Less: change in provision for unearned premiums, reinsurers' share	17	<u>(13)</u>	<u>(1,454)</u>
Net change in provision for unearned premiums		9,945	36,965
Net earned premiums		<u>63,561</u>	<u>107,744</u>
Net investment return	4	<u>3,214</u>	<u>6,538</u>
<b>Total income</b>		66,775	114,282
<b>Expenses</b>			
Gross claims incurred	5	(8,324)	(80,678)
Less: claims recoveries from reinsurers	5	<u>(9,480)</u>	<u>33,086</u>
Net claims		(17,804)	(47,592)
Net operating expenses	6	<u>(44,063)</u>	<u>(66,834)</u>
<b>Total expenses</b>		(61,867)	(114,426)
<b>Profit /(Loss) before tax</b>		<u>4,908</u>	<u>(144)</u>
Tax charge	10	<u>(10)</u>	<u>(4)</u>
<b>Profit /(Loss) for the year</b>		<u>4,898</u>	<u>(148)</u>
Attributable to:			
Owner of the Company		<u>4,898</u>	<u>(148)</u>

A statement of other comprehensive income (SOCl) or loss is not presented as there were no items requiring classification to the SOCl during the year and prior year. Hence, profit (2016: loss) represents total comprehensive profit (2016: loss) for the year attributable to the owner of the Company.

The notes on pages 26 to 61 form an integral part of these financial statements.

**PINNACLE INSURANCE PLC**

**Statement of Financial Position  
As at 31 December 2017**

	Notes	2017 £'000	2016 £'000
<b>Assets</b>			
Financial investments	11	219,339	248,177
Reinsurance assets	17	56,782	68,553
Insurance and other receivables	14	17,834	26,928
Deferred acquisition costs	18	6,161	11,416
Cash and cash equivalents	13	32,210	20,178
<b>Total assets</b>		<b><u>332,326</u></b>	<b><u>375,252</u></b>
<b>Total equity</b>		<b>158,517</b>	<b>153,619</b>
<b>Liabilities</b>			
Insurance liabilities	17	130,520	175,225
Other payables, including insurance payables	15	43,289	46,408
<b>Total liabilities</b>		<b><u>173,808</u></b>	<b><u>221,633</u></b>
<b>Total equity and liabilities</b>		<b><u>332,326</u></b>	<b><u>375,252</u></b>

The financial statements were approved and authorised for issue on 19 April 2018 by the Board of Directors and are signed on its behalf by:



Director  
A M Wigg

The notes on pages 26 to 61 form an integral part of these financial statements.



**PINNACLE INSURANCE PLC**

**Statement of Changes in Equity  
For the year ended 31 December 2017**

	<b>Share capital £'000</b>	<b>Share premium £'000</b>	<b>Retained earnings £'000</b>	<b>Total £'000</b>
<b>At 1 January 2016</b>	126,557	23,323	3,887	153,767
Loss for the year	-	-	(148)	(148)
<b>At 31 December 2016</b>	<b>126,557</b>	<b>23,323</b>	<b>3,739</b>	<b>153,619</b>
Profit for the year	-	-	4,898	4,898
<b>At 31 December 2017</b>	<b>126,557</b>	<b>23,323</b>	<b>8,637</b>	<b>158,517</b>

The notes on pages 26 to 61 form an integral part of these financial statements.

**PINNACLE INSURANCE PLC**

**Statement of Cash Flows  
For the year ended 31 December 2017**

	Notes	2017 £'000	2016 £'000
<b>Profit/(loss) for the year before tax</b>		4,908	(144)
Adjustments for non-cash items			
-Net unrealised gains on financial assets at FVTPL	4	(142)	(1,043)
-Interest income	4	(2,987)	(5,013)
-Provision for unearned premiums	17	(9,945)	(36,965)
-Outstanding claims		(22,989)	34,985
-Deferred acquisition costs	18	5,255	15,161
-Other assets		8,988	(24,706)
-Other creditors		(1,650)	(10,959)
Proceeds from debt securities maturities		53,214	36,307
Purchase of debt securities		(34,498)	(11,980)
Deposits with credit institutions		10,264	(14,165)
Interest received on financial investments		3,085	4,721
<b>Cash generated / (used in) from operating activities</b>		<b>13,503</b>	<b>(13,801)</b>
Intra-group loan settlements		(1,471)	(1,737)
<b>Net cash used in financing activities</b>		<b>(1,471)</b>	<b>(1,737)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>12,032</b>	<b>(15,538)</b>
Cash and cash equivalents at 1 January	13	20,178	35,716
<b>Cash and cash equivalents at 31 December</b>	<b>13</b>	<b>32,210</b>	<b>20,178</b>

The notes on pages 26 to 61 form an integral part of these financial statements.

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### Corporate information

The Company is incorporated and domiciled in the United Kingdom. The Company's registered office address is Pinnacle House, A1 Barnet Way, Borehamwood, and Hertfordshire, WD6 2XX.

### 1. Accounting policies

#### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Company's financial statements comply with Article 4 of the European Union International Accounting Standards (IAS) Regulation.

The Company is exempt by virtue of IAS 27 paragraph 10 from the requirements to prepare consolidated financial statements, since it is included within the group accounts of Cardif Pinnacle Insurance Holdings plc. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

#### Functional and presentation currency

The financial statements are presented in pounds sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

#### New accounting standards published but not yet applicable

##### IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

IFRS 17 is mandatory for annual periods beginning on or after 1 January 2021. The Company is in the process of analysing the standard and its potential impacts.

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 1. Accounting policies (continued)

##### New accounting standards published but not yet applicable (continued)

###### IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments", issued by the IASB in July 2014, will replace IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments. It sets out the new principles for the classification and measurement of financial instruments, for impairment for credit risk on financial assets and for general hedge accounting (i.e. micro hedging). IFRS 9 is mandatory for annual periods beginning on or after 1 January 2018.

The Company plans to defer the application of IFRS 9 until the effective date of the new insurance contracts standard IFRS 17 of 1 January 2021, applying the temporary exemption from IFRS 9.

###### IFRS 16 Leases

IFRS 16 Leases, issued in January 2016, will supersede IAS 17 Leases and the interpretations relating to the accounting of such contracts. The new definition of leases relies on both the identification of an asset and the right to control the identified asset by the lessee. From the lessor's point of view, the expected impact should be limited, as the requirements of IFRS 16 remain substantially unchanged from the current IAS 17. For the lessee, IFRS 16 will require recognition in the balance sheet of all leases, in the form of a right of-use on the leased asset presented under fixed assets, along with the recognition of a financial liability for the rent and other payments to be made over the leasing period. The right-of-use assets will be amortised on a straight-line basis and the financial liabilities will be amortised on an actuarial basis over the lease period. Under IAS 17, operating leases require no recognition in the balance sheet. IFRS 16 will become mandatory for annual periods beginning on or after 1 January 2019. Following the publication of the standard, the Company has started to analyse the standard and define its potential impact.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

##### 1.1 Contract classification

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Once the contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished.

##### 1.2 Premiums written

Insurance and reinsurance premiums written comprise the total premiums receivable for the whole period of cover provided by contracts inception during the financial year, adjusted by an unearned premium provision, which represents the proportion of the premiums inception in prior periods and that relate to periods of insurance cover after the balance sheet date. Unearned premiums are calculated over the period of exposure under the policy, on a daily basis, 24th basis or allowing for the estimated incidence of exposure under policies.

Premiums collected by intermediaries or other parties, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in insurance premiums. Insurance premiums exclude insurance premium tax or equivalent local taxes and are shown gross of any commission payable to intermediaries or other parties.

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 1. Accounting policies (continued)

In respect of life insurance and long-term investment contracts, written premiums are accounted for on a receivable basis when due from the policyholder. The premium income is stated gross of commissions paid to intermediaries and is exclusive of taxes or duties levied on premiums.

##### 1.3 Unearned premiums

The provision for unearned premiums represents the proportion of the gross premiums written that is estimated to be earned in the following or subsequent financial years. This is calculated separately for each insurance contract on a time apportionment basis adjusted to reflect the Company's experience of the incidence of risk incurred over the term of those policies. The change in the provision is recorded in the Income Statement.

The provision for reinsurance unearned premiums represents the proportion of the reinsurance premiums written that relates to periods of risk after the year end. Unearned reinsurance premiums are deferred over the term of the reinsurance contract for losses-occurring contracts and commensurate to the deferral of the underlying direct insurance policies for risk-attaching reinsurance contracts. The change in the provision is recorded in the Income Statement.

##### 1.4 Deferred acquisition costs

Acquisition costs represent commission and other expenses related to acquiring insurance policies written during the financial year. Acquisition costs are deferred subject to recoverability and amortised over an equivalent period to that over which the related premiums are earned. The basis of amortisation reflects the same pattern utilised to earn the gross premiums to which the acquisition costs relate.

Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date. The change in the provision is recorded in the Income Statement.

##### 1.5 Insurance claims

Insurance claims in respect of general business comprise claims and related internal and external expenses paid in the financial period, the movements in the provisions for outstanding claims and provisions for claims Incurred But Not Reported (IBNR), together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries. Estimates are included for claims due but not yet notified by the year end.

For long-term business, death claims are accounted for in the financial year in which the death occurs and surrenders are accounted for when notified to the Company up to the balance sheet date. Maturities and annuities are recognised as they fall due for payment. Claims incurred in respect of long-term business include movements in the provision for accident and sickness outstanding claims including claims Incurred But Not Reported.

Reinsurance recoveries are accounted for in the same accounting period as the claims incurred for the related direct insurance business being reinsured.

Provision for claims outstanding comprise undiscounted estimated cost of claims incurred but not settled at the balance sheet date whether reported or not, together with related expenses.

The calculation of the provision for claims incurred but not reported combines an assumption for average claims cost and frequency together with a typical delay factor. The delay factor is designed to reflect the typical delay in months between the occurrence and the notification of claims.

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 1. Accounting policies (continued)

The Company's actuaries produce an estimate of reserves which are then assessed by management. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The ultimate liability arising from claims made under insurance contracts is a critical accounting estimate. As provisions for claims outstanding are based on information which is currently available, the eventual outcome may vary from the original assessment depending on the nature of information received or developments in future periods. Differences between the estimated cost and subsequent re-estimation or settlement of claims are reflected in the income statement in the year in which these claims are re-estimated or settled. These differences may be significant.

A liability adequacy provision is made for unexpired risks arising where the expected value of net claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premium reserve in relation to such policies after the deduction of any acquisition costs deferred and other prepaid amounts (for example, reinsurance). The expected value is determined by reference to recent experience and allowing for changes to the premium rates. The provision for unexpired risks is calculated separately by reference to classes of business that are managed together after taking account of relevant investment returns.

#### 1.6 Reinsurance

The Company has reinsurance treaties and other reinsurance contracts that transfer significant insurance risk. The Company cedes insurance risk by reinsurance in the normal course of business, with the arrangement and retention limits varying by product line. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct business being reinsured. Outward reinsurance recoveries are accounted for in the same accounting period as the direct claims to which they relate.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

The need for a reinsurance bad debt provision is assessed in respect of reinsurance debtors, to allow for the risk that the reinsurance asset may not be collected or where the reinsurer's credit rating has been downgraded significantly. This also includes an assessment in respect of the ceded part of claims provisions to reflect the counterparty risk exposure to long-term reinsurance assets particularly in relation to periodical payments. This is affected by the Company reducing the carrying value of the asset accordingly and the impairment loss is recognised in the income statement.

#### 1.7 Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 1. Accounting policies (continued)

##### **Financial assets**

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), held to maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

##### Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in Income Statement.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables include cash at bank, other receivables including insurance receivables which are measured at amortised cost using the effective rate except for short-term receivable when the net effect is immaterial.

##### Available-for-sale (AFS) financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company's AFS financial assets include investment in associates.

The equity investment in associates is measured at cost less any impairment charges, as its fair value cannot be estimated reliably. Impairment charges are recognised in Income Statement.

##### Valuation methodology

Purchases of financial assets classified as loans and receivables are recognised on settlement date; all other purchases are recognised on trade date.

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 1. Accounting policies (continued)

A financial asset is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (for example, a change in the risk-free interest rate following the most recent price quote for a corporate bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial Instruments, as appropriate.

The valuation methodology described above uses observable market data. If the market for a financial asset is not active, the Company establishes the fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties (if available), reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Company uses that technique.

#### Impairment of financial assets

Financial assets, other than FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investments have been affected.

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets, discounted at the effective interest rate of the instrument at initial recognition.

Impairment losses are assessed individually where significant or collectively for assets that are not individually significant. Impairment losses are recognised in the income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for the impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

For amounts due from policyholders, the bad debt provision is calculated based upon prior loss experience. Where a policy is subsequently cancelled, the outstanding debt that is overdue is charged to the income statement and the bad debt provision is released back to the income statement.

#### **Financial Liabilities**

Financial liabilities are initially recognised at fair value net of transaction costs incurred. Other than derivatives which are recognised and measured at fair value, all other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.



## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 1. Accounting policies (continued)

##### 1.9 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. Cash equivalents principally comprise financial assets with less than three months' maturity from the date of acquisition. Borrowings, comprising bank overdrafts, are measured at amortised cost using the effective interest rate method.

##### 1.10 Provisions

The Company recognises a provision for a present legal or constructive obligation from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount can be reliably estimated.

The Company makes provision for all insurance industry levies, such as the Financial Services Compensation Scheme.

##### 1.11 Taxation

Income tax expense / (credit) represent the sum of current tax payable and deferred tax.

###### Current tax:

Current tax payable is based on taxable profit/loss for the year. Taxable profit differs from 'profit before tax' as reported in the income statement because of items income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

###### Deferred tax:

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 2. Critical accounting judgements and key sources of estimation uncertainty

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underpin the preparation of its financial information. The Company's principal accounting policies are set out on pages 26 to 32. UK company law and IFRSs require the Directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent.

In the absence of an applicable standard or interpretation, IAS 8 requires management to develop and apply an accounting policy that results in relevant and reliable information in light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the preparation and presentation of Financial Statements. The judgements and assumptions involved in the Company's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below.

##### **Unearned Premium Reserves and Deferred acquisition costs**

Unearned Premium Reserves (UPR) are calculated in line with the spread of risk across the exposure period covered by the premium. Some judgement may be required in defining the risk (earning) pattern, for example in smoothing the patterns implied by the historic data.

The Company also defers a proportion of acquisition costs incurred during the year to subsequent accounting periods. The Deferred Acquisition Cost (DAC) is generally calculated using the earning pattern applied to calculate the UPR.

##### **Deferred tax**

Critical accounting judgments in respect of the deferred tax are disclosed in note 10.

##### **Claims provisions**

Claim provisions are generally made up of Reported But Not Settled (RBNS) and Incurred But Not Reported (IBNR) reserves.

The main uncertainties relate to the IBNR, which includes the future development of known claims and the number and severity of as yet unreported claims.

For most classes, we employ traditional actuarial methods (chain ladder, Bornhuetter-Ferguson, loss ratio) when calculating IBNR reserves. The key assumption applied is that historical claim development is a reasonable guide to the future. Implicitly this means that we are assuming that factors affecting claim development, such as reporting patterns and inflation are stable or at least develop in a predictable and identifiable manner.

The key judgements and areas of uncertainty present when assessing PIC's IBNR are summarised in the following table:

**PINNACLE INSURANCE PLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

**2. Critical accounting judgements and key sources of estimation uncertainty (continued)**

<b>Business class</b>	<b>Key judgements</b>	<b>Main sources of uncertainty</b>
Creditor	<ul style="list-style-type: none"> <li>• Selection of development patterns based on historical data (including removal of development considered unrepresentative)</li> <li>• Selection of loss ratios for recent periods</li> </ul>	<ul style="list-style-type: none"> <li>• Recovery (Accident, Sickness) and re-employment rates</li> <li>• Claim reporting delays</li> <li>• Claim acceptance rates</li> </ul>
Household	<ul style="list-style-type: none"> <li>• Selection of development patterns based on historical data</li> <li>• Tail development of claims (particularly large) beyond limits of data</li> <li>• Selection of frequency and severity on unreported large claims</li> </ul>	<ul style="list-style-type: none"> <li>• Future development of open claims (particularly large losses), including impacts of               <ul style="list-style-type: none"> <li>○ Cost inflation</li> <li>○ Delays in establishing final cost</li> </ul> </li> </ul>
Motor	<ul style="list-style-type: none"> <li>• Selection of development patterns based on historical data</li> <li>• Selection of tail development beyond limit of data</li> <li>• Selection of frequency and severity of bodily injury claims developing from 'small' to 'large'</li> <li>• Allowance for indexation of reinsurance deductible when calculating net liabilities (based on assumed settlement delay)</li> <li>• Selection of Periodical Payment Order (PPO) modelling parameters (e.g. PPO propensity, mortality tables and impaired lives adjustments, claim inflation, discount rates)</li> </ul>	<ul style="list-style-type: none"> <li>• Future development of open claims (particularly large losses)</li> <li>• Parts, labour and compensation cost inflation</li> <li>• Uncertainty around long term costs: care cost inflation, legal cost inflation, loss of earnings</li> <li>• Periodical Payment Order (PPO) propensity.</li> <li>• Settlement delays (notably impacting reinsurance deductible via indexation)</li> <li>• Impact of individuals' injuries on ability to work, future care costs and mortality (noting that some individuals affected are still very young)</li> <li>• Changes in Ogden discount rate</li> <li>• Reinsurer default</li> <li>• Court rulings impacting future claim costs</li> </ul>
Pet	<ul style="list-style-type: none"> <li>• Selection of incurred development patterns</li> <li>• Selection of loss ratios for less developed periods</li> </ul>	<ul style="list-style-type: none"> <li>• Number and amount of future treatments needed on a condition</li> <li>• Claim reporting delays</li> <li>• Claim inflation including impact of medical advances</li> </ul>
Warranty	<ul style="list-style-type: none"> <li>• Selection of paid development patterns</li> <li>• Selection of loss ratios for less developed periods</li> </ul>	<ul style="list-style-type: none"> <li>• Number and amount of unsettled claims</li> <li>• Claim (parts and labour cost) inflation</li> </ul>

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 3. Segmental analysis

The Directors manage the Company primarily by product type and present the segmental analysis on that basis. The segmental analysis below reflects the management structure whereby a member of the Executive Committee is accountable to the Chief Executive Officer for the financial performance of operating segments.

The business materially relates to one geographical market (United Kingdom) and therefore no geographical analysis is presented.

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
<u>Gross written premiums</u>		
General business	53,117	70,915
Long-term business	1,262	1,892
	<b>54,379</b>	<b>72,807</b>
<u>Profit/(loss) before taxation:</u>		
General business	2,027	(386)
Long-term business *	2,881	242
	<b>4,908</b>	<b>(144)</b>
<u>Segmental net assets</u>		
General business (including shareholder's funds/total equity)	147,133	145,096
Long-term business	11,384	8,523
	<b>158,517</b>	<b>153,619</b>

\*The profit before tax relating to the Long-term business fund includes £2.4m (2016: £nil), an allocation of a profit share cost provisions from the Long-term business fund to the General business fund. The allocation is based on the actuarial review and an assessment of the associated costs in relations to these funds.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

3. Segmental analysis (continued)

	2017			
	Gross Written Premium £'000	Net Earned Premium £'000	Net Claims Incurred £'000	Net Operating Expenses £'000
<b>Direct Insurance</b>				
Pet	16,545	16,336	(8,895)	(9,576)
Creditor	31,317	37,402	(11,945)	(29,428)
Warranty	5,396	8,952	(3,033)	(6,018)
Household	(42)	(91)	1,326	(377)
Motor	(99)	(299)	4,892	(193)
	53,117	62,300	(17,655)	(45,593)
Reinsurance	-	-	(5)	-
	53,117	62,300	(17,659)	(45,593)
Long term protection	1,262	1,261	(144)	1,530
	54,379	63,561	(17,804)	(44,063)
	2016			
	Gross Written Premium £'000	Net Earned Premium £'000	Net Claims Incurred £'000	Net Operating Expenses £'000
<b>Direct Insurance</b>				
Pet	16,481	15,983	(10,579)	(9,166)
Creditor	45,411	46,585	(12,907)	(31,493)
Warranty	9,417	14,287	(3,620)	(10,489)
Household	519	18,981	(5,654)	(11,560)
Motor	(917)	10,012	(14,849)	(2,244)
	70,911	105,848	(47,609)	(64,952)
Reinsurance	4	4	(30)	-
	70,916	105,852	(47,639)	(64,952)
Long term protection	1,892	1,892	47	(1,882)
	72,807	107,744	(47,592)	(66,834)

The business materially relates to one geographical market (United Kingdom) and therefore no geographical analysis is presented.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

4. Net investment return

	2017	2016
	£'000	£'000
Interest income from financial investments	5,493	6,799
Net realised losses on financial investments	(2,506)	(1,786)
Net unrealised gains on financial investments	142	1,042
Net foreign exchange gains on investments	85	483
	<u>3,214</u>	<u>6,538</u>

5. Net claims costs

	2017		
	General business	Long-term business	Total
	£'000	£'000	£'000
<b>Gross amount</b>			
Claims paid	41,307	1,764	43,071
Gross movement in the provision for:			
- Claims outstanding	(34,648)	(99)	(34,747)
- Provision for liability adequacy test	-	-	-
	<u>6,659</u>	<u>1,665</u>	<u>8,324</u>
<b>Reinsurers' share</b>			
Reinsurers' recoveries	(749)	(1,530)	(2,279)
Movement in the provision	11,749	9	11,758
	<u>11,001</u>	<u>(1,521)</u>	<u>9,480</u>
	<u>17,659</u>	<u>144</u>	<u>17,804</u>
	2016		
	General business	Long-term business	Total
	£'000	£'000	£'000
<b>Gross amount</b>			
Claims paid	74,576	1,706	76,282
Gross movement in the provision for:			
- Claims outstanding	(749)	5,824	5,074
- Provision for liability adequacy test	(678)	-	(678)
	<u>73,149</u>	<u>7,530</u>	<u>80,678</u>
<b>Reinsurers' share</b>			
Reinsurers' recoveries	(1,080)	(1,417)	(2,497)
Movement in the provision	(24,429)	(6,161)	(30,590)
	<u>(25,509)</u>	<u>(7,578)</u>	<u>(33,086)</u>
	<u>47,640</u>	<u>(48)</u>	<u>47,592</u>

**PINNACLE INSURANCE PLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

**6. Net operating expenses**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Acquisition costs	13,547	22,222
Change in gross deferred acquisition costs	5,255	15,162
Administrative expenses	17,944	20,008
Reinsurance commissions and profit participation	7,318	9,442
	<u>44,063</u>	<u>66,834</u>

**7. Profit for the year is stated after charging**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
The analysis of auditor's remuneration is as follows:		
Fees payable to the Company's auditor for the Company's annual accounts	165	125
Total audit fees	<u>165</u>	<u>125</u>

Fees paid to the company's auditor, Deloitte LLP, for services other than the statutory audit of the company are disclosed in the consolidated accounts of Cardif Pinnacle Insurance Holdings plc.

**8. Employees**

The Company has had no employees during the year. A fellow subsidiary of Cardif Pinnacle Insurance Holdings plc, Cardif Pinnacle Insurance Management Services plc, provides staff management services and recharges all staff costs to the Company and wider UK group. The total management recharge includes staff costs including reorganisation cost provision which is included within the net operating expenses as follows:

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Total staff costs	10,575	11,588
Released unused	-	(408)
	<u>10,575</u>	<u>11,180</u>

Included above within staff cost is the social security costs of £1.0m (2016: £1.1m) and staff pension contribution of £0.9m (2016: £1.0 m).

**PINNACLE INSURANCE PLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

**9. Directors' remuneration**

The total Directors' remuneration in respect of services to Pinnacle Insurance plc was as follows:

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Emoluments	1,052	788
Pension contributions to a defined contribution scheme	47	46
	1,099	834

The remuneration of the highest paid Director:

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Emoluments of highest paid Director	405	399
Pension contributions of highest paid Director	32	28
	437	427

**10. Taxation**

This note analyses the tax charge/(credit) for the year and explains the factors that affect it.

Tax charged / (credited) to the income statement

	<b>General business</b>		<b>Long-term business</b>		<b>Total</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Current tax</b>						
UK corporation tax charge/(credit) for the year	-	10	-	(35)	-	(25)
Prior year adjustments	(10)	6	20	23	10	29
Total current tax charge /(credit)	(10)	16	20	(12)	10	4
<b>Deferred tax</b>						
Total deferred tax charge /(credit)	-	-	-	-	-	-
<b>Total tax charged/(credited) to income statement</b>	(10)	16	20	(12)	10	4

The Company earns its profits entirely in the UK. UK corporation tax has been charged at 19.25% (2016: 20%), the standard rate in the UK for the period.



PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

10. Taxation (continued)

Tax reconciliation	2017		
	Long-term business	General business	Total
	£'000	£'000	£'000
Total profit before tax	2,881	2,027	4,908
Tax calculated at the standard UK corporation tax rate of 19.25%	555	390	945
Effect of:			
Expenses not deductible for tax purposes	-	-	-
Movement in deferred tax not recognised:			
-Transitional adjustments *	(118)	-	(118)
- Brought forward losses utilised	(437)	(477)	(914)
-Reduction in claims equalisation reserve	-	87	87
Adjustment in respect of previous years	20	(10)	10
Total tax charged/(credited) to income statement	20	(10)	10

Tax reconciliation	2016		
	Long-term business	General business	Total
	£'000	£'000	£'000
Total profit/(loss) before tax	242	(386)	(144)
Tax calculated at the standard UK corporation tax rate of 20%	48	(77)	(29)
Effect of:			
Expenses not deductible for tax purposes	-	(3)	(3)
Movement in deferred tax not recognised:			
-Transitional adjustments *	(63)	-	(63)
- Brought forward losses utilised	(20)		(20)
-Reduction in claims equalisation reserve	-	90	90
Adjustment in respect of previous years	23	6	29
Total tax charged/(credited) to income statement	(12)	16	4

\* relating to changes to the taxation of long-term business (spread over a 10 year period with effect from 1 January 2013).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

10. Taxation (continued)

**Deferred tax asset**

The following is the deferred tax asset recognised by the Company and movements therein during the current and prior reporting period.

	General business		Long-term business		Total	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
At 1 January	-	-	-	-	-	-
Losses relieved against profits arising	77	-	-	-	77	-
Decrease in claims equalisation reserve	(77)	(104)	-	-	(77)	(104)
Losses recognised	-	104	-	-	-	104
Transitional adjustment *	-	-	-	50	-	50
Transitional adjustment re liabilities	-	-	-	(50)	-	(50)
At 31 December	-	-	-	-	-	-

\* relates to deferred acquisition costs

No deferred tax asset has been recognised as at 31 December 2017 or 31 December 2016.

There is an unrecognised deferred tax asset of £358,000 at 31 December 2017 (2016: £711,000) in respect of trading losses of general business, and £1,479,000 (2016: £1,969,000) in respect of long-term business. A deferred tax asset has not been recognised because it is uncertain whether suitable taxable profits will arise in the foreseeable future.

**Analysis of recognised deferred tax asset**

	General business		Long-term business		Total	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Claims equalisation reserve	307	384	-	-	307	384
Losses	(307)	(384)	-	-	(307)	(384)
Recognised deferred tax asset	-	-	-	-	-	-

Deferred tax has been recognised at 17% (2016: 17%).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

10. Taxation (continued)

Analysis of unrecognised deferred tax asset

	General business		Long-term business		Total	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Transitional adjustment re liabilities	-	-	521	625	521	625
Losses	358	711	958	1,344	1,316	2,055
Unrecognised deferred tax asset	358	711	1,479	1,969	1,837	2,680

Unrecognised deferred tax is calculated at 17% (2016: 17%).

11. Financial investments

	2017	2016
	£'000	£'000
<b>Financial assets at fair value through profit or loss</b>		
Debt securities /Bonds	111,867	130,440
<b>Loans and receivables</b>		
Deposits with credit institutions	107,472	117,737
<b>Total financial assets</b>	<u>219,339</u>	<u>248,177</u>

Included within financial investments is £11,534,143 (2016: £12,563,176) held on behalf of intermediaries.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

12. Fair value

The methodology adopted by the Company for the fair value measurement of financial assets and liabilities and the basis for determining fair value hierarchy are explained in note 1.7.

**Comparison of carrying value to fair value of financial instruments**

The following table comprises the carrying value and the fair value of financial instruments. Differences arise where the measurement basis of the asset is not fair value (e.g. assets/liabilities carried at amortised cost).

	2017		2016	
	Fair value	Carrying value	Fair value	Carrying value
Financial assets	£'000	£'000	£'000	£'000
<u>Financial assets at fair value through profit or loss</u>				
Financial investments				
-Corporate bonds	83,686	83,686	126,962	126,962
-Government bonds	28,181	28,181	3,478	3,478
	<u>111,867</u>	<u>111,867</u>	<u>130,440</u>	<u>130,440</u>

Fair values of the following assets and liabilities approximate their carrying value:

- Insurance and other receivables;
- Cash and cash equivalents; and
- Trade and other payables including insurance payables excluding provisions.

**Fair value hierarchy analysis**

The following table analyses the Company's assets carried out at fair value.

	2017			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<u>Financial assets at fair value through profit or loss</u>				
-Corporate bonds	83,686	-	-	83,686
-Government bonds	28,181	-	-	28,181
	<u>111,867</u>	<u>-</u>	<u>-</u>	<u>111,867</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

12. Fair value (continued)

Fair value hierarchy analysis (continued)

	2016			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
<u>Financial assets at fair value through profit or loss</u>				
-Corporate bonds	126,962	-	-	126,962
-Government bonds	3,478	-	-	3,478
	<u>130,440</u>	<u>-</u>	<u>-</u>	<u>130,440</u>

There were no transfers between Level 1, Level 2 and Level 3 during the year. There were no changes in the valuation techniques during the year.

13. Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank and in hand	16,580	8,835
Short-term deposits with credit institutions	15,630	11,343
	<u>32,210</u>	<u>20,178</u>

The short-term deposits with credit institutions represent money market funds available for withdrawal subject to one-day notice. The effective interest rate on short-term deposits with credit institutions for the year ended 31 December 2017 was 0.29% (2016: 0.44%).

Included within cash and cash equivalents is a balance of £1,046,798 (2016: £262,645) held on behalf of intermediaries.

**PINNACLE INSURANCE PLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

**14. Insurance and other receivables**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Receivables arising out of direct insurance operations		
-Due from intermediaries	9,657	17,554
Receivables arising out of reinsurance operations	282	1,065
Other receivables		
-Amounts owed by group undertakings (see note 22)	6,626	6,899
-Accrued interest	1,152	1,249
-Prepayments	102	136
-Corporation tax	15	25
	7,895	8,309
	17,834	26,928
Amounts to be settled within one year	15,084	21,314
Amounts to be settled after one year	2,750	5,614
	17,834	26,928

The insurance and other receivables are shown at net of realisable value, and are inclusive of bad debt provision of £nil (2016: £ nil).

**PINNACLE INSURANCE PLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

**15. Other payables, including insurance payables**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Insurance payables arising out of direct insurance operations		
-Due to intermediaries	40,727	41,643
Insurance payables arising out of reinsurance operations	53	195
Amounts owed to credit institutions	32	66
Amounts due to group undertakings* (see note 22)	824	2,568
Other taxation and social security	1,376	1,697
Accruals and deferred income	278	239
	<u>2,562</u>	<u>4,765</u>
	<u>43,289</u>	<u>46,408</u>
Amounts to be settled within one year	38,724	22,332
Amounts to be settled after more than one year	4,566	24,076
	<u>43,289</u>	<u>46,408</u>

\*Included above in amounts due to group undertakings includes re-organisation costs provision of £0.9m (2016: £1.1m) which is detailed below:

<u>Re-organisation costs provision</u>	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
At January	1,063	3,303
Utilisation of provision	(161)	(1,832)
Released unused	-	(408)
Provision provided during the year	-	-
At 31 December	<u>902</u>	<u>1,063</u>

The utilisation of provisions relates to staff redundancy costs incurred for employees left during the year.

**16. Share Capital and Reserves**

The total shareholder's funds are analysed as:

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Authorised		
128,836,000 Ordinary shares of £1 each	<u>128,836</u>	<u>128,836</u>
Issued, allotted, called up and fully paid		
Ordinary shares of £1 each	126,557	126,557
Share Premium	23,323	23,323
	<u>149,880</u>	<u>149,880</u>
Retained earnings	8,637	3,739
Total Shareholder's funds / equity	<u>158,517</u>	<u>153,619</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

17. Insurance liabilities

	Unearned premiums reserve £'000	Claims outstanding £'000	Long-term business provision £'000	Total £'000
<b>Gross Insurance liabilities</b>				
At 1 January 2017	22,942	115,164	37,118	175,225
Movement in provision	(9,958)	(33,633)	(1,115)	(44,706)
At 31 December 2017	12,984	81,532	36,004	130,520
<b>Reinsurance assets</b>				
At 1 January 2017	(233)	(34,289)	(34,031)	(68,553)
Movement in provision	13	10,669	1,089	11,771
At 31 December 2017	(220)	(23,620)	(32,942)	(56,782)
<b>Net Insurance liabilities</b>				
At 1 January 2017	22,709	80,876	3,087	106,672
Movement in provision	(9,945)	(22,964)	(26)	(32,935)
At 31 December 2017	12,764	57,912	3,061	73,737

The table below provides detailed analysis of claims outstanding as at the year-end as follows:

	Claims outstanding		
	General business £'000	Long-term business £'000	Total £'000
<b>Gross amount</b>			
At 1 January 2017	115,009	155	115,164
Movement in provision	(34,648)	1,016	(33,632)
At 31 December 2017	80,361	1,171	81,532
<b>Reinsurance assets</b>			
At 1 January 2017	(34,288)	(1)	(34,289)
Movement in provision	11,749	(1,080)	10,669
At 31 December 2017	(22,539)	(1,081)	(23,620)
<b>Net Insurance liabilities</b>			
At 1 January 2017	80,721	154	80,875
Movement in provision	(22,899)	(64)	(22,963)
At 31 December 2017	57,822	90	57,912

Included within the gross claims outstanding balance for general business are:

- Claims incurred but not reported of £30.1m (2016: £60.0m);
- Claims handling expenses provision £2.4m (2016: £2.6m); and
- Payment Protection Insurance (PPI) provision £5.1m (2016: £4.7m), excluding profit share provisions withheld.



## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 17. Insurance liabilities (continued)

##### Payment Protection Insurance (PPI) Provision

PPI is an insurance product which covers loan or debt repayments in certain circumstances where the consumer is unable to service the debt. Historically, the Company offered PPI for loans, credit cards and mortgages via its intermediaries.

In August 2010, the FSA (FCA since 1 April 2013) published policy statement PS10/12; the assessment and redress of payment protection insurance complaints. One of the key elements of PS10/12 is the requirement for firms to undertake detailed root cause analysis and proactively contact customers where material or systemic issues have been identified.

The Company has performed a detailed review of complaints received from policyholders to date in relation to the mis-selling of its PPI products and has estimated its liability at the year-end which is as follows:

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
At January	9,476	9,176
Movement during the year	347	164
Movement in profit share provisions held	(347)	136
At 31 December	9,476	9,476
 <u>PPI provisions as at the year-end is represented by:</u>		
Redress cost	3,653	3,262
Administrative cost	1,433	1,478
Profit Share Provisions withheld	4,390	4,736
	9,476	9,476

PPI provision relating to the administrative costs is included within claims outstanding above in note 17 "Insurance liabilities".

In addition, the Company is also withholding an amount of £4.4m (2016: £4.7m) from provisions in relation to future payments due to intermediaries under profit-sharing arrangements, for which amounts can be withheld in respect of compensation payments made to policyholders. This amount is included within creditors arising out of direct insurance in note 19 "Other payable, including insurance payables".

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 17. Insurance liabilities (continued)

##### Long-term business provision

The long-term fund value is sensitive to changes in future investment yield assumptions, impacting the value of both assets and liabilities. Sensitivity analysis indicates that the fund value is adversely impacted by £10k (2016: £7k) when investment yields are decreased by 20% of a 15 year UK Gilt yield from the base assumption.

The Company has applied following principal assumptions to arrive at the long-term business provision:

	2017	2016
<u>Rates of interest</u>		
RAM - Annuities	0.92%	1.3%
Life After Fifty	0.92%	1.3%
Annuities-general	0.92%	1.3%
Annuities-pension	0.92%	1.3%
GUAL- Annuities	0.92%	1.3%
<u>Mortality tables</u>		
RAM – Annuities	89.4% of Modified PCMA00 plus 2.1% long term mortality improvement & 91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	89.4% of Modified PCMA00 plus 2.1% p.a. mortality improvement & 91.6% of Modified PCFA00 plus 1.7% p.a. mortality improvement
Life After Fifty	100% of ELT16 Males & ELT16 Females	100% of ELT16 Males & ELT16 Females
Annuities-general	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	91.6% of PCFA00 plus 1.7% p.a. mortality improvement
Annuities-pension	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	91.6% of PCFA00 plus 1.7% p.a. mortality improvement
GUAL- Annuities	178.7% of Modified PCMA00 plus 2.1% long term mortality improvement & 137.4% of Modified PCFA00 plus 1.7% long term mortality improvement	178.7% of Modified PCMA00 plus 2.1% p.a. mortality improvement & 137.4% of Modified PCFA00 plus 1.7% p.a. mortality improvement

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

17. Insurance liabilities (continued)

Insurance Claims - Gross	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	Total £'000
<b>Accident year</b>							
<b>Estimate of ultimate claims costs</b>							
At the end of accident year	48,078	56,037	95,247	121,746	58,093	25,333	
One year later	46,465	56,190	98,366	130,303	48,633		
Two years later	45,881	54,653	100,645	115,031			
Three years later	45,344	56,063	110,321				
Four year later	45,411	55,100					
Five years later	45,317						
<b>Cumulative claims payments</b>							
At the end of accident year	(24,173)	(25,929)	(42,092)	(51,498)	(29,786)	(13,748)	
One year later	(43,182)	(49,211)	(74,395)	(85,213)	(42,695)		
Two years later	(44,937)	(51,977)	(82,649)	(92,933)			
Three years later	(45,115)	(53,039)	(87,629)				
Four years later	(45,373)	(53,285)					
Five years later	(45,237)						
Current estimate of cumulative claims	45,317	55,100	110,321	115,031	48,633	25,333	399,735
Cumulative payments to date	(45,237)	(53,285)	(87,629)	(92,933)	(42,695)	(13,748)	(335,528)
Claims liability outstanding	79	1,816	22,692	22,098	5,938	11,584	64,208
Claims liability for prior years	-	-	-	-	-	67	67
<b>Total claims liability outstanding</b>							<b>64,274</b>
Risk margins							8,185
Claims handling expenses							2,405
PPI provisions							5,087
Others							1,581
<b>Gross Insurance liabilities- General business</b>							<b>81,532</b>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

17. Insurance liabilities (continued)

Insurance Claims – Net of Reinsurance

Accident year	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	Total £'000
<b>Estimate of ultimate claims costs</b>							
At the end of accident year	48,078	56,037	93,944	119,602	52,438	25,333	
One year later	46,465	56,015	92,175	111,325	48,915		
Two years later	45,881	54,424	93,229	106,891			
Three years later	45,344	54,486	95,325				
Four years later	45,411	54,609					
Five years later	45,317						
<b>Cumulative claims payments</b>							
At the end of accident year	(24,173)	(25,929)	(42,092)	(51,498)	(29,786)	(13,748)	
One year later	(43,182)	(49,211)	(74,395)	(85,213)	(42,695)		
Two years later	(44,937)	(51,977)	(81,942)	(92,933)			
Three years later	(45,115)	(53,039)	(86,383)				
Four years later	(45,373)	(53,285)					
Five years later	(45,237)						
Current estimate of cumulative claims	45,317	54,609	95,325	106,891	48,915	25,333	376,389
Cumulative payments to date	(45,237)	(53,285)	(86,383)	(92,933)	(42,695)	(13,748)	(334,282)
Claims liability outstanding	79	1,325	8,942	13,958	6,220	11,584	42,108
Claims liability for prior years						67	67
<b>Net liability after reinsurance</b>							<b>42,175</b>
Risk margins							8,185
Claims handling expenses							2,405
PPI provisions							5,087
Others							(29)
<b>Net insurance liabilities - General business</b>							<b>57,822</b>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

18. Deferred acquisition costs

	<b>General business</b>	<b>Long- term business</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Gross amount			
At 1 January 2017	11,304	113	11,416
Movement in the provision	(5,178)	(77)	(5,255)
At 31 December 2017	<u>6,126</u>	<u>36</u>	<u>6,161</u>
Reinsurance amount			
At 1 January 2017	-	-	-
Movement in the provision	-	-	-
At 31 December 2017	<u>-</u>	<u>-</u>	<u>-</u>
Net amount			
At 1 January 2017	11,304	113	11,416
Movement in the provision	(5,178)	(77)	(5,255)
At 31 December 2017	<u>6,126</u>	<u>36</u>	<u>6,161</u>

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 19. Risk Management

The Company has exposure to the following risks arising from the financial instruments which it holds:

- Counterparty risk;
- Liquidity risk; and
- Market risk.

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has established the Risk Management Function, which is responsible for developing and monitoring the Company's risk management policies. The Risk and Audit committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits, the Company's risk appetite and controls and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Company's activities. The Company, through its training and management standards and procedures, aim to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Risk and Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risk faced by the Company. The Company's Risk and Audit Committee is assisted in its oversight role by the Group Internal Audit function. The Group Internal Audit function undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Risk and Audit Committee.

##### 19.1 Counterparty risk

Counterparty risk arises from the potential that losses are incurred from the failure of counterparties to meet their credit obligations, due to either their failure and / or their ability to pay or their unwillingness to pay amounts due.

The main sources of counterparty risk of the Company are:

- Investment counterparty – this arises from the investment of monies in the range of corporate bonds and bank deposits permitted by the investment policy;
- Insurance debtors – the counterparty risk is influenced by the individual characteristics of each customer including the MGAs. However, management also consider the factors that may influence the credit risk of its customer base, including the default risk of industry and country in which customers operate and provide bad debts provisions where appropriate to reflect their recoverable amount; and
- Reinsurance recoveries – counterparty exposure to reinsurance counterparties arises in respect of reinsurance claims against which a reinsurance bad debt provision is assessed.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

19. Risk Management (continued)

The following tables analyse the carrying value of financial and insurance assets that bear counterparty risk between those assets that have not been impaired by age in relation to due date, and those that have been impaired.

	2017				Carrying value in the balance sheet £'000
	Neither past due nor impaired £'000	Past due 1- 90 days £'000	Past due more than 90 days £'000	Assets that have been impaired £'000	
Financial investments	219,339	-	-	-	219,339
Insurance receivable and other receivables	17,834	-	-	-	17,834
Reinsurance assets	56,782	-	-	-	56,782
Cash & cash equivalents	32,210	-	-	-	32,210
	<u>326,165</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>326,165</u>

	2016				Carrying value in the balance sheet £'000
	Neither past due nor impaired £'000	Past due 1- 90 days £'000	Past due more than 90 days £'000	Assets that have been impaired £'000	
Financial investments	248,177	-	-	-	248,177
Insurance receivable and other receivables	26,800	128	-	-	26,928
Reinsurance assets	68,553	-	-	-	68,553
Cash & cash equivalents	20,178	-	-	-	20,178
	<u>363,708</u>	<u>128</u>	<u>-</u>	<u>-</u>	<u>363,836</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

19. Risk Management (continued)

The following table analyse the credit quality of financial investments at fair value through profit or loss and cash at bank that are neither past due nor impaired.

<i>Financial assets by credit rating</i>	2017				
	Corporate bonds £'000	Government bonds £'000	Deposits with financial institution £'000	Cash & cash equivalents £'000	Total £'000
AAA	4,778	7,692	-	15,631	28,101
AA	2,019	20,489	-	-	22,508
AA-	12,958	-	55,886	-	68,844
A+	6,932	-	3,009	-	9,941
A	29,522	-	48,577	15,159	93,258
A-	19,980	-	-	-	19,980
BBB+	5,462	-	-	1,003	6,465
BBB	2,035	-	-	-	2,035
BBB-	-	-	-	417	417
BB+	-	-	-	-	-
	83,686	28,181	107,472	32,210	251,549

<i>Financial assets by credit rating (%)</i>	2017				
	Corporate bonds	Government bonds	Deposits with financial institution	Cash & cash equivalents	Total
AAA	6%	27%	-	49%	11%
AA	2%	73%	-	-	9%
AA-	15%	-	52%	-	27%
A+	8%	-	3%	-	4%
A	35%	-	45%	47%	37%
A-	24%	-	-	-	8%
BBB+	7%	-	-	3%	3%
BBB	2%	-	-	-	2%
BBB-	-	-	-	1%	1%
BB+	-	-	-	-	-
	100%	100%	100%	100%	100%



PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

19. Risk Management (continued)

<i>Financial assets by credit rating</i>	2016				
	Corporate bonds	Government bonds	Deposits with financial institutions	Cash & cash equivalents	Total
	£'000	£'000	£'000	£'000	£'000
AAA	2,824	3,478	-	11,343	17,645
AA	-	-	2,010	-	2,010
AA-	27,268	-	23,940	-	51,208
A+	33,333	-	14,050	397	47,782
A	20,666	-	77,737	7,116	105,519
A-	22,871	-	-	-	22,871
BBB+	17,923	-	-	707	18,630
BBB	2,077	-	-	-	2,077
BBB-	-	-	-	-	-
BB+	-	-	-	614	614
	126,962	3,478	117,737	20,178	268,355

<i>Financial assets by credit rating (%)</i>	2016				
	Corporate bonds	Government bonds	Deposits with financial institutions	Cash & cash equivalents	Total
	AAA	2%	100%	-	56%
AA	-	-	2%	-	1%
AA-	21%	-	20%	-	19%
A+	26%	-	12%	2%	18%
A	16%	-	66%	35%	39%
A-	18%	-	-	-	9%
BBB+	14%	-	-	4%	7%
BBB	2%	-	-	-	1%
BBB-	-	-	-	-	-
BB+	-	-	-	3%	3%
	100%	100%	100%	100%	100%

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

19. Risk Management (continued)

19.2 Liquidity Risk

Liquidity risk is the risk that the Company may be unable to pay obligations when due as a result of assets not being available in the form that can immediately be converted into cash. The Company, through Investment Committee and dedicated treasury function, manage the liquidity risk through investments in predominately liquid financial assets and constant monitoring of expected assets and liabilities maturities. The Company's Treasury department is also operationally responsible to ensure that sufficient funding is always available to meet the expected liabilities.

The following tables analyse financial investments, cash and cash equivalents, insurance and financial liability by remaining duration, in proportion to the cash flows expected to arise during that period, for each category.

<i>Time to maturity</i>	2017				
	Total £'000	1 Year £'000	2-3 Years £'000	4-5 Years £'000	Over 5 Years £'000
Financial investments					
-Corporate bonds	83,686	28,710	41,330	13,647	-
-Government bonds	28,181	-	-	9,736	18,445
-Deposits with financial institutions	107,472	59,228	35,682	12,561	-
Cash & cash equivalents	32,210	32,210	-	-	-
	251,549	120,148	77,012	35,944	18,445

<i>Time to maturity</i>	2016				
	Total £'000	1 Year £'000	2-3 Years £'000	4-5 Years £'000	Over 5 Years £'000
Financial investments					
-Corporate bonds	126,962	53,811	56,101	17,050	-
-Government bonds	3,478	-	-	656	2,822
-Deposits with financial institutions	117,737	68,453	27,127	22,157	-
Cash & cash equivalents	20,178	20,178	-	-	-
	268,355	142,442	83,228	39,863	2,822

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

19. Risk Management (continued)

<b>At 31 December 2017</b>	<b>Total carrying value £'000</b>	<b>1 Year £'000</b>	<b>2-3 Year £'000</b>	<b>4-5 Year £'000</b>	<b>Over 5 year £'000</b>
Gross insurance liabilities*					
-Outstanding claims provisions	51,410	19,055	13,628	3,078	15,649
-Long-term business provision	36,004	1,538	2,914	2,688	28,865
- Provision for claims incurred but not reported	30,122	15,430	9,878	3,779	1,035
	<u>117,536</u>	<u>36,022</u>	<u>26,419</u>	<u>9,545</u>	<u>45,549</u>
Provision arising from liability adequacy test	-	-	-	-	-
	<u>117,536</u>	<u>36,022</u>	<u>26,419</u>	<u>9,545</u>	<u>45,549</u>
Other payables, including insurance payables	43,289	38,723	4,566	-	-
<b>Total</b>	<u><u>160,826</u></u>	<u><u>74,745</u></u>	<u><u>30,985</u></u>	<u><u>9,545</u></u>	<u><u>45,549</u></u>

<b>At 31 December 2016</b>	<b>Total carrying value £'000</b>	<b>1 Year £'000</b>	<b>2-3 Year £'000</b>	<b>4-5 Year £'000</b>	<b>Over 5 year £'000</b>
Gross insurance liabilities*					
-Outstanding claims provisions	55,091	23,433	17,900	8,642	5,116
-Long-term business provision	37,119	1,571	2,992	2,784	29,772
- Provision for claims incurred but not reported	60,073	19,155	15,602	15,733	9,583
	<u>152,283</u>	<u>44,158</u>	<u>36,494</u>	<u>27,159</u>	<u>44,472</u>
Provision arising from liability adequacy test	-	-	-	-	-
	<u>152,283</u>	<u>44,158</u>	<u>36,494</u>	<u>27,159</u>	<u>44,472</u>
Other payables, including insurance payables	46,408	22,332	24,076	-	-
<b>Total</b>	<u><u>198,691</u></u>	<u><u>66,532</u></u>	<u><u>60,548</u></u>	<u><u>27,147</u></u>	<u><u>44,472</u></u>

\* The gross insurance liabilities exclude unearned premium reserve, as there are no liquidity risks inherent in them.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

**19. Risk Management (continued)**

**19.3 Market risk**

Market risk is the risk that the Company is adversely affected by movements in the value of its financial assets arising from market movements such as interest rates and foreign exchange rates or other price risk.

The Company is mainly exposed to the following risk factors:

- Foreign currency risk; and
- Interest rate risk.

Foreign currency risk:

The Company's foreign currency risk arises on its foreign currency deposits held in Euro currency. The total deposits amount to £1.8m (2016: £0.8m) of the total portfolio. These deposits are sensitive to any fluctuation in the exchange rates. Therefore 5% increase / (decrease) in Euro rate will decrease / (increase) profit by £0.10m (2016: £0.07m).

Interest risk:

The Company's interest rate risk arises mainly from its bonds portfolio and bank deposits with credit institutions. The maturity duration of investment portfolio is between 1 and 10 years and therefore the Company is only exposed to the interest rate fluctuations upon their maturity or when the term of the fixed term deposits expires.

The fair value of the investments in Company's balance sheet as at 31 December 2017 was £219.3m (2016: £248.1m). The sensitivity of the carrying value of the Company's total investment portfolio to a movement of 100 basis points in interest rates was as follows. Subject to any impairment charges that may result under the scenarios, the profit for the year would increase by £2.3m (2016: £2.7m) for a 100 basis points increase in interest rates. Conversely, a 100 basis points decrease in interest rates would decrease the profit for the year by £2.4m (2016: £2.8m).

**20. Commitments**

There were no outstanding capital commitments at 31 December 2017 (2016: £nil).

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 21. Capital management

The Company maintains sufficient capital to ensure safety and stability of the Company while meeting regulatory, rating agency and other business needs.

The Company is regulated by the UK regulator, the Prudential Regulatory Authority ("PRA").

Solvency II is the framework implemented on 1 January 2016 as the capital adequacy regime. It established a set of EU-wide capital requirements and risk management standards with aim of increasing protection for policyholders.

The Company assessed its solvency capital requirement using the standard formula. Under the new regime, the un-audited capital position of the Company is:

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
<b>Capital position - unaudited</b>		
Solvency Capital Requirement	39,374	53,808
Available eligible own funds	150,865	157,123
<b>Capital surplus</b>	<b>111,491</b>	<b>103,315</b>
Capital coverage ratio	383%	292%
	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
<b>Eligible own funds - unaudited</b>		
Available capital before foreseeable dividends	155,763	158,039
Foreseeable dividends	4,898	(916)
<b>Tier 1 capital</b>	<b>150,865</b>	<b>157,123</b>

The difference between IFRS equity of £159.2m (2016: £153.6m) and Solvency II own funds of £150.9m (2016: £157.1m) represents de-recognition of deferred acquisition costs and insurance technical provisions.

The Company will formally submit its final audited Solvency II Solvency Financial Condition Report (SFCR) in May 2018 to the PRA.

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 22. Related party transactions

The table below gives details of the transactions between the Company, its parent and other related parties which comprise other fellow group undertakings on the grounds that they are members of the same parent, Cardif Pinnacle Insurance Holdings plc.

	2017	2016
	£'000	£'000
<b><u>Amounts due from group undertakings</u></b>		
Warranty Direct Limited	920	1,067
BNP London branch	5,705	5,705
GIE BNP Paribas Assurance	-	85
Financial Telemarketing Services Ltd	-	42
	6,626	6,899
<b><u>Amounts due to fellow group undertakings</u></b>		
Cardif Pinnacle Insurance Management Services plc	139	2,371
GIE BNP Paribas Assurance	20	-
Pinnacle Pet Healthcare Ltd	664	197
	824	2,568

The Company entered into the following transactions with its related parties as follows:

- Commission paid to Warranty Direct Limited of £3.0m (2016: £3.6m) for Warranty related insurance policies during the year.
- A fellow undertaking, Cardif Pinnacle Insurance Management Services plc charged £16.1m (2016: £17.8m) in respect of administrative expenses incurred on behalf of the Company including staff cost of £10.6m (2016: £11.8m) and reorganisation cost of £nil (2016: £nil).

Details of the remuneration of the Company's key management personnel are shown in note 9.

As at 31 December 2017 there were no loans outstanding to officers of the Company (2016: £nil).

The Directors regarded BNP Paribas SA (incorporated in France), as being the Company's ultimate parent undertaking and controlling party, and Cardif Pinnacle Insurance Holdings plc (incorporated in the United Kingdom) as being the immediate parent undertaking.

The parent company of the largest Group to include the Company in its consolidated financial statements is BNP Paribas SA. Copies of these financial statements are available from 16 boulevard des Italiens, 75009 Paris, France.