

PINNACLE INSURANCE PLC
Company Registration Number: 1007798

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2015

PINNACLE INSURANCE PLC

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PINNACLE INSURANCE PLC

Company Information

Directors:	G Binet (Chairman)	
	P E Glen FCA	(resigned 17 December 2015)
	BNP Paribas Cardif	(resigned 24 September 2015)
	P J Box *	
	Cardif Assurance Risques Divers	(resigned 24 September 2015)
	Cardif Assurance Vie	(resigned 7 January 2016)
	J-B M Laroche	(appointed 24 September 2015)
	N D Rochez *	
	A M Wigg FCA	
	M J Lorimer LLB (Hons) Solicitor	(appointed 1 April 2015)
	S.L.P.F Chevalet	(appointed 7 January 2016)

* 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) S K Grout BSc, FIA

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 and other insurance products, Warranty, Pet, Household and Motor.

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+ (Credit Watch negative outlook). The Group has one of the largest international banking networks, with a presence in nearly 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 loss

The Company reported a pre-tax loss of £31.1m (2014: £4.0m) resulting predominantly from an adverse performance of the Household and Motor classes of business. The Household business was impacted by the storms in December 2015 and flash flooding in July 2015, whilst the Motor business continued its poor performance.

The results also included a reorganisation provision of £3.3m (2014: Nil) in 2015 (see notes 10 and 19).

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

Shareholder's funds (total equity)

Despite reporting a loss in the current year, shareholder's funds remain strong at £153.7m (2014: £178.8m) and the Company is well capitalised with £59m (178%) surplus over its solvency capital requirement.

Gross Written Premiums (GWP)

Creditor

The Creditor market remains weak, through a combination of low consumer and low distributor demand. Gross written premiums reduced 15% to £55.1m (2014: £64.7m) reflecting the continued low level of activity across the sector.

Household

The Company wrote Household business via MGAs under three different arrangements. During the year, the Company exited from the arrangements resulting in a gross written premium decrease to £46.4m (2014: £53.1m).

Motor

Gross written premiums decreased by £17.0m to £45.9m (2014: £62.9m). The significant decline is due to the Company exiting from the Motor MGA arrangements in 2015.

PINNACLE INSURANCE PLC

STRATEGIC REPORT (Continued)

Pet

Whilst the business class is relatively small (7% of total GWP), it has delivered encouraging gross written premiums growth of 37% in 2015 to £12.6m (2014: £9.2m). This was driven largely by growth in aggregators' sales in 2015.

Warranty

Gross written premiums for Warranty business decreased to £12.7m (2014: £14.1m). The decrease reflects the decline in motor warranty business for Warranty Direct Ltd.

Long-Term business

This includes long-term protection policies and arising from the sale of investment bonds. The long-term business relating to investment bonds ran off in 2014. However, volumes of Creditor business under the Life Protection business class continue to be underwritten in the Company's long-term business fund, and gross written premiums of £3.4m (2014: £3.8m) were broadly in line with prior year.

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:

	2015 £'000	2014 £'000
Gross Written Premiums	176,155	207,990
Net Earned Premiums	199,342	203,536
Technical Result	(5,791)	15,817
Investment Income	3,756	6,739
Administration Expenses	(25,781)	(26,611)
Loss Before Tax	(31,119)	(4,055)
Technical Ratio	102%	93%
Claims	61%	47%
Commission	41%	46%

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 £31.8m (15%) largely due to exit of Motor, Household and the continued decline in Creditor business.

Net Earned Premiums (NEP): represents the portion of the policy's premium that applies to the expired portion of the policy. The NEP of £199.3m (2014: £203.5m) decreased by £4.2m substantially due to Creditor, Warranty, Household and partly offset by Motor.

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

The deterioration in technical result is largely driven by the impact of weather related property claims and general losses in the Motor insurance business. The Motor business delivered £9.6m loss (2014: loss of £3.8m) and Household £12.9m loss (2014: loss of £1.8m) offset by Creditor of £11.8m (2014: £15.6m), Warranty £2.9m (2014: £2.3m) and Pet £1.8m (2014: £1.9m).

STRATEGIC REPORT (Continued)

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 (see note 23.1). The total portfolio was valued at £314.1m at 31 December 2015 (2014: £308.0m) of which 49% was in bonds, 40% in deposits with credit institutions and 11% in cash and cash equivalents.

Total net investment return for the year is £3.7m (2014: £6.7m) which comprises interest earned on financial investments of £7.6m (2014: £7.1m), realised loss on bonds £0.9m (2014: £0.6m) and unrealised losses of £2.7m (2014: gain of £0.3m).

Administration Expenses: represents those operating expenses incurred by the Company which are not classified as either acquisition or claims handling costs. The administrative expenses decreased by £0.8m to £25.8m (2014: £26.6m) mainly due to staff reduction.

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 adverse impact of weather on Household business and poor performance of the Motor business has been the main driver of the deterioration in technical ratio to 102% (2014: 93%).

Claims Ratio: calculated as net claims incurred expressed as a percentage of NEP. The claims ratio in 2015 increased to 61% (2014: 48%) driven mainly by MGA Motor and Household results.

Commission Ratio: commission expense incurred expressed as a percentage of NEP. The reduction reflects contraction of Creditor business and growth in Pet business which carries a lower commission rate. The overall commission ratio was 41% compared to 46% in 2014.

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:

Risk	Impact on Company	Mitigation of risk
Insurance risk	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).
Operational risk	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.
Reserving risk	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.
Credit risk	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)

Risk	Impact on Company	Mitigation of risk
Liquidity risk	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.
Market risk	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.
Conduct risk	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. A project is under way to produce Conduct Risk Management Information and the Company's Conduct and Customer Committee meets quarterly to review all aspects of Conduct Risk.

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. The Company's 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 £9.2m (2014: £8.5m). See note 21 for detail.

STRATEGIC REPORT (Continued)

FUTURE DEVELOPMENTS

The Board and the ultimate Shareholder, BNP Paribas Cardif concluded on the detailed strategic review in second half of 2015 and defined the following strategic principles for 2016;

- Rationalise the operating model and core processes to deliver a significantly reduced cost base
- Develop core competencies in Pet and focus on own brand and partners distribution
- Optimise the underwriting relationship with Cardif Pinnacle Group's Motor Warranty distribution business
- Maximise value from current Creditor operation

Looking ahead the Board is focused on ensuring the operating model and cost base remains appropriate to the level of revenue. It anticipates revenue growth from 2017 substantially through current product lines; Pet, Motor and Warranty.

GOING CONCERN

The Company has considerable financial resources which include cash and cash equivalents and investment portfolio of £35.7m (2014: £37.5m) and £278.4m (2014: £270.9m) respectively 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 30 March 2016 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 2015.

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 financial statements of the year have been prepared for the first time in accordance with International Financial Reporting Standards (IFRSs). The impact of the Company's transition to the IFRSs on the results for the prior year is set out in note 4 to the financial statements.

The results of the Company for the year are set out on page 17. The loss after taxation for the year was £25.0m (2014: Loss of £3.8m). There were no dividends paid or declared in the year.

RE-ORGANISATION PROGRAMME

Given the focus on rationalisation of the operating model and core processes, the Company has established a reorganisation provision of £3.3m (See notes 10 and 19).

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 20. 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.

POST BALANCE SHEET EVENTS

There were no post balance sheet events to report at the date of approving these financial statements.

DIRECTORS AND THEIR INTERESTS

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

G Binet (Chairman)	
P E Glen FCA	resigned 17 December 2015
BNP Paribas Cardif	resigned 24 September 2015
P J Box *	
Cardif Assurance Risques Divers	resigned 24 September 2015
Cardif Assurance Vie	resigned on 7 January 2016
J-B M Laroche	appointed 24 September 2015
N D Rochez *	
A M Wigg FCA	
M J Lorimer LLB (Hons) Solicitor	appointed 1 April 2015
S.L.P.F Chevalet	appointed on 7 January 2016

* Independent Non-Executive Director

DIRECTORS' REPORT (Continued)

POLITICAL CONTRIBUTIONS

No political contributions were made during the year (2014: £nil).

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 Cardiff Pinnacle Insurance Holdings plc, Cardiff 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 2015 in respect of the long-term fund. A report has been prepared by the Head of the Actuarial Function 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 (formerly the Combined 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:

- Audit Committee * (Chairman: P J Box);
- Investment Committee (Chairman: A M Wigg);
- Remuneration Committee (Chairman: N D Rochez);
- Risk Based Capital Committee * (Chairman: A M Wigg); 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.

*From 2016, Audit Committee and Risk and Capital Committee have been combined into 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 2015 was as follows:

	Board	Audit Committee	Investment Committee	Remuneration Committee	Risk and Capital Committee	Conduct & Customer Committee
Number of meetings held during the year	8	4	4	1	18	5
G Binet	7	*	*	*	*	*
P E Glen***	7	*	4	*	13/17	2/4
J-B Laroche****	2/2	*	*	*	*	*
BNP Paribas Cardif **	6/6	1/2	*	*	*	*
Cardif Assurance Vie	7	*	*	*	*	*
P J Box	8	4	*	1	*	*
N D Rochez	8	4	*	1	*	*
M J Lorimer *****	6/6	*	*	*	10/14	*
A M Wigg	8	*	4	*	16	2
Cardif Assurance Risques Divers**	5/6	*	*	*	*	*

* indicates not a member of that Committee

** resigned 24 September 2015

*** resigned 17 December 2015

**** appointed 24 September 2015

***** appointed 1 April 2015

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.

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:

- a Corporate Governance manual including matters reserved for the Board and Terms of Reference for each of the Board's Committees;
- a clear organisational structure, with documented delegation of authority from the Board to executive management;
- a 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 2015 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 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.

Audit Committee

The 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, and Mr J-F Bourdeaux, the Global Head of Compliance and Control, BNP Paribas Cardif. The Managing Director, Group Financial Controller, 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;
- monitor compliance;
- have oversight of internal and external audit functions;
- have oversight of the systems of internal control;
- review matters relating to legal risk; and
- provide assurance on the effectiveness of the Company's risk management.

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 auditor without management present. Each year, the Committee considers the performance of the external auditor.

From 2016, the remit of the Audit Committee has been broadened to include oversight of the Company's regulatory capital requirements which are based upon current and future risk profiles.

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 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 ought to have taken as a Director in order to make himself 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

30 March 2016

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 such financial statements for each financial year. Under that law, the Directors are required to prepare the Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the International Accounting Standard ("IAS") regulation. They have also chosen to prepare the Company financial statements under IFRSs, as adopted by the EU. 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 Company's state of affairs and profit or loss for that period.

In preparing the Company financial statements, the directors are required to:

- select suitable accounting policies and they apply them consistently;
- 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 is 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
- assess 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 disclosing, with reasonable accuracy, the Company's financial position at any time, and enable them to ensure the financial statements comply with the Companies Act 2006. Additionally, they are responsible for safeguarding the Company's assets and hence taking reasonable steps to prevent and detect fraud and other irregularities. The Directors are responsible for maintaining and ensuring the integrity of the corporate and financial information included on the Company's website at <https://www.cardifpinnacle.com/content/reports-accounts.php?year>. Legislation in the UK governing preparing and disseminating financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Strategic report (on pages 3 to 8) and Directors' report (on pages 9 to 13) include a fair view of the development and performance of the business, and the Company's position as a whole, together with a description of the principal risks and uncertainties they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholder to assess the Company's performance.

This responsibility statement was approved by the Board of Directors on 30 March 2016 and is signed on its behalf by:



Director
A M Wigg

PINNACLE INSURANCE PLC

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

We have audited the financial statements of Pinnacle Insurance Plc for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the 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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

As explained in Note 2 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

PINNACLE INSURANCE PLC
INDEPENDENT AUDITOR'S REPORT
TO THE MEMBER OF PINNACLE INSURANCE PLC

Opinion on other matter prescribed by the Companies Act 2006

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 and the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Elanor Gill (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

30 March 2016

PINNACLE INSURANCE PLC
Income Statement
For the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Income			
Gross written premiums	5	176,155	207,990
Less: reinsurance premiums		(9,258)	(11,805)
Net written premiums		166,897	196,185
Change in the gross provision for unearned premiums	21	35,012	4,170
Less: change in provision for unearned premiums, reinsurers' share	21	(2,567)	3,181
Net change in provision for unearned premiums		32,445	7,351
Net earned premiums		199,342	203,536
Net investment return	6	3,756	6,739
Total income		203,098	210,275
Expenses			
Gross claims incurred	7	(130,641)	(97,044)
Less: claims recoveries from reinsurers	7	8,707	2,769
Net claims		(121,934)	(94,275)
Net operating expenses	8	(112,283)	(120,055)
Total expenses		(234,217)	(214,330)
Loss before tax		(31,119)	(4,055)
Income tax	12	6,035	178
Loss for the year		<u>(25,084)</u>	<u>(3,877)</u>
Attributable to:			
Owner of the Company		<u>(25,084)</u>	<u>(3,877)</u>

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

The notes on pages 21 to 62 form an integral part of these financial statements.

PINNACLE INSURANCE PLC

**Statement of Financial Position
As at 31 December 2015**

	Notes	2015 £'000	2014 £'000
Assets			
Intangible assets	13	-	24
Investments in associate undertaking	14	-	2
Financial investments	15	278,425	270,911
Reinsurance assets	21	39,418	34,981
Insurance and other receivables	18	41,979	54,036
Cash and cash equivalents	17	35,716	37,546
Deferred acquisition costs	22	26,577	40,317
Total Assets		422,115	437,817
Total Equity		153,767	178,851
Liabilities			
Insurance liabilities	21	209,247	204,567
Other payables, including insurance payables	19	59,101	54,399
Total liabilities		268,348	258,966
Total equity and liabilities		422,115	437,817

The financial statements were approved and authorised for issue on 30 March 2016 by the Board of Directors and are signed on its behalf by:



Director
A M Wigg

The notes on pages 21 to 62 form an integral part of these financial statements.

PINNACLE INSURANCE PLC

**Statement of Changes in Equity
For the year ended 31 December 2015**

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 January 2014 (note 4.3)	126,557	23,323	32,848	182,728
Loss for the year	-	-	(3,877)	(3,877)
Other comprehensive income	-	-	-	-
At 31 December 2014	126,557	23,323	28,971	178,851
Loss for the year	-	-	(25,084)	(25,084)
Other comprehensive income	-	-	-	-
At 31 December 2015	126,557	23,323	3,887	153,767

Non-distributable reserves in respect of the surplus on the long term business that must be maintained by the Company as at 31 December 2015 were £8,269,000 (2014: £8,220,000).

The notes on pages 21 to 62 form an integral part of these financial statements.

PINNACLE INSURANCE PLC

Statement of Cash Flows
For the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Net loss for the year before tax		(31,119)	(4,055)
Adjustments for non-cash items			
Net unrealised gains on financial assets at FVTPL		3,707	1,172
Interest income	6	(3,756)	(7,085)
Income tax	12	6,035	(293)
Provision for unearned premiums	21	2,567	(7,350)
Outstanding claims		11,683	19,898
Deferred acquisition costs	22	13,740	18,126
Other assets		(1,831)	(8,012)
Other creditors		7,150	(2,835)
Cash generated from operating activities		8,176	9,566
Proceeds from debt securities maturities		49,789	43,358
Purchase of debt securities		(39,040)	(63,903)
Deposits with credit institutions		(22,449)	(4,808)
Interest received on financial investments		4,140	6,821
Net cash flows from investing activities		(7,560)	(18,532)
Proceeds from intra-group loan settlements		(2,446)	5,000
Acquisition of share in associate undertaking		-	(24)
Net cash flows from financing activities		(2,446)	4,976
Net decrease in cash and cash equivalents		(1,830)	(3,990)
Cash and cash equivalents at 1 January	17	37,546	41,536
Cash and cash equivalents at 31 December	17	35,716	37,546

The notes on pages 21 to 62 form an integral part of these financial statements.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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.

These are the Company's first financial statements prepared in accordance with IFRSs and the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards have been applied. The date of transition to IFRS was 1 January 2014. An explanation of the impact of the transition to IFRSs on the financial performance for the year ended 31 December 2015 and the financial position of the company at 1 January 2014 and 31 December 2014 is provided in note 3 and 4.

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.

Adoption of new and revised standards

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities:

The Company has adopted the amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities for the first time in the current year. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries, but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities. As the Company is not an investment entity (assessed based on criteria set out in IFRS 10 as at 1 January 2014), the adoption of the amendments has had no impact on the disclosure or on the amounts recognised in the Company's financial statements.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets:

The Company has adopted the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The Amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated where there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurement.

The application of these amendments has had no material impact on the disclosure in the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. Accounting policies (continued)

Adoption of new and revised standard (continued)

Amendments to IAS 32 Offsetting financial assets and financial liabilities

The Company has adopted the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IAS 32 clarify the requirement relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off”, and “simultaneous realisation and settlement”.

As the Company does not have any financial assets and financial liabilities that qualify for offset, the adoption of the amendments has had no impact on the disclosure or on the amounts recognised in the Company’s financial statements.

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- | | |
|---|---|
| • IFRS 9 | <i>Financial Instruments</i> |
| • IFRS 15 | <i>Revenue from Contracts with Customers</i> |
| • IFRS 11 (amendments) | <i>Accounting for Acquisition of Interest in Joint Ventures</i> |
| • IAS 16 and IAS 38 (amendments) | <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> |
| • IAS 19 (amendments) | <i>Defined Benefit Plans: Employee Contribution</i> |
| • IAS 27 (amendments) | <i>Equity Method in Separate Financial Statements</i> |
| • IFRS 10 and IAS 28 (amendments) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> |
| • Annual Improvements to IFRSs: 2011-2012 | <i>Amendments to: IFRS 2 Share-based Payment, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement, IAS 16 Property, Plant and Equipment, IAS 24 Related Party Disclosure and IAS 38 Intangible Assets</i> |
| • Annual Improvements to IFRSs 2011-2013 | <i>Amendments to: IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement and IAS 40 Investment Property.</i> |
| • Annual Improvements to IFRSs: 2012-2014 Cycle | <i>Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting.</i> |

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company, except that IFRS 9 will impact both the measurement and disclosure of financial instruments and IFRS 15 (effective from 1 January 2017) may have an impact on the revenue recognition and related disclosures. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 and IFRS 15 until a detailed review has been completed.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. Accounting policies (continued)

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, 24ths 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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. Accounting policies (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. Accounting policies (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. Accounting policies (continued)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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. Accounting policies (continued)

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.

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 and Motor Insurance Bureau.

1.11 Intangible assets

Intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful lives. The estimated useful life and amortisation method are reviewed at each reporting period, with effect of any changes in estimate being accounted for on a prospective basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. Accounting policies (continued)

1.12 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.

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 underlie the preparation of its financial information. The Company's principal accounting policies are set out on pages 20 to 28. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

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 the 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. The use of estimates, assumptions or models that differ from those adopted by the Company would affect its reported results.

Deferred acquisition costs

The Company defers a proportion of acquisition costs incurred during the year to subsequent accounting periods. Management use estimation techniques to determine the level of costs to be deferred by category of business. The management apply earnings pattern which is based on earnings of prior years' experience of the relevant class of business to determine the amount of deferred acquisition costs in parallel with premiums.

Deferred tax

Critical accounting judgments in respect of the deferred tax are disclosed in note 1.12.

Claims and unexpired risk provisions

Claims and unexpired risk provisions are determined based upon previous claims experience and knowledge of events.

Where possible, the Company adopts multiple techniques such as Chain Ladder and Bornhuetter-Ferguson to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected.

The Company applies the following key methodologies and judgements in arriving at claims and unexpired risk provisions:

Business Class	Methodology	Key Judgement
Creditor	<ul style="list-style-type: none"> Standard reserving methods analysing historical claim development. 	Judgement with respect to determining how long claims will remain in payment including how unemployment or other trends might affect payment duration.
Household	<ul style="list-style-type: none"> Standard reserving methods analysing historical claim development. Separate calculation of large claims IBNER and IBNYR. 	Future development of attritional claims, suitability of historical large claim and surge experience for estimating more recent month's ultimate costs.
Motor	<ul style="list-style-type: none"> Standard reserving methods analysing historical claim development. Separate analysis of large claims IBNER and IBNYR. 	Interpreting changes in claims development. Significant judgement in determining claims development for claims that can take many months/years to settle.
Pet	<ul style="list-style-type: none"> Standard reserving methods analysing historical claim development. 	Interpreting changes in claims development and tail development patterns.
Warranty	<ul style="list-style-type: none"> Standard reserving methods analysing historical claim development. 	Interpreting changes in claims development and tail development patterns.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. First-time Adoption of International Financial Reporting Standards

3.1 Transitional Considerations on the First-time Adoption of IFRS

The Company has adopted International Financial Reporting Standards as endorsed by the EU (IFRS) for these financial statements for the year ended 31 December 2015. In order to show comparative balances on a consistent basis, the year ended 31 December 2014, previously reported under UK GAAP, is also shown under IFRS. The date of transition to IFRS is 1 January 2014.

The following disclosures, presented in accordance with IFRS 1: First-time Adoption of International Financial Reporting Standards, are required in the first year that a company adopts IFRS.

Generally, a company is required to determine its IFRS accounting policies and apply these retrospectively to determine its opening balance sheet under IFRS. However, IFRS 1 allows a number of exemptions to this general principle upon adoption of IFRS. The company has taken advantage of the following transitional arrangements.

Business Combinations

The Company has elected not to retrospectively apply IFRS 3, Business Combinations, to business combinations that occurred prior to 1 January 2014. At the date of transition to IFRS, no adjustment was made to amounts recognised under UK GAAP for any historical business combinations.

Estimates

Estimates under IFRS at 1 January 2014 are consistent with estimates made for the same date under UK GAAP.

Investments in Group Undertakings

The Company has elected to apply the deemed cost exemption to determine the carrying amount of investments in group undertakings at the date of transition. The carrying amount of these assets under UK GAAP as at 1 January 2014 has been included in the opening statement of financial position.

Transitional Provisions

The Company has elected to disclose only five years of data in its loss development tables, as permitted by IFRS 4 in the year of adoption of IFRS. This will be increased in each succeeding additional year, until the full ten years of information is included.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4. Analysis of the impact of significant differences between UK GAAP and IFRS accounting policies

The following tables show the impact of adopting IFRS on the statements of financial position and statement of comprehensive income previously reported under UK GAAP for the year ended 31 December 2014.

4.1 Statement of Financial Position at the date of transition to IFRS – 1 January 2014

	Notes	UK GAAP £'000	Effect of transition to IFRS (note 4.5) £'000	Opening IFRS Statement of financial position £'000
ASSETS				
Investments in group undertakings	4.5	5,002	(5,000)	2
Financial assets	4.5	248,613	3,211	251,824
Reinsurance assets		30,820	-	30,820
Other receivables , including insurance receivables	4.5	46,239	(1,044)	45,195
Cash and cash equivalents	4.5	39,174	2,362	41,536
Deferred acquisition costs		58,443	-	58,443
Total Assets		428,291	(471)	427,820
Called up share capital		126,557	-	126,557
Share Premium		23,323	-	23,323
Retained earnings	4.5	31,078	1,770	32,848
Total equity		180,958	1,770	182,728
LIABILITIES				
Insurance liabilities	4.5	190,099	(2,241)	187,858
Other payables, including insurance payables		57,234	-	57,234
Total liabilities		247,333	(2,241)	245,092
Total equity and liabilities		428,291	(471)	427,820

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4.2 Statement of financial position as at 31 December 2014 – end of last period presented under UK GAAP

	Notes	UK GAAP £'000	Effect of transition to IFRS (note 4.5) £'000	IFRS £'000
ASSETS				
Intangible assets		24		24
Investments in associate undertaking		2	-	2
Financial assets	4.5	285,523	(14,612)	270,911
Reinsurance assets		34,981	-	34,981
Other receivables , including insurance receivables	4.5	54,515	(479)	54,036
Cash and cash equivalents	4.5	22,455	15,091	37,546
Deferred acquisition costs		40,317	-	40,317
Total Assets		437,817	-	437,817
Called up share capital		126,557	-	126,557
Share Premium		23,323	-	23,323
Retained earnings	4.5	25,238	3,733	28,971
Total equity		175,118	3,733	178,851
LIABILITIES				
Insurance liabilities	4.5	208,300	(3,733)	204,567
Other payables, including insurance payables		54,399	-	54,399
Total liabilities		262,699	(3,733)	258,966
Total equity and liabilities		437,817	-	437,817

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4.3 Reconciliation of equity

	Notes	As at 1 January 2014 * £'000	As at 31 December 2014 ** £'000
Total equity under UK GAAP		180,958	175,118
De-recognition of claims equalisation reserve	4.5	2,241	3,733
Deferred tax effect of the above		(471)	747
Deferred tax effect reversed due to recognition of deferred tax asset		-	(747)
Total adjustments to equity		1,770	3,733
Total equity under IFRS		182,728	178,851

* Date of transition to IFRS

** end of last period presented under UK GAAP

4.4 Effect of IFRS adoption on the income statement for the year ended 31 December 2014

	UK GAAP £'000	Effect of transition to IFRS (note 4.5) £'000	IFRS £'000
Income			
Gross written premiums	207,990	-	207,990
Less: reinsurance premiums	(11,805)	-	(11,805)
Net written premiums	196,185	-	196,185
Change in the gross provision for unearned premiums	4,170	-	4,170
Less: change in provision for unearned premiums, reinsurers' share	3,181	-	3,181
Net change in provision for unearned premiums	7,351	-	7,351
Net earned premiums	203,536	-	203,536
Net investment return	6,739	-	6,739
Total income	210,275	-	210,275
Expenses			
Gross claims incurred	(98,536)	1,492	(97,044)
Less: claims recoveries from reinsurers	2,769	-	2,769
	(95,767)	1,492	(94,275)
Net operating expenses	(120,055)	-	(120,055)
Loss before tax	(5,547)	1,492	(4,055)
Income tax	(293)	471	178
Loss for the year	(5,840)	1,963	(3,877)

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4.5 Notes to the adjustments to the Statements of Financial Position at 1 January 2014 and 31 December 2014 on the transition to IFRS

Investment in group undertakings

There was a loan to a subsidiary undertaking for the purchase of a property which was treated as investment in undertaking under UK GAAP. The loan debtor of £5m has been treated as loans and receivables under IFRS and has been reclassified to other financial investments with no impact on equity as result.

Cash and Cash Equivalents

The transition to IFRS has required a presentational change for financial investments that had maturity dates of three months or less at the date of acquisition. Under UK GAAP, these assets were included within financial investments whereas under IFRS they are classified as cash equivalents and included in the statement of financial position as part of cash and cash equivalents. Total reclassifications were £2.4m and £15.0m at 1 January 2014 and 31 December 2014 respectively.

Claims Equalisation Reserves

Under UK GAAP, the Company maintained a claims equalisation reserve to reduce the volatility in incurred claims arising from exceptional levels of claims from certain classes of business. Although no actual liability exists at the reporting date, the provision is required by law and was included in the company's UK GAAP balance sheet. The movement in the claims equalisation reserve for the year was included as part of insurance claims cost in the UK GAAP income statement.

Under IFRS, as no actual liability exists at the reporting date, no claims equalisation reserve is recognised. As a result the claims equalisation reserve has been derecognised increasing total equity by £3.7m in cumulative as at 31 December 2014 and £1.7m in cumulative as at 1 January 2014 respectively.

	31 December 2014 £'000	1 January 2014 £'000
Decrease in insurance liabilities arising from de-recognition of claims equalisation reserve	3,733	2,241
Deferred tax liability arising on de-recognition of claims equalisation reserve	(747)	(471)
Deferred tax effect reversed due to recognition of deferred tax asset	747	-
Increase in total equity arising from de-recognition of claims equalisation reserve	3,733	1,770

The net impact of de-recognition on the income statement in 2014 is £1,963,000 after tax.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

5. 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 Managing Director for the financial performance of operating segments.

	2015 £000	2014 £000
<u>Gross written premiums</u>		
General business	172,772	204,161
Long term business	<u>3,383</u>	<u>3,829</u>
	<u>176,155</u>	<u>207,990</u>
<u>Loss before taxation:</u>		
General business	(31,239)	(6,187)
Long term business	<u>120</u>	<u>640</u>
	<u>(31,119)</u>	<u>(5,547)</u>
<u>Segmental net assets</u>		
General business (including shareholder's funds/total equity)*	145,499	170,631
Long term business	<u>8,268</u>	<u>8,220</u>
	<u>153,767</u>	<u>178,851</u>

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

*The net assets above include the impact of IFRS adjustment relating to de-recognition of claims equalisation reserve amounting to £3.7m (see note 4.5).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

5. Segmental analysis (continued)

	2015			
	Gross Written Premium £'000	Net Earned Premium £'000	Net Claims Incurred £'000	Net Operating Expenses £'000
Direct Insurance				
Pet	12,572	12,434	(9,219)	(4,239)
Creditor	55,085	57,752	(12,334)	(50,393)
Warranty	12,772	22,353	(4,151)	(17,096)
Household	46,450	47,293	(36,741)	(26,415)
Motor	45,889	56,121	(60,088)	(10,054)
	172,767	195,955	(122,533)	(108,197)
Reinsurance	4	4	(13)	-
	172,772	195,959	(122,547)	(108,197)
Long term protection	3,383	3,382	612	(4,087)
	176,155	199,342	(121,934)	(112,283)

	2014			
	Gross Written Premium £'000	Net Earned Premium £'000	Net Claims Incurred £'000	Net Operating Expenses £'000
Direct Insurance				
Pet	9,207	8,017	(5,403)	(1,601)
Creditor	64,730	69,351	(16,299)	(63,194)
Warranty	14,153	30,461	(6,275)	(22,041)
Household	53,135	53,828	(27,372)	(25,263)
Motor	62,931	38,048	(38,671)	(2,546)
	204,156	199,705	(94,021)	(114,645)
Reinsurance	5	5	(26)	-
	204,161	199,710	(94,046)	(114,645)
Long term protection	3,829	3,826	(228)	(5,410)
	207,990	203,536	(94,275)	(120,055)

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 2015

6. Net investment return

	2015	2014
	£'000	£'000
Income from group undertakings	-	8
Interest income from financial investments	7,672	7,085
Net realised losses on financial investments	(963)	(598)
Net unrealised losses on financial investments	(2,745)	343
Net foreign exchange losses on investments	(208)	(99)
	<u>3,756</u>	<u>6,739</u>

7. Net claims costs

	2015		
	General business	Long-term business	Total
	£'000	£'000	£'000
Gross amount			
Claims paid	89,191	1,758	90,949
Gross movement in the provision for:			
- Claims outstanding	40,531	(914)	39,616
- Provision for liability adequacy test	76	-	76
	<u>129,798</u>	<u>843</u>	<u>130,641</u>
Reinsurers' share			
Reinsurers' recoveries	(244)	(1,458)	(1,702)
Movement in the provision	(7,008)	3	(7,005)
	<u>(7,252)</u>	<u>(1,455)</u>	<u>(8,707)</u>
	<u>122,546</u>	<u>(612)</u>	<u>121,934</u>

	2014		
	General business	Long-term business	Total
	£'000	£'000	£'000
Gross amount			
Claims paid	72,410	3,756	76,166
Gross movement in the provision for:			
- Claims outstanding	26,144	(4,191)	21,953
- Provision for liability adequacy test	(1,075)	-	(1,075)
	<u>97,479</u>	<u>(435)</u>	<u>97,044</u>
Reinsurers share			
Reinsurers' recoveries	(301)	(1,489)	(1,790)
Movement in the provision	(1,013)	34	(979)
	<u>(1,314)</u>	<u>(1,455)</u>	<u>(2,769)</u>
	<u>96,165</u>	<u>(1,890)</u>	<u>94,275</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

8. Net operating expenses

	2015	2014
	£'000	£'000
Acquisition costs	54,973	62,342
Change in gross deferred acquisition costs	13,740	18,126
Administrative expenses	25,781	26,611
Reorganisation costs	3,303	-
Reinsurance commissions and profit participation	14,486	12,976
	<u>112,283</u>	<u>120,055</u>

9. Loss for the year is stated after charging

	2015	2014
	£'000	£'000
The analysis of auditor's remuneration is as follows:		
Fees payable to the Company's auditor for the Company's annual accounts *	124	106
Fees payable to the Company's auditor for the regulatory returns	40	38
Total audit fees	<u>164</u>	<u>144</u>

* Include audit fees relating to the audit of first-time adoption of IFRSs.

	2015	2014
	£'000	£'000
Business strategy review	-	100
Solvency II support	-	26
Total non-audit fees	<u>-</u>	<u>126</u>

10. Employees

The Company has had no employees during the year. A fellow subsidiary of Cardiff Pinnacle Insurance Holdings plc, Cardiff 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:

	2015	2014
	£'000	£'000
Total staff costs	14,072	14,836
Redundancy costs incurred	411	-
Reorganisation costs provision (note 19)	3,303	-
	<u>17,786</u>	<u>14,836</u>

Included above within staff cost is the social security costs of £1,335,287 (2014: £1,255,594) and staff pension contribution of £1,123,110 (2014: £1,096,580).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

11. Directors' remuneration

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

	2015	2014
	£000	£000
Emoluments	1,247	1,176
Pension contributions to a defined contribution scheme	40	40
Compensation for loss of office	654	-
	<u>1,941</u>	<u>1,216</u>

The remuneration of the highest paid Director:

	2015	2014
	£000	£000
Emoluments of highest paid Director	670	660
Pension contributions of highest paid Director	-	11
Compensation for loss of office	654	-
	<u>1,324</u>	<u>671</u>

12. 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

	General business		Long-term business		Total	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Current tax						
UK corporation tax charge/(credit) for the year	(6,107)	(1,357)	5	313	(6,102)	(1,044)
Prior year adjustments	-	-	67	(16)	67	(16)
Total current tax (credit)/charge	(6,107)	(1,357)	72	297	(6,035)	(1,060)
Deferred tax						
De-recognition of deferred tax asset	-	882	-	-	-	882
Total tax charged/(credited) to income statement	<u>(6,107)</u>	<u>(475)</u>	<u>72</u>	<u>297</u>	<u>(6,035)</u>	<u>(178)</u>

The Company earns its profits entirely in the UK. UK corporation tax has been charged at 20.25%, the standard rate in the UK for the period.

The tax credit on the general business arising in 2014 is lower than expected because the opening deferred tax asset of £882,000 has been de-recognised. This is because it is uncertain whether suitable profits will arise in the foreseeable future.

The tax charge on the long-term fund is also adversely impacted by the transitional adjustments relating to the new tax regime for long-term business.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

12. Taxation (continued)

Tax reconciliation	2015		
	Long-term business	General business	Total
	£'000	£'000	£'000
Total profit/(loss) before tax	120	(31,239)	(31,119)
Tax calculated at the standard UK corporation tax rate of 20.25%	24	(6,326)	(6,302)
Effect of:			
Write down of deferred tax asset	-	-	-
Expenses not deductible for tax purposes	-	12	12
Movement in deferred tax not recognised:			
- Transitional adjustments re new life tax regime	12	-	12
- Brought forward losses utilised	(31)	-	(31)
- Reduction in claims equalisation reserve	-	207	207
Adjustment in respect of previous years	67	-	67
Total tax charged/(credited) to income statement	72	(6,107)	(6,035)

Tax reconciliation	2014		
	Long-term business	General business	Total
	£'000	£'000	£'000
Total profit/(loss) before tax	640	(4,695)	(4,055)
Tax calculated at the standard UK corporation tax rate of 21.5%	137	(1,009)	(872)
Effect of:			
Write down of deferred tax asset	-	882	882
Expenses not deductible for tax purposes	-	(27)	(27)
Movement in deferred tax not recognised:			
- Transitional adjustments re new life tax regime	199	-	199
- Brought forward losses utilised	(23)	-	(23)
- Increase in claims equalisation reserve	-	(321)	(321)
Adjustment in respect of previous years	(16)	-	(16)
Total tax charged/(credited) to income statement	297	(475)	(178)

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

12. 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	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	-	882	-	-	-	882
De-recognition of deferred tax asset in respect of losses	-	(882)	-	-	-	(882)
Decrease (increase) in claims equalisation reserve	259	(276)	-	-	259	(276)
Losses (de-recognised) recognised	(259)	276	-	-	(259)	276
Transitional adjustment *	-	-	157	308	157	308
Transitional adjustment re liabilities	-	-	(157)	(308)	(157)	(308)
At 31 December	-	-	-	-	-	-

* relates to deferred acquisition costs

No deferred tax asset has been recognised as at 31 December 2015 or 31 December 2014. The deferred tax asset at 1 January 2014 related to trading losses.

There is an unrecognised deferred tax asset of £671,000 at 31 December 2015 (2014: £542,000) in respect of general business, and £2,122,000 (2014: £2,314,000) 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	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Claims equalisation reserve	(488)	(747)	-	-	(488)	(747)
Losses	488	747	-	-	488	747
Recognised deferred tax asset	-	-	-	-	-	-

Deferred tax has been recognised at 18% (2014: 20%).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

12. Taxation (continued)

Analysis of unrecognised deferred tax asset

	General business		Long-term business		Total	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Transitional adjustment re deferred acquisition costs	-	-	(53)	(234)	(53)	(234)
Transitional adjustment re liabilities	-	-	772	980	772	980
Losses	671	542	1,403	1,568	2,074	2,110
Unrecognised deferred tax asset	671	542	2,122	2,314	2,793	2,856

Unrecognised deferred tax is calculated at 18% (2014: 20%).

13. Intangible assets

	Renewal Rights £000
Cost	
At 1 January 2015	25
Additions	-
At 31 December 2015	25
Amortisation	
At 1 January 2015	(1)
Charge for the year	(1)
Impairment loss	(23)
At 31 December 2015	(25)
Net book value	
At 31 December 2015	-
At 31 December 2014	24

On 2 October 2014, the Company acquired an inforce book of Pet insurance business from another insurer for which it paid consideration of £25,000 to acquire the renewal rights to represent itself as carrying on the business of underwriting the renewals of policies which were issued prior to the acquisition of the book. As the carrying value of the renewal right exceeds its recoverable amount, the carrying amount has been written down to £nil.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

14. Investments in associate undertaking

	2015 £000	2014 £000
Associate undertaking	-	2
	<u>-</u>	<u>2</u>

On 18 June 2013, the Company subscribed to 20% of the registered capital of Cardif Services EEIG ("the Grouping"), a European Economic Interest Group registered in Portugal, for £1,617. The directors have determined that the Company has a participating interest in the Grouping and accordingly have accounted for the investment as an associate undertaking.

The Grouping was established for the provision of shared administrative services to a number of companies within the BNP Paribas group.

On 2 March 2015, the Company disposed of 16% stake in the Grouping for £1,309 (£1,600).

15. Financial investments

	2015 £'000	2014 £'000
Financial assets at fair value through profit or loss		
Debt securities /Bonds	153,725	168,181
Loans and receivables		
Deposits with credit institutions	124,700	102,730
Total financial assets	<u>278,425</u>	<u>270,911</u>

Included within financial investments is £12,568,657 (2014: £12,609,860) held on behalf of intermediaries.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

16. 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).

	2015		2014	
	Fair value £'000	Carrying value £'000	Fair value £'000	Carrying value £'000
Financial assets				
<u>Available-for sale financial assets</u>				
Investments in associates	-	-	2	2
<u>Financial assets at fair value through profit or loss</u>				
Financial investments				
-Corporate bonds	153,075	153,075	165,178	165,178
-Government bonds	650	650	3,003	3,003
<u>Loans and receivables</u>				
Deposits with credit institutions	124,700	124,700	102,730	102,730
	<u>278,425</u>	<u>278,425</u>	<u>270,913</u>	<u>270,913</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 analyse the Company's assets carried out at fair value.

	2015			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<u>Available-for sale financial assets</u>				
-Investment in associates	-	-	-	-
<u>Financial assets at FVTPL</u>				
-Corporate bonds	153,075	-	-	153,075
-Government bonds	650	-	-	650
<u>Loans receivables</u>				
-Deposits with credit institutions	124,700	-	-	124,700
	<u>278,425</u>	<u>-</u>	<u>-</u>	<u>278,425</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

16. Fair value (continued)

Fair value hierarchy analysis (continued)

	2014			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Available-for sale financial assets				
-Investment in associates	-	-	2	2
Financial assets at FVTPL				
-Corporate bonds	165,178	-	-	165,178
-Government bonds	3,003	-	-	3,003
Loans receivables				
-Deposits with credit institutions	102,730	-	-	102,730
	<u>270,911</u>	<u>-</u>	<u>2</u>	<u>270,913</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.

17. Cash and cash equivalents

	2015 £'000	2014 £'000
Cash at bank and in hand	8,580	22,455
Short-term deposits with credit institution	<u>27,136</u>	<u>15,091</u>
	<u>35,716</u>	<u>37,546</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 2015 was 0.35% (2014: 0.47%).

Included within cash and cash equivalents is a balance of £363,360 (2014: £34,569) held on behalf of intermediaries.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

18. Insurance and other receivables

	2015	2014
	£'000	£'000
Receivables arising out of direct insurance operations		
-Due from intermediaries	30,465	40,373
Receivables arising out of reinsurance operations	290	292
Other receivables		
-Amounts owed by group undertakings (see note 25)	3,155	9,951
-Accrued interest	1,541	1,446
-Prepayments	390	930
-Corporation tax	6,138	1,044
	<u>11,224</u>	<u>13,371</u>
	<u><u>41,979</u></u>	<u><u>54,036</u></u>
 Amounts to be settled within one year	 32,890	 48,772
Amounts to be settled after one year	<u>9,089</u>	<u>5,264</u>
	<u><u>41,979</u></u>	<u><u>54,036</u></u>

The insurance and other receivables are shown at net of realisable value, and are inclusive of bad debt provision of £24,000 (2014: £155,000).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

19. Other payables, including insurance payables

	2015	2014
	£'000	£'000
Insurance payables arising out of direct insurance operations		
-Due to intermediaries	51,616	48,747
Insurance payables arising out of reinsurance operations	692	1,200
Amounts owed to credit institutions	2	16
Amounts due to group undertakings* (see note 25)	4,577	964
Other taxation and social security	1,857	3,204
Accruals and deferred income	357	268
	<u>7,485</u>	<u>5,652</u>
	<u>59,101</u>	<u>54,399</u>
Amounts to be settled within one year	28,916	26,364
Amounts to be settled after more than one year	30,185	28,035
	<u>59,101</u>	<u>54,399</u>

*Included above in amounts due to group undertakings includes re-organisation costs provision of £3.3m which is detailed below:

Re-organisation costs provision	2015	2014
	£'000	£'000
At January	-	-
Provision provided during the year	3,714	-
Utilisation of provision	(411)	-
At 31 December	<u>3,303</u>	<u>-</u>

The re-organisation costs provisions relate to staff redundancy costs incurred for employees left during the year with remainder departing in 2016.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

20. Capital statement

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"). During 2015, there were two regulatory regimes under the PRA, Solvency I and Individual Capital Adequacy Standards ("ICAS"). As at 1 January 2016, these have replaced by the Solvency II regime. The Company's first submission under Solvency II basis is due on 20 May 2016.

The table below provides analysis of the available capital and regulatory capital under Solvency I as follows:

	2015 £'000	2014 £'000
Shareholder's funds held outside the long-term business fund	145,499	170,631
Shareholder's funds held in the long-term business fund	8,268	8,220
Total shareholder's funds (see note below)	153,767	178,851
Other adjustments	(2,817)	(11,671)
Total available capital resources	150,950	167,180

Other adjustments relate to inadmissible assets for PRA Insurance Return purposes.

No restrictions exist on the movement of capital between funds other than the normal requirement that the actuary must approve the release of capital out of the long-term fund.

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 £150,000 when investment yields are increased and decreased by 20% from the base assumption. This is considered to be of low materiality when viewed against the long term fund surplus of £5.5m (2014: £5.2m) and long-term liabilities of £3.2m (2014: £3.2m).

The total shareholder's funds presented above are analysed as:

	2015 £'000	2014 £'000
Authorised 128,836,000 Ordinary shares of £1 each	128,836	128,836
Issued, allotted, called up and fully paid Ordinary shares of £1 each	126,557	126,557
Share Premium	23,323	23,323
	149,880	149,880
Retained earnings	3,887	28,971
Total Shareholder's funds / equity	153,767	178,851

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

21. Insurance liabilities

	Unearned premiums reserve	Claims outstanding	Long- term business provision	Provision for liability adequacy test	Total
	£'000	£'000	£'000	£'000	£'000
Gross Insurance liabilities					
At 1 January 2015	96,373	75,427	32,165	602	204,567
Movement in provision	(35,012)	40,701	(1,085)	76	4,680
At 31 December 2015	61,361	116,128	31,080	678	209,247
Reinsurance assets					
At 1 January 2015	(4,254)	(2,852)	(27,874)	-	(34,980)
Movement in provision	2,567	(7,008)	3	-	(4,438)
At 31 December 2015	(1,687)	(9,860)	(27,871)	-	(39,418)
Net Insurance liabilities					
At 1 January 2015	92,119	72,575	4,291	602	169,587
Movement in provision	(32,445)	33,694	(1,082)	76	243
At 31 December 2015	59,674	106,269	3,209	678	169,829

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

	Claims outstanding		
	General business	Long-term business	Total
	£'000	£'000	£'000
Gross amount			
At 1 January 2015	75,228	199	75,427
Movement in provision	40,531	171	40,702
At 31 December 2015	115,759	370	116,129
Reinsurance assets			
At 1 January 2015	(2,851)	(1)	(2,852)
Movement in provision	(7,008)	-	(7,008)
At 31 December 2015	(9,859)	(1)	(9,860)
Net Insurance liabilities			
At 1 January 2015	72,377	198	72,575
Movement in provision	33,523	171	33,694
At 31 December 2015	105,900	369	106,269

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

- Claims incurred but not reported of £43,511,233 (2014: £21,499,000);
- Claims handling expenses provision £2,915,000 (2014: £4,80,748); and
- Payment Protection Insurance (PPI) provision £4,575,661 (2014: £3,551,810).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

21. 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:

	2015 £'000	2014 £'000
At January	8,541	8,844
Movement during the year	1,024	(1,281)
Movement in profit share provisions held	(389)	978
At 31 December	<u>9,176</u>	<u>8,541</u>
<u>PPI provisions as at the year end is represented by:</u>		
Redress cost	3,068	2,718
Administrative cost	1,508	834
Profit Share Provisions withheld	<u>4,600</u>	<u>4,989</u>
	<u>9,176</u>	<u>8,541</u>

PPI provision relating to the administrative costs is included within claims outstanding above in note 21 "Insurance liabilities".

In addition, the Company is also withholding an amount of £4,600,338 (2014: £4,989,461) from provisions established 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 2015

21. Insurance liabilities (continued)

Long-term business provision

Long-term fund liability values are sensitive to mortality rate assumptions. The net of reinsurance impact due to differences between expected and observed mortality on total liabilities is unlikely to be material relative to the large long-term fund surplus (see note 20).

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

	2015	2014
<u>Rates of interest</u>		
Annuities :		
RAM - Annuities	2.0%	2.20%
Life After Fifty	2.0%	2.20%
Annuities-general	2.0%	2.20%
Annuities-pension	1.35%	1.30%
GUAL	1.35%	1.30%
<u>Mortality tables</u>		
RAM - Annuities	60% of IM(F)80C20	60% of IM(F)80C20
Life After Fifty	ELT14	ELT14
Annuities-general	70% PMA92&PFA92	70% PMA92&PFA92
Annuities-pension	70% PM(F)A92	70% PM(F)A92
GUAL	85% PM(F)A92	85% PM(F)A92

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

21. Insurance liabilities (continued)

Insurance Claims - Gross		2010	2011	2012	2013	2014	2015	Total
Accident year		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimate claims costs								
At the end of accident year		49,040	46,209	47,783	55,887	95,179	121,656	
One year later		41,769	42,405	46,202	56,052	98,281		
Two years later		41,543	42,861	45,616	54,535			
Three years later		40,977	42,977	45,085				
Four year later		41,324	43,049					
Five years later		41,472						
Cumulative claims payments								
At the end of accident year		(27,060)	(24,320)	(23,997)	(25,846)	(42,046)	(51,436)	
One year later		(40,381)	(40,645)	(42,950)	(49,102)	(74,312)		
Two years later		(41,388)	(42,431)	(44,682)	(51,859)			
Three years later		(40,943)	(42,913)	(44,855)				
Four year later		(41,297)	(43,024)					
Five years later		(41,423)						
Current estimate of cumulative claims		41,472	43,049	45,085	54,535	98,281	121,656	404,079
Cumulative payments to date		(41,423)	(43,024)	(44,855)	(51,859)	(74,312)	(51,436)	(306,909)
Claims liability outstanding		49	25	229	2,676	23,969	70,221	97,169
Claims liability for prior years		-	-	-	-	-	135	135
Total claims liability outstanding								97,304
Risk margins								9,761
Claims handling expenses								2,915
PPI provisions								4,576
Others								1,204
Gross Insurance liabilities- General business								115,759

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

21. Insurance liabilities (continued)

Insurance Claims – Net of Reinsurance

Accident year	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	Total £'000
Estimate of ultimate claims costs							
At the end of accident year	49,040	46,209	47,783	55,887	93,926	119,512	
One year later	41,769	42,405	46,202	55,878	92,090		
Two years later	41,543	42,861	45,616	54,306			
Three years later	40,977	42,977	45,085				
Four years later	41,324	43,049					
Five years later	41,472						
Cumulative claims payments							
At the end of accident year	(27,060)	(24,320)	(23,997)	(25,846)	(42,046)	(51,436)	
One year later	(40,381)	(40,645)	(42,950)	(49,102)	(74,312)		
Two years later	(41,388)	(42,431)	(44,682)	(51,859)			
Three years later	(40,943)	(42,913)	(44,855)				
Four years later	(41,297)	(43,024)					
Five years later	(41,423)						
Current estimate of cumulative claims	41,472	43,049	45,085	54,306	92,090	119,512	395,514
Cumulative payments to date	(41,423)	(43,024)	(44,855)	(51,859)	(74,312)	(51,436)	(306,909)
Claims liability outstanding	49	25	229	2,447	17,779	68,077	88,605
Claims liability for prior years						135	135
Net liability after reinsurance							88,740
Risk margins							9,761
Claims handling expenses							2,915
PPI provisions							4,576
Others							(92)
Net insurance liabilities- General business							105,900

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

22. Deferred acquisition costs

	General business	Long- term business	Total
	£000	£000	£000
Gross amount			
At 1 January 2015	38,906	1,411	40,317
Movement in the provision	(12,843)	(897)	(13,740)
At 31 December 2015	<u>26,063</u>	<u>514</u>	<u>26,577</u>
Reinsurance amount			
At 1 January 2015	-	-	-
Movement in the provision	-	-	-
At 31 December 2015	<u>-</u>	<u>-</u>	<u>-</u>
Net amount			
At 1 January 2015	38,906	1,411	40,317
Movement in the provision	(12,843)	(897)	(13,740)
At 31 December 2015	<u>26,063</u>	<u>514</u>	<u>26,577</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

23. 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 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 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 Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

23.1 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.
- 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 2015

23. 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.

	2015				
	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	Carrying value in the balance sheet £'000
Financial investments	278,425	-	-	-	278,425
Insurance receivable and other receivables	41,909	70	-	-	41,979
Reinsurance assets	39,416	-	-	-	39,416
Cash & cash equivalents	35,716	-	-	-	35,716
	395,466	70	-	-	395,536

	2014				
	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	Carrying value in the balance sheet £'000
Financial investments	270,911	-	-	-	270,911
Insurance receivables and others assets	54,036	-	-	-	54,036
Reinsurance assets	34,981	-	-	-	34,981
Cash & cash equivalents	37,546	-	-	-	37,546
	397,474	-	-	-	397,474

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

23. 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>	2015				Total £'000
	Corporate bonds £'000	Government bonds £'000	Deposits with financial institutions £'000	Cash & cash equivalents £'000	
AAA	1,835	650	-	19,137	21,622
AA+	-	-	-	-	-
AA	4,584	-	2,010	-	6,594
AA-	29,422	-	21,131	-	50,553
A+	44,825	-	16,554	6,305	67,684
A	35,238	-	85,005	9,396	129,639
A-	18,546	-	-	-	18,546
BBB+	16,488	-	-	632	17,120
BBB	2,136	-	-	-	2,136
BB	-	-	-	246	246
	153,075	650	124,700	35,716	314,140

<i>Financial assets by credit rating (%)</i>	2015				Total
	Corporate bonds	Government bonds	Deposits with financial institutions	Cash & cash equivalents	
AAA	1%	100%	-	54%	7%
AA+	-	-	-	-	-
AA	3%	-	2%	-	2%
AA-	19%	-	17%	-	16%
A+	29%	-	13%	18%	22%
A	24%	-	68%	25%	41%
A-	12%	-	-	-	6%
BBB+	11%	-	-	2%	5%
BBB	1%	-	-	-	1%
BB	-	-	-	1%	-
	100%	100%	100%	100%	100%

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

23. Risk Management (continued)

<i>Financial assets by credit rating</i>	2014				Total £'000
	Corporate bonds £'000	Government bonds £'000	Deposits with financial institutions £'000	Cash & cash equivalents £'000	
	17,278	-	-	15,091	32,369
AA+	11,396	3,003	-	-	14,399
AA	-	-	2,010	-	2,010
AA-	22,332	-	25,035	4,524	51,891
A+	27,875	-	-	66	27,942
A	65,042	-	70,685	16,913	152,640
A-	17,063	-	5,000	754	22,817
BBB+	1,974	-	-	-	1,974
BBB	2,218	-	-	-	2,218
BB	-	-	-	198	198
	165,178	3,003	102,730	37,546	308,458

<i>Financial assets by credit rating (%)</i>	2014				Total
	Corporate bonds	Government bonds	Deposits with financial institutions	Cash & cash equivalents	
AAA	10%	-	-	40%	11%
AA+	7%	100%	-	-	5%
AA	-	-	2%	-	1%
AA-	15%	-	24%	12%	16%
A+	17%	-	-	-	9%
A	39%	-	69%	45%	49%
A-	10%	-	5%	2%	7%
BBB+	1%	-	-	-	1%
BBB	1%	-	-	-	1%
BB	-	-	-	1%	-
	100%	100%	100%	100%	100%

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

23. Risk Management (continued)

23.2 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.

2015

<u>Time to maturity</u>	Total	1	2-3	4-5	Over 5
	£'000	Year	Years	Years	Years
		£'000	£'000	£'000	£'000
Financial investments					
-Corporate bonds	153,075	36,711	82,292	34,072	-
-Government bonds	650	-	-	-	650
-Deposits with financial institutions	124,700	52,054	42,947	29,699	-
Cash & cash equivalents	35,716	35,716	-	-	-
	314,140	124,481	125,240	63,770	650

2014

<u>Time to maturity</u>	Total	1	2-3	4-5	Over 5
	£'000	Year	Years	Years	Years
		£'000	£'000	£'000	£'000
Financial investments					
-Corporate bonds	165,179	47,305	84,713	32,488	673
-Government bonds	3,003	3,003	-	-	-
-Deposits with financial institutions	102,730	54,930	33,300	14,500	-
Cash & cash equivalents	37,546	37,546	-	-	-
	308,458	142,784	118,013	46,988	673

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

23. Risk Management (continued)

At 31 December 2015	Total carrying value £'000	1 Year £'000	2-3 Year £'000	4-5 Year £'000	Over 5 year £'000
Gross insurance liabilities*					
-Outstanding claims provisions	72,617	37,380	22,924	3,909	8,405
-Long-term business provision	31,080	2,618	4,529	4,465	19,468
- Provision for claims incurred but not reported	43,511	28,861	12,794	1,835	21
	147,208	68,860	40,247	10,208	27,893
Provision arising from liability adequacy test	678	379	202	26	70
	147,886	69,239	40,449	10,234	27,964
Other payables, including insurance payables	59,101	28,916	30,185	-	-
Total	206,987	98,155	70,634	10,234	27,964

At 31 December 2014	Total carrying value £'000	1 Year £'000	2-3 Year £'000	4-5 Year £'000	Over 5 year £'000
Gross insurance liabilities*					
-Outstanding claims provisions	53,928	33,792	14,600	3,254	2,282
-Long-term business provision	32,165	2,710	4,687	4,620	20,148
- Provision for claims incurred but not reported	21,499	14,994	5,696	782	27
	107,592	51,496	24,983	8,657	22,456
Provision arising from liability adequacy test	602	506	96	-	-
	108,194	52,001	25,079	8,657	22,456
Other payables, including insurance payables	54,399	26,364	28,035	-	-
Total	162,593	78,365	53,114	8,657	22,456

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

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

23. Risk Management (continued)

23.3 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 £2.9m (2014: £nil) of the total portfolio. These deposits are sensitive to any fluctuation in the exchange rates. Therefore 5% increase in Euro rate will improve the equity by £0.1m and conversely any 5% decrease in exchange rate will result in decrease by £0.1m in the equity.

Interest risk:

The Company's interest rate risk arises mainly from its bonds portfolio and bank deposits with credit institutions. The average maturity duration of investment portfolio is between 1 and 7 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.

As at 31 December 2015, 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 loss for the year would reduce by £2.1m for a 100 basis points increase in interest rates. Conversely, a 100 basis points decrease in interest rates would increase the loss for the year by £0.9m.

24. Commitments

There were no outstanding capital commitments at 31 December 2015 (2014: £nil).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

25. 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.

	2015 £'000	2014 £'000
<u>Amounts due from group undertakings</u>		
Warranty Direct Limited	2,539	2,637
Cardif Pinnacle Insurance Management Services plc	-	7,314
BNP London branch	508	-
GIE BNP Paribas Assurance	55	-
Direct Life & Pension Services Ltd	52	-
	<u>3,155</u>	<u>9,951</u>
<u>Amounts due to fellow group undertakings</u>		
Cardif Pinnacle Insurance Management Services plc	4,355	-
GIE BNP Paribas Assurance	-	108
Financial Telemarketing Services Ltd	48	6
Pinnacle Pet Healthcare Ltd	174	237
BNP Paribas PSC Ltd	-	593
St George's Insurance Services Ltd	-	17
	<u>4,577</u>	<u>961</u>

In addition to the above, the Company entered into following transactions with its related parties as follows:

- Commission paid to Warranty Direct Limited of £4.3m (2014: £5.1m) for Warranty related insurance policies during the year.
- Amounts paid to Cardif Services EEIG of £56k (2014: £283k) in relation to shared administrative services.
- A fellow undertaking, Cardif Pinnacle Insurance Management Services plc charged £26m (2014: £23.3m) in respect of administrative expenses incurred on behalf of the Company including staff cost of £14.5m (2014: £14.8m) and reorganisation cost of £3.3m.

Details of the remuneration of the Company's key personnel are shown in note 11.

As at 31 December 2015 there were no loans outstanding to officers of the Company (2014: £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.