

PINNACLE INSURANCE PLC
Company Registration Number: 1007798

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2019

PINNACLE INSURANCE PLC

CONTENTS

	Pages
Company Information	2
Strategic Report	3
Directors' Report	14
Independent Auditor's Report	22
Income Statement	33
Statement of Financial Position	34
Statement of Changes in Equity	35
Statement of Cash Flows	36
Notes to the Financial Statements	37

PINNACLE INSURANCE PLC

Company Information

Directors: G Binet (Chairman)
P J Box * (resigned 26 November 2019)
M Haderer
N D Rochez *
R A Hines (appointed 28 November 2019) *
A M Wigg
M J Lorimer
S.L.P.F Chevalet

* Independent Non-Executive Director

Company Secretary: M J Lorimer

Registered Office: Pinnacle House
A1 Barnet Way
Borehamwood
Hertfordshire
WD6 2XX

Actuarial Function Holder:
(Long-term fund) M Haderer

Independent Auditor: Deloitte LLP
1 New Street Square
London
United Kingdom
EC4A 3HQ

Principal Bankers: Barclays Bank PLC
54 Lombard Street
London
EC3P 3AH

PINNACLE INSURANCE PLC

STRATEGIC REPORT

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

The Company is a subsidiary of Cardif Pinnacle Insurance Holdings plc (the "UK Parent"), a member of the BNP Paribas Cardif group, a worldwide provider of insurance and savings products. The Company is part of the global banking group BNP Paribas SA ("the Group"), a European leader in banking and financial services, with a Standard and Poor's long-term rating of A (Positive outlook). The Group has one of the largest international banking networks, with a presence in 72 countries and employs more than 202,000 employees.

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

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

BUSINESS REVIEW

Pre-tax profit

The Company reported a pre-tax profit of £0.4m (2018: profit of £2.1m) resulting from the Company's improved performance in Pet.

During the year, the Company made strategic investments in its IT infrastructure to enhance new functionalities to develop its Pet business in partnership with a key market player. In the process, the Company has also written off £0.9m of cost associated with IT projects that no longer align with the Company's strategy.

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

Gross Written Premiums (GWP)

Creditor

The Creditor market remains weak, through a combination of low consumer and low distributor demand.

Gross written premiums reduced 22% to £19.0m (2018: £25.0m) reflecting:

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

Currently, the sales of Creditor products have ceased and all intermediary business is in run-off.

Household and Motor

The Company ceased writing business in these lines in 2015.

Business will continue to run off in 2020 and subsequent years for long tail personal injury claims arising on the Motor book.

PINNACLE INSURANCE PLC

STRATEGIC REPORT (continued)

Pet

The Company offers lifetime, per condition and time limited products. Policies are sold under the Company's own brand, Helpucover and Every paw, direct to consumer and also through aggregators. The business also operates through partnerships with consumer brands and a number of smaller niche intermediaries.

Gross written premium for Pet business increased by 20% to £20.5m (2018: £17.0m) mainly due to growth in Every paw brand and through a new partnership arrangements with a major partner.

Warranty and Gap

The Company distributes motor extended Warranty and Gap insurance through a fellow group undertaking, BNP Paribas Cardif Limited under the brand name of Warranty Direct.

Gross written premiums for the motor warranty business increased by 3% to £3.5m (2018: £3.4m) slower growth than expected reflecting competitive market conditions.

Long-Term business

Long-term business includes business underwritten for mortgage loan protection, leasing creditor and standard of living guarantee income products. This business is in run-off and gross written premiums decreased to £0.6m in 2019 (2018: £0.7m).

KEY PERFORMANCE INDICATORS

Key Performance Indicators (KPI's) are measures by 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:

	2019 £'000	2018 £'000
Gross Written Premiums	43,928	46,136
Net Earned Premiums	41,721	49,885
Technical Result	15,944	18,710
Investment return	4,432	2,112
Administration Expenses	(19,986)	(18,757)
Profit Before Tax	390	2,067
Technical Ratio	62%	62%
Claims Ratio	33%	24%
Commission Ratio	29%	39%

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 £2.2m (5%) largely due to continued run off in Creditor business lines, partly offset by an increase in Pet 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 £41.7m decreased by £8.2m due to declining earned premium on Creditor (£8.4m) and Motor Warranty (£1.4m) partly offset by an increase of Pet business of £1.9m.

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

PINNACLE INSURANCE PLC

STRATEGIC REPORT (continued)

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

The investment portfolio comprises bonds, cash and term deposits of high credit quality. The total portfolio was valued at £195.9m at 31 December 2019 (2018: £226.2m) of which 34% (2018: 45%) was held in bonds, 57% (2018: 51%) in term-deposits with credit institutions and 9% (2018: 4%) in cash and cash equivalents.

Total net investment return for the year is £4.4m (2018: £2.1m) which comprises interest earned on financial investments of £4.1m (2018: £4.8m), realised losses on bonds of £2.7m (2018: £2.0m) and unrealised gain of £3.0m (2018: loss £0.8m).

Administration Expenses: Administration expenses represent those operating expenses incurred by the Company, which are not classified as either acquisition or claims handling costs. Administration expenses increased by £1.2m to £19.9m (2018: £18.8m) mainly driven by cost increases from the development of a proposition for a new insurance partner to expand the Pet business in addition to an increase in information technology costs.

Technical Ratio: Reflects the profitability of the general business before direct and indirect costs and is calculated as the sum of commission and net incurred claims expressed relative to NEP. The technical ratio remained in line with the prior year of 62%.

Claims Ratio: Calculated as net claims incurred expressed as a percentage of NEP. The claims ratio in 2019 increased to 33% (2018: 24%) due to a change in business mix resulting from cessation of Creditor business and an increase in Pet business.

Commission Ratio: Commission expense incurred expressed as a percentage of NEP. The Commission ratio in 2019 decreased to 29% (2018: 39%) mainly due to the running off of Creditor business offset by an increase in Pet business.

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.	The Company has a Board approved underwriting policy and agreed risk appetites, and monitors these on a regular basis. 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.
Credit Counterparty 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 the risk of default arising from any of these exposures..	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. The Company's Conduct and Customer Committee meets quarterly to review all aspects of Conduct Risk.

OTHER UNCERTAINTIES

Payment Protection Insurance (PPI) Complaints: In August 2010, the former UK financial services regulator, the Financial Services Authority, published Policy Statement (PS10/12) in relation to the assessment and redress arising from PPI complaints. Management closely monitor the exposure to the PPI complaints and have taken appropriate action to mitigate the impact on the Company resulting in a provision of £7.1m (2018: £8.4m). See note 17 for further detail.

Brexit uncertainty: The UK has officially left the European Union after 47 years of membership and more than three years after it voted to do so in a referendum. There will be a transitional period, due to run to 31 December 2020, during which the UK will no longer be a member of the EU but still be subject to EU rules and remain a member of the Customs Union. During the transition period, the UK and EU will negotiate the rules to be applied to future trading and other relationships. The UK can request, which the EU will grant, an extension to the transition period for up to another two years if it appears that the negotiations are taking longer than expected. Ultimately, a no-trade deal Brexit remains a possible outcome.

The company only insures UK risks, as a result, the risks and uncertainties associated with the UK exiting from EU have been considered by the Directors and, while they continue to monitor the post-Brexit negotiations, they do not currently believe there will be a material adverse impact on the Company's results or financial position in the current or following financial year.

PINNACLE INSURANCE PLC

STRATEGIC REPORT (continued)

Coronavirus and recession uncertainty:

A coronavirus is a type of virus. As a group, coronaviruses are common across the world. Covid-19 is a new strain of coronavirus first identified in Wuhan City, China in late 2019.

The infection is spreading fast and the World Health Organisation declared the coronavirus crisis a pandemic on 11 March 2020. The Company is continuing to monitor the evolving Covid-19 situation and keeping track of the advice from the Government and Public Health England.

The Directors are also closely monitoring the likely economic impact in the light of recent UK Budget delivered on 11 March 2020 where the UK Government announced a £30bn package of emergency measures to mitigate the short term economic impact of Covid-19. In addition the Directors are also assessing the potential impact on customer service and ongoing operations and ensuring appropriate plans are in place to mitigate any impact.

Climate change

Financial risks from climate change can arise through Physical risks (e.g. specific weather events and longer term shifts in climate), Transition risks (arising from the process of adjustment towards a low-carbon economy) and Liability risks (from parties who have suffered loss or damage from physical or transition risk factors).

In response to the PRA Policy Statement on the management of financial risks from climate change, the Company has implemented a plan, expected to be completed by the end of 2020, to develop a strategic framework to governance:

- that embeds the consideration of financial risks from climate change in the Company's governance arrangements;
- Risk Management that incorporates the financial risks from climate change into existing financial risk management practice;
- the use of scenario analysis to inform strategy setting and risk assessment and identification and developing an approach to disclosure on financial risks from climate change.

This framework will be aligned with the PRA's expectation.

FUTURE DEVELOPMENTS

In 2020, the core agenda defined by the Board and management is:

- Growth of Motor Warranty and Gap business under the brand name of Warranty Direct and the launch of major partnerships.
- Continuation of the re-engineering of the Pet business, with technology as the enabler to expand the distribution channels to include non-competing affinities

The Board is focused on ensuring the operating model and cost base is operating for both the revenue levels and customer.

GOING CONCERN

During the year, the Company made a profit after tax of £1.1m (2018 profit: £1.9m). The Company also has considerable financial resources, which include cash and cash equivalents of £17.2m (2018: £9.0m) and an investment portfolio of £178.7m (2018: £217.2m) 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.

PINNACLE INSURANCE PLC

STRATEGIC REPORT (continued)

Taking into account the company's current position and its principal risks on pages 6 to 7, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over at least the next 12 months. The Company has established itself as a provider of personal lines insurance and continues to underwrite Warranty and Pet insurance products. Typically it is remunerated through sales of policies direct to the consumer, through aggregators and through partnerships. As the result of Covid-19, insurance markets might reasonably be expected to be volatile. The company must also hold sufficient regulatory capital to meet its regulatory requirements. In assessing the prospects of the company, the directors note that such an assessment is subject to a degree of uncertainty that can be expected to increase looking out over time and, accordingly, that future outcomes cannot be guaranteed or predicted with certainty. The directors' assessment has taken into account the resources of the Company, which is part of the global banking group BNP Paribas SA. Furthermore its parent company CPIH has a loan facility with BNP Paribas SA, enabling the provision of further liquidity or regulatory capital to the Company.

Management have performed a liquidity stress test for the 20 month period ending December 2021 in light of the Covid-19 pandemic including delayed launches of new partnerships and products, reduction in premiums and increase in cancellation rates, which indicates headroom before any mitigating actions need to be considered. Management have identified possible mitigating actions which could be considered including reducing costs, deferring product launches and seeking additional support from the Shareholder. Taking account of these potential mitigating actions, this analysis demonstrates that the Company could continue as a going concern for at least the next year given its financial and liquidity strength.

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.

PINNACLE INSURANCE PLC

STRATEGIC REPORT (continued)

Section 172 Statement

The following disclosures describe how the directors have had regard to the matters set out in section 172(1)(a) to (f) and forms the directors' statement required under section 414CZA of the Companies Act 2006.

The table sets out who the material stakeholders are and the reasons why engagement with them is important, how management and directors have engaged and the key outcomes and actions.

Stakeholder Group	Why it is important to engage	How the directors engaged	Key topics of engagement	The impact of the engagement including any actions taken
Shareholder	Continued access to sufficient levels of funding and maintenance of the minimum level of regulatory capital are of vital importance to the success of our business	Regular financial updates are provided as well as key reports into each area at head office	Review of the strategic objectives of the business and growth objectives Review of results and balance sheet for decision on payment of dividend	Appointment of Marie Haderer as deputy CEO Payment of dividend of £5.8m during the year
Regulator The company is authorised by the Financial Conduct Authority to provide regulated products and services.	The fair treatment of customers is central to the UK group ethos and the Board has no risk appetite for any regulatory breach or sanction.	The Legal and Compliance functions conduct a regulatory watch service to identify, assess and communicate regulatory developments to the business. Regular reporting to FCA on financial performance, training & competence and fees.	Review of PRA policy statement (PS11/19) - Enhancing banks' and insurers' approaches to managing the financial risks from climate change Report on the FCA Interim Report on their Market Study on General Insurance Pricing issued Oct 2019 and the ABI formal response to this interim report published Nov 2019.	Appointment of individual under Senior Management Function (SMF) who will be responsible for ensuring there is a plan in place to address and implement the requirements of the Policy Statement Agreement to review the pricing strategy and customer sales journey.

PINNACLE INSURANCE PLC

STRATEGIC REPORT (continued)

Section 172 Statement (continued)

Stakeholder Group	Why it is important to engage	How the directors engaged	Key topics of engagement	The impact of the engagement including any actions taken
<p>Customers The company sells directly to customers directly through our own website via aggregators and also by telephone</p>	<p>Customer engagement is important to ensure the company provides services and products that continue to meet their needs</p>	<p>Information available via the website Customer communications via email and letter and also to our customer contact centre</p>	<p>Review of feedback of customers of Lamp, the now liquidated insurance provider of Gap insurance through our sister company BNP Paribas Cardiff Limited</p>	<p>Offered an alternative Gap product for the affected customers</p>
<p>Partners The company also provides insurance via a number of partnerships [not fully completed, included for principal decision</p>	<p>For the development of commercial relationships and value creation. Also to support the Group in international group initiatives</p>	<p>Reports submitted to the Board.</p>	<p>Review of and implementation of new partnership. Extraordinary board meeting held by telephone on 24 September to review and debate contract prior to signature.</p>	<p>Commenced a new partnership as the provider of Pet Insurance for Sainsbury's Bank and Argos Financial Services Ongoing involvement of the Board in commercial discussions with a new partner for the distribution of Gap cover.</p>

STRATEGIC REPORT (continued)

Section 172 Statement (continued)

Stakeholder Group	Why it is important to engage	How the directors engaged	Key topics of engagement	The impact of the engagement including any actions taken
<p>Our communities and the environment</p>	<p>We have a responsibility to help address the challenges facing our society, which is why our CSR strategy aims to support the United Nations' 17 Sustainable Development Goals (SDG's).</p> <p>Our focus is on our people, our community and the environment.</p> <p>With that in mind, the company has chosen three SDG's in particular, which we see as core to our CSR agenda:</p> <ul style="list-style-type: none"> • Good health and well-being • Quality education • Climate action 	<p>The company has established a CSR Action Group with representatives from a broad cross section of the company for the support, development and implementation of key CSR initiatives.</p>	<p>Engagement with staff of our service company to support charitable initiatives within the local community</p> <p>Review of charitable affiliations</p> <p>Development of environmental policies</p>	<p>The company:</p> <ul style="list-style-type: none"> • Provides 2 days for the purposes of volunteering for staff employed through our service company. Our target is to provide 1 million hours across the BNP Paribas group for volunteering in 2020. • Supports specific initiatives including working with selected local charities in order to raise awareness and help those in need in the local community • Is targeting a reduction in the use of single use plastic and in general waste being sent to landfill • Commenced research into the development of products and services designed to reduce carbon emissions

PINNACLE INSURANCE PLC

STRATEGIC REPORT (continued)

APPROVAL

This report was approved by the Board of directors on 28 May 2020 and signed on its behalf by:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the left.

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 2019.

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 13. This includes a review of the development of the business of the Company during the year and of likely future developments in its business. Details of the principal risks and uncertainties are included in the Strategic Report.

RESULTS AND DIVIDEND

The results of the Company for the year are set out on page 33. The profit after taxation for the year was £1.1m (2018: profit: £1.9m).

The Company paid dividends of £5.8m (2018: £nil) on ordinary shares during the year to its UK parent, Cardiff Pinnacle Insurance Holdings plc. There were no dividends proposed after the year end.

PRIOR YEAR ADJUSTMENT

In the prior years, the Company had not correctly applied its accounting policy in respect of the deferred acquisition costs for a particular book of business. Previously acquisition costs were deferred over a period longer than the contract boundary. Therefore, the Directors have re-stated the 2018 comparative balances. The effect of this adjustment is detailed in note 2 of the financial statements.

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 17. The Company has one class of ordinary shares which carry full voting, dividends and capital distribution (including on winding up) rights. They do not confer any rights of redemption.

DIRECTORS

The Directors who held office throughout the year and up to the date of signing were:

G Binet (Chairman)
P J Box * (resigned 26 November 2019)
R A Hines * (appointed 28 November 2019)
M Haderer
N D Rochez *
A M Wigg
M J Lorimer
S.L.P.F Chevalet

* Independent Non-Executive Director

POLITICAL CONTRIBUTIONS

No political contributions were made during the year (2018: £nil).

PINNACLE INSURANCE PLC

DIRECTORS' REPORT (continued)

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 the 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.

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.

ACTUARIAL VALUATION

An actuarial valuation was carried out as at 31 December 2019 in respect of the long-term fund. A report has been prepared by the Actuarial function holder (Long-term fund) advising the Board on this valuation.

CORPORATE GOVERNANCE

The Company is not listed and accordingly there is no requirement to comply with the 2018 UK Corporate Governance Code. Key Corporate Governance arrangements of the Company are highlighted below:

The Board

The Company's Board comprises Directors and Non-Executive Directors who are responsible to the shareholder and other stakeholders for ensuring that the Company is appropriately managed and achieves its objectives. The Board met five times in 2019 to determine the Company's strategic direction, review operating and financial performance, and to ensure that the Company is adequately resourced and effectively controlled.

The Company's governance regime is summarised as follows:



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 2019 was as follows:

	Board	Risk and Audit Committee	Human Resources Committee	Investment Committee	Conduct and Customer Committee	Underwriting and Credit Risk Committee	Intern: Control Committee
Number of meetings held	5	4	1	4	4	3	
G Binet	3	*	1	*	*	*	
P J Box **	4	4	*	*	*	*	
S Chevalet	4	*	1	*	*	*	
M Haderer	5	3	*	*	*	3	
M J Lorimer	5	4	*	*	4	*	
N D Rochez	5	4	1	*	*	*	
A M Wigg	4	4	1	4	2	2	
R Hines ***	2	2	1	*	*	*	

* indicates not a member of that Committee

** resigned 26 November 2019

*** appointed 28 November 2019, these meetings were held prior to this appointment and so were attended as an observer

The Risk and Audit Committee and the Human Resources Committee are Board level committees, all other committees are Management committees.

The Conduct and Customer Committee, Underwriting and Credit Risk Committee and Internal Controls Committee report into the Risk and Audit Committee.

Human Resources Committee

All staff are employed through our sister company Cardiff Pinnacle Insurance Management Services Ltd. Employee matters are dealt with via the Human Resources Committee

This committee is a formal subcommittee of the Board. It is chaired by an independent Non-Executive Director, N D Rochez. It reviews and makes recommendations to the Board regarding the Company's Human Capital and Remuneration Policy, and reviews compliance with the policy. The Human Resources Committee is specifically responsible for making recommendations for the remuneration of senior managers, together with providing a view of their performance. It is further responsible for monitoring and providing guidance on the level and structure of remuneration for all employees.

The Company reviews staff remuneration on the basis of three key principles, namely competitiveness, discretion and fairness.

a) Individual fixed basic salary:

The Company reviews individual basic pay according to the minimum basic salary at a level commensurate with the qualifications required for the post (defined according to collective agreements, salary grids and in line with legal minimums).

b) Additional fixed remuneration

Additional fixed remuneration rewards specific expertise, employment in a specific post or a post that meets a key role.

More broadly, it is any remuneration whose conditions and amounts awarded meet the following characteristics:

- the remuneration is predetermined;
- it is non-discretionary;

PINNACLE INSURANCE PLC

DIRECTORS' REPORT (continued)

- it is permanent and of a recurring nature, i.e. maintained throughout the period linked to the specific role and organisational responsibilities of the holder;
- the payment of this remuneration may not be unilaterally reduced, suspended or cancelled; and
- it is not dependent on the performance of the holder and/or the company.

Variable compensation: It is determined each year in accordance with that year's remuneration policy and the principles of governance. It is intended to incentivise performance in all its forms:

a) Personal performance-related variable compensation

Within the company, personal performance-related remuneration rewards achievements that are qualitatively and quantitatively assessed based on a record of sustained performance and on individual appraisals.

b) Long-term profit-sharing plan

Additionally, variable compensation may be supplemented by a medium or long-term loyalty plan comprised of stock options, performance shares, a medium or long-term remuneration plan, or any other appropriate instrument designed to retain and motivate key employees.

The Company does not operate any supplementary pension or early retirement schemes for the members of the administrative, management or supervisory body and other key function holders.

Risk and Audit Committee (RAC)

The RAC is chaired by an independent Non-Executive Director, R A Hines. Its main responsibilities are to:

- coordinate and have oversight of the Company's financial reporting process;
- review the effectiveness of the system for monitoring compliance with laws and regulations;
- have oversight of internal and external audit functions ensuring the audits are conducted in a thorough, efficient and effective manner;
- to have oversight of the systems of internal control;
- to have oversight of the work of the Internal Controls Committee (ICC), Conduct and Customer Committee (CCC), Underwriting, Credit Risk and ALM Committee (UCR) and Risk Forum (the work of prudential risk management within the business) and to receive minutes and updates in respect of the above mentioned Committees
- review matters relating to legal risk;
- review the work of the Risk Management Function and provide assurance on the effectiveness of the Company's risk management;
- review, challenge and make recommendations in respect of Own Risk and Solvency Assessment (ORSA) reports and the Solvency Financial Condition Report; and
- oversee and receive reports from the Conduct and Customer Committee, the Internal Control Committee, the Risk Forum and the Underwriting and Credit Risk Committee.

Investment Committee

The Committee is chaired by the Chief Executive Officer, A M Wigg and reports to the Board. It meets on a quarterly basis and its main responsibilities are to:

- ensure asset exposures do not exceed the limit established under Prudential Regulation Authority (PRA) regulations for Admissible Assets for the general and life business;
- maximise accounting rate of return yielded by the portfolio, within the agreed risk and liability matching framework; and
- agree investment returns to be used for future investments, new products types, counterparties and removal of counterparties' restrictions.

DIRECTORS' REPORT (continued)

Conduct and Customer Committee (CCC)

The Committee is chaired by the General Counsel, M J Lorimer and reports to the RAC. It reviews and provides direction on the Company's Conduct Risk strategy, including overseeing all product governance controls and reviews, and provides direction on the development of products. The Committee's main responsibilities are to identify, assess and report on key Conduct Risks faced by the Company, specifically to:

- promote and encourage a corporate culture that ensures the recognition of Conduct Risk and the fair treatment of customers;
- continue to encourage the development, analysis and use of further Conduct Risk Indicators (CRI) or other management information and to ensure the CRI measures are constantly challenged;
- ensure that staff appropriately record Conduct Risk issues including the findings and resulting outcome using an agreed process or system such as (but not limited to) the Incident Reporting;
- review issues brought to the Conduct Risk Committee by the Treating Customers Fairly (TCF) Forum (the TCF Forum is responsible for monitoring and managing the customer experience and the identification, resolution and, where applicable, escalation of issues which may cause customer detriment to the CCC) and make recommendations that are in the best interests of the customer and ensure those recommendations are acted upon as required; and
- maintain an understanding of developments in the market, regulatory and legal environments that may impact on the Conduct Risk framework, and to research and highlight industry best practice.

Risk Forum

This Committee is chaired by the Chief Executive Officer, A M Wigg. It meets at least four times per year and reports to the RAC. The Risk Forum's focus on prudential regulations includes overseeing notably Solvency II quarterly and annual returns and Own Risk and Solvency Assessment (ORSA) runs. The Risk Forum also reviews the ORSA triggering events on a regular basis.

Internal Control Committee (ICC)

The ICC is chaired by the General Counsel, M J Lorimer and reports to the RAC. Its main responsibilities are to:

- embed an effective risk management culture in the Company;
- identify, assess and report on key risks faced by the Company including those relating to outsourced activities;
- review the effectiveness of the internal control and compliance arrangements;
- update the Company's Risk Register on a regular basis;
- identify, assess and report on operational risks faced by the Company including those related to outsourced activities in accordance with the Group Guidance "Control of Risks Associated with Outsourced Processes";
- establish effective systems of internal control and reporting for key risks, appropriate to the size, nature and complexity of the Company;
- establish effective systems of compliance appropriate to the size, nature and complexity of the Company;
- monitor the performance of all suppliers of outsourced activities (operational performance, quality indicators and technical monitoring including KPIs & SLAs); and
- monitor the performance of security and business continuity by review of security incidents, test and exercises, critical IT risks and recommendations in progress.

DIRECTORS' REPORT (continued)

Underwriting, Credit Risk and Asset Liabilities Management Committee

This Committee is chaired by the Chief Actuarial Officer, M Haderer and reports to the RAC. It meets quarterly and the Committee's main responsibilities are to:

- provide effective risk monitoring & risk follow up for all the key underwriting & credit risk and provide an escalation process (alert system);
- review the underwriting and credit risk exposure and the related risk mitigation techniques and the related risk map;
- review the new products that could lead to a material change of the company's risk profile;
- review the adequacy of the reinsurance programme as part of the risk mitigation techniques; and
- review the underwriting & credit risk management procedures and the underwriting policy at least once a year and make proposals for change to the RAC.

Local Outsourcing Committee (LOCC)

This Committee is chaired by General Counsel, M J Lorimer. It reports into the Executive Management Group who reports to the Chief Executive Officer who reports to the Board. The Cardiff Delegation Principles are used to determine those Outsourcing activities delegated for supervision by the LOCC. The delegation decision must be observed at every stage of the outsourcing process

The Committee's main responsibilities are to:

- review the risk position of the outsourcing;
- ensure that any proposed outsourcing delivers benefits that outweigh risks;
- review potentially severe incidents on outsourced running activities.
- review all inputs relating to the supervision of outsourced activity
- oversee the invocation of exit plans
- ensure relevant controls are in place.

Business Development Committee

This Committee is chaired by General Counsel, M J Lorimer and meets every two weeks. It reports into the Executive Management Group who reports to the Chief Executive Officer who in turn reports to the Board.

The Committee's main responsibilities are to:

- ensure that business initiatives are properly aligned with current objectives and management expectations
- ensure the provision of meaningful and valuable products with customers' interests in the heart of product development and management.
- ensure early involvement of key departments and functions in the organisation, for all product or business initiatives.
- ensure that effort and resources is allocated to initiatives according to highest potential and chances of success.
- ensure that regulatory compliance is met, in particular with relation to European Insurance Distribution Directive legislation, Treating customer Fairly (TCF) principles and General Data Protection Regulation (GDPR).

PINNACLE INSURANCE PLC

DIRECTORS' REPORT (continued)

INTERNAL AUDIT FUNCTION

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

DISCLOSING INFORMATION TO THE AUDITOR

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

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

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

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

Approved by the Board and signed on its behalf by:



Director
M J Lorimer

28 May 2020

PINNACLE INSURANCE PLC
DIRECTORS' RESPONSIBILITY STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

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

PINNACLE INSURANCE PLC

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

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Pinnacle Insurance plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flow; and
- the related notes 1 to 22, and 24 to 26.

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

2. Basis for opinion

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

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

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

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

Report on the audit of the financial statements (continued)

3. Summary of our audit approach

Key audit matters The key audit matters that we identified in the current year were:

- Impact of Covid-19 as a subsequent event;
- Revenue recognition – earning patterns applied to the unearned premium reserve; and
- Valuation of technical provisions – IBNR reserve relating to motor bodily injury claims.

Within this report, key audit matters are identified as follows:

- ⚠ Newly identified
- ⬆ Increased level of risk
- ↔ Similar level of risk
- ⬇ Decreased level of risk

Materiality The materiality that we used in the current year was £3.1m, which was determined based on 2% of the company's net assets.

Scoping Audit work to respond to the risks of material misstatement was planned and performed directly by the audit engagement team.

Significant changes in our approach Given the rapid spread of Coronavirus ("Covid-19", "the virus") and the ongoing uncertainty surrounding its impact after the balance sheet date, and due to the inherent management judgement in determining the appropriateness of related post balance sheet event disclosures, we have enhanced our risk assessment and focused a greater degree of audit effort over the appropriateness of such disclosures in the financial statements. In accordance with this greater level of audit effort, we have identified a new key audit matter in the period relating to the appropriateness of the Covid-19 post balance sheet event disclosures.

There have been no other significant changes to our audit approach from the prior year.

4. Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

PINNACLE INSURANCE PLC

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

Report on the audit of the financial statements (continued)

5. Key audit matters

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

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

5.1. Impact of Covid-19 as a subsequent event

Key audit matter description

As disclosed in Note 26, subsequent to the balance sheet date a global pandemic of a new strain of Coronavirus ("Covid-19", "the virus") has emerged. The virus, and responses taken by organisations and governments to manage its spread in markets to which the business is exposed, have led to increased volatility and economic disruption. Management judge the matter to be a non-adjusting event in accordance with accounting standards, since it is indicative of conditions that arose after the reporting period. It is therefore not reflected in the measurement of assets and liabilities at the balance sheet date.

In response to Covid-19, management has made updates to its financial statements to disclose Covid-19 as a subsequent event, and has assessed the impact on going concern. To support this management performed actions to assess the financial and operational impacts of Covid-19 up to the date of approval of the financial statements. Key actions comprise:

- Undertaking an assessment of the impact of Covid-19 using a central and stress scenario, and compilation of a business continuity plan to ensure an appropriate capital surplus is maintained to meet liabilities as they fall due, including consideration of deterioration in the spread and impact of Covid-19 in markets to which the business is exposed. This includes having robust plans for certain management actions if the business falls outside its approved risk appetite;
- Frequent monitoring of the business' operations and its ability to continue to serve customers, comply with conduct regulations and maintain appropriate internal controls;
- Frequent monitoring of the business' solvency coverage ratio; and
- Monitoring the business' capital and liquidity position including asset credit quality.

The assessment of the impact of Covid-19 on the business requires management judgement and consideration of a range of factors. Having considered the results of the activities described above, management believes the business continues to be a going concern due to having a stable solvency position and appropriate plans to manage liquidity and credit risks. Management have made disclosures to reflect the results of their assessment in the Strategic Report, the Basis of Presentation accounting policy note and Note 26 *Events after the balance sheet date*.

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

Report on the audit of the financial statements (continued)

How the scope of our audit responded to the key audit matter	<p>We have:</p> <ul style="list-style-type: none">• evaluated management's approach to assessing the impact of Covid-19 on the business and its financial statement disclosures;• evaluated management's stress and scenario testing including solvency coverage ratio and market and interest rates risks, and challenged management's key assumptions, assessing its consistency with other available information and our understanding of the business;• evaluated management's assessment of the risks facing the business including liquidity risk, asset credit risk and operational matters;• made inquiries of senior management in relation to their assessment of the impacts of Covid-19 on the business, including further steps the company will take in case economic and other factors deteriorate further;• assessed the historical accuracy of the forecasts prepared by management; and• assessed the disclosures made by management in the financial statements against applicable accounting standards, assessed management's judgment that Covid-19 is a non-adjusting event and evaluated the consistency of the disclosures with our knowledge of the business.
---	---

Key observations	<p>We concur with management's judgments and consider the disclosure of the potential impact of Covid-19 in the financial statements to be appropriate.</p>
-------------------------	---

PINNACLE INSURANCE PLC

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

Report on the audit of the financial statements (continued)

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

Key audit matter description Pinnacle Insurance Plc earns revenue through premium income. Revenue is recognised at the point at which a contract of insurance is on-risk, driven by the timing and terms of the agreements with the policyholders. Pinnacle Insurance must defer its recognition of the premium income in line with the period of time for which Pinnacle Insurance is on-risk. However, the selection of an appropriate earning pattern is an area of significant management judgement. The gross unearned premium reserve is valued at £10.6m (2018:£8.6m).

We identified a key audit matter relating to the appropriateness of the patterns and methodology used to defer premium income over periods for which Pinnacle Insurance is on risk, specifically on multi-year policies within the warranty business.

Due to the level of management judgement and opportunity for manipulation, we identified this as a potential area for fraud.

For further details, please see Note 1 – Accounting policies, Note 4 – Segmental analysis and Note 18 – Insurance liabilities.

How the scope of our audit responded to the key audit matter We have gained a detailed understanding of the end to end revenue process, including the process of adjusting revenue with the movement in unearned premium reserve; which is intrinsically linked to the calculation of the unearned premium reserve through use of the determined earning patterns. We have obtained an understanding of the relevant controls present regarding the determination of earning patterns used to defer premium income.

In addition, we have:

- reviewed the earning patterns for a sample of books of business, including the warranty business, to determine whether they appropriately fit the risk profile and challenged the basis of recognition by:
 - i) obtaining data from management and testing for accuracy and completeness;
 - ii) recalculating the earning pattern for each policy length and comparing to expected earning pattern; and
 - iii) applying our own determination for earning patterns to management's data and quantifying the difference;
- recalculated the earned and unearned premium income balances on a sample basis and agreed the underlying data to the audited gross written premium listings;
- considered whether the premium recognition policies are compliant with applicable accounting standards; and
- substantively tested a sample of premium transactions by examining the agreements and amounts received during the financial year to assess whether premiums have been accounted for correctly.

Key observations We have concluded that the earning patterns applied to the Warranty lines of business are reasonable.

PINNACLE INSURANCE PLC

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

Report on the audit of the financial statements (continued)

5.3. Valuation of technical provisions – IBNR reserve

Key audit matter description The company's gross general insurance claims reserve amounts to £45m (2018:£51m). The valuation of insurance reserves requires significant judgement in the selection of key methodologies and assumptions, and has been identified as a potential fraud risk area. We have identified the IBNR balance within the general insurance reserve as being inherently uncertain, due to the unavailability of reported claims data present within an IBNR calculation. More specifically, we have focused on the results of the company and its involvement of a detailed actuarial assessment. The ultimate number and value of large bodily injury claims is inherently uncertain and volatile, driven by the low frequency and high severity nature of the claims as well as the long settlement periods.

The key judgements are:

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

For further details, please refer to Note 1 – Accounting policies and Note 18 – Insurance liabilities.

How the scope of our audit responded to the key audit matter With the involvement of our actuarial specialist we have performed the following procedures:

- Obtained an understanding of the relevant controls over the reserving process for large bodily injury claims;
- Reconciled motor bodily claims data per source systems and third party bordereaux to that used by Cardiff Pinnacle Group's actuarial department, and tested samples of other relevant data which feeds into the actuarial models;
- Challenged the assumptions and methodology used in comparison to standard actuarial techniques and consistency to prior year end;
- Performed a graphical analysis of management's selected ultimate claims compared to historical paid and incurred claims development trends and quantified the impact of any material outliers;
- Identified any indicators that the models are not operating as planned; specifically:
 - For small bodily injury ('BI') claims, obtained management's underlying assumptions and challenged the construction of management's ultimate claim using our in-house software.
 - For large BI claims, identified management's key method and challenged the calculation of the underlying key assumptions; and
- Benchmarked these results against industry experience.

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

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

Report on the audit of the financial statements (continued)

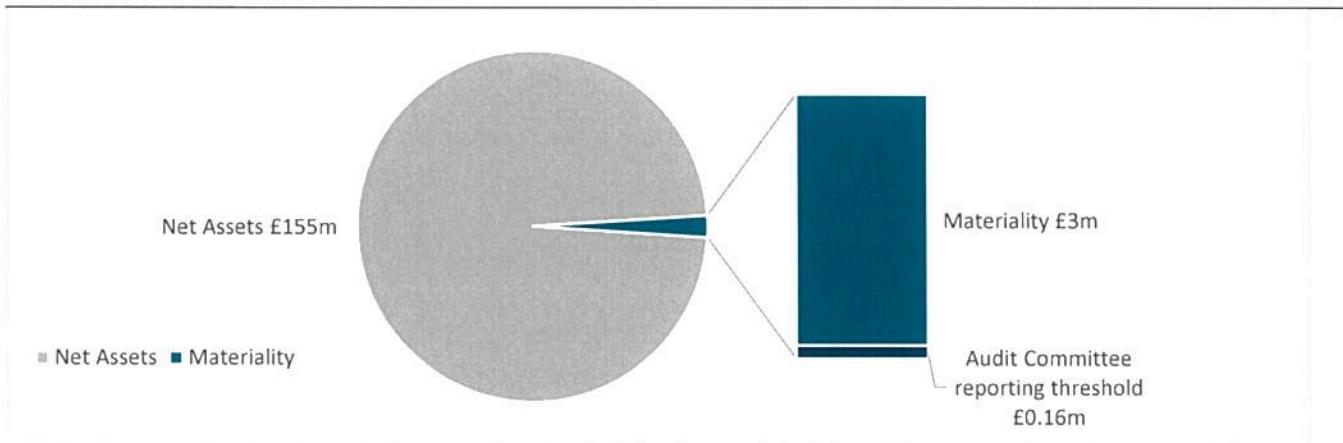
6. Our application of materiality

6.1. Materiality

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

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

Materiality	£3.1m (2018: £3.1m).
Basis for determining materiality	2% of net assets. This is consistent with prior year.
Rationale for the benchmark applied	We have used net assets as the company is well established and has been trading for many years. The users of the financial statements will be interested in the Solvency Capital requirements and the ability of the company to continue to pay claims. The company's performance has also fluctuated in recent years. We therefore believe that net assets is the most consistent and useful metric over a longer period of time.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 64% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the control environment, including how we did not take a controls reliance approach, as well as the nature and level of misstatements identified in previous audits.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £155k (2018: £161k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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

Report on the audit of the financial statements (continued)

7. An overview of the scope of our audit

7.1. Scoping

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

7.2. Our consideration of the control environment

The entity has a number of key IT systems, impacting varying account balances and classes of transactions. We did not plan to rely on the IT controls associated with these systems due to control deficiencies identified within the premiums, claims and reserving processes. We have engaged our IT specialists to test the GITCs over the relevant technology elements within the IT environment, including the application system, database, operating system and network.

8. Other information

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

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

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

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

We have nothing to report in respect of these matters.

9. Responsibilities of directors

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

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

PINNACLE INSURANCE PLC

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

Report on the audit of the financial statements (continued)

10. Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax, IT, and actuarial specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: revenue recognition and technical provisions. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

PINNACLE INSURANCE PLC

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

Report on the audit of the financial statements (continued)

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's industry regulators, namely the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

11.2. Audit response to risks identified

As a result of performing the above, we identified revenue recognition and valuation of technical provisions – IBNR reserve - as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the PRA and the FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters 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 or the directors' report.

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

Report on the audit of the financial statements (continued)

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters

14.1. Auditor tenure

Following the recommendation of the BNP Paribas group audit committee, Deloitte were appointed by the directors as joint auditors to the group, and were therefore appointed as auditors of Pinnacle Insurance Plc to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 8 years, covering the years ending 31 December 2012 to 31 December 2019.

14.2. Consistency of the audit report with the additional report to the audit committee

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

15. Use of our report

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.



Adam Addis (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

28 May 2020

PINNACLE INSURANCE PLC
Income Statement
For the year ended 31 December 2019

Income	Notes	2019 £'000	As restated 2018 £'000
Gross written premiums	4	43,928	46,136
Less: reinsurance premiums		<u>(332)</u>	<u>(462)</u>
Net written premiums		43,596	45,674
Change in the gross provision for unearned premiums	18	(1,805)	4,231
Less: change in provision for unearned premiums, reinsurers' share	18	(70)	(20)
Net change in provision for unearned premiums		<u>(1,875)</u>	<u>4,211</u>
Net earned premiums		41,721	49,885
Net investment return	5	<u>4,432</u>	<u>2,112</u>
Total income		46,153	51,996
Expenses			
Gross claims incurred	6	(19,764)	(6,394)
Less: claims recoveries from reinsurers	6	<u>5,628</u>	<u>(6,635)</u>
Net claims incurred		(14,136)	(13,029)
Net operating expenses	7	<u>(31,627)</u>	<u>(36,900)</u>
Total expenses		(45,763)	(49,929)
Profit before tax		<u>390</u>	<u>2,067</u>
Tax credit / (charge)	11	<u>668</u>	<u>(125)</u>
Profit for the year		<u>1,058</u>	<u>1,943</u>
Attributable to:			
Owner of the Company		<u>1,058</u>	<u>1,943</u>

A statement of other comprehensive income (SOCl) or loss is not presented as there were no items requiring classification to the SOCl during the year and prior year. Hence, loss (2018: profit) represents total comprehensive profit for the year attributable to the owner of the Company.

The notes on pages 37 to 79 form an integral part of these financial statements.

PINNACLE INSURANCE PLC
Company number: 01007798

Statement of Financial Position
As at 31 December 2019

	Notes	2019 £'000	As restated 2018 £'000
Assets			
Financial investments	12	178,660	217,169
Reinsurance assets	18	48,468	46,216
Deferred tax		316	-
Insurance and other receivables	15	16,963	10,938
Deferred acquisition costs	19	3,087	2,880
Cash and cash equivalents	14	17,273	9,043
Total assets		264,767	286,246
Equity			
Share capital		126,557	126,557
Share premium account		23,323	23,323
Retained earnings		5,295	10,037
Total equity	17	155,175	159,917
Liabilities			
Insurance liabilities	18	86,024	93,616
Other payables, including insurance payables	16	15,020	24,293
Provisions	20	8,548	8,419
Total liabilities		109,592	126,329
Total equity and liabilities		264,767	286,246

The financial statements were approved and authorised for issue on 28 May 2020 by the Board of Directors and are signed on its behalf by:



Director
A M Wigg

The notes on pages 37 to 79 form an integral part of these financial statements.

PINNACLE INSURANCE PLC

Statement of Changes in Equity
For the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 January 2018 –as reported	126,557	23,323	8,634	158,514
Prior year adjustment (see note 2)	-	-	(666)	(666)
Tax relating to the prior year adjustment	-	-	126	126
At 1 January 2018 – as restated	126,557	23,323	8,094	157,974
Profit for the year	-	-	1,943	1,943
Dividends paid	-	-	-	-
At 31 December 2018– as restated	126,557	23,323	10,037	159,917
Profit for the year	-	-	1,058	1,058
Dividends paid *	-	-	(5,800)	(5,800)
At 31 December 2019	126,557	23,323	5,295	155,175

*Dividends paid per ordinary share is £0.0458.

The notes on pages 37 to 79 form an integral part of these financial statements.

PINNACLE INSURANCE PLC

Statement of Cash Flows
For the year ended 31 December 2019

	Notes	2019 £'000	As restated 2018 £'000
Profit/(loss) for the year before tax		390	2,067
Adjustments for non-cash items			
-Net unrealised gain on financial assets at FVTPL	5	(3,005)	772
Change in provision for unearned premiums	18	1,875	(4,210)
Change in outstanding claims		(11,720)	(18,286)
Change in deferred acquisition costs	19	(207)	2,615
Change in other assets		(3,626)	1,302
Change in other creditors		(9,144)	(14,459)
Tax refund		668	5,636
Cash used in operating activities		(24,769)	(24,564)
Investing activities			
Proceeds from debt securities maturities		45,054	33,161
Purchase of debt securities		(10,572)	(23,760)
Proceeds from deposits maturities		41,358	29,400
Deposits with credit institutions		(37,038)	(37,404)
Net cash from investing activities		38,802	1,397
Financing activities			
Dividend paid		(5,800)	-
Net cashflows from financing activities		(5,800)	-
Net increase / (decrease) in cash and cash equivalents		8,230	(23,167)
Cash and cash equivalents at 1 January	14	9,043	32,210
Cash and cash equivalents at 31 December	14	17,273	9,043

The notes on pages 37 to 79 form an integral part of these financial statements

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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, Hertfordshire, WD6 2XX.

Basis of preparation

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

The financial statements are prepared under the historical cost convention as modified by financial instruments recognised at fair value.

Subsequent to the end of the financial reporting period, as outlined in Note 26, Covid-19 was declared as a worldwide pandemic. This has resulted in increased uncertainty in capital markets as well as challenges in delivering contracted services across jurisdictions, and related uncertainties with regards to business liquidity in the short term. This has been treated as a non-adjusting subsequent event within the financial statements.

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.

Going concern

During the year, the Company made a profit after tax of £1.1m (2018 profit: £1.9m). The Company also has considerable financial resources, which include cash and cash equivalents of £17.2m (2018: £9.0m) and an investment portfolio of £178.7m (2018: £217.2m) as at the year-end. In addition, the Company undertakes an ongoing assessment of its Solvency Capital Requirement (see note 23), 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.

Adoption of new and revised standards

The Company has adopted the following new standards and amendments to IFRSs and IASs that became mandatorily effective for the Company for the first time during 2019. However, these changes had no impact on the Company's financial statements or financial performance.

Amendments to IFRS 4 "Insurance Contracts"

Amendments to IFRS 4 Insurance Contracts "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" was issued on 12 September 2016 and endorsed by the EU on 3 November 2018. These amendments permitted insurers who satisfied certain criteria to defer the effective date of IFRS 9, to January 2022. The IASB permitted this option having considered potential asset and liability matching and temporary profit and loss volatility caused by introducing these new standards in different periods within a short period of time.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Adoption of new and revised standards (continued)

When first published, Amendments to IFRS 4 required insurance entities to evaluate whether their activities were predominantly connected to insurance as at its annual reporting date immediately preceding 1 April 2016 providing an option to defer adoption of IFRS 9 if liabilities connected to insurance comprised a predominant proportion of its total liabilities as at that date. The Company concluded that it satisfied the criteria that the carrying value of its liabilities connected to insurance was greater than 90% of the carrying value of its total liabilities as at 31 December 2015.

The fair value as at 31 December 2019 for financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount is £67.5m (2018:£101.6m). The amount of change in the fair value during the year for these assets is £34.1m (2018:£10.1m).

In note 21, the Company has disclosed the carrying amount of financial assets as at the year-end by credit risk rating.

Any other standards effective at the year-end did not have any material impact on the Company's financial statements.

New accounting standards published but not yet applicable

IFRS 17 "Insurance Contracts"

In May 2018, the IASB issued IFRS 17 Insurance Contracts, which replaces IFRS 4. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features an entity issues, provided the same entity also issues insurance contracts. The scope of IFRS 17 is substantially consistent with that of IFRS 4.

IFRS 17 provides the criteria to determine when a non-insurance component is distinct from the host insurance contract. Entities are required to first apply IFRS 9 to separate any cash flows related to embedded derivatives and distinct investment components and then apply IFRS 15 to separate from the host insurance contract any distinct promise to transfer goods or non-insurance services to a policyholder. Under IFRS 17, there is no accounting policy choice to unbundling. It is either required or prohibited. This is different from IFRS 4 where unbundling for investment components is permitted but not required when certain criteria are met and the separation of embedded derivatives is exempted in a number of cases.

IFRS 17 introduces a new requirement for entities to identify portfolios of insurance contracts, which comprises contracts that are subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks hence would be expected to be in the same portfolio if they are managed together. Each portfolio of insurance contracts issues shall be divided into a minimum of:

- A group of contracts that are onerous at initial recognition, if any;
- A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
- A group of the remaining contracts in the portfolio, if any.

An entity is not permitted to include contracts issued more than one year apart in the same group. If contracts within a portfolio would fall into different groups only because law or regulation specifically constrains the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics, the entity may include those contracts in the same group. IFRS 17 requires entities to establish the groups at initial recognition and prohibits subsequent reassessment of the composition of the groups.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

New accounting standards published but not yet applicable (continued)

An entity shall recognise a group of insurance contracts it issues from the earliest of the following:

- (a) the beginning of the coverage period of the group of contracts;
- (b) the date when the first payment from a policyholder in the group becomes due; and
- (c) for a group of onerous contracts, when the group becomes onerous.

On initial recognition, an entity measures a group of insurance contracts at the total of the fulfilment cash flows (FCFs) and the contractual service margin (CSM). This may be referred to as the General Measurement Model (GMM) or the Building Block Approach (BBA) and standardises the varied approaches for reserving under IFRS 4. The FCFs comprise of:

- Estimates of future cash flows – Only future cash flows within the boundary of each contract in the group are allowed to be included. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with services.
- An adjustment to reflect the time value of money and the financial risks associated with the future cash flows; and
- A risk adjustment for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

The CSM represents the unearned profit of the group of insurance contracts that the entity will recognise as it provides services in the future, and is measured on initial recognition of a group of insurance contracts at an amount that, unless the group of contracts is onerous, results in no income or expenses arising at that date.

For contracts measured using GMM under IFRS 17, acquisition costs are included as part of the estimates of future cash flows and therefore there is no need for deferred acquisition cost to be separately accounted for. Furthermore, there is no longer a liability adequacy test under IFRS 17. All favourable and unfavourable changes to the cash flows that are related to future service are offset against CSM which removes the need to test the liability for adequacy. With regards to discounting insurance contract liabilities, IFRS 4 allows insurers to continue using accounting policies that involve them measuring insurance contract liabilities on an undiscounted basis. IFRS 17 requires insurers to apply discount rates to estimates of future cash flows that are consistent with observable current market prices.

For groups of contracts with a coverage period less than one year, or where it is reasonably expected to produce a liability measurement that would not differ materially from the GMM, a simplified Premium Allocation Approach (PAA) can be applied. Using the PAA, the liability for remaining coverage shall be initially recognised as the premiums, if any, received at initial recognition, minus any insurance acquisition cash flows paid.

Presentation and disclosures requirements introduce a new insurance income and expense definitions that move away from a premium-based presentation approach and is instead a direct result of the movements in the items from the statement of financial position. For the presentation of finance income or expenses (e.g. the effect of discounting), insurers have an accounting policy choice at portfolio level to disaggregate insurance finance income or expenses for the period between profit or loss and other comprehensive income. This is a new solution that achieves a similar objective as the shadow accounting model under IFRS 4 to avoid undue volatility in the statement of comprehensive income.

IFRS 17 requires more granular and detailed disclosures compared to IFRS 4 given the high degree of judgement in its application. An entity shall disclose qualitative and quantitative information about:

- (a) the amounts recognised in its financial statements that arise from insurance contracts;
- (b) the significant judgements, and changes in those judgements, made when applying IFRS 17; and
- (c) the nature and extent of the risks that arise from insurance contracts.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

New accounting standards published but not yet applicable (continued)

IFRS 17 is effective for annual periods beginning on or after 1 January 2022, with earlier application permitted if both IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have also been applied. An entity shall apply IFRS 17 retrospectively unless impracticable, in which case entities have the option of using either a modified retrospective approach or the fair value approach.

The directors of the Company anticipate that the new standard will result in an important change to the accounting policies for insurance contracts and is likely to have a material impact on the Company's profit and financial position, together with significant changes in presentation and disclosure. The Company has initiated the journey to adopt the new standard and it would be premature to disclose the impact of the new requirements at this stage when the assessment is still in progress.

IFRS 9 "Financial Instruments"

On 24 July 2014, the IASB issued IFRS 9 'Financial Instruments' marking the conclusion of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement' which sets out new requirements for the classification, measurement and recognition of financial instruments in the following areas:

- Classification and measurement – financial assets are classified into one of the three categories: fair value through profit or loss; fair value through other comprehensive income; or amortised cost. The classification is determined with reference to the business model for managing and holding financial assets and contractual cash flows characteristics of the financial instruments held. The classification requirements for financial liabilities remain largely unchanged from the existing requirements of IAS 39 with the exception of financial liabilities measured under fair value option where changes in fair value arising from changes in the entity's own credit risk are excluded from recognition within income for the year.
- Impairment – a new 'expected credit loss' impairment model is introduced for the measurement of impairment of financial assets classified as fair value through other comprehensive income or at amortised cost. This replaces the 'incurred credit loss' model under IAS 39.

On its adoption, the Company will be required to consider the business model objective for holding financial instruments and the nature of the cash flow characteristics of the financial instruments held.

The Company, in line with peers, has taken advantage of the exemption available to entities whose activities are predominantly insurance related to defer applying IFRS 9 'Financial Instruments' (which would otherwise be applicable for annual reporting periods beginning on or after 1 January 2019) until 1 January 2022 which will coincide with the expected implementation of IFRS 17. This will enable accounting policy choices to consider the interrelationships of IFRS 17 and 9 particularly with regards to asset and liability management. Assessment and implementation of IFRS 9 will therefore run alongside IFRS 17 activity.

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.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies

The principal accounting policies are set out below:

1.1 Contract classification

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

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

1.2 Premiums written

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

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

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 unearned reinsurance 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.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 IBNR.

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 2019

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.

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.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

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.

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.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

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.

1.8 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.

1.9 Provisions

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

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

1.10 Taxation

Income tax Credit /(Charge) represent the sum of current tax payable and deferred tax.

Current tax:

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

Deferred tax:

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

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

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

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

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Prior year adjustment

As described on page 14, the Company did not correctly apply its accounting policy in respect of the gross deferred acquisition costs for a particular book of business in 2018 and prior years. Therefore, the Directors have revised the financial statements to include a prior year adjustment to restate the 2018 comparative balances relating to the deferred acquisition costs for the General Fund. The effect of this prior year adjustment is to conform to the accounting policy as disclosed in 1.4 above.

The impact on the 2018 comparatives after the prior year adjustments is set out below:

Restatement of 2018 Financial Statements Line items	As previously reported 2018 £'000	Prior year adjustments £'000	As restated 2018 £'000
<u>Income Statement</u>			
Change in the gross deferred acquisitions costs	2,618	(3)	2,615
<u>Statement of Financial Position</u>			
Deferred acquisition costs	3,543	(663)	2,880
Corporation tax	-	126	126
Net decrease in opening shareholder's funds at 1 January 2018		540	

Restatement of 2017 Financial Statements Line items	As previously reported 2017 £'000	Prior year adjustments £'000	As restated 2017 £'000
<u>Income Statement</u>			
Change in the gross deferred acquisitions costs	5,255	(233)	5,022
<u>Statement of Financial Position</u>			
Deferred acquisition costs	6,161	(666)	5,495
Corporation tax	-	171	126
Net decrease in opening shareholder's funds at 1 January 2017		728	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. Critical accounting judgements and key sources of estimation uncertainty

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underpin the preparation of its financial information. The Company's principal accounting policies are set out on pages 37 to 45. UK company law and IFRSs require the Directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent.

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

Unearned Premium Reserves and Deferred acquisition costs

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

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

Deferred tax

Critical accounting judgments in respect of the deferred tax are disclosed in note 1.10 and note 11.

Payment Protection Insurance (PPI) provisions

The Company has a provision for potential policyholder redress in relation to PPI. For further details, including the key assumptions made in arriving at the provisions, refer to note 20.

Claims provisions

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

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

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

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

The key judgements and areas of uncertainty present when assessing PIC's IBNR are summarised in the following table (see also note 18):

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

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. Segmental analysis

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

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

	2019	2018
	£'000	£'000
<u>Gross written premiums</u>		
General business	43,362	45,399
Long-term business	566	737
	43,928	46,136
<u>Profit/(loss) before taxation:</u>		
General business	(2,043)	1,503
Long-term business	2,433	564
	390	2,067
<u>Segmental net assets</u>		
General business (including shareholder's funds/total equity)	146,270	147,962
Long-term business	8,905	11,955
	155,175	159,917

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. Segmental analysis (continued)

	2019			
	Gross Written Premium £'000	Net Earned Premium £'000	Net Claims Incurred £'000	Net Operating Expenses £'000
Direct Insurance				
Pet	20,495	17,727	(8,359)	(17,712)
Creditor	19,357	19,553	(6,033)	(11,645)
Warranty and Gap	3,513	3,914	(2,025)	(2,762)
Household	-	-	835	-
Motor	(2)	(40)	865	(339)
	43,362	41,155	(14,717)	(32,458)
Inward reinsurance	-	-	-	-
	43,362	41,155	(14,717)	(32,458)
Long-term protection	566	566	581	832
	43,928	41,721	(14,136)	(31,627)
	2018			
	Gross Written Premium £'000	Net Earned Premium £'000	Net Claims Incurred £'000	Net Operating Expenses £'000
Direct Insurance				
Pet	17,025	15,804	(8,047)	(12,603)
Creditor	24,961	27,942	(6,711)	(18,051)
Warranty and Gap	3,411	5,358	(2,103)	(4,922)
Household	5	1	2,051	(378)
Motor	(3)	43	1,605	(431)
	45,399	49,148	(13,205)	(36,384)
Inward reinsurance	-	-	-	-
	45,399	49,148	(13,205)	(36,384)
Long-term protection	737	737	176	(515)
	46,136	49,885	(13,028)	(36,900)

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

5. Net investment return

	2019	2018
	£'000	£'000
Interest income from financial investments	4,136	4,838
Net realised losses on financial investments	(2,715)	(1,973)
Net unrealised gains / (losses) on financial investments	3,006	(772)
Net foreign exchange gains on investments	5	19
	<u>4,432</u>	<u>2,112</u>

6. Net claims incurred

	2019		
	General business	Long-term business	Total
	£'000	£'000	£'000
Gross amount			
Claims paid	27,859	1,303	29,162
Gross movement in the provision for:			
- Claims outstanding	(7,977)	(1,586)	(9,564)
- Provision for liability adequacy test	166	-	166
	<u>20,048</u>	<u>(283)</u>	<u>19,764</u>
Reinsurers' share			
Reinsurers' recoveries	(2,122)	(1,185)	(3,306)
Movement in the provision for:			
- Claims outstanding	(3,208)	887	(2,322)
	<u>(5,330)</u>	<u>(298)</u>	<u>(5,628)</u>
	<u>14,717</u>	<u>(581)</u>	<u>14,136</u>

	2018		
	General business	Long-term business	Total
	£'000	£'000	£'000
Gross amount			
Claims paid	32,215	1,765	32,980
Gross movement in the provision for:			
- Claims outstanding	(22,247)	(5,338)	(27,585)
	<u>9,968</u>	<u>(3,574)</u>	<u>6,394</u>
Reinsurers' share			
Reinsurers' recoveries	(2,354)	(1,557)	(3,911)
Movement in the provision for:			
- Claims outstanding	5,592	4,954	10,546
	<u>3,238</u>	<u>3,397</u>	<u>6,635</u>
	<u>13,205</u>	<u>(177)</u>	<u>13,029</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

7. Net operating expenses

	2019	2018
	£'000	£'000
Acquisition costs	9,654	10,190
Change in gross deferred acquisition costs	(207)	2,615
Administrative expenses	19,986	18,757
Movement in provisions	129	(1,057)
Reinsurance commissions and profit participation	2,065	6,395
	31,627	36,900

8. Profit before tax

	2019	2018
	£'000	£'000
Profit for the year is stated after charging		
The analysis of auditor's remuneration is as follows:		
Fees payable to the Company's auditor for the Company's annual accounts	229	170
Total audit fees	229	170

Fees paid to the company's auditor, Deloitte LLP, for services other than the statutory audit of the company are disclosed in the relevant group company accounts.

9. Employees

The Company had no employees during the year. A fellow subsidiary of Cardiff Pinnacle Insurance Holdings plc, Cardiff Pinnacle Insurance Management Services plc ("CPIMS"), provides staff management services and recharges all staff costs to the Company and wider UK group as part of a management recharge. The total management recharge also including expenses in relation to changes in the reorganisation cost provision held by CPIMS. The management recharge is included within the net operating expenses as follows:

	2019	2018
	£'000	£'000
Total staff costs	12,721	12,524
Redundancy cost incurred	20	396
Utilisation of provisions	(20)	(396)
	12,721	12,524

Included above within staff costs are the social security costs of £1.3m (2018: £1.1m) and staff pension contributions of £1.1m (2018: £0.9m).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

10. Directors' remuneration

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

	2019	2018
	£'000	£'000
Emoluments	1,225	1,019
Pension contributions to a defined contribution scheme	16	61
	1,241	1,080

The remuneration of the highest paid Director:

	2019	2018
	£'000	£'000
Emoluments of highest paid Director	462	358
Pension contributions of highest paid Director	3	21
	465	379

11. 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	
	2019	2018	2019	2018	2019	2018
	£'000	£'000	£'000	£'000	£'000	£'000
Current tax						
UK corporation tax charge/(credit) for the year	(302)	-	-	-	(302)	-
Prior year adjustments	-	84	(9)	-	(9)	84
Total current tax charge /(credit)	(302)	84	(9)	-	(311)	84
Deferred tax						
Prior year adjustments	-	-	(424)	-	(424)	-
Total deferred tax charge /(credit)	(49)	49	116	(8)	67	41
Total tax charged/(credited) to income statement	(351)	133	(317)	(8)	(668)	125

The Company earns its profits entirely in the UK. UK corporation tax has been charged at 19% (2018: 19%), the standard rate in the UK for the period.

PipNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

11. Taxation (continued)

Tax reconciliation	2019		
	Long-term business	General business	Total
	£'000	£'000	£'000
Total profit before tax	2,432	(2,044)	390
Tax calculated at the standard UK corporation tax rate of 19%	462	(388)	74
Effect of:			
Expenses not deductible for tax purposes	-	1	1
Movement in deferred tax not recognised:			
-Transitional adjustments *	-	-	-
- Brought forward losses utilised	(346)	-	(346)
-Reduction in claims equalisation reserve	-	27	27
-Tax rate difference	-	9	9
Adjustment in respect of previous years			
-Tax rate difference	(1)	-	(1)
-Recognition of deferred tax asset relating to prior periods	(432)	-	(432)
Total tax credited to income statement	(317)	(351)	(668)

Tax reconciliation	2018		
	Long-term business	General business	Total
	£'000	£'000	£'000
Total profit before tax	563	1,501	2,064
Tax calculated at the standard UK corporation tax rate of 19%	107	285	392
Effect of:			
Expenses not deductible for tax purposes	-	8	8
Movement in deferred tax not recognised:			
-Transitional adjustments *	(116)	-	(116)
- Brought forward losses utilised	-	(379)	(379)
-Reduction in claims equalisation reserve	-	141	141
-Tax rate difference	1	(6)	(5)
Adjustment in respect of previous years	-	84	84
Total tax charged/(credited) to income statement	(8)	133	125

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

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

11. Taxation (continued)

Deferred tax liabilities/ (asset)

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

	General business		Long-term business		Total	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
At 1 January	49	-	(8)	-	41	-
Losses arising in the period			-	(8)	-	(8)
Recognition of deferred tax on transitional adjustment re liabilities			(316)		(316)	
Losses relieved against profits arising	-	126	8	-	8	126
Decrease in claims equalisation reserve	(49)	(77)	-	-	(49)	(77)
Losses recognised	-	-	-	-	-	-
At 31 December	-	49	(316)	(8)	(316)	41

Analysis of recognised deferred tax liabilities/ (asset)

	General business		Long-term business		Total	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Claims equalisation reserve	-	230	-	-	-	230
Trading losses	-	(181)	-	(8)	-	(189)
Transitional adjustment re liabilities	-	-	(316)	-	(316)	-
Recognised deferred tax liabilities/(asset)	-	49	(316)	(8)	(316)	41

Deferred tax has been recognised at a rate between 19% and 17% according to the expected timing of reversal (2018: 17%).

The recognised deferred tax represents future tax deductions arising from the legislative change to the basis on which long-term business is taxed from 2013.

These deductions will arise in the years from 2020 to 2022 and it is expected that there will be sufficient taxable profits available in the group to fully utilise them.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

11. Taxation (continued)

Analysis of unrecognised deferred tax asset

There is an unrecognised deferred tax asset of £27,000 at 31 December 2019 (2018: £ nil) in respect of trading losses of general business, and £793,000 (2018: £1,520,000) 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.

	General business		Long-term business		Total	
	2019	2018	2019	2018	2019	2018
	£'000	£'000	£'000	£'000	£'000	£'000
Transitional adjustment re liabilities	(154)	-	-	417	(154)	417
Losses	181	-	794	1,103	975	1,103
Unrecognised deferred tax asset	27	-	794	1,520	821	1,520

Unrecognised deferred tax is calculated at 17% (2018: 17%).

12. Financial assets and liabilities

The Company's financial assets and liabilities can be analysed as follows:

	2019	2018
	£'000	£'000
Financial assets		
<i>Financial investments:</i>		
<u>Investments held at fair value through profit or loss</u>		
- Debt securities /Bonds	67,503	101,694
<u>Loans and receivables</u>		
- Deposits with credit institutions	111,157	115,475
<i>Total Financial investments</i>	178,660	217,169
<u>Loans and receivables</u>		
- Cash and cash equivalents	17,274	9,043
- Insurance receivables	9,448	6,799
- Other receivables	7,411	4,013
	34,133	19,855
Total financial assets	212,793	237,024
Financial liabilities		
Insurance payables	17,491	26,388
Other payables	2,130	2,484
Total financial liabilities	19,621	28,872

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

13. Fair value

Fair value for all assets and liabilities which are either measured or disclosed is determined based on available information and categorised according to a three-level fair value hierarchy as detailed below:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from data other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 fair value measurements are those derived from valuation techniques that include significant inputs for the asset or liability valuation that are not based on observable market data (unobservable inputs).

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).

	2019		2018	
	Fair value	Carrying value	Fair value	Carrying value
Financial assets	£'000	£'000	£'000	£'000
<u>Fair value through profit or loss</u>				
Financial investments				
-Corporate bonds	55,676	55,676	77,078	77,078
-Government bonds	11,827	11,827	24,616	24,616
	67,503	67,503	101,694	101,694

The carrying value of the following financial assets and financial liabilities is considered to approximate their fair value due to their short-term duration:

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

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

13. Fair value (continued)

Fair value hierarchy analysis

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

	2019			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<u>Financial assets at fair value through profit or loss</u>				
-Corporate bonds	55,676	-	-	55,676
-Government bonds	11,827	-	-	11,827
	67,503	-	-	67,503

Fair value hierarchy analysis (continued)

	2018			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<u>Financial assets at fair value through profit or loss</u>				
-Corporate bonds	77,078	-	-	77,078
-Government bonds	24,616	-	-	24,616
	101,694	-	-	101,694

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.

14. Cash and cash equivalents

	2019	2018
	£'000	£'000
Cash at bank and in hand	3,273	4,420
Short-term deposits with credit institutions	14,000	4,622
	17,274	9,043

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 2019 was 0.76% (2018: 0.74%).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

15. Insurance and other receivables

	2019	2018
	£'000	£'000
Receivables arising out of direct insurance operations		
-Due from intermediaries	9,448	6,799
Receivables arising out of reinsurance operations	693	538
Other receivables		
-Amounts owed by group undertakings (see note 22)	5,680	2,327
-Accrued interest	714	1,102
-Prepayments	-	45
-Corporation tax	428	126
	6,822	3,601
	16,963	10,938
Amounts to be settled within one year	15,713	9,488
Amounts to be settled after one year	1,250	1,450
	16,963	10,938

The insurance and other receivables are shown at net realisable value and are inclusive of bad debt provision of £nil (2018: £ nil).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

16. Other payables, including insurance payables

	2019 £'000	2018 £'000
Insurance payables arising out of direct insurance operations		
-Due to intermediaries	12,891	21,810
Insurance payables arising out of reinsurance operations	24	62
Amounts owed to credit institutions	-	31
Amounts due to group undertakings* (see note 24)	556	641
Other taxation and social security	1,430	1,170
Deferred tax liabilities	-	41
Accrued expenses	120	539
	<u>2,130</u>	<u>2,484</u>
	<u>15,020</u>	<u>24,294</u>
Amounts to be settled within one year	15,020	24,294
Amounts to be settled after more than one year	-	-
	<u>15,020</u>	<u>24,294</u>

*Included above in amounts due to group undertakings includes re-organisation costs provision of £0.48m (2018: £0.9m) which is detailed below:

<u>Re-organisation costs provision</u>	2019 £'000	2018 £'000
At January	506	902
Utilisation of provision	(20)	(396)
Released unused	-	-
At 31 December	<u>486</u>	<u>506</u>

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

17. Share Capital and Reserves

The total shareholder's funds are analysed as:

	2019 £'000	2018 £'000
Authorised		
128,836,000 Ordinary shares of £1 each	<u>128,836</u>	<u>128,836</u>
Issued, allotted, called up and fully paid		
Ordinary shares of £1 each	126,557	126,557
Share Premium	23,323	23,323
	<u>149,880</u>	<u>149,880</u>
Retained earnings	5,295	10,037
Total Shareholder's funds / equity	<u>155,175</u>	<u>159,917</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

18. Insurance liabilities

	2019				
	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 2019	8,753	54,135	30,728	-	93,616
Movement in provision	1,805	(8,956)	(608)	166	(7,592)
At 31 December 2019	10,559	45,179	30,120	166	86,024
Reinsurance assets					
At 1 January 2019	(200)	(17,928)	(28,088)	-	(46,216)
Movement in provision	70	(2,228)	(93)	-	(2,252)
At 31 December 2019	(130)	(20,156)	(28,182)	-	(48,467)
Net Insurance liabilities					
At 1 January 2019	8,554	36,207	2,640	-	47,400
Movement in provision	1,875	(11,184)	(701)	166	(9,844)
At 31 December 2019	10,429	25,023	1,939	166	37,556

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 2019	53,027	1,108	54,135
Movement in provision	(7,978)	(978)	(8,956)
At 31 December 2019	48,996	130	45,179
Reinsurance assets			
At 1 January 2019	(16,947)	(981)	(17,928)
Movement in provision	(3,208)	980	(2,228)
At 31 December 2019	(20,155)	(1)	(20,156)
Net Insurance liabilities			
At 1 January 2019	36,080	127	36,207
Movement in provision	(11,186)	2	(11,184)
At 31 December 2019	24,894	129	25,023

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

- Claims incurred but not reported of £23.4m (2018: £19.6m); and
- Claims handling expenses provision £1.4m (2018: £2.0m).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

18. Insurance liabilities

	2018			
	Unearned premiums reserve	Claims outstanding	Long-term business provision	Total
	£'000	£'000	£'000	£'000
Gross Insurance liabilities				
At 1 January 2018	12,984	76,446	36,004	125,433
Movement in provision	(4,231)	(22,310)	(5,275)	(31,816)
At 31 December 2018	8,753	54,136	30,728	93,616
Reinsurance assets				
At 1 January 2018	(220)	(23,620)	(32,942)	(56,782)
Movement in provision	20	5,692	4,854	10,566
At 31 December 2018	(200)	(17,928)	(28,088)	(46,216)
Net Insurance liabilities				
At 1 January 2018	12,764	52,826	3,061	68,651
Movement in provision	(4,210)	(16,619)	(421)	(21,250)
At 31 December 2018	8,554	36,207	2,640	47,401

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 2018	75,275	1,171	76,446
Movement in provision	(22,247)	(63)	(22,310)
At 31 December 2018	53,027	1,108	54,136
Reinsurance assets			
At 1 January 2018	(22,539)	(1,081)	(23,620)
Movement in provision	5,592	100	5,692
At 31 December 2018	(16,947)	(981)	(17,928)
Net Insurance liabilities			
At 1 January 2018	52,736	90	52,826
Movement in provision	(16,655)	37	(16,619)
At 31 December 2018	36,080	127	36,207

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

18. Insurance liabilities (continued)

The risks associated with non-life insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses several statistical and actuarial techniques based on the past claims development experience. This includes average claims costs, ultimate claims numbers and expected loss ratio. The key methods used by the Company for estimating liabilities are Chain Ladder, Bornhutter-Ferguson and expected loss ratio.

The profit before tax is sensitive to the actual outcome being different from the expected outcome. The table below gives an indication of the impact on profit of a percentage movement in the losses and loss adjustment expenses net of reinsurers' share of those liabilities.

	2019	2018
	£'000	£'000
<i>Impact on profit before tax</i>		
<u>Insurance losses deteriorate against expected outcome</u>		
5% deterioration	(1,251)	(2,002)
10% deterioration	(2,502)	(4,005)
<u>Insurance losses improve against expected outcome</u>		
5% improvement	1,251	2,002
10% improvement	2,502	4,005

Long-term business provision

The long-term business provision consists mainly of annuities in payment which are c. 94% reinsured. The gross of reinsurance provision has reduced by £0.8m over 2019, due mainly to reducing exposure and change in assumptions relating to the mortality and inflation rates. See table below for detailed movement analysis:

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

18. Insurance liabilities (continued)

	2019					
	Gross		Reinsurance		Net	
	Long-term business provision	Long-term business Claims Outstanding	Long- term business provision	Long-term business Claims Outstanding	Long- term business provision	Long-term business Claims Outstanding
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2019	30,728	1,107	28,083	981	2,646	127
Change in exposure	(1,360)	(980)	(650)	(980)	(710)	
Adjustments due to change in assumptions:						
Mortality	26	-	25	-	1	
Discount rate	1,458	-	1,472	-	(14)	
Inflation rate	(754)	-	(754)	-	-	
Default provision	-	-	-	-	-	
Expenses	5	-	-	-	5	
Other	17	2	-	-	11	
At 31 December 2019	<u>30,121</u>	<u>129</u>	<u>28,182</u>	<u>1</u>	<u>1,939</u>	<u>129</u>

	2018					
	Gross		Reinsurance		Net	
	Long-term business provision	Long-term business Claims Outstanding	Long- term business provision	Long-term business Claims Outstanding	Long- term business provision	Long-term business Claims Outstanding
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	36,003	1,171	32,942	1,081	3,061	99
Change in exposure	(2,262)	-	(2,234)	-	(27)	
Adjustments due to change in assumptions:						
Mortality	(1,376)	-	(1,313)	-	(63)	
Discount rate	(1,404)	-	(1,378)	-	(26)	
Inflation rate	72	-	71	-	0	
Default provision	(59)	-	-	-	(59)	
Expenses	(129)	-	-	-	(129)	
Other	(118)	(63)	-	(100)	(118)	3
At 31 December 2018	<u>30,728</u>	<u>1,108</u>	<u>28,088</u>	<u>981</u>	<u>2,640</u>	<u>129</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

18. Insurance liabilities (continued)

Long-term business provision

The long-term fund value is sensitive to changes in future investment yield assumptions, impacting the value of both assets and liabilities. Sensitivity analysis indicates that the fund value is adversely impacted by £10k (2018: £10k) when investment yields are decreased by 20% of a 15 year UK Gilt yield from the base assumption.

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

	2019	2018
<u>Rates of interest</u>		
RAM - Annuities	0.57%	1.21%
Annuities-general	0.57%	1.21%
Annuities-pension	0.57%	1.21%
GUAL- Annuities	0.57%	1.21%
<u>Assurances :</u>		
Life After Fifty	0.57%	1.21%
Individual Life - WOL & DTA	0.57%	1.21%
<u>Mortality tables</u>		
RAM – Annuities & IP	89.4% of Modified PCMA00 plus 2.1% long term mortality improvement & 91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	89.4% of Modified PCMA00 plus 2.1% long term mortality improvement & 91.6% of Modified PCFA00 plus 1.7% long term mortality improvement
Annuities-general	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement
Annuities-pension	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement
GUAL- Annuities	178.7% of Modified PCMA00 plus 2.1% long term mortality improvement & 137.4% of Modified PCFA00 plus 1.7% long term mortality improvement	178.7% of Modified PCMA00 plus 2.1% long term mortality improvement & 137.4% of Modified PCFA00 plus 1.7% long term mortality improvement
Life After Fifty	100% of ELT16 Males & ELT16 Females	100% of ELT16 Males & ELT16 Females
Individual Life - WOL & DTA	100% of A1967-70	100% of A1967-70

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

18. Insurance liabilities (continued)

Claims Development Table

Insurance Claims - Gross	2014	2015	2016	2017	2018	2019	Total
Accident year	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimate claims costs							
At the end of accident year	95,251	121,752	58,098	25,336	20,369	18,361	
One year later	98,372	130,254	48,636	21,436	17,977		
Two years later	100,580	115,036	47,576	21,290			
Three years later	110,327	112,744	47,395				
Four years later	108,611	115,310					
Five years later	111,268						
Cumulative claims payments							
At the end of accident year	(42,095)	(51,502)	(29,770)	(13,751)	(11,918)	(12,089)	
One year later	(74,400)	(85,117)	(42,698)	(20,658)	(17,372)		
Two years later	(82,550)	(92,937)	(44,686)	(21,244)			
Three years later	(87,635)	(97,301)	(45,750)				
Four years later	(93,139)	(102,232)					
Five years later	(95,601)						
Current estimate of cumulative claims	111,268	115,310	47,395	21,290	17,977	18,361	331,601
Cumulative payments to date	(95,601)	(102,232)	(45,750)	(21,244)	(17,372)	(12,089)	(294,388)
Claims liability outstanding	15,667	12,978	1,645	46	605	6,271	37,213
Claims liability for prior years							1,117
Total claims liability outstanding							38,330
Risk margins							5,053
Claims handling expenses							1,381
Others							287
Claims liabilities –Long-term business							128
Gross Claims liabilities							45,179

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

18. Insurance liabilities (continued)

Claims Development Tables (continued)

Insurance Claims – Net of Reinsurance

Accident year	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	Total £'000
Estimate of ultimate claims costs							
At the end of accident year	93,998	119,608	52,442	25,336	20,356	18,361	
One year later	92,180	111,276	48,918	21,436	17,977		
Two years later	93,165	106,896	47,363	21,290			
Three years later	95,331	107,064	47,088				
Four years later	94,725	107,098					
Five years later	94,648						
Cumulative claims payments							
At the end of accident year	(42,095)	(51,502)	(29,770)	(13,751)	(11,918)	(12,089)	
One year later	(74,400)	(85,117)	(42,698)	(20,658)	(17,372)		
Two years later	(81,843)	(92,937)	(44,686)	(21,244)			
Three years later	(86,389)	(97,281)	(45,750)				
Four years later	(89,640)	(101,008)					
Five years later	(91,493)						
Current estimate of cumulative claims	94,648	107,098	47,088	21,290	17,977	18,361	306,463
Cumulative payments to date	(91,493)	(101,008)	(45,750)	(21,244)	(17,372)	(12,089)	(288,956)
Claims liability outstanding	3,155	6,090	1,338	46	605	6,271	17,506
Claims liability for prior years						958	958
Net liability after reinsurance							18,464
Risk margins							5,053
Claims handling expenses							1,381
Others							125
Net Claims liabilities							25,023

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

19. Deferred acquisition costs

	General business	Long- term business	Total
	£000	£000	£000
Gross amount			
At 1 January 2019 – as restated	2,864	16	2,880
Movement in the provision	202	5	207
At 31 December 2019	<u>3,066</u>	<u>22</u>	<u>3,087</u>
Reinsurance amount			
At 1 January 2019	-	-	-
Movement in the provision	-	-	-
At 31 December 2019	<u>-</u>	<u>-</u>	<u>-</u>
Net amount			
At 1 January 2019 – as restated	2,864	16	2,880
Movement in the provision	202	5	207
At 31 December 2019	<u>3,066</u>	<u>22</u>	<u>3,087</u>

20. Provision

	Payment protection Income (PPI)	Annual review statement provision	Total
	£'000	£'000	£'000
At 1 January 2019	8,419	-	8,419
Additional provision in the year	-	1,485	1,485
Utilisation of provision	(1,356)	-	(1,376)
At 31 December 2019	<u>7,063</u>	<u>1,485</u>	<u>8,548</u>

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.

In addition, in March 2018, the FCA issued policy statement PS17/3; 'Payment Protection Insurance complaints: feedback on CP16/20 and final rules and guidance') which confirmed a deadline for PPI claims of August 2019, supported by an FCA led communications campaign.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

20. Provision (continued)

The Company has performed a detailed review of complaints received from policyholders to date in relation to the historical mis-selling of its PPI products, including an assessment of the current claims rates and the expected cost of redress including the administrative cost to the Company of handling the complaints.

In addition, the Company is also withholding an amount of £4.6m (2018: £4.6m) from provisions in relation to future payments due to intermediaries under profit-sharing arrangements, for which amounts can be withheld in respect of compensation payments made to policyholders or for which payments of profit share to intermediaries are currently withheld in line with PPI settlement agreements. This amount is included within PPI provisions.

PPI provisions as at the year-end is represented by management's best estimate, as follows:

	2019	2018
	£'000	£'000
<u>PPI provisions as at the year-end is represented by:</u>		
Redress cost	1,580	2,864
Administrative cost	883	977
Profit Share Provisions withheld	4,600	4,578
	<u>7,063</u>	<u>8,419</u>

Annual review statement compensation provision

The Company has recognised a provision resulting from an error in the customers' annual review statements caused by its policy management system. The customers did not have their twelve months premium instalments amounts showing on the annual review statement. The error related to the business sold through a partner relating to Creditor business. The partner has agreed with the Competition Marketing Authority that in these circumstances the customer would be given a refund equal to the amounts noted from their statement. As result, the Company has recognised a provision of £1.4m including other directly attributable cost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. Risk Management

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

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

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

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

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

21.1 Insurance risk

The Company is exposed to insurance risk through the insurance contracts that it issues where it assumes the risk of loss from persons or organisations that are directly subject to the underlying loss. The Company is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.

Further details regarding the Company's exposure to insurance risk are set out in notes 2 and 18.

21.2 Credit and Counterparty risk

Credit and 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 credit and counterparty risk of the Company are:

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

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. Risk Management (continued)

- Reinsurance recoveries – counterparty exposure to reinsurance counterparties arises in respect of reinsurance claims against which a reinsurance bad debt provision is assessed.

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.

	2019				
	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	178,660	-	-	-	178,660
Insurance receivable and other receivables	16,859	-	-	-	16,859
Reinsurance assets	48,468	-	-	-	48,468
Cash & cash equivalents	17,274	-	-	-	17,274
	<u>261,261</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>261,261</u>

	2018				
	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	217,169	-	-	-	217,169
Insurance receivable and other receivables	10,812	-	-	-	10,812
Reinsurance assets	46,216	-	-	-	46,216
Cash & cash equivalents	9,043	-	-	-	9,043
	<u>283,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>283,240</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. 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>	2019				Total £'000
	Corporate bonds £'000	Government bonds £'000	Deposits with financial institution £'000	Cash & cash equivalents £'000	
AAA	-	8,809	-	14,230	23,039
AA	-	3,018	-	-	3,018
AA-	6,630	-	19,589	-	26,219
A+	12,131	-	32,680	142	44,953
A	12,678	-	45,790	2,898	61,366
A-	13,975	-	11,090	-	25,065
BBB+	10,263	-	2,008	4	12,275
BBB	-	-	-	-	-
	55,677	11,827	111,157	17,274	195,935

<i>Financial assets by credit rating (%)</i>	2019				Total
	Corporate bonds	Government bonds	Deposits with financial institution	Cash & cash equivalents	
AAA	-	74%	-	82%	12%
AA	-	26%	-	-	2%
AA-	12%	-	18%	-	13%
A+	22%	-	29%	1%	23%
A	23%	-	41%	17%	31%
A-	25%	-	10%	-	13%
BBB+	18%	-	2%	-	6%
BBB	-	-	-	-	-
	100%	100%	100%	100%	100%

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. Risk Management (continued)

<i>Financial assets by credit rating</i>	2018				Total £'000
	Corporate bonds £'000	Government bonds £'000	Deposits with financial institution £'000	Cash & cash equivalents £'000	
AAA	-	20,643	-	4,622	25,265
AA	2,082	3,973	-	-	6,055
AA-	10,407	-	27,108	-	37,517
A+	17,842	-	42,648	665	61,155
A	23,891	-	45,719	3,653	73,263
A-	9,725	-	-	-	9,725
BBB+	13,131	-	-	-	13,131
BBB	-	-	-	103	103
	77,078	24,616	115,475	9,043	226,212

<i>Financial assets by credit rating (%)</i>	2018				Total
	Corporate bonds	Government bonds	Deposits with financial institution	Cash & cash equivalents	
AAA	-	84%	-	52%	11%
AA	3%	16%	-	-	3%
AA-	14%	-	23%	-	17%
A+	23%	-	37%	7%	27%
A	31%	-	40%	40%	32%
A-	13%	-	-	-	4%
BBB+	16%	-	-	-	6%
BBB	-	-	-	1%	-
BBB-	-	-	-	-	-
	100%	100%	100%	100%	100%

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. Risk Management (continued)

21.3 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.

<u>Time to maturity</u>	2019				
	Total £'000	1 Year £'000	2-3 Years £'000	4-5 Years £'000	Over 5 Years £'000
Financial investments					
-Corporate bonds	55,676	15,521	34,325	5,830	-
-Government bonds	11,827	-	5,818	3,018	2,991
-Deposits with financial institutions	111,157	74,827	20,624	15,706	-
Cash & cash equivalents	17,274	17,274	-	-	-
	<u>195,934</u>	<u>107,622</u>	<u>60,767</u>	<u>24,554</u>	<u>2,991</u>

<u>Time to maturity</u>	2018				
	Total £'000	1 Year £'000	2-3 Years £'000	4-5 Years £'000	Over 5 Years £'000
Financial investments					
-Corporate bonds	77,078	24,562	29,496	23,020	-
-Government bonds	24,616	-	7,602	14,144	2,870
-Deposits with financial institutions	115,475	73,271	37,687	4,517	-
Cash & cash equivalents	9,043	9,043	-	-	-
	<u>226,212</u>	<u>106,876</u>	<u>74,785</u>	<u>41,681</u>	<u>2,870</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. Risk Management (continued)

At 31 December 2019	Total carrying value £'000	1 Year £'000	2-3 Years £'000	4-5 Years £'000	Over 5 years £'000
Gross insurance liabilities*					
-Provision for claims reported but not settled	23,476	11,069	9,621	2,770	16
- Provision for claims incurred but not reported	21,703	8,292	3,036	1,026	9,348
-Long-term business provision	30,121	1,253	2,406	2,244	24,217
-Provision for liability for adequacy test	166	161	4	1	-
	75,466	20,775	15,068	6,041	33,581
Other payables, including insurance payables	15,020	15,020	-	-	-
Total	90,486	35,795	15,068	6,041	33,581

At 31 December 2018	Total carrying value £'000	1 Year £'000	2-3 Years £'000	4-5 Years £'000	Over 5 years £'000
Gross insurance liabilities*					
-Provision for claims reported but not settled	34,530	13,900	7,726	1,596	11,307
- Provision for claims incurred but not reported	19,605	12,432	6,012	1,152	8
-Long-term business provision	30,728	1,413	2,681	2,464	24,171
-Provision for liability for adequacy test	-	-	-	-	-
	84,864	31,585	16,420	5,212	35,487
Other payables, including insurance payables	24,294	24,294	-	-	-
Total	109,158	52,038	21,175	5,212	35,487

* 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 2019

21. Risk Management (continued)

21.4 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 foreign currency total deposits amount to £0m (2018: £1.9m) of the total portfolio. These deposits, when held, were sensitive to any fluctuation in the exchange rates. In 2018 a 5% increase / (decrease) in the Euro exchange rate would have resulted in a decrease / (increase) profit of £0.09m).

Interest risk:

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

The fair value of the investments in Company's balance sheet as at 31 December 2019 was £178.7m (2018: £217.1m). The sensitivity of the carrying value of the Company's total investment portfolio to a movement of 100 basis points in interest rates was as follows. Subject to any impairment charges that may result under the scenarios, the profit for the year would increase by £1.9m (2018: £2.1m) for a 100 basis points increase in interest rates. Conversely, a 100 basis points decrease in interest rates would decrease the profit for the year by £2.0m (2018: £2.3m).

22. Commitments

There were no outstanding capital commitments at 31 December 2019 (2018: £nil).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

23. Capital management - Unaudited

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

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

Solvency II is the framework implemented on 1 January 2018 as the capital adequacy regime. It established a set of EU-wide capital requirements and risk management standards with aim of increasing protection for policyholders.

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

	2019	2018
	£'000	£'000
Capital position		
Solvency Capital Requirement	59,395	36,008
Available eligible own funds	147,864	157,957
Capital surplus	88,469	121,949
Capital coverage ratio	248%	439%
	2019	2018
	£'000	£'000
Eligible own funds		
Available capital before foreseeable dividends	147,864	157,957
Available eligible own funds	147,864	157,957

The difference between IFRS equity of £155.2m (2018: £159.9m) and the Solvency II own funds of £147.9m (2018:£158.0m) represents de-recognition of deferred acquisition costs and insurance technical provisions.

The company's unaudited Solvency II Solvency Financial Condition Report (SFCR) is available at <https://www.cardifpinnacle.com/about/solvency-financial-condition-report>.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

24. 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, Cardiff Pinnacle Insurance Holdings plc.

	2019	2018
	£'000	£'000
<u>Amounts due from group undertakings</u>		
BNP Paribas Cardiff Limited	1,209	875
Cardif Pinnacle Insurance Management Services Plc	4,470	2,580
	5,680	3,455
<u>Amounts due to fellow group undertakings</u>		
BNP London branch	12	202
GIE BNP Paribas Assurance	176	167
Pinnacle Pet Healthcare Ltd	369	271
	556	641

Amounts due from / to fellow group undertakings are subject to 30 days credit / settlement terms.

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

- Commission paid to BNP Paribas Cardiff Limited of £1.3m (2018: £1.7m) for Warranty related insurance policies during the year.
- A fellow undertaking, Cardiff Pinnacle Insurance Management Services plc charged £18.6m (2018: £16.8m) in respect of administrative expenses incurred on behalf of the Company including staff cost of £12.7m (2018: £12.5m).
- The Company paid £0.7m (2018: £0.6m) to GIE BNP Paribas Assurance in respect of cost associated for the usage of head office IT infrastructure.

Details of the remuneration of the Company's key management personnel are shown in note 10.

As at 31 December 2019 there were no loans outstanding to officers of the Company (2018: £nil).

25. Ultimate parent undertaking

The Directors regarded BNP Paribas SA (incorporated in France), as being the Company's ultimate parent undertaking and controlling party, and Cardiff 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.

The parent company of the smallest group to include the Company in its consolidated financial statements is Cardiff Pinnacle Insurance Holdings plc. Copies of these financial statements are available from Pinnacle House, A1 Barnet Way, Borehamwood, Hertfordshire, WD6 2XX.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

26. Events after the balance sheet

The coronavirus outbreak occurred at a time close to the end of 2019, but the World Health Organisation only characterised it as a pandemic on 11 March 2020. Many governments and regulators have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain area. These measures will affect the global supply chain as well as demand for goods and services and therefore have significant impact on global growth. At the same time, fiscal and monetary policies are being relaxed to sustain the economy, and while these government responses and their corresponding effects are still evolving, there is not yet sufficient certainty on the scale of damage this outbreak will have made to local and global economies.

In issuing the financial statements, management assessed that the Company is able to continue as a going concern, and that this series of events does not provide evidence of conditions that existed at the end of 2019. The management believes however that the outbreak may have more or less severe impacts on the 2020 Financial Statements depending on the financial market trends, business volumes and claims observed.

While the effect of these events on Pinnacle Insurance is largely unpredictable as the pandemic is still spreading, they will primarily affect the technical result and the valuation of financial assets. The impact on the technical and financial balance of the company will depend on the efficiency of the contra-cyclical measures that underlie the risk assessment, the risk management framework for financial or technical risk hedging, the impact of the measures taken by the public authorities or set out by insurance regulation to sustain the economy.

Given the continuing uncertainties, it is not practicable to determine the financial impact of the pandemic on the company, although it is not expected to be material in the foreseeable future. The company has adequate capital to meet its regulatory requirements and benefits from a loan facility from its immediate parent company.

The Directors are not aware of any other significant post balance sheet events that require disclosure in these financial statements.