

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

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 December 2012**

# PINNACLE INSURANCE PLC

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**PINNACLE INSURANCE PLC**

Directors: G Binet (Chairman)  
P E Glen FCA (Chief Executive Officer)  
N J Atkinson BSc (Hons), MSc, FIA  
BNP Paribas Cardif  
P J Box \*  
Cardif Assurance Risques Divers  
Cardif Assurance Vie  
N D Rochez \*  
A M Wigg FCA

\* Independent Non-Executive Director

Secretary: M J Lorimer LLB (Hons) Solicitor

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

Head of Actuarial Function: S K Grout BSc, FIA

Auditor: Deloitte LLP  
2 New Street Square  
London  
EC4A 3B2

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

**PINNACLE INSURANCE PLC****DIRECTORS' REPORT**

The Directors submit this report and financial statements for the year ended 31 December 2012.

**PRINCIPAL ACTIVITY**

Formed in 1971, Pinnacle Insurance plc, the Company, has established itself as a specialist provider of financial services, principally in the UK. Trading under the brand of Cardif Pinnacle, the Company continues to be one of the leading providers of Creditor, Warranty and Income Replacement cover.

The Company is a subsidiary of Cardif Pinnacle Insurance Holdings plc, 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, a European leader in banking and financial services, with a Standard and Poor's long term rating of A+ (negative outlook). The Group has one of the largest international banking networks, with a presence in over 80 countries and employs close to 200,000 people.

**RESULTS AND DIVIDEND**

The results of the Company for the year are set out on pages 14, 15 and 16. The retained profit after taxation for the year was £2,203,000 (2011: £2,459,000). There were no dividends paid in the year.

**SHARE CAPITAL**

There was no change in Share Capital or Share Premium during the year.

**REVIEW OF BUSINESS*****2012 Performance***

The Company recorded a pre-tax profit of £2.1m (2011: profit of £3.5m), achieved against the backdrop of a challenging economic environment in both the UK and Ireland, alongside the continuing stresses in the wider UK Creditor insurance market. The shareholder funds of the Company remain strong at £179.6m at 31 December 2012 (31 December 2011: £177.4m). The Company is well capitalised with 1.6 times coverage of the Individual Capital Assessment (2011: 1.3 times).

The economic downturn in the UK over the past few years, and in particular the impact on the banking sector, has resulted in lower lending volumes affecting new business for Creditor Insurance. This, combined with increased publicity and focus on the PPI mis-selling issues, has led to a decrease in the Gross Premiums Written of 8% to £135.0m (2011: £147.0m).

In August 2010, the Financial Services Authority (FSA) published Policy Statement (PS10/12) in relation to the assessment and redress of PPI complaints. A £7.4m provision (2011: £6.1m) has been made in relation to potential first order and second order (administrative) costs. This is included within the provision for claims outstanding.

Following the publication of PS10/12 and the Competition Commission's investigation into Creditor insurance (PPI), the UK Creditor insurance market has undergone a period of significant structural change during 2011 and 2012. This has resulted in continued pressure on the revenue generated from this class of business.

## PINNACLE INSURANCE PLC

## DIRECTORS' REPORT

**REVIEW OF BUSINESS (Continued)****2012 Performance (Continued)**

Given the challenges within the Company's core Creditor market, the Company is diversifying its product range by writing household insurance via managing general agents (MGA's). The Company started writing household insurance via such agreements in 2011 and plans to enter into further agreements in the short term, that will result in an increasing proportion of the Company's revenue being generated via MGA's.

**General business**

The Company experienced a decrease in Gross Premiums Written of 8% to £136.6m (2011: £148.0m).

Earned premiums, net of reinsurance, decreased to £146.5m (2011: £148.7m) with annual and monthly new business continuing to replace single premium business.

Claims incurred net of reinsurance increased by 31% to £52.0m (2011: £39.8m) reflecting increased claims in core products and new MGA household business.

**Long Term business**

The Long Term business includes both long term Protection activities and those arising from the sale of investment bonds. As a direct result of the prevailing economic conditions, a decision was taken in late 2009 to withdraw from the investment product market. There are no plans currently to recommence the sale of the investment bonds due to the lack of adequate credit quality available in the market to support this product. In addition, the low interest rate environment currently being experienced in the UK makes it extremely difficult to offer competitive investment bond rates on a commercial basis.

For these reasons minimal new activity remains within the Long Term business.

**2013 outlook**

The Company continues to execute a strategy that supports and embraces the increased regulatory focus in its core Creditor market, post the implementation of the Competition Commission PPI remedies. The Company is well positioned to take advantage of any recovery in the UK Creditor market when it occurs.

The Company will continue to diversify its product range by growing its household insurance portfolio written via MGA's and look to expand into additional product areas that fit within the Company's risk appetite.

**PINNACLE INSURANCE PLC****DIRECTORS' REPORT (Continued)****REVIEW OF BUSINESS (Continued)*****2013 outlook (Continued)***

In conjunction with the wider Cardiff Pinnacle UK Group of which Pinnacle Insurance plc is part, the Company has developed a more flexible business model in the UK. The UK Group combined market offering includes:

- UK insurance product underwriting capability with a multi-distribution channel capability (Mortgage PPI, Credit card PPI, Household insurance, Motor extended warranty, Pet insurance);
- provision of software that enables corporate clients to adopt a new sales process around selling PPI with a demands and needs assessment, ensuring full compliance with the Competition Commission requirements;
- provision of telephony capability to assist clients in selling;
- the supply of software that enables annual administration of policies to be conducted; and
- capability in claims administration.

The Company remains fully committed to the UK Creditor insurance market and is well positioned to respond to a recovery in this market.

## PINNACLE INSURANCE PLC

### DIRECTORS' REPORT (Continued)

#### DIRECTORS

The Directors who held office during the year were:

G Binet (Chairman) *	
P E Glen (Chief Executive Officer)	
N J Atkinson	
BNP Paribas Cardif	
Cardif Assurance Risques Divers	
Cardif Assurance Vie	
B A Carte *	resigned 28 January 2012
A J Golding	resigned 10 June 2012
R J Mee *	resigned 06 September 2012
P J Box *	appointed 06 September 2012
N D Rochez *	appointed 13 November 2012
J Castagno	resigned 11 January 2013
A M Wigg	appointed 21 March 2013

\* Non-Executive Director

#### DIRECTORS' INTERESTS

With the exception of P E Glen who holds one ordinary share in the Company as a nominee for the parent company there are no directors' interests in shares of the Company.

#### EMPLOYEE INVOLVEMENT AND DISABLED PERSONS

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

The Group's policy is to give consideration to applications for employment made by disabled persons, having regard to their particular aptitude and abilities.

Disabled employees receive appropriate training to promote their career within the Group. Employees who become disabled are retained in their existing posts where possible or retrained for suitable alternative posts.

Employees are kept well informed about the progress and position of the Group by means of regular departmental meetings, newsletters, and journals, which are regularly published on the Group's intranet.

#### PAYMENT OF SUPPLIERS

The Company's policy on the payment of creditors is to abide by the settlement terms agreed with its suppliers.

The Company has no external suppliers to pay as all services are provided by Cardif Pinnacle Insurance Management Services plc who is the sole supplier to the Company.

**PINNACLE INSURANCE PLC****DIRECTORS' REPORT (Continued)****DONATIONS**

In line with payment of suppliers, charitable or political donations are made by Cardif Pinnacle Insurance Management Services plc on behalf of the wider UK Group. During the year the Company made no charitable or political donations (2011: £nil).

**ACTUARIAL VALUATION**

An actuarial valuation was carried out as at 31 December 2012 in respect of the long-term fund and a report has been prepared by the Head of Actuarial Function advising the board on this valuation.

**CORPORATE GOVERNANCE**

The Company is not quoted so there was no requirement to comply with the June 2008 UK Combined Code on Corporate Governance (Combined Code). However, the Directors support the high standards of Corporate Governance contained within the Combined Code and follow the Combined Code to the extent deemed relevant. Key Corporate Governance arrangements are highlighted below:

***The Board***

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

***Board Committees***

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

- Audit Committee (Chairman: P J Box);
- Investment Committee (Chairman: N J Atkinson);
- Remuneration Committee (Chairman: N D Rochez); and
- Risk & Capital Committee (Chairman: P E Glen).

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

During the year, there were changes to the chairmanship of all of the Committees. In September 2012, Mr R J Mee resigned as chairman of the Audit and Remuneration Committees and Mr P J Box became chairman of the Audit Committee and Mr N D Rochez became chairman of the Remuneration Committee. In June 2012, Mr A J Golding resigned as chairman of the Investment and Risk & Capital Committee and Ms N J Atkinson became chairman of the Investment Committee and Mr P E Glen became chairman of the Risk & Capital Committee.



## PINNACLE INSURANCE PLC

## DIRECTORS' REPORT (Continued)

## CORPORATE GOVERNANCE (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 held in 2012 was as follows:

	Board	Audit Committee	Investment Committee	Remuneration Committee	Risk & Capital Committee
<b>Number of meetings held</b>	<b>11</b>	<b>5</b>	<b>10</b>	<b>1</b>	<b>16</b>
N J Atkinson	10	*	9	*	15
G Binet	8	*	*	*	*
BNP Paribas Cardif	9	5	*	1	1
P J Box (appointed 6.9.12)	4/7	2/2	*	*	*
Cardif Assurance Vie	10	*	*	*	*
Cardif- Assurances Risques Divers	8	*	*	*	*
B A Carte (resigned 28.1.12)	0/0	1/1	*	*	*
J Castagno (resigned 11.01.13)	10	*	6	*	12
P E Glen	11	*	7	*	13
A J Golding (resigned 10.6.12)	3/3	*	5/5	*	7/7
R J Mee (resigned 6.9.12)	4/5	3/3	*	1	*
N D Rochez (appointed 13.11.12)	3/4	0/1	*	*	*

\*indicates not a member of that Committee

**PINNACLE INSURANCE PLC****DIRECTORS' REPORT (Continued)****CORPORATE GOVERNANCE (Continued)*****Internal controls***

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

The systems are designed to:

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

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

***Control environment***

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

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

There is in place an ongoing process for identifying, evaluating and managing the significant risks faced by the Company which has operated throughout 2012 and up to the date of signing this report. The Company's risk management and control framework is designed to support the identification, assessment, monitoring, management and control of risks that are significant to the achievement of its business objectives. The Company has a set of formal policies which govern the management and control of both financial and non-financial risks.

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

**PINNACLE INSURANCE PLC****DIRECTORS' REPORT (Continued)****CORPORATE GOVERNANCE (Continued)*****Audit Committee***

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

The Committee's principal duties are to:

- coordinate and have oversight of the Company's financial reporting process;
- monitor compliance;
- have oversight of internal and external audit functions;
- have oversight of the systems of internal controls;
- review matters relating to legal risk; and
- provide assurance on the effectiveness of the Company's risk management.

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

The Committee meets periodically with internal and external auditors without management present. Each year, the Committee considers the performance of the external auditor.

**RISK MANAGEMENT**

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:

**Insurance risk**

The Company's business is to accept insurance risk which is appropriate to enable the Company to meet its objectives. Within a Board approved underwriting policy and a delegated authority framework, the Company seeks to balance this insurance risk with the pursuit of appropriate reward in the form of sufficient levels of insurance premiums. Particular attention is paid to actual and forecast loss ratios (claims over premiums).

**Credit risk**

The Company's exposure to credit risk arises from its direct insurance trading activities, the exposure to the reinsurance it purchases and those of its investment activities. The Company, through the Board and the Investment Committee, seeks to limit, as far as is practical, exposure to credit risk from the Company's investment activities as far as is practical exposure to credit risk from the Company's 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.

**PINNACLE INSURANCE PLC****DIRECTORS' REPORT (Continued)****RISK MANAGEMENT (Continued)****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, the proceeds of much of which are readily realisable.

**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 in a policy allowing the Company to invest predominantly in short-term bonds or cash to match the short-tail nature of its claims. This risk is managed through the Board and the Investment Committee.

**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 mitigate this risk exposure through continual enhancement of the systems and controls, and ensuring appropriately experienced personnel are in place throughout the organisation. Incident reporting and investigation procedures are well established.

**INTERNAL AUDIT FUNCTION**

An independent internal audit function provides assurance to the Audit Committee and the Board as to the effectiveness of internal systems and controls, making reports and monitoring progress in relation to recommendations as appropriate.

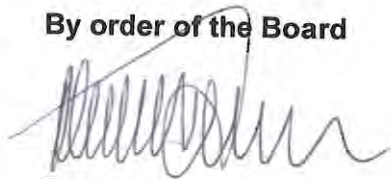
**GOING CONCERN**

The Company undertakes an ongoing Individual Capital Adequacy Assessment alongside cash flow analysis. 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 accounts.

**AUDITOR**

Mazars LLP resigned as auditor on 18 October 2012 and Deloitte LLP were appointed on 5 November 2012 and have signified their willingness to continue in office. A resolution regarding their re-appointment as auditor will be tabled at the Annual General Meeting.

**By order of the Board**



**Company Secretary**

**M J Lorimer**

**26 March 2013**

**PINNACLE INSURANCE PLC****STATEMENT OF DIRECTORS' RESPONSIBILITIES  
FOR THE YEAR ENDED 31 DECEMBER 2012**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- (i) select suitable accounting policies and then apply them consistently;
- (ii) make judgements and estimates that are reasonable and prudent;
- (iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- (iv) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are also responsible for keeping proper accounting records which 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**DISCLOSURE OF INFORMATION TO AUDITOR**

Under the Companies Act 2006 section 499, we confirm that:

- (a) so far as we are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (b) we have taken all the steps that we ought to have taken as Directors in order to make ourselves aware of any relevant information and to establish that the Company's auditor is aware of that information.

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

We have audited the financial statements of Pinnacle Insurance plc for the year ended 31 December 2012 which comprise the Profit and Loss Accounts, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), having regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2012, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and profit before tax, are disclosed in note 16(f).

This report is made solely to the Company's member, 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

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

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**PINNACLE INSURANCE PLC**

**INDEPENDENT AUDITOR'S REPORT (Continued)**

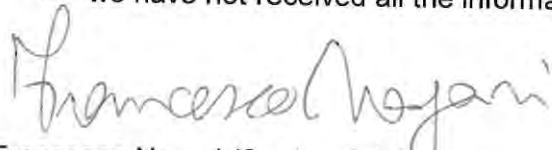
**Opinion on other matter prescribed by the Companies Act 2006**

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

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

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

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



Francesco Nagari (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, UK  
26 March 2013

## PINNACLE INSURANCE PLC

**PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	<u>2012</u> £000	<u>2011</u> £000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3(b)	136,552	148,021
Outward reinsurance premiums		<u>(653)</u>	<u>(728)</u>
		135,899	147,293
Change in the gross provision for unearned premiums	16(a)	10,779	2,047
Change in the provision for unearned premiums, reinsurers' share	16(a)	(161)	(656)
		<u>10,618</u>	<u>1,391</u>
<b>Earned premiums, net of reinsurance</b>		<b>146,517</b>	<b>148,684</b>
<b>Allocated investment return transferred from the non-technical account</b>		<b>3,082</b>	<b>2,535</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(48,464)	(44,354)
Reinsurers' share		<u>637</u>	<u>2,055</u>
		(47,827)	(42,299)
Change in the provision for claims			
Gross amount	16(a)	(3,510)	3,536
Reinsurers' share	16(a)	<u>(435)</u>	<u>(2,870)</u>
		(3,945)	666
Changes in other technical provisions, net of reinsurance	16(g)	(271)	1,831
<b>Claims incurred, net of reinsurance</b>		<b>(52,043)</b>	<b>(39,802)</b>
<b>Net operating expenses</b>	5	<b>(103,605)</b>	<b>(113,946)</b>
Change in the equalisation provision	16(f)	(499)	-
<b>Balance on the technical account-general business</b>		<b><u>(6,548)</u></b>	<b><u>(2,529)</u></b>



## PINNACLE INSURANCE PLC

**PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – LONG TERM BUSINESS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	<u>2012</u>	<u>2011</u>
		£000	£000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3(c)	(1,509)	(1,082)
Outward reinsurance premiums		<u>(9)</u>	<u>166</u>
		<b>(1,518)</b>	<b>(916)</b>
<b>Investment income</b>	4	<b>2,100</b>	<b>1,834</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(20,900)	(31,600)
Reinsurers' share		<u>1,548</u>	<u>1,623</u>
		<b>(19,352)</b>	<b>(29,977)</b>
Change in the provision for claims			
Gross amount	16(b)	590	250
Reinsurers' share	16(b)	<u>10</u>	<u>(5)</u>
		<b>600</b>	<b>245</b>
<b>Claims incurred, net of reinsurance</b>		<b>(18,752)</b>	<b>(29,732)</b>
<b>Change in other technical provisions, net of reinsurance</b>			
Long term business provision, net of reinsurance			
Gross amount	16(b)	36,081	34,171
Reinsurers' share	16(b)	<u>(5,521)</u>	<u>1,181</u>
Technical provisions for linked liabilities	16(b)	71	2,680
		<b>30,631</b>	<b>38,032</b>
<b>Net operating expenses</b>	5	<b>(9,529)</b>	<b>(8,102)</b>
<b>Unrealised gain / (loss) on investments</b>	4	<b>70</b>	<b>(522)</b>
<b>Taxation charge attributable to the long term business</b>	9	<b>-</b>	<b>(8)</b>
<b>Balance on the technical account-long term business</b>		<u><b>3,002</b></u>	<u><b>586</b></u>
<b>Taxation charge attributable to the balance on the long term business technical account</b>	9	<b>-</b>	<b>8</b>
<b>Balance on the technical account-long term business before taxation</b>		<u><u><b>3,002</b></u></u>	<u><u><b>594</b></u></u>

**PINNACLE INSURANCE PLC**  
**PROFIT AND LOSS ACCOUNT NON TECHNICAL ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	<u>2012</u> £000	<u>2011</u> £000
<b>Balance on the technical account-general business</b>		(6,548)	(2,529)
<b>Balance on the technical account-long term business before taxation</b>		3,002	594
		<u>(3,546)</u>	<u>(1,935)</u>
Investment income	4	6,561	5,696
Unrealised gain on investments	4	2,088	2,953
		8,649	8,649
Allocated investment return transferred to the general business account		(3,082)	(2,535)
Foreign exchange gain / (loss)		38	(686)
		5,605	5,428
<b>Profit on ordinary activities before tax</b>		<b>2,059</b>	<b>3,493</b>
<b>Taxation on ordinary activities</b>	9	<b>144</b>	<b>(1,034)</b>
<b>Profit for the financial year</b>		<b>2,203</b>	<b>2,459</b>

The Company has no recognised gains or losses other than the profit for the year.

All profits relate to continuing operations.

The notes on pages 20 to 36 form part of these accounts.

## PINNACLE INSURANCE PLC

RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	<u>2012</u> £000	<u>2011</u> £000
Proceeds from share issue	15(b)	-	35,180
Profit for the financial year	15(b)	2,203	2,459
Dividends	15(b)	-	(35,180)
<b>Net addition to shareholder's funds</b>		<u>2,203</u>	<u>2,459</u>
<b>Opening shareholder's funds</b>		177,446	174,987
<b>Closing shareholder's funds</b>		<u><u>179,649</u></u>	<u><u>177,446</u></u>

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

**BALANCE SHEET - ASSETS**  
**AT 31 DECEMBER 2012**

<b>ASSETS</b>	Note	<u>2012</u> £000	<u>2011</u> £000
<b>Investments</b>			
Investments in group undertakings	10(a)	10,000	10,000
Other financial investments	10(b)	255,051	285,564
		<u>265,051</u>	<u>295,564</u>
<b>Assets held to cover linked liabilities</b>	16(b)	-	71
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	16(a)	57	218
Long term business provision	16(b)	19,693	25,214
Claims outstanding	16(c)	2,458	2,883
		<u>22,208</u>	<u>28,315</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	11	17,231	18,131
Debtors arising out of reinsurance operations	12	670	515
Other debtors	13	4,396	8,351
		<u>22,297</u>	<u>26,997</u>
<b>Other assets</b>			
Cash at bank and in hand	14	25,768	20,281
<b>Prepayments and accrued income</b>			
Accrued interest		2,922	3,532
Deferred acquisition costs	16(d)	36,559	53,437
Other prepayments and accrued income		141	332
		<u>39,622</u>	<u>57,301</u>
<b>Total assets</b>		<u><u>374,946</u></u>	<u><u>428,529</u></u>

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

**BALANCE SHEET - LIABILITIES**  
**AT 31 DECEMBER 2012**

<b>LIABILITIES</b>	Note	<u>2012</u> £000	<u>2011</u> £000
<b>Capital and reserves</b>			
Called up share capital	15(a)	126,557	126,557
Share premium	15(a)	23,323	23,323
Profit and loss account	15(b)	29,769	27,566
		<hr/>	<hr/>
Equity shareholder's funds	15(b)	<b>179,649</b>	<b>177,446</b>
<b>Technical provisions</b>			
Provision for unearned premiums	16(a)	57,709	68,488
Long term business provision	16(b)	34,336	70,417
Claims outstanding	16(c)	48,417	45,497
Equalisation provision	16(f)	499	-
Other technical provisions	16(g)	3,734	3,463
		<hr/>	<hr/>
		<b>144,695</b>	<b>187,865</b>
<b>Technical provisions for linked liabilities</b>	16(b)	-	71
<b>Creditors</b>			
Creditors arising out of direct insurance operations	17	45,720	57,481
Creditors arising out of reinsurance operations	18	245	162
Amounts owed to credit institutions	19	866	173
Accruals and deferred income		187	887
Other creditors including taxation and social security	20	3,584	4,444
		<hr/>	<hr/>
		<b>50,602</b>	<b>63,147</b>
<b>Total liabilities</b>		<hr/> <hr/> <b>374,946</b>	<hr/> <hr/> <b>428,529</b>

These financial statements were approved by the board of Directors on 26 March 2013.

Signed on behalf of the board by:



**N J Atkinson**



**P E Glen**

**PINNACLE INSURANCE PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

The notes on pages 20 to 36 form part of these accounts.

**1. Basis of preparation**

The financial statements have been prepared in accordance with the provisions of Schedule 3 of SI 2008 No 410 The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers dated December 2005, (as amended December 2006). The financial statements have also been prepared in accordance with the Companies Act 2006, with applicable United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice), on the going concern basis and under the historical cost accounting rules, modified to include the revaluation of investments.

**2. Accounting policies**

The principal accounting policies have been summarised below. They have all been applied consistently throughout the year and the preceding year in dealing with items which are considered material to the Company's financial statements.

**Basis of accounting for general and long term insurance business**

General business is accounted for on an annual basis.

The Company uses a modified statutory solvency basis for determining the long term business provision.

**Premiums**

In respect of general business and long term protection business, premium income included in the profit and loss account is shown gross of commissions paid to intermediaries and is exclusive of Insurance Premium Tax and duties levied on premiums.

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet received or notified taking into account any premium cancellations.

In respect of long term investment business, premiums are accounted for on a receivable basis excluding any taxes or duties levied on premiums. Outwards reinsurance premiums are accounted for on an accruals basis.

**Unearned premiums – gross and reinsurance**

The general business provision for gross and reinsured unearned premiums represents the proportion of premiums written in the year that relates to the risks of unexpired terms of policies in force at the balance sheet date. This is calculated on a time apportionment basis adjusted to reflect the Company's experience of the incidence of claims incurred over the term of those policies.

**Acquisition costs**

Acquisition costs, which represent commission and other related expenses, are deferred subject to recoverability and amortised over the period in 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.

**PINNACLE INSURANCE PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)****Claims – gross and reinsurance**

Claims incurred in respect of general business comprise claims and related expenses paid in the financial period and the movements in provision for outstanding claims and related expenses including provisions for claims incurred but not reported.

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 provision for accident and sickness outstanding claims including claims incurred but not reported.

**Claims outstanding**

Outstanding claims comprise provisions for the 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 technical account in the year in which these claims are re-estimated or settled:- these differences may be significant.

**Unexpired risks provision**

An unexpired risks provision is recognised for any deficiencies arising at the balance sheet date when unearned premiums net of the reinsurers' share of those premiums and net of associated acquisition costs are insufficient to meet expected claims and expenses over the future unexpired cover period. These deficiencies are calculated at a portfolio level after taking into account future investment return on the investments supporting the unearned premiums provision and any brought forward unexpired risks provision. The surplus of unearned premiums over future expected claims is not used to offset these deficiencies unless it arises within the same portfolio of risks. The portfolios used for the unexpired risk provision calculations are based on the business classes that management utilises to manage insurance risk during the course of the period. These portfolios are consistent with those used in the prior year. The expected claims over the unexpired period subsequent to the balance sheet date are calculated having regard to events that have occurred prior to the balance sheet date.

**Equalisation provision**

The equalisation provision has been established with the rules in INSPRU1.4. The provision is valued in accordance with the provisions of those rules having due regard to Council Directive 87/343/EEC as required to be set aside by a Company to equalise fluctuations in loss ratios in future years or to provide for special risks. The regulation requires separate equalisation reserves to be set up for credit business. The provision relates to property and calculated using the net written premium multiplied by 3%.

**PINNACLE INSURANCE PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)****Long term business provision**

The long term business provision comprises those provisions that have been computed by the Head of Actuarial Function, having due regard to the principles laid down in Council Directive 2002/83/EC adjusted for the related deferred acquisition costs. The provision for credit life business is based on an unearned premium reserve, having regard to the incidence of the risk over the term of the contract. The provision for guaranteed single premium bonds is based on a prospective valuation of the future benefits and expenses. The provision for linked contracts is based on the market value of the related assets.

**Expenses**

Underwriting acquisition costs, general overheads and other expenses are charged as incurred to the profit and loss technical account, net of the change in deferred acquisition costs.

**Investments**

All investments are stated at their fair value.

Listed investments are stated at bid price on the balance sheet date, or on the last stock exchange trading day before the balance sheet date.

**Investment income**

Investment income is accounted for on a receivable basis, including, where appropriate, the imputed tax credit. Dividends are recognised when the investments to which they relate are declared "ex dividend". Interest income is accrued up to the balance sheet date.

Realised gains or losses represent the difference between sales proceeds and purchase price net of transaction costs.

**Unrealised gains and losses on investments**

Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have been previously revalued, their valuation at the last balance sheet date plus the reversal of unrealised gains and losses recognised in earlier accounting years in respect of disposals in the current year. Unrealised gains and losses on investments which are attributed to the long-term fund are included in the long term business technical account. Unrealised gains and losses on other investments are reported in the non-technical account.

**Allocation of investment return**

Investment income, realised and unrealised gains and losses, are reported in the non-technical account. Amounts relating to investments supporting general business technical provisions are allocated from the non-technical account to the technical account. Investment income, realised gains and losses, expenses and charges arising on long term business are included in the long term business technical account.

**Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date. The gains or losses arising are included in the non-technical account. Income and expenditure expressed in foreign currencies are translated into sterling at the rate of exchange ruling on the date on which the transaction occurs.



## PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

**Taxation**

The element of the taxation charge / credit that relates to long-term business is based on the result of the application of the rules for the taxation of life assurance companies to the items included in the long-term business technical account for the year. It also takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

The element of the taxation charge / credit that relates to general business and to non-technical account items is based on the general business technical account profit / loss for the year together with income and gains included in the non-technical account. It takes into account taxation deferred because of timing differences between certain items for taxation and accounting purposes.

Deferred tax is provided in full in respect of the tax effect of all timing differences, at the rates of tax expected to apply when the timing differences reverse. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

**Cash flow statement**

The Company has applied the exemption under paragraph (5)(a) of FRS 1 (revised) 'Cash Flow Statements' and has not presented a separate cash flow statement on the grounds that it is a subsidiary undertaking which is 100% controlled by the BNP Paribas SA group of companies. The consolidated financial statements in which the subsidiary undertakings are included are publically available.

**3. Segmental analysis****3(a) Analysis by class of business**

	2012 £000	2011 £000
Gross premiums written		
General business	136,552	148,021
Long term business	(1,509)	(1,082)
	<u>135,043</u>	<u>146,939</u>
Profit before taxation:		
Non technical items have been allocated to general business		
General business	(943)	2,899
Long term business	3,002	594
	<u>2,059</u>	<u>3,493</u>
Segmental net assets (see notes 15(a) and 15(b))		
General business (including shareholders' funds)	164,937	155,736
Long term business	14,712	21,710
	<u>179,649</u>	<u>177,446</u>

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

On 20 December 2012, the board approved the transfer of £10,000,000 (2011: nil) of surplus from the long term fund to the general fund following the Financial Condition Report recommendation from the Head of Actuarial Function holder.

## PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

	2012	2012	2012	2012	2012
3(b) Analysis of general business	Gross Premiums Written £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance Balance £000
Direct Insurance					
Creditor	105,661	118,555	(32,670)	(86,433)	(5)
Warranty	13,752	19,195	(13,988)	(8,959)	-
Household	17,133	9,343	(5,403)	(8,297)	(497)
	<u>136,546</u>	<u>147,093</u>	<u>(52,061)</u>	<u>(103,689)</u>	<u>(502)</u>
Reinsurance	6	238	(184)	(24)	-
	<u>136,552</u>	<u>147,331</u>	<u>(52,245)</u>	<u>(103,713)</u>	<u>(502)</u>
	2011	2011	2011	2011	2011
	Gross Premiums Written £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance Balance £000
Direct Insurance					
Creditor	119,321	114,577	(25,062)	(92,833)	(1,566)
Warranty	28,694	34,728	(13,612)	(21,393)	-
Household	-	-	-	-	-
	<u>148,015</u>	<u>149,305</u>	<u>(38,674)</u>	<u>(114,226)</u>	<u>(1,566)</u>
Reinsurance	6	763	(313)	(353)	-
	<u>148,021</u>	<u>150,068</u>	<u>(38,987)</u>	<u>(114,579)</u>	<u>(1,566)</u>

## PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

## 3. Segmental analysis (continued)

3(c) Analysis of long term business	2012	2012	2012	2012	2012
	Gross Premiums Written £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance Balance £000
Direct Insurance Investments	-	18,242	18,585	(14)	-
Long term protection	(1,509)	15,681	1,725	(9,522)	(3,966)
	<u>(1,509)</u>	<u>33,923</u>	<u>20,310</u>	<u>(9,536)</u>	<u>(3,966)</u>
	2011	2011	2011	2011	2011
	Gross Premiums Written £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance Balance £000
Direct Insurance Investments	-	27,752	28,030	(15)	-
Long term protection	(1,082)	8,017	3,320	(8,018)	2,896
	<u>(1,082)</u>	<u>35,769</u>	<u>31,350</u>	<u>(8,033)</u>	<u>2,896</u>

4. Investment return	Technical account long term business		Non-technical account	
	2012 £000	2011 £000	2012 £000	2011 £000
Income from Group undertakings	-	-	287	176
Income from other financial investments	1,959	1,857	7,803	6,357
Realised gain / (loss) on investments	141	(23)	(1,529)	(837)
Investment Income	<u>2,100</u>	<u>1,834</u>	<u>6,561</u>	<u>5,696</u>
Unrealised gain / (loss) on investments	70	(522)	2,088	2,953
	<u>2,170</u>	<u>1,312</u>	<u>8,649</u>	<u>8,649</u>

Included within the unrealised gains / (losses) on investments in the technical account and the non technical account are net movements in provisions of £1,857,000 (2011: £3,171,000 gain) in relation to the Company's exposure to the UK regulated subsidiary, Kaupthing Singer & Friedlander £1,857,000 gain (2011: £1,865,000 gain), of the Icelandic banking group, Landsbanki £nil (2011: £1,306,000 gain), part of the Icelandic Heritable Banking Group.

## PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

5. Net operating expenses	General Business		Long Term Business	
	2012 £000	2011 £000	2012 £000	2011 £000
Acquisition costs	77,487	102,947	(1,438)	(630)
Change in gross deferred acquisition costs	8,540	2,279	8,338	8,244
Administrative expenses	17,686	9,353	2,636	419
Gross operating expenses	<u>103,713</u>	<u>114,579</u>	<u>9,536</u>	<u>8,033</u>
Reinsurance commissions and profit participation	(12)	(409)	(3)	121
Change in deferred reinsurance commission	(96)	(224)	(4)	(52)
	<u>103,605</u>	<u>113,946</u>	<u>9,529</u>	<u>8,102</u>
6. Profit on ordinary activities before tax is stated after charging:			2012 £000	2011 £000
Auditor's remuneration				
Fees payable to the Company's auditor for the Company's annual accounts			102	123
Fees payable to the Company's auditor for the provision of other services			37	35
			<u>139</u>	<u>158</u>
7. Employees				
A fellow subsidiary of Cardif Pinnacle Insurance Holdings Plc, Cardif Pinnacle Insurance Management Services plc, provides a staff management service and recharges all staff costs to the Company and wider UK Group. Average staff numbers and employee costs in respect of services to the Company were as follows:				
			2012 Number	2011 Number
Sales			17	26
Administration			360	368
			<u>377</u>	<u>394</u>
Employment costs			2012 £000	2011 £000
Wages and salaries			15,830	16,120
Social security costs			1,673	1,890
Other pension costs			1,515	1,528
			<u>19,018</u>	<u>19,538</u>

## PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

## 8. Remuneration of Directors

Directors' emoluments in respect of services to the Company were as follows:

	2012 £000	2011 £000
Emoluments	1,074	1,661
Pension contributions to a defined contribution scheme	87	139
	<u>1,161</u>	<u>1,800</u>
	2012 £000	2011 £000
Emoluments of highest paid Director	447	430
Pension contributions of highest paid Director	36	54
	<u>483</u>	<u>484</u>

The number of Directors to whom retirement benefits are accruing under a defined contribution scheme are 2 (2011: 6).

## 9. Taxation on ordinary activities

Analysis of credit in the year	General Business		Long Term Business		Total	
	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000
<b>Current tax</b>						
UK Corporation Tax on profit for the year	(246)	-	-	-	(246)	-
Prior year adjustments	-	-	-	8	-	8
Total current tax (credit) / charge	<u>(246)</u>	<u>-</u>	<u>-</u>	<u>8</u>	<u>(246)</u>	<u>8</u>
<b>Deferred tax</b>						
Reversal of timing differences	102	1,026	-	-	102	1,026
<b>Tax on profit on ordinary activities</b>	<u>(144)</u>	<u>1,026</u>	<u>-</u>	<u>8</u>	<u>(144)</u>	<u>1,034</u>

## PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

## 9. Taxation on ordinary activities (continued)

Factors affecting tax credit for the year	General Business		Long Term Business		Total	
	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000
(Loss) / profit on ordinary activities before tax	(943)	2,899	3,002	594	2,059	3,493
(Loss) / profit on ordinary activities by tax rate in the UK of 24.5% (2011: 26.5%)	(231)	768	736	157	505	925
<u>Effects of:</u>						
<u>Long Term Business</u>						
Bank levy not allowable for corporation tax	(15)	36	-	-	(15)	36
Prior year adjustments	-	-	-	8	-	8
Relief of losses	-	(804)	(736)	(157)	(736)	(961)
Current tax (credit) / charge	<u>(246)</u>	<u>-</u>	<u>-</u>	<u>8</u>	<u>(246)</u>	<u>8</u>

Deferred taxation	General Business		Long Term Business		Total	
	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000
At 1 January	2,331	3,357	-	-	2,331	3,357
Charge to profit and loss in respect of current year	(4)	(905)	-	-	(4)	(905)
Charge to profit and loss in respect of change in tax rate	(52)	(123)	-	-	(52)	(123)
Prior years adjustments	(46)	2	-	-	(46)	2
At 31 December	<u>2,229</u>	<u>2,331</u>	<u>-</u>	<u>-</u>	<u>2,229</u>	<u>2,331</u>

The deferred tax asset relates to losses arising from prior years and is included within other debtors (note 13). There is also an unrecognised deferred tax asset of £1,840,000 (2011: £760,000) in respect of long term business due to timing differences including unrelieved tax losses. A deferred tax asset has not been recognised in respect of the long term business as there has been a withdrawal from the investment product market and significant taxable profits are not anticipated.

## PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

**10. Investments****10(a) Investments in Group undertakings**

The Company holds mortgages over properties held by a fellow subsidiary undertaking. As at the 31 December 2012 the amounts invested were £10,000,000 (2011: £10,000,000).

**10(b) Other financial investments**

	Market Value		Cost	
	2012 £000	2011 £000	2012 £000	2011 £000
Listed shares	19	27	129	129
Debt securities and other fixed income securities	119,854	110,786	111,444	112,394
Deposits with credit institutions	<u>135,178</u>	<u>174,751</u>	<u>135,178</u>	<u>174,751</u>
	<u>255,051</u>	<u>285,564</u>	<u>246,750</u>	<u>287,274</u>

As required to be shown by Schedule 3 of SI 2008 No 410 the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulation 2008, the Investments are shown net of bad debt provisions. The bad debt provision comprises £7,460,000 (2011: £9,325,000), in relation to the Company's exposure to the UK regulated subsidiary, Kaupthing Singer & Friedlander and £465,000 of the Icelandic banking group, Landsbanki, (£2011: £456,000), part of the Icelandic Heritable Banking Group.

<b>11. Debtors arising out of direct insurance operations</b>	<b>2012 £000</b>	<b>2011 £000</b>
Amounts owed by policyholders	<u>17,231</u>	<u>18,131</u>

The debtors are shown at net realisable value, and includes a £2,010,000 bad debt provision (2011: £nil).

<b>12. Debtors arising out of reinsurance operations</b>	<b>2012 £000</b>	<b>2011 £000</b>
Amounts due from reinsurers	<u>670</u>	<u>515</u>

## PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

<b>13. Other debtors</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Amounts owed by group undertakings	2,155	5,993
Other Taxes	12	27
Deferred tax	2,229	2,331
	<u>4,396</u>	<u>8,351</u>

<b>14. Cash at bank and in hand</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Cash at bank and in hand	<u>25,768</u>	<u>20,281</u>

Cash at bank and in hand comprises deposits repayable on demand and short term bank deposits. Included within this amount are balances of £5,029,000 (2011: £1,160,000), held on behalf of intermediaries.

<b>15(a) Share Capital</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Authorised 128,836,000 Ordinary shares of £1 each	<u>128,836</u>	<u>128,836</u>
Issued, allotted, called up and fully paid Ordinary shares of £1 each	126,557	126,557
Share Premium	<u>23,323</u>	<u>23,323</u>
	<u>149,880</u>	<u>149,880</u>



## PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

## 15(b) Shareholder's fund movements

	Share Capital £000	Share Premium £000	Profit & Loss £000	Total £000
At 1 January 2011	97,721	16,979	60,287	174,987
Ordinary share capital issue	28,836	6,344	-	35,180
Profit for the financial year	-	-	2,459	2,459
Final dividend	-	-	(35,180)	(35,180)
At 31 December 2011	126,557	23,323	27,566	177,446
Profit for the financial year	-	-	2,203	2,203
At 31 December 2012	126,557	23,323	29,769	179,649

Non-distributable reserves in respect of the surplus on the long term business that must be maintained by the Company as at 31 December 2012 were £14,712,000 (2011: £21,710,000).

## 15(c) Capital statement

	2012 £000	2011 £000
Shareholder's funds held outside the long term fund	164,937	155,736
Shareholder's funds held in the long term fund	14,712	21,710
<b>Total shareholder's funds</b>	179,649	177,446
Other adjustments	(2,380)	(2,519)
<b>Total available capital resources</b>	177,269	174,927

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

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

The technical reserves for the guaranteed income and growth bonds are sensitive to the valuation interest rate assumption which varies as market yields change. However, as assets and liabilities are closely matched (the difference in discounted mean term (DMT) is less than 3 months), the impact on surplus capital is not material, as evidenced by a resilience capital requirement (RCR) of £150,000 (2011: £150,000) on £3,586,000 (2011: £21,756,000) of liabilities.

Investment returns are guaranteed for income and growth bonds. However, the assets purchased to back this business match any guarantee given. Therefore no stochastic modelling has been performed to assess the value of the guarantee. For guaranteed income and growth bonds, the guarantee will cause a loss to the Company if the underlying asset defaults. This has been allowed for in the valuation by a deduction to the valuation interest rate, which is dependent on the asset type and rating.

## PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

16. Technical provisions	Provision for Unearned Premiums £000	Claims Outstanding £000	Total £000
<b>16(a) General business</b>			
Gross amount			
At beginning of year	68,488	44,461	112,949
Movement in the provision	(10,779)	3,510	(7,269)
At end of year	<u>57,709</u>	<u>47,971</u>	<u>105,680</u>
Reinsurance amount			
At beginning of year	(218)	(2,873)	(3,091)
Movement in the provision	161	435	596
At end of year	<u>(57)</u>	<u>(2,438)</u>	<u>(2,495)</u>
Net technical provisions			
Opening balance	68,270	41,588	109,858
Movement in the provision	(10,618)	3,945	(6,673)
At end of year	<u>57,652</u>	<u>45,533</u>	<u>103,185</u>

As required to be shown by Schedule 3 of SI 2008 No 410 The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, the Claims outstanding do not include the Additional Unexpired Risk Reserves, which are shown in Other technical provisions.

16(b) Long term business	Long Term Business Provision £000	Technical Provisions for Linked Liabilities £000	Claims Outstanding £000	Total £000
Gross amount				
At beginning of year	70,417	71	1,036	71,524
Movement in the provision	(36,081)	(71)	(590)	(36,742)
At end of year	<u>34,336</u>	<u>-</u>	<u>446</u>	<u>34,782</u>
Reinsurance amount				
At beginning of year	(25,214)	-	(10)	(25,224)
Movement in the provision	5,521	-	(10)	5,511
At end of year	<u>(19,693)</u>	<u>-</u>	<u>(20)</u>	<u>(19,713)</u>
Net technical provisions				
Opening balance	45,203	71	1,026	46,300
Movement in the provision	(30,560)	(71)	(600)	(31,231)
At end of year	<u>14,643</u>	<u>-</u>	<u>426</u>	<u>15,069</u>

## PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

## 16(b) Long term business (continued)

The principal assumptions underlying the calculation of the long term business provision are:

	2012	2011
<u>Rates of interest</u>		
Assurance :		
Without profit	3.3%	3.2%
Guaranteed Growth Bonds		
Outstanding term less than 1 year	5.3%	3.3%
Outstanding term less than 2 years	2.4%	2.6%
Outstanding term less than 3 years	n/a	1.8%
Guaranteed Income Bonds		
Outstanding term less than 1 year	5.1%	2.6%
Outstanding term less than 2 years	2.3%	2.4%
Outstanding term less than 3 years	n/a	1.8%
Monthly Income Bonds		
Outstanding term less than 1 year	5.7%	2.9%
Outstanding term less than 2 years	2.7%	3.2%
Outstanding term less than 3 years	n/a	1.2%
Annuities :		
Without profit - Life	3.3%	3.2%
Without profit - Pensions	3.3%	3.2%
<u>Mortality tables</u>		
Assurances	n/a	50% of A67/70 ultimate
	AM80/AF80	AM80/AF80
	ELT14	ELT14
Annuities-general	70% PMA92&PFA92	70% PMA92&PFA92
Annuities-pension	70 & PFA92	70 & PFA92

## PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

16(c) Claims outstanding	Gross Amount		Reinsurance Amount	
	2012 £000	2011 £000	2012 £000	2011 £000
General business	47,971	44,461	(2,438)	(2,873)
Long term business	446	1,036	(20)	(10)
	<u>48,417</u>	<u>45,497</u>	<u>(2,458)</u>	<u>(2,883)</u>

As required to be shown by Schedule 3 of SI 2008 No 410 The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, the claims outstanding do not include the additional unexpired risk reserves, which are shown in other technical provisions. As a result, the 2011 gross amounts has been updated to reflect this requirement.

Included within the claims outstanding balance is a provision in respect of claims incurred but not reported of £24,488,000 (2011: £19,828,000).

16(d) Deferred acquisition costs	Gross Amount		Reinsurance Amount	
	2012 £000	2011 £000	2012 £000	2011 £000
General business	29,592	38,132	38	134
Long term business	6,967	15,305	-	4
	<u>36,559</u>	<u>53,437</u>	<u>38</u>	<u>138</u>

The reinsured amount of £38,000 (2011: £138,000) is included within Note 18.

## 16(e) Long term fund

At 31 December 2012 the total amount of assets representing the long term fund as required to be shown by Schedule 3 of SI 2008 No 410 The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 was £56,907,000 (2011: £100,208,000).

## 16(f) Equalisation provision

	2012 £000	2011 £000
Provision as at 1st January	-	-
Transfer in to the Technical account - General business and in the profit on ordinary activities before tax	499	-
<b>Provision as at 31 December</b>	<u>499</u>	<u>-</u>

The recognition of the provision during the year had the effect of decreasing the balance on the General business technical account and the Shareholder's funds by £499,000 (2011: £nil).

## PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

<b>16(g) Other technical provisions</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Provision as at 1st January	3,463	5,294
Increase / (decrease) in the provision	271	(1,831)
Provision as at 31 December	<u>3,734</u>	<u>3,463</u>
Other technical provisions wholly relate to the additional unexpired risk reserve.		
<b>17. Creditors arising out of direct insurance</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Other creditors	<u>45,720</u>	<u>57,481</u>
<b>18. Creditors arising out of reinsurance operations</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Other creditors	<u>245</u>	<u>162</u>
<b>19. Amounts owed to credit institutions</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Payable in less than one year	<u>866</u>	<u>173</u>
Amounts owed to credit institutions comprises bank overdrafts which are repayable on demand.		
<b>20. Other creditors including taxation and social security</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Amount due to group undertakings	1,476	585
Other taxes	<u>2,108</u>	<u>3,859</u>
	<u>3,584</u>	<u>4,444</u>

**21. Commitments**

There were no outstanding capital commitments at 31 December 2012 (2011: £nil).

**22. Contingent liabilities**

In August 2010 the Financial Services Authority (FSA) published Policy Statement (PS 10/12) in relation to the assessment and redress of PPI complaints. A £7,400,000 provision (2011: £6,100,000), has been made in relation to potential first order and second order (administrative) costs. This is included within the provision for claims outstanding.

## PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (Continued)

**23. Related party transactions**

The Company has relied on the exemption given in Financial Reporting Standard 8 not to disclose transactions with entities that are wholly owned within the Group and qualify as related parties on the grounds that its voting rights are wholly controlled within the Group and the parent undertaking publishes consolidated financial statements which include the financial statements of the Company.

The Company entered into certain transactions with Warranty Direct Limited during the year and at the balance sheet date it is owed certain amounts from that fellow subsidiary of the Company's parent. These are disclosed because Warranty Direct Limited does not fall within the above exemption:

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Gross premiums written	7,370	11,997
Commission paid	(4,313)	(7,463)
Claims paid	(4,782)	(5,041)
Amounts owed	1,079	1,068

**24. Ultimate parent undertaking**

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

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

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