REVISED FINANCIAL STATEMENTS

PINNACLE INSURANCE PLC
Company Registration Number: 1007798

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2013

REVISED FINANCIAL STATEMENTS

These revised financial statements replace the original financial statements for the year ended 31 December 2013 which were approved by the Board on 27 March 2014. They are now the statutory financial statements of the Company for that financial year. In accordance with the Companies Act 2006 ('the Act'), the financial statements have been revised as at the date of the original financial statements and not as at the date of this revision. Accordingly they do not deal with events between those dates.

The original financial statements did not comply with the Act as Pinnacle Insurance plc had not correctly applied its accounting policy in respect of the gross presentation of the provision for unearned premiums and deferred acquisition costs for a particular book of business in prior years. Accordingly, the Directors have revised these financial statements to include a prior year adjustment to restate the 2012 comparative balances as explained in note 3 of the financial statements.

The Act requires that where revised financial statements are issued, a revised auditor's report is issued and this is attached.

Under section 454 of the Act the directors have authority to revise annual financial statements, the directors' report or directors' remuneration report if they do not comply with the Act. The revised financial statements or report must be amended in accordance with the Companies (Revision of Defective Accounts and Reports) Regulations 2008 and in accordance therewith do not take account of events which have taken place after the date on which the original financial statements were approved. The Regulations require that the revised financial statements show true and fair view as if they were prepared and approved by the directors as at the date of the original financial statements.

PINNACLE INSURANCE PLC

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PINNACLE INSURANCE PLC
Company Information

Directors:	G Binet (Chairman) P E Glen FCA (Chief Executive Officer) N J Atkinson, FIA BNP Paribas Cardif P J Box * Cardif Assurance Risques Divers Cardif Assurance Vie N D Rochez * A M Wigg FCA (appointed 21 March 2013) J Castagno (resigned 11 January 2013) * 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 3BZ
Principal Bankers:	Barclays Bank PLC 54 Lombard Street London EC3P 3AH

PINNACLE INSURANCE PLC

STRATEGIC REPORT

Pinnacle Insurance plc ('the Company') was formed in 1971 and has established itself as a specialist provider of personal lines insurance principally within the UK. The Company continues to be one of the leading providers of creditor insurance. In addition, the Company is focused on diversifying its product, offering and writing warranty, pet and specialist household and personal lines motor.

The Company is a subsidiary of Cardif Pinnacle Insurance Holdings plc ('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, 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.

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

BUSINESS REVIEW

The Company delivered an improved pre-tax profit of £2.6m (2012: £2.1m), achieved against the back drop of continuing stresses in the UK creditor insurance market. The improvement in performance reflects the benefits of a diversified product offering with gross written premium up 28% to £172.8m. The shareholder funds of the Company remain strong at £181.0m (2012: £179.6m), and its solvency position is well capitalised with 1.5 times coverage of the Individual Capital Assessment.

Creditor
The creditor market remains weak through a combination of both low consumer and distributor demand. Overall gross written premium declined 21% to £77.1m reflecting the continued run-off, offset by limited new business amounting to £7.0m (2012: £6.4m).

Household and Motor
The Company's strategy for this business class is to write business via Managing General Agents (MGAs) or co-insurance arrangements. In 2013 the Company entered into two further arrangements; one for household (January) and one for motor (December). Total gross written premium increased by £56.3m from £17.0m in 2012 to £73.9m in 2013. This comprised £43.5m (2012: £17.0m) in relation to household and £12.8m (2012: £ nil) in relation to motor.

Pet
Whilst the business class is relatively small, it has delivered encouraging gross written premium growth of 8.6% reaching £6.3m in 2013 (2012: £5.8m) driven largely by the launch in July of new products which are predominantly distributed via aggregators. In addition, the Company secured an affinity relationship with a leading financial services brand which is scheduled to start generating business from June 2014.

Motor Warranty
Gross written premium declined by 13% to £12.0m from £13.8m in 2012, due to the cessation of specific schemes. During 2013, the Company commenced the underwriting of a specific account distributed by a subsidiary of Cardif Pinnacle Insurance Holdings. In 2014, further opportunities to expand the underwriting for this subsidiary are being explored.

PINNACLE INSURANCE PLC

STRATEGIC REPORT (Continued)

Lon- Term business

Long Term business includes long-term protection policies and those arising from the sale of investment bonds. As a direct result of the persistent low interest rate environment in the UK, a decision was taken in late 2009 to withdraw from the investment product market. There are no current plans to recommence the sale of investment bonds due to the lack of UK assets with adequate yields and the desired credit quality to support this product and to offer competitive investment bond rates on a commercial basis. However, volumes of creditor business under the Life Protection business class continue to be underwritten in the Company's long term business fund. Gross written premium was £4.0m, compared with £ (1.5) m in 2012 which was impacted by large premium refunds on specific accounts.

KEY PERFORMANCE INDICATORS

Key performance indicators (KPI's) are factors by reference to which the performance or position of the business of the Company can be measured effectively. The Company's management monitor the progress of the Company including both general and long term business by reference to the following:

	2013	**2012**
	£'000	**£'000**
Gross Written Premium	172,761	135,043
Net Earned Premium	187,304	211,902
Technical Result	16,560	25,070
Investment Income	9,699	10,819
Administration Expenses	24,664	33,869
Profit Before Tax	**2,606**	**2,059**
Technical Ratio	**89%**	**86%**
Claims	35%	34%
Commission	54%	52%

Gross Written Premium (GWP): this is the total premium written in a given year before deductions of reinsurance and ceding commission. GWP increased in the year by £37.7m (28%) largely due to the development of the MGA business, up £56.3m (household £43.5m and motor £12.8m) offset by the continued decline of creditor (£23.0m).

Net Earned Premiums (NEP): represents the portion of the policy's premium that applies to the expired portion of the policy. This was partially offset by the run-off of the creditor business resulting in an increase in NEP from £175.6m (excluding prior year adjustment of £36.2m) to £187.3m. The effect of the prior year adjustment can be seen in the Directors' report on page 7 and in note 3 on page 26 of the financial statements.

Technical Result: The balance of earned income less incurred claims and associated commission/profit shares.

In the fourth quarter of 2013, there were three significant weather events with a cost of £4.6m. Excluding the weather impact the business delivered an improvement across all products with the exception of creditor. The most significant increase was within warranty, £4.4m, driven by a reduction in claims experience mainly due to the stabilisation of an extended warranty product which is in run-off.

PINNACLE INSURANCE PLC

STRATEGIC REPORT (Continued)

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

The investment portfolio is of high credit quality and comprises bonds, cash and term deposits. The total portfolio was valued at £287.7m at 31 December 2013 (2012: £280.8m) and included 51% (£148.0m) (2012: 43% (£119.7m)) of bonds of which 43% (2012: 61%) are rated AA- or better, and 57% (2012: 39%) A or better.

Total investment income remained broadly in line with £9.7m (2012: £10.8m). The result in 2013 includes a net gain of £4.6m arising from the sale of an Icelandic investment which is in liquidation following the financial crisis of 2008. In 2012 the result included £1.9m attributable to a gain arising from the reversal of an impairment provision set against Icelandic fixed term deposits.

Administration expenses: Given the challenges the business has faced in its core markets of creditor, management have taken action to significantly reduce costs, delivering a reduction in 2013 of 25.9% on 2012, with the most significant savings from the reorganisation of specific functions.

Technical Ratio: reflects the profitability of the general business before both direct and indirect costs and is calculated as the sum of commission and incurred claims expressed relative to NEP. The weather impact of December has a 2 points adverse effect on technical ratio increasing it to 89%.

PRINCIPALS RISKS AND UNCERTAINTIES

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

Risk	Impact on Company	Mitigation of risk
Insurance risk	The Company's business is to accept insurance risk which is appropriate to enable the Company to meet its objectives.	Within a Board approved underwriting policy and 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).
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 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.

STRATEGIC REPORT (Continued)

Risk continued	Impact on Company	Mitigation of risk
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 Company's Board reviews at least quarterly, premiums and claims experience by class of business and year of account and the earned and projected ultimate gross and net loss ratios. The Board of Directors reviews the reserving position quarterly. Claims provisions are also reviewed annually by external consulting actuaries who provide independent opinions to the Company confirming that in their view the Company's provisions are at least as high as their best estimate.
Credit risk	The Company's exposure to credit risk arises from its direct insurance trading activities, the exposure to the reinsurance it purchases and those of its investment activities. The risk is that in the absence of appropriate guidelines and procedures; the Company might not be able to limit its credit exposure which could affect its earnings.	The Company, through the Board and the Investment Committee, seeks to limit, as far as is practical, exposure to credit risk from its investment activities. To achieve this objective it has established guidelines, procedures and monitoring requirements to manage credit risk. Particular attention has been paid to the quality of investment counterparties. The finance function reviews intermediaries' internal processes and periodically visits their premises to test controls.
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 in 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. This risk is managed by the Board through the Investment Committee.

STRATEGIC REPORT (Continued)

OTHER UNCERTAINTIES

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 of Payment Protection Insurance (PPI) complaints. The Company's management continue to focus on our customers and manage this position very tightly. Management take appropriate action, and carry a specific provision for potential first order and second order (administrative) costs of £4.8m (2012: £7.4m). The movement in year reflects the action taken to settle claims offset by an increase of £1.1m to recognise the potential uncertainty around the ultimate settlement value.

FUTURE DEVELOPMENTS

The Company's traditional creditor market continues to be challenged, however we are taking clear steps to maintain our position and work with consumers and distributors to develop new markets. The Directors recognise that any change in consumer confidence and distributors appetite is likely to develop gradually.

The Company will continue to diversify its portfolio by developing its household and motor insurance portfolios written via MGA's and co-insurance partners. It has a vibrant pipeline of similar arrangements and expects to secure further business in 2014.

In addition, the Company is focused upon the development of its pet and motor warranty classes of business.

In conjunction with the wider Cardif Pinnacle UK Group, of which Pinnacle Insurance plc is part, work continues to develop a more agile, diversified, multi-channel business. The key components of which are;

- The Company will be organised principally by product – this means it will focus the multiple disciplines into streamed activities accountable for the revenue and profit of each product class; and

- The continued development of transparent, objective, analytical measures of performance to determine the success of the strategy and allow the Company's Directors to communicate its success across the organisation.

GOING CONCERN

The Company has considerable financial resources which included cash and investment portfolio of £39m and £249m respectively as at the year end. In addition, the Company undertakes an ongoing Individual Capital Adequacy Assessment, including consideration of the Company's sensitivity to risk, alongside quarterly monitoring of the annual budget and forecasts. As such, after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

APPROVAL

This report was approved by the board of directors on 9 September 2014 and signed on its behalf by:

Director
A M Wigg

PINNACLE INSURANCE PLC

DIRECTORS' REPORT

The Directors present this report together with the strategic report, financial statements and auditor's report, for the year ended 31 December 2013.

BUSINESS REVIEW AND ACTIVITIES

The principal activities of the Company are set out in the strategic report on page 2. The information that fulfils the Companies Act requirements of the business review is included in the Strategic Report on page 2 to 6. 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 pages 15, 16 and 17. The retained profit after taxation for the year was £1,309,000 (2012: £2,203,000). There were no dividends paid in the year.

PRIOR YEAR ADJUSTMENT

In the prior years, the Company had not correctly applied its accounting policy in respect of the gross presentation of the provision for unearned premiums and deferred acquisition costs for a particular book of business. The Directors consider the effect of the above accounting adjustment to be a fundamental error and therefore have re-stated the 2012 comparative balances. The effect of this adjustment is detailed in note 3 of the financial statements.

SHARE CAPITAL

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

POST BALANCE SHEET EVENTS

Information relating to events since the end of the year is provided in note 24 of the financial statements.

DIRECTORS AND THEIR INTERESTS

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

G Binet (Chairman)	
P E Glen (Chief Executive Officer)	
N J Atkinson	
BNP Paribas Cardif	
Cardif Assurance Risques Divers	
Cardif Assurance Vie	
P J Box *	
N D Rochez *	
J Castagno	resigned 11 January 2013
A M Wigg	appointed 21 March 2013

* Independent Non-Executive Director

With the exception of P E Glen who holds one ordinary share in the Company as a nominee for the Cardif Pinnacle Holdings plc, there are no Directors' interests in shares of the Company.

POLITICAL CONTRIBUTIONS

No political contributions were made during the year.

DISABLED EMPLOYEES

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

EMPLOYEE INVOLVEMENT AND CONSULTATION

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

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

ACTUARIAL VALUATION

An actuarial valuation was carried out as at 31 December 2013 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 is no requirement to comply with the September 2012 UK Combined Code on Corporate Governance. 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. The governance regime is summarised as follows:

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

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

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 held in 2013 was as follows:

	Board	Audit Committee	Investment Committee	Remuneration Committee	Risk Based Capital Committee
Number of meetings held during year	**8**	**6**	**8**	**1**	**12**
G Binet	7	*	*	*	*
P E Glen	8	*	7	*	9
N J Atkinson	7	*	7	*	12
BNP Paribas Cardif	4	5	*	*	*
Cardif Assurance Vie	7	*	*	*	*
P J Box	8	6	*	1	*
N D Rochez	8	5	*	1	*
J Castagno **	0	*	*	*	*
A M Wigg ***	7/7	*	5/5	*	9/12
Cardif Assurance Risques Divers	7	*	*	*	*

* indicates not a member of that Committee
** resigned 11 January 2013
*** appointed 21 March 2013

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

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

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company which has operated throughout 2013 and up to the date of signing this report. The Company's risk management and control framework is designed to support the identification, assessment, monitoring, management and control of risks that are significant to the achievement of its business objectives. The Company has a set of formal policies which govern the management and control of both financial and non-financial risks.

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

Audit Committee

The Audit Committee is chaired by Mr P J Box who is an independent Non-Executive Director. The other members of the Committee are Mr N D Rochez, independent Non-Executive Director, and Mr J-F Boudreaux, 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 control;
- review matters relating to legal risk; and
- provide assurance on the effectiveness of the Company's risk management.

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

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

PINNACLE INSURANCE PLC

DIRECTORS' REPORT (Continued)

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.

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 section 418 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
P E Glen
9 September 2014

PINNACLE INSURANCE PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2013

The Directors are responsible for preparing 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 are required to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the affairs of the Company of the profit or loss of the company 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 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 UK 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

We have audited the revised financial statements of Pinnacle Insurance Plc for the year ended 31 December 2013, which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 25. 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 reserves, the amounts set aside at 31 December 2013, and the effect of the movement in those reserves during the year on shareholder's funds, the balance on the general business technical account and profit before tax are disclosed in note 17.

These revised financial statements replace the original financial statements approved by the directors on 27 March 2014. The revised financial statements have been prepared under the Companies (Revision of Defective Accounts and Reports) Regulations 2008 and accordingly do not take account of events which have taken place after the date on which the original financial statements were approved.

This report is made solely to the Company's members, as a body, in accordance with the Companies (Revision of Defective Accounts and Reports) Regulations 2008. 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 under those regulations and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the revised 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 revised 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 revised financial statements

An audit involves obtaining evidence about the amounts and disclosures in the revised 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 revised financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the revised audited financial statements, and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

The audit of revised financial statements includes the performance of procedures to assess whether the revisions made by directors are appropriate and have been properly made.

PINNACLE INSURANCE PLC

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

Opinion on financial statements

In our opinion the revised financial statements:

- give a true and fair view, seen as at the date the original financial statements were approved, of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice seen as at the date the original financial statements were approved; and
- have been prepared in accordance with the provisions of the Companies Act 2006 as they have effect under the Companies (Revision of Defective Accounts and Reports) Regulations 2008.

Emphasis of matter – revision of the Strategic Report, Directors' Report and financial statements

In forming our opinion on the revised financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 3 to these revised financial statements concerning the need to revise the Strategic Report, Directors' Report and financial statements. The original financial statements were approved on 27 March 2014 and our previous report was signed on that date. We have not performed a subsequent events review for the period from the date of our previous report to the date of this report.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the original financial statements for the year end 31 December 2013 failed to comply with the requirements of the Companies Act 2006 in the respect identified by the directors in the statement contained in note 3 to these revised financial statements; and
- the information given in the revised Strategic Report and the revised Directors' Report for the financial year for which the revised financial statements are prepared is consistent with the revised 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 revised 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

Francesco Nagari (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
9 September 2014

PINNACLE INSURANCE PLC

PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 £000	As restated (see note 3) 2012 £000
Earned premiums, net of reinsurance			
Gross premiums written	4(b)	168,679	136,552
Outward reinsurance premiums		(4,087)	(653)
		164,592	135,899
Change in the gross provision for unearned premiums	17(a)	11,178	47,051
Change in the provision for unearned premiums, reinsurers' share	17(a)	1,016	(161)
		12,194	46,890
Earned premiums, net of reinsurance		**176,786**	**182,789**
Allocated investment return transferred from the non-technical account		**2,554**	**3,082**
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(53,218)	(48,464)
Reinsurers' share		653	637
		(52,565)	(47,827)
Change in the provision for claims			
Gross amount	17(a)	(1,113)	(3,510)
Reinsurers' share	17(a)	(600)	(435)
		(1,713)	(3,945)
Changes in other technical provisions, net of reinsurance	17(g)	2,056	(271)
Claims incurred, net of reinsurance		**(52,222)**	**(52,043)**
Net operating expenses	6	**(130,310)**	**(139,877)**
Change in the equalisation reserves	17(f)	**(1,742)**	**(499)**
Balance on the technical account-general business		**(4,934)**	**(6,548)**

PINNACLE INSURANCE PLC

PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – LONG-TERM BUSINESS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 £000	2012 £000
Earned premiums, net of reinsurance			
Gross premiums written	4(c)	4,082	(1,509)
Outward reinsurance premiums		(7)	(9)
		4,075	**(1,518)**
Investment income	5	**907**	**2,100**
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(4,225)	(20,900)
Reinsurers' share		1,530	1,548
		(2,695)	(19,352)
Change in the provision for claims			
Gross amount	17(b)	-	590
Reinsurers' share	17(b)	(19)	10
		(19)	600
Claims incurred, net of reinsurance		**(2,714)**	**(18,752)**
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
Gross amount	17(b)	(1,773)	36,081
Reinsurers' share	17(b)	8,216	(5,521)
Technical provisions for linked liabilities		-	71
		6,443	**30,631**
Net operating expenses	6	**(8,780)**	**(9,529)**
Unrealised (loss) / gain on investments	5	**(345)**	**70**
Taxation charge attributable to the long-term business	10	**(421)**	**-**
Balance on the technical account-long term business		**(835)**	**3,002**
Taxation charge attributable to the balance on the long term business technical account	10	**421**	**-**
Balance on the technical account-long term business before taxation		**(414)**	**3,002**

PINNACLE INSURANCE PLC

PROFIT AND LOSS ACCOUNT NON TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 £000	2012 £000
Balance on the technical account - general business		(4,934)	(6,548)
Balance on the technical account - long-term business before taxation		(414)	3,002
		(5,348)	**(3,546)**
Investment income	5	3,303	6,561
Unrealised gain on investments	5	5,834	2,088
		9,137	8,649
Allocated investment return transferred to the general business technical account		(2,554)	(3,082)
Foreign exchange gain		1,371	38
		7,954	5,605
Profit on ordinary activities before tax		**2,606**	**2,059**
Taxation on ordinary activities	10	**(1,297)**	**144**
Profit for the financial year		**1,309**	**2,203**

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 21 to 44 form part of these accounts.

PINNACLE INSURANCE PLC

RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 £000	2012 £000
Profit for the financial year	16(b)	1,309	2,203
Net addition to shareholder's funds		**1,309**	**2,203**
Opening shareholder's funds	16(b)	**179,649**	**177,446**
Closing shareholder's funds		**180,958**	**179,649**

PINNACLE INSURANCE PLC
Company Registration Number : 1007798

BALANCE SHEET - ASSETS
AT 31 DECEMBER 2013

	Note	2013	As restated (see note 3) 2012
		£000	£000
ASSETS			
Investments			
Investments in group undertakings and participating interest	11(a)	5,002	10,000
Other financial investments	11(b)	248,613	255,051
		253,615	**265,051**
Reinsurers' share of technical provisions			
Provision for unearned premiums	17(a)	1,073	57
Long term business provision	17(b)	27,909	19,693
Claims outstanding	17(c)	1,838	2,458
		30,820	**22,208**
Debtors			
Debtors arising out of direct insurance operations	12	34,903	17,231
Debtors arising out of reinsurance operations	13	300	670
Other debtors	14	8,736	4,396
		43,939	**22,297**
Other assets			
Cash at bank and in hand	15	**39,174**	**25,768**
Prepayments and accrued income			
Accrued interest		1,661	2,922
Deferred acquisition costs	17(d)	58,443	90,571
Other prepayments and accrued income		639	141
		60,743	**93,634**
Total assets		**428,291**	**428,958**

PINNACLE INSURANCE PLC
Company Registration Number - 1007798

BALANCE SHEET - LIABILITIES
AT 31 DECEMBER 2013

	Note	2013 £000	As restated (see note 3) 2012 £000
LIABILITIES			
Capital and reserves			
Called up share capital	16(a)	126,557	126,557
Share premium	16(a)	23,323	23,323
Profit and loss account	16(b)	31,078	29,769
Equity shareholder's funds	16(b)	**180,958**	**179,649**
Technical provisions			
Provision for unearned premiums	17(a)	100,542	111,721
Long term business provision	17(b)	36,109	34,336
Claims outstanding	17(c)	49,530	48,417
Equalisation reserve	17(f)	2,241	499
Other technical provisions	17(g)	1,677	3,734
		190,099	**198,707**
Creditors			
Creditors arising out of direct insurance operations	18	51,704	45,720
Creditors arising out of reinsurance operations	19	728	245
Amounts owed to credit institutions	20	321	866
Accruals and deferred income		345	187
Other creditors including taxation and social security	21	4,136	3,584
		57,234	**50,602**
Total liabilities		**428,291**	**428,958**

These financial statements were approved by the Board of Directors on 9 September 2014.

Signed on behalf of the Board by:

A M Wigg **P E Glen**

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. Basis of preparation

The financial statements have been prepared in accordance with the provisions of Schedule 3 of The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("ABI SORP") 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), and under the historical cost convention, modified to include the revaluation of investments.

2. Significant 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.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Strategic Report on pages 2 to 6.

Consolidation

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 401 of the Companies Act 2006 as it is a wholly-owned subsidiary of Cardif Pinnacle Insurance Holdings plc and its results are included in the consolidated financial statements of that company. These financial statements therefore present information about the Company as an individual entity.

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.

Basis of accounting for general and long term insurance business

All classes of general business are 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 stated gross of commissions paid to intermediaries and is exclusive of taxes and duties levied on premiums. Estimates are included for pipeline premiums due but not yet notified by the year end.

Under the annual basis of accounting, written premiums relate to contracts incepted during the year, together with any adjustments reflecting differences between pipeline premiums estimated and accrued for in prior years and amounts actually received in the year, less an allowance for cancellations.

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.

Outwards reinsurance premiums are accounted for on an accruals basis in the same accounting period as the premiums for the related direct business.

Unearned premiums

The general business provision for gross 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 profit and loss account.

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

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 profit and loss account.

Claims incurred

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

Claims incurred (continued)

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

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 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. The unexpired risk provision is included within Other Technical Provisions.

Equalisation reserve

The equalisation reserve has been established in accordance with the rules within the PRA's Handbook. The reserve 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 and property business. The reserve relates to property and is calculated using the net written premium multiplied by 3%.

The amounts reserved are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the year end. Notwithstanding this, they are required by Schedule 3 to SI2008/410 to be included within technical provisions.

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 current value at the close of business on the balance sheet date, or on the last trading day before that date. Bonds and fixed term deposits are de-recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership

The current value of the Icelandic investments is determined by expected recoverability of the deposits by which appropriate provisions are made at each balance sheet date.

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.

Investments in associated undertakings are stated at cost less provisions for any permanent diminution in value.

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. An allocation of investment return is then made from the non-technical account to the technical account to reflect the longer term investment return on those assets supporting the general insurance business technical provisions and related shareholders' funds.

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.

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.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (Continued)

3. Revision of financial statements by inclusion of a Prior Year Adjustment

As described on page 2, these revised financial statements replace the original financial statements for the year ended 31 December 2013 which were approved by the Board on 27 March 2014. They are now the statutory financial statements of the Company for that financial year. In accordance with the Companies Act 2006 ('the Act'), the financial statements have been revised as at the date of the original financial statements and not as at the date of this revision. Accordingly they do not deal with events between those dates.

The original financial statements did not comply with the Act as Pinnacle Insurance plc had not correctly applied its accounting policy in respect of the gross presentation of the provision for unearned premiums and deferred acquisition costs for a particular book of business in prior years. As the Directors concluded that the Company had not correctly applied its accounting policy in respect of the gross presentation of the provision for unearned premiums and deferred acquisition costs for a particular book of business, and that the effect of this was a fundamental error. Consequently they have revised the financial statements to include a prior year adjustment to restate the 2012 comparative balances of both the provision for unearned premiums and deferred acquisition costs for the General Fund. The effect of this prior year adjustment is to correct the Company's accounting treatment across all business classes such that it conforms to the accounting policy.

As a result of this correction there was a compensating increase of £54m in the comparative balances of both the provision for unearned premium and deferred acquisition costs and their associated movements in the profit and loss account (see notes 17(a) and 17(d)).

The impact on the 2012 comparatives after the prior year adjustments is set out below:

Restatement of 2012 Financial Statements Line items	**As previously reported 2012 £'000**	**Prior year adjustments £'000**	**As restated 2012 £'000**
Profit and loss account			
Change in the gross provision for unearned premium	10,779	36,272	47,051
Net operating expenses	(103,605)	(36,272)	(139,877)
Balance sheet			
Deferred acquisition costs	36,559	54,012	90,571
Provision for unearned premiums	(57,709)	(54,012)	(111,721)
Net impact on opening shareholder's funds		**Nil**	

4. Segmental analysis

4(a) Analysis by class of business

	2013 £000	2012 £000
Gross premiums written		
General business	168,679	136,552
Long-term business	4,082	(1,509)
	172,761	135,043
Profit before taxation:		
Non-technical items have been allocated to general business		
General business	3,020	(943)
Long-term business	(414)	3,002
	2,606	2,059
Segmental net assets (see notes 16(a) and 16(b))		
General business (including shareholders' funds)	167,080	164,937
Long-term business	13,878	14,712
	180,958	179,649

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

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (Continued)

4. Segmental analysis (continued)

4(b) Analysis of general business

	2013 Gross Premiums Written £000	2013 Gross Premiums Earned £000	2013 Gross Claims Incurred £000	2013 Gross Operating Expenses £000	2013 Reinsurance Balance £000
Direct Insurance					
Pet	6,391	6,128	(4,151)	(6,113)	(110)
Creditor	76,875	90,524	(21,292)	(74,589)	(78)
Warranty	11,945	40,974	(8,147)	(31,857)	-
Household	60,686	40,401	(17,244)	(17,652)	(2,608)
Motor	12,776	1,801	(1,331)	(96)	(175)
	168,673	179,828	(52,165)	(130,307)	(2,971)
Reinsurance	6	29	(109)	(3)	-
	168,679	179,857	(52,274)	(130,310)	(2,971)

	2012 Gross Premiums Written £000	As restated (see note 3) 2012 Gross Premiums Earned £000	2012 Gross Claims Incurred £000	As restated (see note 3) 2012 Gross Operating Expenses £000	2012 Reinsurance Balance £000
Direct Insurance					
Pet	5,794	5,821	(4,727)	(4,540)	-
Creditor	99,867	112,734	(27,943)	(81,785)	(5)
Warranty	13,752	55,467	(13,988)	(45,231)	-
Household	17,133	9,343	(5,403)	(8,297)	(497)
	136,546	183,365	(52,061)	(139,853)	(502)
Reinsurance	6	238	(184)	(24)	-
	136,552	183,603	(52,245)	(139,877)	(502)

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

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (Continued)

4. Segmental analysis (continued)

4(c) Analysis of long term business

	2013 Gross Premiums Written £000	2013 Gross Premiums Earned £000	2013 Gross Claims Incurred £000	2013 Gross Operating Expenses £000	2013 Reinsurance Balance £000
Direct Insurance					
Investments	-	1,795	(1,646)	-	-
Long term protection	4,082	514	(2,579)	(8,782)	9,722
	4,082	2,309	(4,225)	(8,782)	9,722

	2012 Gross Premiums Written £000	2012 Gross Premiums Earned £000	2012 Gross Claims Incurred £000	2012 Gross Operating Expenses £000	2012 Reinsurance Balance £000
Direct Insurance					
Investments	-	18,242	18,585	(14)	-
Long term protection	(1,509)	15,681	1,725	(9,522)	(3,966)
	(1,509)	33,923	20,310	(9,536)	(3,966)

5. Investment return

	Technical account long term business 2013 £000	Technical account long term business 2012 £000	Non-technical account 2013 £000	Non-technical account 2012 £000
Income from Group undertakings	-	-	198	287
Income from other financial investments	589	1,959	6,433	7,803
Realised gain / (loss) on investments	318	141	(3,328)	(1,529)
Investment Income	907	2,100	3,303	6,561
Unrealised (loss) / gain on investments	(345)	70	5,834	2,088
	562	2,170	9,137	8,649

5. Investment return (continued)

On 11th December 2013 the Kaupthing Singer & Friedlander debt was sold for 92p in the pound resulting in a realised loss of £2,892,000. Included within the unrealised gains / (losses) on investments in the technical account and the non-technical account, is a net release in the bad debt provisions of £7,460,000 (2012: £1,857,000 gain). This unrealised gain fully reverses the provision established in relation to the Company's exposure to the UK regulated subsidiary, Kaupthing Singer & Friedlander of the Icelandic Banking Group (2012: £1,865,000 gain). The Company continues to hold a provision of £739,000 (2012: £465,000) against its investment in Landsbanki part of the Icelandic Heritable Banking Group.

Investment return of £3,303,000 is initially recorded in the non-technical account. A transfer is made of £2,554,000 to the technical account for general business on investments supporting the insurance technical provisions and related shareholders' funds. This transfer is made in accordance with ABI SORP 2006 paragraph 292.

6. Net operating expenses

	General Business		Long-Term Business	
		As restated (see note 3)		
	2013	2012	2013	2012
	£000	£000	£000	£000
Acquisition costs	63,263	77,487	2,213	(1,438)
Change in gross deferred acquisition costs	28,172	44,812	3,956	8,338
Administrative expenses	22,698	17,686	1,966	2,636
Reinsurance commissions and profit participation	16,177	(108)	645	(7)
	130,310	139,877	8,780	9,529

The comparative balance of change in gross deferred acquisition costs arising from General Business has been restated from £8,540,000 to £44,812,000 as a result of a fundamental error discovered in relation to the Group's accounting for deferred acquisition costs. The resultant prior year adjustment of £36,272,000 has been explained in note 3.

7. Profit on ordinary activities before tax is stated after charging:

	2013	2012
	£000	£000
Auditor's remuneration		
Fees payable to the Company's auditor for the Company's annual accounts	104	102
Fees payable to the Company's auditor for the audit of the regulatory returns	38	37
	142	139

No non-audit services were provided by the Company auditor (2012: none).

8. Employees

The Company has had no employees during the year. A fellow subsidiary of Cardif Pinnacle Insurance plc, Cardif Pinnacle Insurance Management Services plc, provides staff management services and recharges all staff costs to the Company and wider UK group. The total management recharge including for staff costs for the year is £24,481,000 included within the net operating expenses.

9. Remuneration of Directors

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

	2013 £000	2012 £000
Emoluments	1,119	1,074
Pension contributions to a defined contribution scheme	77	87
	1,196	1,161

	2013 £000	2012 £000
Emoluments of highest paid Director	608	447
Pension contributions of highest paid Director	45	36
	653	483

The number of Directors to whom retirement benefits are accruing under a defined contribution scheme are 4 (2012: 2).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (Continued)

10. Taxation on ordinary activities

	General Business		Long Term Business		Total	
Analysis of charge/(credit) in the year	**2013 £000**	**2012 £000**	**2013 £000**	**2012 £000**	**2013 £000**	**2012 £000**
Current tax						
UK corporation tax charge/(credit) on profit/loss for the year	-	(246)	606	-	606	(246)
Prior year adjustments - charge/(credit)	-	-	(185)	-	(185)	-
Total current tax charge/(credit)	-	(246)	421	-	421	(246)
Deferred tax						
Timing differences arising (reversed)	876	102	-	-	876	102
Tax charge/(credit) on profit/loss on ordinary activities	876	(144)	421	-	1,297	(144)

The effective tax rate for 2013 is high (50%) mainly because of the impact of transitional adjustments relating to the new tax regime for long-term business.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (Continued)

10. Taxation on ordinary activities (continued)

Factors affecting tax charge/(credit) for the year	**General Business** 2013 £000	**General Business** 2012 £000	**Long Term Business** 2013 £000	**Long Term Business** 2012 £000	**Total** 2013 £000	**Total** 2012 £000
Profit/(loss) on ordinary activities before tax	3,020	(943)	(414)	3,003	2,606	2,059
Profit/(loss) on ordinary activities by tax rate in the UK of 23.25% (2012: 24.5%)	702	(231)	(96)	736	606	505
Effects of:						
Long-term business: Transitional adjustments	-	-	702	-	702	-
Bank levy not allowable for corporation tax	63	(15)	-	-	63	(15)
Prior year adjustments	-	-	(185)	-	(185)	-
Relief of losses	(765)	-	-	(736)	(765)	(736)
Current tax charge/(credit)	-	(246)	421	-	421	(246)

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (Continued)

10. Taxation on ordinary activities (continued)

Deferred taxation	General Business		Long Term Business		Total	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
At 1 January 2013	2,229	2,331	-	-	2,229	2,331
Utilisation of trading losses	(690)	(4)	-	-	(690)	(4)
Transitional adjustment re deferred acquisition costs	-	-	763	-	763	-
Transitional adjustment re liabilities	-	-	(733)	-	(733)	
Change in tax rate	(194)	(52)	-	-	(194)	(52)
Adjustment in respect of prior year	8	(46)	(30)	-	(22)	(46)
At 31 December 2013	1,353	2,229	-	-	1,353	2,229

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 £2,273,000 (2012: £1,840,000) in respect of long term business. A deferred tax asset has not been recognised because suitable taxable profits are not expected to arise in the immediate future.

Analysis of unrecognised deferred tax asset	General Business		Long Term Business		Total	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Transitional adjustment re deferred acquisition costs	-	-	(554)	-	(554)	-
Transitional adjustment re liabilities	-	-	1,158	-	1,158	-
Losses	-	-	1,669	1,840	1,669	1,840
Unrecognised deferred tax asset	-	-	2,273	1,840	2,273	1,840

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (Continued)

11. Investments

11(a) Investments in group undertakings and participating interests.

	2013 £000	2012 £000
Associate undertakings	2	-
Other investments and loans	5,000	10,000
	5,002	10,000

Investment in Associate Undertakings

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

The Grouping was established for the provision of shared administrative services to a number of companies within the BNP Paribas group. The Grouping did not operate in 2013 and accordingly no profit or loss attributable to the Company's investment in the Grouping was recognised in the year.

Other investments and loans

The Company holds mortgages over two properties held by a fellow subsidiary undertaking. As at the 31 December 2013 the amounts held were £5,000,000 (2012: £10,000,000). The Company received a repayment of £5,000,000 in the year (2012: £Nil) due to the sale of a mortgaged property by the fellow undertaking.

11(b) Other financial investments

	Market Value		Cost	
	2013 £000	2012 £000	2013 £000	2012 £000
Listed shares	2	19	3	129
Debt securities and other fixed income securities	148,806	119,854	149,523	111,444
Deposits with credit institutions	99,805	135,178	99,805	135,178
	248,613	255,051	249,331	246,751

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 Investments are shown net of bad debt provisions. The bad debt provision comprises Nil (2012: £7,460,000), in relation to the Company's exposure to the UK regulated subsidiary, Kaupthing Singer & Friedlander and £739,000 of the Icelandic Banking Group, Landsbanki (2012: £465,000), part of the Icelandic Heritable Banking Group.

Included within other financial investments is £12,712,000 (2012: £13,301,000) held on behalf of intermediaries.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (Continued)

12. Debtors arising out of direct insurance operations

	2013 £000	2012 £000
Amounts owed by policyholders	-	390
Amounts owed by intermediaries	34,903	16,841
	34,903	17,231

The debtors are shown at net realisable value, and are inclusive of a bad debt provision of £855,000 (2012: £2,010,000).

13. Debtors arising out of reinsurance operations

	2013 £000	2012 £000
Amounts due from reinsurers	300	670

14. Other debtors

	2013 £000	2012 £000
Amounts owed by group undertakings	7,362	2,155
Other taxes	19	12
Deferred tax	1,355	2,229
	8,736	4,396

15. Cash at bank and in hand

	2013 £000	2012 £000
Cash at bank and in hand	39,174	25,768

Cash at bank and in hand comprises deposits repayable on demand and short-term bank deposits. Included within this amount are balances of £11,000 (2012: £5,029,000), held on behalf of intermediaries.

16(a) Share Capital

	2013 £000	2012 £000
Authorised		
128,836,000 Ordinary shares of £1 each	128,836	128,836
Issued, allotted, called up and fully paid		
Ordinary shares of £1 each	126,557	126,557
Share Premium	23,323	23,323
	149,880	149,880

16(b) Shareholder's fund movements

	Share Capital £000	Share Premium £000	Profit & Loss £000	Total £000
At 1 January 2012	97,721	16,979	27,566	142,266
Ordinary share capital issue	28,836	6,344	-	35,180
Profit for the financial year	-	-	2,203	2,203
Final dividend	-	-	-	-
At 31 December 2012	126,557	23,323	29,769	179,649
Profit for the financial year	-	-	1,309	1,309
At 31 December 2013	126,557	23,323	31,078	180,958

Non-distributable reserves in respect of the surplus from the long term business account that must be maintained by the Company as at 31 December 2013 were £14,712,000 (2012: £21,710,000).

16(c) Capital statement

	2013 £000	2012 £000
Shareholder's funds held outside the long-term business fund	167,080	164,937
Shareholder's funds held in the long-term business fund	13,878	14,712
Total shareholder's funds	180,958	179,649
Other adjustments	(1,516)	(2,380)
Total available capital resources	179,442	177,269

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

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

The 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 is less than 3 months), the impact on surplus capital is not material, as evidenced by a resilience capital requirement of £150,000 (2012: £150,000) on £1,791,000 (2012: £3,586,000) 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 2013 (Continued)

17. Technical provisions

17(a) General business

	Provision for Unearned Premiums £000	Claims Outstanding £000	Total £000
Gross amount			
At 31 December 2012 - as restated	111,721	47,971	159,692
Movement in the provision	15,675	1,113	16,788
Movement due to reclassification	(26,853)	-	(26,853)
Current year movement	(11,178)	1,113	(10,065)
At 31 December 2013	100,542	49,084	149,627
Reinsurance amount			
At 1 January 2013	(57)	(2,438)	(2,495)
Movement in the provision	(1,016)	600	(416)
At 31 December 2013	(1,073)	(1,838)	(2,911)
Net technical provisions			
Opening balance - as restated	111,664	45,533	157,197
Movement in the provision	14,659	1,713	16,372
Movement due to reclassification	(26,853)	-	(26,853)
At 31 December 2013	99,470	47,246	146,716

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 explained in note 3, the unearned premium reserve has been restated to correct a fundamental error associated with the Company's accounting for unearned premiums in previous periods.

17(b) Long-term business (continued)

	Long-Term Business Provision	Claims Outstanding	Total
	£000	£000	£000
Gross amount			
At 1 January 2013	34,336	446	34,782
Movement in the provision	1,773	-	1,773
Balance as at 31 December 2013	36,109	446	36,555
Reinsurance amount			
At 1 January 2013	(19,693)	(20)	(19,713)
Movement in the provision	(8,216)	19	(8,197)
At 31 December 2013	(27,909)	(1)	(27,910)
Net technical provisions			
Opening balance	14,643	426	15,069
Movement in the provision	(6,443)	19	(6,424)
At 31 December 2013	8,200	445	8,645

17(b) Long-term business (continued)

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

	2013	2012
Rates of interest		
Assurance :		
Without profit	3.30%	3.30%
Guaranteed Growth Bonds		
Outstanding term less than 1 year	3.10%	5.30%
Outstanding term less than 2 years	0.00%	2.40%
Outstanding term less than 3 years	0.00%	0.00%
Guaranteed Income Bonds		
Outstanding term less than 1 year	3.10%	5.10%
Outstanding term less than 2 years	0.00%	2.30%
Outstanding term less than 3 years	0.00%	0.00%
Monthly Income Bonds		
Outstanding term less than 1 year	3.60%	5.70%
Outstanding term less than 2 years	0.00%	2.70%
Outstanding term less than 3 years	0.00%	0.00%
Annuities :		
Without profit - Life	3.30%	3.30%
Without profit - Pensions	3.40%	3.30%
Mortality tables		
Assurances	n/a	n/a
	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 2013 (Continued)

17(c) Claims outstanding	**Gross Amount**		**Reinsurance Amount**	
	2013	**2012**	**2013**	**2012**
	£000	**£000**	**£000**	**£000**
General business	49,084	47,971	(1,838)	(2,438)
Long-term business	446	446	-	(20)
	49,530	48,417	(1,838)	(2,458)

Included within the claims outstanding balance is a provision in respect of claims incurred but not reported of £14,460,000 (2012: £24,488,000).

17(d) Deferred acquisition costs	**General business £000**	**Long-term business £000**	**Total £000**
Gross amount			
At 31 December 2012- as restated	83,604	6,967	90,571
Movement in the provision	(1,319)	(3,956)	(5,275)
Movement due to reclassification	(26,853)	-	(26,853)
Current year movement	(28,172)	(3,956)	(32,128)
At 31 December 2013	55,432	3,011	58,443
Reinsurance amount			
At 1 January 2013	38	-	38
Movement in the provision	(32)	-	(32)
At 31 December 2013	6	-	6
Net technical provisions			
Opening balance - as restated	83,642	6,967	90,609
Movement in the provision	(1,351)	(3,956)	(5,307)
Movement due to reclassification	(26,853)	-	(26,853)
At 31 December 2013	55,438	3,011	58,449

The liability representing reinsurers' share of deferred acquisition costs for £6,000 (2012: £38,000) is included within Note 29.

As explained in note 3, the deferred acquisition costs on the General Business have been restated to correct fundamental errors in relation to the Group's accounting for certain deferred acquisition costs.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (Continued)

17(e) Long-term fund

At 31 December 2013 the total amount of assets representing the long-term business 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 £55,739,000 (2012: £56,907,000).

17(f) Equalisation reserve

	2013 £000	2012 £000
Reserve as at 1 January	499	-
Transfer to the Technical account - General business and the profit on ordinary activities before tax	1,742	499
Reserve as at 31 December	2,241	499

The recognition of the reserve during the year had the effect of increasing the balance on the General business technical account and the Shareholder's funds by £1,742,000 (2012: £499,000).

17(g) Other technical provisions

	2013 £000	2012 £000
Provision as at 1 January	3,733	3,463
(Decrease) / increase in the provision	(2,056)	271
Provision as at 31 December	1,677	3,734

Other technical provisions wholly relate to the unexpired risk provision.

17(h) PS 10/12 provision

In August 2010, the former UK financial services regulator, the Financial Services Authority published Policy Statement (PS) 10/12 in relation to the assessment and redress of PPI complaints, the result of which was to make the Company potentially liable to pay compensation to policyholders in certain circumstances.

The Company has estimated its liability at the yearend to be £8,800,000 (2012: £12,200,000). Of this amount, a specific provision of £4,833,000 (2012: £7,400,000) has been recognised in relation to estimated first order and second order (administrative) costs, and is included within claims outstanding.

In addition, the Company is withholding an amount of £3,967,000 (2012: £4,800,000) from provisions established in relation to future payments due to intermediaries under profit-sharing arrangements, for which amounts can be withheld in respect of compensation payments made to policyholders. This amount is included within creditors arising out of direct insurance.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (Continued)

18. Creditors arising out of direct insurance operations

	2013 £000	2012 £000
Other creditors	51,704	45,720

19. Creditors arising out of reinsurance operations

	2013 £000	2012 £000
Other creditors	728	245

20. Amounts owed to credit institutions

	2013 £000	2012 £000
Payable in less than one year	321	866

Amounts owed to credit institutions comprise bank overdrafts which are repayable on demand.

21. Other creditors including taxation and social security

	2013 £000	2012 £000
Amount due to group undertakings	316	1,476
Other taxation and social security	3,820	2,108
	4,136	3,584

22. Commitments

There were no outstanding capital commitments at 31 December 2013 (2012: £Nil).

23. Related party transactions

The Company has relied on the exemption given in Financial Reporting Standard 8 'Related Party Transactions' 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:

	2013 £000	2012 £000
Gross premiums written	7,080	7,370
Commission paid	(3,990)	(4,313)
Claims paid	(2,687)	(4,782)
Amounts owed	1,506	1,079

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.

25. Post balance sheet events

On 12 March 2014, the Landsbanki debt was sold for 92.35p in the pound resulting in a realised loss of £277k.