

PINNACLE INSURANCE PLC
Company Registration Number: 1007798

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2014

PINNACLE INSURANCE PLC

CONTENTS

Company Information	Page 1
Strategic Report	Page 2
Directors' Report	Page 8
Statement of Directors' responsibilities	Page 13
Independent Auditor's report	Page 14
Profit and Loss Account - Technical Account	Page 16
Profit and Loss Account - Non-Technical Account	Page 18
Reconciliation of movements in Shareholder's funds	Page 19
Balance Sheet – Assets	Page 20
Balance Sheet – Liabilities	Page 21
Notes to the Financial Statements	Page 22

PINNACLE INSURANCE PLC
Company Information

Directors: G Binet (Chairman)
P E Glen, FCA (Chief Executive Officer)
N J Atkinson, FIA (resigned 31 May 2014)
BNP Paribas Cardif
Cardif Assurance Risques Divers
Cardif Assurance Vie
P J Box *
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

Independent Auditor: Deloitte LLP
2 New Street Square
London
EC4A 3BZ

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

PINNACLE INSURANCE PLC**STRATEGIC REPORT**

Pinnacle Insurance plc ("the Company") was formed in 1971 and has established itself as a specialist provider of personal lines insurance, principally within the UK. The Company provides creditor and other insurance products; warranty, pet, household and motor.

The Company is a subsidiary of Cardif Pinnacle Insurance Holdings plc (the "UK Parent"), a member of the BNP Paribas Cardif group, a worldwide provider of insurance and savings products. The Company is part of the global banking group BNP Paribas SA ("the Group"), a European leader in banking and financial services, with a Standard and Poor's long-term rating of A+ (negative outlook). The Group has one of the largest international banking networks, with a presence in nearly 75 countries and employs more than 187,900 employees.

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

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

BUSINESS REVIEW**Pre-tax loss**

The Company reported a pre-tax loss of £5.5m (2013: pre-tax profit of £2.6m) resulting predominantly from an adverse performance of the household and motor classes of business. The household business was impacted by the storms arising in January and February 2014, whilst the motor business was impacted by a number of large losses. The performance of the Company's revenue segments has been discussed in detail below.

Shareholder's funds

Despite reporting a loss in the current year, shareholder's funds remain strong at £175.1m (2013: £181.0m), and the Company is well capitalised with 1.3 times coverage of the Individual Capital Assessment.

Gross written premiums***Creditor***

The creditor market remains weak, through a combination of low consumer and distributor demand. Overall gross written premiums reduced 15% to £64.7m (2013: £76.9m) reflecting the continued low level of activity across the sector.

Household

The strategy is to write this line of business via Managing General Agents (MGAs). The gross written premiums declined from £60.7m to £53.1m primarily due to the loss of a specific scheme and market competition.

Motor

Gross written premiums increased by £50.1m to £62.9m. The significant growth was driven by the commencement of a new partner from January 2014 which generated £25.1m of premiums and a full 12 months of premiums on an existing partner of £37.8m compared to £12.7m in 2013.

PINNACLE INSURANCE PLC

STRATEGIC REPORT (Continued)

Pet

Whilst the business class is relatively small, it has delivered encouraging gross written premiums growth of 44% reaching £9.2m in 2014 (2013: £6.4m), driven largely by the launch of new products which are predominantly distributed via aggregators.

The Company expects its growth to continue and has successfully secured two affinity relationships with leading financial services brands which are scheduled to start generating business in 2015.

Warranty

Gross written premiums increased to £14.1m from £12.0m in 2013. The growth in premiums reflect the Company writing a larger proportion of business distributed by Warranty Direct, a fellow subsidiary of Cardif Pinnacle Insurance Holdings plc, which contributed £3.3m of growth partially offset by the loss of a specific account.

Long-Term business

This includes long-term protection policies and those arising from the sale of investment bonds. The long-term business relating to investment bonds ran off in 2014.

In 2009 the decision was taken to withdraw from the investment product market, and there are no 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. However, volumes of creditor business under the Life Protection business class continue to be underwritten in the Company's long-term business fund, and gross written premiums of £3.8m were broadly in line with prior year.

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:

	2014 £'000	2013 £'000
Gross Written Premiums	207,990	172,761
Net Earned Premiums	207,446	187,304
Technical Result	14,324	16,560
Investment Income	6,838	9,699
Administration Expenses	(26,611)	(24,664)
(Loss)/Profit Before Tax	(5,547)	2,606
Technical Ratio	93%	89%
Claims	48%	35%
Commission	45%	54%

Gross Written Premiums (GWP): this is the total premiums written in a given year before deductions of reinsurance and ceding commission. GWP increased in the year by £35.3m (21%) largely due to motor £50.1m, offset by a decline in creditor and household of £12.1m and £7.6m respectively.

Net Earned Premiums (NEP): represent the portion of the policy's premium that applies to the expired portion of the policy. The £20.1m is substantially driven by a £36.4m increase in NEP attributable to motor which is partially offset by a decrease of £16.7m due to the continued run-off the Creditor and Valspar warranty business.

PINNACLE INSURANCE PLC

STRATEGIC REPORT (Continued)

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

The deterioration in technical result is largely driven by the impact of weather related claims and large losses in the motor insurance business. The impact of the weather related claims was £6.7m (2013: £2.1m) and the motor account delivered a £3.8m loss (2013: profit £0.1m) as a result of a number of large losses. We are working with our MGA partners to ensure business currently being written is profitable.

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

The investment portfolio is of high credit quality and comprises bonds, cash and term deposits. The total portfolio was valued at £308.1m at 31 December 2014 (2013: £287.7m) of which 55% (£168.1m) (2013: 51% (£148.0m)) was comprised the Company's investment in bonds. Of these bonds, 52% (2013: 43%) were rated AA- or better, 46% (2013: 57%) A or better and the remaining 2% were rated BBB.

Total investment return for the year was £6.8m (2013: £9.7m). The prior year investment return included a net gain of £4.6m from the sale of holding within Kaupthing Singer & Friedlander. Excluding this net gain, the prior year investment return was £5.2m (1.8% return on total investment portfolio) compared with 2.0% return achieved in 2014. The worldwide recovery in the bond market in 2014 and net gain of £0.5m on the sale of a deposit (see note 4) were the main contributors resulting in higher return on the total investment portfolio.

Administration Expenses: represents those operating expenses incurred by the Company which are not classified as either acquisition or claims handling costs. The administrative expenses increased by £1.9m to £26.6m (2013: £24.7m) due to a £1.0m increase in the Motor Insurers' Bureau levy (MIB) reflecting the growth in the motor premiums and increased Head Office charges

Technical Ratio: reflects the profitability of the general business before direct and indirect costs and is calculated as the sum of commission and incurred claims expressed relative to NEP. The impact of weather and growth in motor at unprofitable loss ratio has primarily resulted in a 5 point deterioration in technical ratio to 93%.

Claims Ratio: calculated as total claims incurred expressed as a percentage of net earned premiums. The overall claims ratio in 2014 increased to 48% (2013: 35%) due to a combination of declining volumes of business with lower claims experience offset by growth in motor business which carries higher claims levels. In addition, the ratio has been impacted by the increased weather costs on household account.

Commission Ratio: commission expense incurred expressed as a percentage of net earned premiums. The reduction reflects contraction of creditor business and growth in MGA business which typically carries a lower commission rate. The overall commission ratio was 48% compared with 54% in 2013.

PINNACLE INSURANCE PLC

STRATEGIC REPORT (Continued)

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.
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 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 review the reserving position quarterly. Claims provisions are also reviewed annually by external consulting actuaries who provide independent opinions to the Company confirming that in their view the Company's provisions are 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.

PINNACLE INSURANCE PLC

STRATEGIC REPORT (Continued)

Risk	Impact on Company	Mitigation of risk
Liquidity risk	Liquidity risk is the risk that sufficient financial resources are not available in cash to enable the Company to meet obligations as they fall due.	The Company, through the Board and the Investment Committee, seeks to limit exposure to liquidity risk by ensuring liquidity is optimally managed and that all known cash flows can be met out of readily available sources of funding. The Company maintains a strong liquidity position by holding its assets predominantly in investment grade fixed income securities, call accounts and readily tradable corporate bonds.
Market risk	Market risk is the risk arising from fluctuations in the values of, or income from the Company's assets due to fluctuations in interest rates and/or exchange rates.	The Company has a low risk appetite for this type of risk which has been translated 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.
Solvency II risk	Non-compliance with this new European wide regulation which comes into force 01/01/2016 would result in an impaired ability to run the business due to possible higher capital requirements and regulatory sanctions and/or fines.	The company has instigated a Local Solvency II programme with a dedicated Programme Manager to oversee the programme development and additional resources are being made available for the project as required. The Company has liaised with the wider group around GIM planning and broader SII implementation activities within BNPPC. The company has regular meetings with the Prudential Regulatory Authority to discuss progress and the approach. All recommendations resulting from the audit of the Risk and Governance work stream have been implemented and actuarial expertise has been recruited to support the Actuarial Risk & Reporting function.
Conduct risk	Conduct Risk refers to the risks attached to how the company and it's staff conduct their business in the market place and in respect of our customers and suppliers. Failure to create, manage and monitor the appropriate internal controls to understand and manage the company's Conduct Risks could result in regulatory sanctions and/or fines, reputation damage and loss of business.	The Company instigated a Treating Customers Fairly (TCF) forum, which meets on a monthly basis, to review all issues of possible customer detriment under existing TCF guidelines and is fully supported by the whole company, the Financial Ombudsman Service (FOS) team monitors FOS complaint levels, a project is under way to produce Conduct Risk Management Information and the Company's Conduct and Customer Committee meets quarterly to review all aspects of Conduct Risk.

PINNACLE INSURANCE PLC**STRATEGIC REPORT (Continued)****OTHER UNCERTAINTIES**

Payment Protection Insurance (PPI) Complaints: In August 2010, the former UK financial services regulator, the Financial Services Authority, published Policy Statement (PS10/12) in relation to the assessment and redress arising from PPI complaints. The Company's management closely monitor the exposure to the PPI complaints and have taken appropriate action to mitigate the impact on the Company. A specific provision for potential future compensation and associated administrative costs of £3.6m (2013: £4.8m) is held in the Company's books.

FUTURE DEVELOPMENTS

The Company's traditional creditor market continues to be challenged, however, the Company is taking steps to maintain its 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 Board is working closely with BNP Paribas Cardif on the strategic development of the business. It has identified the clear need to diversify its portfolio and reduce the reliance upon MGAs for the sale of household and motor business. The Board is looking towards developing its own products in specific segments which will enable the Company to deliver improved profitability. Management is progressing with the development of several propositions and these will be presented to the Board by the middle of 2015, with the intention of building the propositions during the second half of year and early into 2016.

In addition, the Company remains focused upon the development of its pet and motor warranty business. Furthermore, a detailed cost review is underway with the objective to improve the efficiency and effectiveness of the operating environment in which current business is handled.

GOING CONCERN

The Company has considerable financial resources which include a cash and investment portfolio of £22.4m (2013: £39.1m) and £285.5m (2013: £248.6m) 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 26 March 2015 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 2014.

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 pages 2 to 7. 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 16, 17 and 18. The retained loss after taxation for the year was £5.8m (2013: £1.3m profit). There were no dividends paid or declared in the year.

POST BALANCE SHEET EVENTS

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

DIRECTORS AND THEIR INTERESTS

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

G Binet (Chairman)
P E Glen, FCA (Chief Executive Officer)
N J Atkinson, FIA (resigned 31 May 2014)
BNP Paribas Cardif
Cardif Assurance Risques Divers
Cardif Assurance Vie
P J Box *
N D Rochez *
A M Wigg, FCA

* Independent Non-Executive Director

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

POLITICAL CONTRIBUTIONS

No political contributions were made during the year (2013: £nil)

DISABLED EMPLOYEES

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

PINNACLE INSURANCE PLC

DIRECTORS' REPORT (Continued)

EMPLOYEE INVOLVEMENT AND CONSULTATION

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

The Company places considerable value on the involvement of 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 2014 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 listed so there is no requirement to comply with the October 2014 UK Corporate Governance Code (formerly the Combined Code). Key Corporate Governance arrangements of the Company are highlighted below:

The Board

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

Board Committees

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

- Audit Committee (Chairman: P J Box);
- Investment Committee (Chairman: A M Wigg);
- Remuneration Committee (Chairman: N D Rochez);
- Risk Based Capital Committee (Chairman: P E Glen); and
- Conduct and Customer Committee (Chairman: M J Lorimer).

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

PINNACLE INSURANCE PLC

DIRECTORS' REPORT (Continued)

Directors' attendance

The Company requires Directors to attend all meetings of the Board and the Committees on which they serve and to devote sufficient time to the Company in order to perform their duties. The attendance of the Directors at the Board and Committee meetings, of which they are a member, held in 2014 was as follows:

	Board	Audit Committee	Investment Committee	Remuneration Committee	Risk Based Capital Committee	Conduct & Customer Committee
Number of meetings held during the year	5	4	4	3	18	5
G Binet	5	*	*	*	*	*
P E Glen	5	*	4	*	15	4
N J Atkinson **	2/2	*	2/2	*	6/6	1/2
BNP Paribas Cardif	1	3	*	*	*	*
Cardif Assurance Vie	5	*	*	*	*	*
P J Box	5	4	*	3	*	*
N D Rochez	5	4	*	3	*	*
A M Wigg	5	*	4	*	17	3
Cardif Assurance Risques Divers	5	*	*	*	*	*

* indicates not a member of that Committee

** resigned 31 May 2014

Internal controls

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

The systems are designed to:

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

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

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

Control environment

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

- 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 2014 and up to the date of signing this report. The Company's risk management and control framework is designed to support the identification, assessment, monitoring, management and control of risks that are significant to the achievement of its business objectives. The Company has a set of formal policies which govern the management and control of both financial and non-financial risks.

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

Audit Committee

The Audit Committee is chaired by Mr P J Box who is an independent Non-Executive Director. The other members of the Committee are Mr N D Rochez, independent Non-Executive Director, and Mr J-F Bourdeaux, the Global Head of Compliance and Control, BNP Paribas Cardif. The 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

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

INDEPENDENT AUDITOR

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

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

This confirmation is given and should be interpreted in accordance with the provisions of 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
26 March 2015

PINNACLE INSURANCE PLC**STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2014**

The Directors are responsible for preparing the annual report and 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 state of affairs of the Company and 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 financial statements of Pinnacle Insurance Plc for the year ended 31 December 2014, which comprise the Profit and Loss Account, the Reconciliation of Movements in Shareholder's Funds, the Balance Sheet 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 reserves, the amounts set aside at 31 December 2014, 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.

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

Respective responsibilities of Directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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, and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its loss 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
TO THE MEMBER OF PINNACLE INSURANCE PLC

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



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

26 March 2015

PINNACLE INSURANCE PLC

**PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Notes	<u>2014</u> £000	<u>2013</u> £000
Gross written premiums	3(b)	204,161	168,679
Outward reinsurance premiums		<u>(11,802)</u>	<u>(4,087)</u>
		192,359	164,592
Change in the gross provision for unearned premiums	17(a)	4,170	11,178
Change in the provision for unearned premiums, reinsurers' share	17(a)	3,181	1,016
		<u>7,351</u>	<u>12,194</u>
Earned premiums, net of reinsurance		<u>199,710</u>	<u>176,786</u>
Allocated investment return transferred from the non-technical account		2,906	2,554
Claims paid			
Gross amount		(72,410)	(53,218)
Reinsurers' share		<u>301</u>	<u>653</u>
		(72,109)	(52,565)
Change in the provision for claims			
Gross amount	17(a)	(26,144)	(1,113)
Reinsurers' share	17(a)	<u>1,013</u>	<u>(600)</u>
		(25,131)	(1,713)
Changes in other technical provisions, net of reinsurance	17(g)	1,075	2,056
Claims incurred, net of reinsurance		<u>(96,165)</u>	<u>(52,222)</u>
Net operating expenses	5	<u>(114,646)</u>	<u>(130,310)</u>
Change in the equalisation reserves	17(f)	<u>(1,492)</u>	<u>(1,742)</u>
Balance on the technical account-general business		<u>(9,687)</u>	<u>(4,934)</u>

PINNACLE INSURANCE PLC

**PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – LONG-TERM BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Notes	<u>2014</u> £000	<u>2013</u> £000
Gross written premiums	3(c)	3,829	4,082
Outward reinsurance premiums		<u>(3)</u>	<u>(7)</u>
		3,826	4,075
Investment income	4	328	907
Claims paid			
Gross amount		(3,756)	(4,225)
Reinsurers' share		<u>1,489</u>	<u>1,530</u>
		<u>(2,267)</u>	<u>(2,695)</u>
Change in the provision for claims			
Gross amount	17(b)	247	-
Reinsurers' share	17(b)	<u>-</u>	<u>(19)</u>
		<u>247</u>	<u>(19)</u>
Claims incurred, net of reinsurance		<u>(2,020)</u>	<u>(2,714)</u>
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
Gross amount	17(b)	3,944	(1,773)
Reinsurers' share	17(b)	<u>(34)</u>	<u>8,216</u>
		<u>3,910</u>	<u>6,443</u>
Net operating expenses	5	(5,409)	(8,780)
Unrealised gain/(loss) on investments	4	5	(345)
Taxation charge attributable to the long-term business	9	(297)	(421)
Balance on the technical account - long-term business		<u>343</u>	<u>(835)</u>
Taxation charge attributable to the balance on the long-term business technical account	9	297	421
Balance on the technical account - long-term business before taxation		<u><u>640</u></u>	<u><u>(414)</u></u>

PINNACLE INSURANCE PLC

PROFIT AND LOSS ACCOUNT NON TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	<u>2014</u>	<u>2013</u>
		£000	£000
Balance on the technical account - general business		(9,687)	(4,934)
Balance on the technical account - long-term business before taxation		640	(414)
		<u>(9,047)</u>	<u>(5,348)</u>
Investment income	4	6,167	3,303
Unrealised gain on investments	4	338	5,834
		6,505	9,137
Allocated investment return transferred to the general business technical account		(2,906)	(2,554)
Foreign exchange (loss)/gain		(99)	1,371
		<u>3,500</u>	<u>7,954</u>
(Loss)/Profit on ordinary activities before tax		(5,547)	2,606
Taxation charge on ordinary activities	9	(293)	(1,297)
(Loss)/Profit for the financial year		<u>(5,840)</u>	<u>1,309</u>

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

All losses relate to continuing operations.

The notes on pages 22 to 43 form part of these accounts.

PINNACLE INSURANCE PLC

RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	<u>2014</u> £000	<u>2013</u> £000
(Loss)/Profit for the financial year	16(b)	(5,840)	1,309
Net addition to shareholder's funds		(5,840)	1,309
Opening shareholder's funds	16(b)	180,958	179,649
Closing shareholder's funds	16(b)	<u>175,118</u>	<u>180,958</u>

PINNACLE INSURANCE PLC
Company Registration Number: 1007798

BALANCE SHEET - ASSETS
AT 31 DECEMBER 2014

	Notes	2014 £000	2013 £000
ASSETS			
Intangible assets	10	24	-
Investments in group undertakings and participating interest	11(a)	2	5,002
Other financial investments	11(b)	285,523	248,613
		285,549	253,615
Reinsurers' share of technical provisions			
Provision for unearned premiums	17(a)	4,254	1,073
Long term business provision	17(b)	27,875	27,909
Claims outstanding	17(c)	2,852	1,838
		34,981	30,820
Debtors			
Debtors arising out of direct insurance operations	12	40,373	34,903
Debtors arising out of reinsurance operations	13	292	300
Other debtors	14	10,995	8,736
		51,660	43,939
Other assets			
Cash at bank and in hand	15	22,455	39,174
Prepayments and accrued income			
Accrued interest		1,925	1,661
Deferred acquisition costs	17(d)	40,317	58,443
Other prepayments and accrued income		930	639
		43,172	60,743
Total assets		437,817	428,291

PINNACLE INSURANCE PLC
Company Registration Number - 1007798

BALANCE SHEET - LIABILITIES
AT 31 DECEMBER 2014

	Notes	2014 £000	2013 £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)	25,238	31,078
		175,118	180,958
Technical provisions			
Provision for unearned premiums	17(a)	96,373	100,542
Long term business provision	17(b)	32,165	36,109
Claims outstanding	17(c)	75,427	49,530
Equalisation reserve	17(f)	3,733	2,241
Other technical provisions	17(g)	602	1,677
		208,300	190,099
Creditors			
Creditors arising out of direct insurance operations	18	48,747	51,704
Creditors arising out of reinsurance operations	19	1,200	728
Amounts owed to credit institutions	20	16	321
Accruals and deferred income		268	345
Other creditors including taxation and social security	21	4,168	4,136
		54,399	57,234
Total liabilities		437,817	428,291

These financial statements were approved by the Board of Directors on 26 March 2015.

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 2014****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 7.

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.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

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 inception 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 directly 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 deferred acquisition costs 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.

PINNACLE INSURANCE PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)****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 profit and loss 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 premiums 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.

PINNACLE INSURANCE PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (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.

Expenses

Underwriting acquisition costs, general overheads and other expenses are charged as incurred to the profit and loss 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

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.

PINNACLE INSURANCE PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)****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 shareholder's 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 profit and loss 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.

Intangible assets

Intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful lives. The estimated useful life and amortisation method are reviewed at each reporting period, with effect of any changes in estimate being accounted for on a prospective basis. The estimated useful economic life of the intangible asset is as follows: Renewal rights 5 years

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 2014 (Continued)

3. Segmental analysis

3(a) Analysis by class of business	2014 £000	2013 £000
Gross premiums written		
General business	204,161	168,679
Long term business	3,829	4,082
	<u>207,990</u>	<u>172,761</u>
 (Loss)/Profit before taxation:		
Non-technical items have been allocated to general business		
General business	(6,187)	3,020
Long term business	640	(414)
	<u>(5,547)</u>	<u>2,606</u>
 Segmental net assets (see note 16(a) and 16(b))		
General business (including shareholder's funds)	166,898	167,080
Long term business	8,220	13,878
	<u>175,118</u>	<u>180,958</u>

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 2014 (Continued)

3. Segmental analysis (continued)

		2014				
3(b) Analysis of general business	Gross Written Premiums £'000	Gross Earned Premiums £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Re-insurance Balance £'000	
Direct Insurance						
Pet	9,207	8,227	(5,555)	(1,608)	57	
Creditor	64,730	69,336	(16,034)	(52,131)	(342)	
Warranty *	14,153	30,461	(6,275)	(21,706)	-	
Household	53,135	57,150	(28,864)	(24,831)	(3,323)	
Motor	62,931	43,152	(40,725)	(2,546)	(3,677)	
	<u>204,156</u>	<u>208,326</u>	<u>(97,453)</u>	<u>(102,822)</u>	<u>(7,285)</u>	
Reinsurance	5	5	(26)	-	-	
	<u>204,161</u>	<u>208,331</u>	<u>(97,479)</u>	<u>(102,822)</u>	<u>(7,285)</u>	

* Gross operating expenses and gross earned premiums include release of deferred acquisition cost of £16.6m (2013: £27.1m) relating to a book of business in run off.

		2013				
Analysis of general business	Gross Written Premiums £'000	Gross Earned Premiums £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Re-insurance 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)	
	<u>168,673</u>	<u>179,828</u>	<u>(52,165)</u>	<u>(130,307)</u>	<u>(2,971)</u>	
Reinsurance	6	29	(109)	(3)	-	
	<u>168,679</u>	<u>179,857</u>	<u>(52,274)</u>	<u>(130,310)</u>	<u>(2,971)</u>	

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 2014 (Continued)

3. Segmental analysis (continued)

		2014				
3 (c) Analysis of long-term business	Gross Written Premiums £'000	Gross Earned Premiums £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Re-insurance Balance £'000	
Direct Insurance						
Investments	-	1,791	(1,624)	(130)	-	
Long term protection	3,829	5,982	(1,885)	(4,127)	1,452	
	<u>3,829</u>	<u>7,773</u>	<u>(3,509)</u>	<u>(4,257)</u>	<u>1,452</u>	

		2013				
Analysis of long-term business	Gross Written Premiums £'000	Gross Earned Premiums £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Re-insurance Balance £'000	
Direct Insurance						
Investments	-	1,795	(1,646)	-	-	
Long term protection	4,082	514	(2,579)	(8,782)	9,722	
	<u>4,082</u>	<u>2,309</u>	<u>(4,225)</u>	<u>(8,782)</u>	<u>9,722</u>	

4. Investment income	Technical account long term business		Non-technical account	
	2014 £000	2013 £000	2014 £000	2013 £000
Income from group undertakings	-	-	8	198
Income from other financial investments	342	589	6,743	6,433
Realised (loss)/gain on investments	(14)	318	(584)	(3,328)
Investment income	328	907	6,167	3,303
Unrealised gain/(loss) on investments	5	(345)	338	5,834
	<u>333</u>	<u>562</u>	<u>6,505</u>	<u>9,137</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

4. Investment income (continued)

Included within the unrealised gain/(loss) on investments in the non-technical account is the release of bad debt provisions of £739,000 (2013: £7,460,000 gain). The bad debt provision release for the current year relates to the deposit with Icelandic Heritable Banking Group. The provision was established due to uncertainty relating to the recoverability of the deposit amount. The deposit was sold during the year for 92.35p in the pound resulting in a realised loss of £277,000. The realised loss is included within realised gain/(loss) in the non-technical account.

Investments return of £6,444,000 is initially recorded in the non-technical account. A transfer is made of £2,908,000 from the non-technical for general business on investments supporting the insurance technical provisions and related shareholder's funds. This transfer is made in accordance with ABI SORP 2006 paragraph 292.

5. Net operating expenses	General Business		Long-term Business	
	2014 £000	2013 £000	2014 £000	2013 £000
Acquisition costs	60,174	63,263	2,168	2,213
Change in gross deferred acquisition costs	16,526	28,172	1,600	3,956
Administrative expenses	26,122	22,698	489	1,966
Reinsurance commissions and profit participation	11,824	16,177	1,152	645
	<u>114,646</u>	<u>130,310</u>	<u>5,409</u>	<u>8,780</u>
6. (Loss)/Profit on ordinary activities before tax is stated after charging:			2014 £'000	2013 £'000
The analysis of auditor's remuneration is as follows:				
Fees payable to the Company's auditor for the Company's annual accounts			106	104
Fees payable to the Company's auditor for the regulatory returns			38	38
Total audit fees			<u>144</u>	<u>142</u>
			2014 £'000	2013 £'000
Business strategy review			100	-
Solvency II support			26	-
Total non-audit fees			<u>126</u>	<u>-</u>

7. Employees

The Company has had no employees during the year. A fellow subsidiary of Cardiff Pinnacle Insurance plc, Cardiff Pinnacle Insurance Management Services plc, provides staff management services and recharges all staff costs to the Company and wider UK group. The total management recharge includes staff costs of £14,836,157 (2013: £15,298,718) and is included within the net operating expenses.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

8. Directors' remuneration

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

	2014 £000	2013 £000
Emoluments	1,176	1,119
Pension contributions to a defined contribution scheme	40	77
	<u>1,216</u>	<u>1,196</u>

The remuneration of the highest paid Director:

	2014 £000	2013 £000
Emoluments of highest paid Director	660	608
Pension contributions of highest paid Director	11	45
	<u>671</u>	<u>653</u>

9. Taxation on ordinary activities

Analysis of charge/(credit)	General Business		Long-term business		Total	
	2014	2013	2014	2013	2014	2013
	£'000	£'000	£'000	£'000	£'000	£'000
Current tax						
UK corporation tax (credit)/charge on (loss)/profit for the year	(1,357)	-	313	606	(1,044)	606
Prior year adjustments	-	-	(16)	(185)	(16)	(185)
Total current tax (credit)/charge	<u>(1,357)</u>	<u>-</u>	<u>297</u>	<u>421</u>	<u>(1,060)</u>	<u>421</u>
Deferred tax						
Timing differences arising	1,353	876	-	-	1,353	876
Tax (credit)/charge on (loss)/profit on ordinary activities	<u>(4)</u>	<u>876</u>	<u>297</u>	<u>421</u>	<u>293</u>	<u>1,297</u>

The tax credit on the general business arising in 2014 is lower than expected because the opening deferred tax asset of £1,353,000 on general business has been de-recognised. This is because it is uncertain whether suitable taxable profits will arise in the foreseeable future.

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

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

9. Taxation on ordinary activities (continued)

Factors affecting tax (credit)/charge for the year	General Business		Long-term Business		Total	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
(Loss)/Profit on ordinary activities before tax	(6,187)	3,020	640	(414)	(5,547)	2,606
(Loss)/Profit on ordinary activities by tax rate in the UK of 21.50% (2013: 23.25%)	(1,328)	702	137	(96)	(1,191)	606
<u>Effects of:</u>						
Long term business: Transitional adjustments	-	-	199	702	199	702
Bank levy not allowable for corporation tax	(29)	63	-	-	(29)	63
Prior year adjustments	-	-	(16)	(185)	(16)	(185)
Relief of losses	-	(765)	(23)	-	(23)	(765)
Current tax (credit)/charge	<u>(1,357)</u>	<u>-</u>	<u>297</u>	<u>421</u>	<u>(1,060)</u>	<u>421</u>

Deferred taxation	General Business		Long-term Business		Total	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
At 1 January	1,353	2,229	-	-	1,353	2,229
Utilisation of trading losses	-	(690)	-	-	-	(690)
Transitional adjustment re deferred acquisition costs	-	-	308	763	308	763
Transitional adjustment re liabilities	-	-	(308)	(733)	(308)	(733)
Change in tax rate	-	(194)	-	-	-	(194)
De-recognition of deferred tax asset	(1,353)	8	-	(30)	(1,353)	(22)
At 31 December	<u>-</u>	<u>1,353</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,353</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

9. Taxation on ordinary activities (continued)

No deferred tax asset has been recognised as at 31 December 2014. The deferred tax asset at 31 December 2013 relates to trading losses arising in the prior years and is included within other debtors (Note 14).

There is an unrecognised deferred tax asset of £1,288,000 at 31 December 2014 (2013: £nil) in respect of general business, and £2,314,000 (2013: £2,273,000) in respect of long-term business. A deferred tax asset has not been recognised because it is uncertain whether suitable taxable profits will arise in the foreseeable future.

Analysis of unrecognised deferred tax asset	General Business		Long-term Business		Total	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Transitional adjustment re deferred acquisition costs	-	-	(234)	(554)	(234)	(554)
Transitional adjustment re liabilities	-	-	980	1,158	980	1,158
Losses	1,288	-	1,568	1,669	2,856	1,669
Unrecognised deferred tax asset	<u>1,288</u>	<u>-</u>	<u>2,314</u>	<u>2,273</u>	<u>3,602</u>	<u>2,273</u>

10. Intangible assets

	Renewal Rights £000
Cost	
At 1 January 2014	-
Additions	25
At 31 December 2014	<u>25</u>
Amortisation	
At 1 January 2014	-
Charge for the year	(1)
At 31 December 2014	<u>(1)</u>
Net book value	
At 31 December 2014	<u>24</u>
At 31 December 2013	<u>-</u>

On 2 October 2014, the Company acquired an inforce book of Pet insurance business from another insurer for which it paid consideration to acquire the renewal rights to represent itself as carrying on the business of underwriting the renewals of policies which were issued prior to the acquisition of the book.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

11. Investments

11 (a) Investments in group undertaking and participating interest

	2014	2013
	£000	£000
Associate undertaking	2	2
Other investments and loans	-	5,000
	<u>2</u>	<u>5,002</u>

Investment in Associate Undertaking

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.

Other investment and loans

Other investments and loans comprised a mortgage over two properties held by a fellow subsidiary, Cardif Pinnacle Insurance Management Services plc. The outstanding loan was settled during the year.

11(b) Other financial investments

	Market Value		Cost	
	2014	2013	2014	2013
	£000	£000	£000	£000
Listed shares	-	2	-	3
Debt securities and other fixed income securities	168,182	148,806	169,354	149,523
Deposits with credit institutions	117,341	99,805	117,341	99,805
	<u>285,523</u>	<u>248,613</u>	<u>286,695</u>	<u>249,331</u>

As required to be shown by SI2008/410, the Investments are shown net of bad debt provisions. The bad debt provision comprises £nil (2013: £739,000) in respect of the Company's exposure to Landsbanki, part of the Icelandic Heritable Banking Group.

Included within other financial investments is £12,609,860 (2013: £12,617,670) held on behalf of intermediaries.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

12. Debtors arising out of direct insurance operations

	2014	2013
	£000	£000
Amounts owed by intermediaries	<u>40,373</u>	<u>34,903</u>

The debtors are shown at net realisable value, and are inclusive of a bad debt provision of £155,000 (2013: £855,000).

13. Debtors arising out of reinsurance operations

	2014	2013
	£000	£000
Amounts due from reinsurers	<u>292</u>	<u>300</u>

14. Other debtors

	2014	2013
	£000	£000
Amounts owed by group undertakings	9,951	7,362
Corporation tax	1,044	-
Other taxes	-	21
Deferred tax	-	1,353
	<u>10,995</u>	<u>8,736</u>

Within the amounts owed by group undertakings the balance of £7,435,000 relates to inadmissible assets for PRA Insurance Return purposes. Since the 31 December, this balance has been repaid in full.

15. Cash at bank and in hand

	2014	2013
	£000	£000
Cash at bank and in hand	<u>22,455</u>	<u>39,174</u>

Cash at bank and in hand comprises deposits repayable on demand and short-term bank deposits. Included within this amount are balances of £34,569 (2013: £11,000), held on behalf of intermediaries.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

16(a) Share Capital

	2014	2013
	£000	£000
Authorised 128,836,000 Ordinary shares of £1 each	<u>128,836</u>	<u>128,836</u>
Issued, allotted, called up and fully paid Ordinary shares of £1 each	126,557	126,557
Share Premium	<u>23,323</u>	<u>23,323</u>
	<u>149,880</u>	<u>149,880</u>

16(b) Shareholder's fund movements

	Share Capital £000	Share Premium £000	Profit & loss account £000	Total £000
At 1 January 2013	126,557	23,323	29,769	179,649
Profit for the financial year	-	-	1,309	1,309
At 31 December 2013	<u>126,557</u>	<u>23,323</u>	<u>31,078</u>	<u>180,958</u>
Loss for the financial year	-	-	(5,840)	(5,840)
At 31 December 2014	<u>126,557</u>	<u>23,323</u>	<u>25,238</u>	<u>175,118</u>

Non-distributable reserves in respect of the surplus on the long term business that must be maintained by the Company as at 31 December 2014 were £8,220,000 (2013: £13,878,000).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

16(c) Capital statement

	2014 £000	2013 £000
Shareholder's funds held outside the long-term business fund	166,898	167,080
Shareholder's funds held in the long-term business fund	<u>8,220</u>	<u>13,878</u>
Total shareholder's funds	175,118	180,958
Other adjustments	<u>(7,938)</u>	<u>(1,516)</u>
Total available capital resources	<u><u>167,180</u></u>	<u><u>179,442</u></u>

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 long-term liabilities are sensitive to the valuation interest rate assumptions, which vary as market yields change. However, as assets and liabilities are closely matched and the impact on surplus capital is not material, as evidenced by a resilience capital requirement of £150,000 (2013: £150,000). This is considered of low materiality relative to our fund surplus excess of £5.2m (2013: £10.6m) and long-term liabilities of £3.2m (2013: £5.8m).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

17. Technical provisions

17(a) General business	Provision for Unearned Premiums £000	Claims Outstanding £000	Total £000
Gross amount			
At 31 December 2013	100,543	49,084	149,627
Movement in the provision	<u>(4,170)</u>	<u>26,144</u>	<u>21,974</u>
At 31 December 2014	<u>96,373</u>	<u>75,228</u>	<u>171,601</u>
Reinsurance amount			
At 1 January 2014	(1,073)	(1,838)	(2,911)
Movement in the provision	<u>(3,181)</u>	<u>(1,013)</u>	<u>(4,194)</u>
At 31 December 2014	<u>(4,254)</u>	<u>(2,851)</u>	<u>(7,105)</u>
Net technical provisions			
Opening balance	99,470	47,246	146,716
Movement in the provision	<u>(7,351)</u>	<u>25,131</u>	<u>17,780</u>
At 31 December 2014	<u>92,119</u>	<u>72,377</u>	<u>164,496</u>

As required to be shown by Schedule 3 of SI2008/410 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.

17(b) Long-term business	Long-term Business Provision £000	Claims Outstanding £000	Total £000
Gross amount			
At 1 January 2014	36,109	446	36,555
Movement in the provision	<u>(3,944)</u>	<u>(247)</u>	<u>(4,191)</u>
At 31 December 2014	<u>32,165</u>	<u>199</u>	<u>32,364</u>
Reinsurance amount			
At 1 January 2014	(27,909)	(1)	(27,910)
Movement in the provision	<u>34</u>	<u>-</u>	<u>34</u>
At 31 December 2014	<u>(27,875)</u>	<u>(1)</u>	<u>(27,876)</u>
Net technical provisions			
At 1 January 2014	8,200	445	8,645
Movement in the provision	<u>(3,910)</u>	<u>(247)</u>	<u>(4,157)</u>
At 31 December 2014	<u>4,290</u>	<u>198</u>	<u>4,488</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

17(b) Long-term business (continued)

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

	2014	2013
<u>Rates of interest</u>		
Guaranteed Growth Bonds		
Outstanding term less than 1 year	n/a	3.10%
Guaranteed Income Bonds		
Outstanding term less than 1 year	n/a	3.00%
Monthly Income Bonds		
Outstanding term less than 1 year	n/a	3.60%
Annuities :		
RAM - Annuities	2.20%	3.20%
Life After Fifty	2.20%	3.20%
Annuities-general	2.20%	3.20%
Annuities-pension	1.30%	1.20%
GUAL	1.30%	1.20%
<u>Mortality tables</u>		
RAM - Annuities	60% of IM(F)80C20	60% of IM(F)80C20
Life After Fifty	ELT14	ELT14
Annuities-general	70% PMA92&PFA92	70% PMA92&PFA92
Annuities-pension	70% PM(F)A92	70% PM(F)A92
GUAL	85% PM(F)A92	85% PM(F)A92

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

17(c) Claims outstanding	Gross Amount		Reinsurance Amount	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
General business	75,228	49,084	(2,851)	(1,838)
Long term business	199	446	(1)	-
	<u>75,427</u>	<u>49,530</u>	<u>(2,852)</u>	<u>(1,838)</u>

Included within the claims outstanding balance is a provision in respect of claims incurred but not reported of £21,499,000 (2013: £14,460,000).

17(d) Deferred acquisition costs	General business	Long-term business	Total
	2014	2014	2014
	£000	£000	£000
Gross amount			
At 1 January 2014	55,432	3,011	58,443
Movement in the provision	(16,526)	(1,600)	(18,126)
At 31 December 2014	<u>38,906</u>	<u>1,411</u>	<u>40,317</u>
Reinsurance amount			
At 1 January 2014	6	-	6
Movement in the provision	(6)	-	(6)
At 31 December 2014	<u>-</u>	<u>-</u>	<u>-</u>
Net amount			
At 1 January 2014	55,438	3,011	58,449
Movement in the provision	(16,532)	(1,600)	(18,133)
At 31 December 2014	<u>38,906</u>	<u>1,411</u>	<u>40,317</u>

The reinsured amount of £nil (2013: £6,000) is included within Note 19.

17(e) Long-term fund

At 31 December 2014 the total amount of assets representing the long-term business fund as required to be shown by Schedule 3 of SI2008/410 The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 was £47,014,000 (2013: £55,739,000).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

17(f) Equalisation reserve

	2014	2013
	£000	£000
At 1 January	2,241	499
Transfer from the Technical account - General business	1,492	1,742
At 31 December	<u>3,733</u>	<u>2,241</u>

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 £1,492,000 (2013: £1,742,000).

17(g) Other technical provisions

	2014	2013
	£000	£000
At 1 January	1,677	3,733
Decrease in the provision	(1,075)	(2,056)
At 31 December	<u>602</u>	<u>1,677</u>

Other technical provisions wholly relate to unexpired risk provision.

17(h) PS 10/12 provision

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

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

The Company has performed a detailed review of complaints received from policyholders to date in relation to the mis-selling of its PPI products and has estimated its liability at the year end to be £8,541,271 (2013: £8,844,628). Of this amount, a specific provision of £3,551,810 (2013: £4,833,903) has been recognised in relation to estimated administrative costs, and is included within claims outstanding.

In addition, the Company is also withholding an amount of £4,989,461 (2013: £3,967,138) 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 2014 (Continued)

18. Creditors arising out of direct insurance operations		
	2014	2013
	£000	£000
Other creditors	<u>48,747</u>	<u>51,704</u>
19. Creditors arising out of reinsurance operations		
	2014	2013
	£000	£000
Other creditors	<u>1,200</u>	<u>728</u>
20. Amounts owed to credit institutions		
	2014	2013
	£000	£000
Due within one year	<u>16</u>	<u>321</u>
Amounts owed to credit institutions comprise bank overdrafts which are repayable on demand.		
21. Other creditors including taxation and social security		
	2014	2013
	£000	£000
Amount due to group undertakings	964	316
Other taxation and social security	<u>3,204</u>	<u>3,820</u>
	<u>4,168</u>	<u>4,136</u>
22. Commitments		
There were no outstanding capital commitments at 31 December 2014 (2013: £nil)		

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

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 following transactions during the year with Cardif Services EEIG, an associate undertaking (see note 11), which do not fall within the above exemption:

	2014 £'000	2013 £'000
Amount paid to associate undertaking for shared administrative services	<u>283</u>	<u>-</u>
Amount owed	<u>40</u>	<u>-</u>

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.

