PINNACLE INSURANCE PLC

Company Registration Number: 01007798

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2021

PINNACLE INSURANCE PLC

CONTENTS

PINNACLE INSURANCE PLC

Company Information

Directors:	G Binet (resigned 9th February 2022) M Haderer (resigned 17th November 2021) N D Rochez * R A Hines (Chairman) *+ A M Wigg M J Lorimer S L P F Chevalet S M Luton + H E Rennie + * Independent Non-Executive Director + Subject to PRA approval
Company Secretary:	M J Lorimer
Registered Office:	Pinnacle House A1 Barnet Way Borehamwood Hertfordshire WD6 2XX
Actuarial Function Holder: (Long-term fund)	A Iordache
Independent Auditor:	Deloitte LLP 1 New Street Square London United Kingdom EC4A 3HQ
Principal Bankers:	Barclays Bank PLC 54 Lombard Street London EC3P 3AH

STRATEGIC REPORT

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

The Company is a subsidiary of Cardif Pinnacle Insurance Holdings plc (the "UK Parent"), a member of the BNP Paribas Cardif group, a worldwide provider of insurance and savings products. The Company is part of the global banking group BNP Paribas SA ("the Group"), a European leader in banking and financial services, with a Standard and Poor's long-term rating of A+ (Stable outlook). The Group has one of the largest international banking networks, with a presence in 65 countries and employs 190,000 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 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 reported a pre-tax loss of £6.9m (2020: loss of £9.6m). The 2021 result was impacted by the loss on a reinsurance treaty for the non-pet business, see below. The loss on the reinsurance treaty was £0.9m, in addition the non-pet Deferred Acquisition Costs were written off at year end, £3.9m. Excluding these items the loss before tax was £2.1m. The loss was caused by an increase in overheads in the year along with reduced investment returns due to adverse market movements.

In September 2021 the Board agreed to fully reinsure all non-pet business not currently reinsured to Darnell DAC (a wholly owned subsidiary of the BNP Paribas Group authorised by the Central Bank of Ireland) from 31st December 2021.

In October 2021, BNP Paribas Cardif announced the formation of joint business venture (JV) with JAB Holding Company to build a top three position in Pet healthcare and insurance services covering UK, EMEA and Latam. JAB Holdings will set up a holding company for the new JV which will purchase 100% of the share capital of the Company and two fellow subsidiaries. JAB Pet Insurance Holdings Limited will invest funds so that the ownership structure will be: JAB Holdings 70% and BNP Paribas Cardif 30%. This transaction is subject to regulatory approval of the change of control, and is anticipated to complete in Q2 2022.

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

Gross Written Premiums (GWP)

Pet

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

Gross written premium for Pet business increased to £83.3m (2020: £64.2m) mainly due to growth in business from partnership arrangements.

Creditor

Gross written premiums reduced to £14.2m (2020: £15.5m). The sale of new Creditor products has ceased and all intermediary business is in run-off. This portfolio was reinsured 100% to Darnell DAC from December 31st 2021.

STRATEGIC REPORT (continued)

Warranty and GAP

The Company stopped writing direct to consumer business in 2020, however it continues to support the Shareholder on large strategic relationships.

Gross written premiums for the Warranty and GAP business increased to £8.8m (2020: £6.7m). The growth was driven by a GAP partnership with a leading car manufacturer entered into in August 2020 and ceased end of 2021. This portfolio was reinsured 100% to Darnell DAC from December 31st 2021.

Household and Motor

All of PIC's motor and household MGA business ran off during 2016. This business is now closed and there are no more policies on risk. Claims continue to run off for some long tail personal injury claims arising on the motor book. This portfolio was reinsured 100% to Darnell DAC from December 31st 2021.

Long-Term business

Long-term business includes business underwritten for mortgage loan protection, leasing creditor and standard of living guarantee income products. This business is in run-off and gross written premiums were £0.4m in 2021 (2020: £0.4m). This portfolio was reinsured 100% to Darnell DAC from December 31st 2021.

KEY PERFORMANCE INDICATORS

Key Performance Indicators (KPI's) are measures by which the performance or position of the Company can be assessed effectively. The Company's management monitor the progress of the Company, including both general and long-term business, by reference to the following KPIs:

	2021	**2020**
	£'000	**£'000**
Gross Written Premiums	107,350	86,830
Net Earned Premiums	67,633	57,637
Technical Result	18,627	10,566
Investment return	56	2,940
Administration Expenses	(25,569)	(23,095)
(Loss) / Profit Before Tax	(6,886)	(9,589)
Technical Ratio	74%	95%
Claims Ratio	44%	74%
Commission Ratio	29%	21%

Gross Written Premiums (GWP): represents the total premiums written in a given year before deductions of reinsurance and ceding commission. GWP increased in the year by £20.5m (24%) primarily due to the growth of the Pet business, offset by the continued and expected decrease in Creditor.

Net Earned Premiums (NEP): represents the portion of the policy's premium that applies to the expired portion of the policy. The reinsurance treaty for the non-pet business reduced NEP by £26.5m excluding this NEP increased by £36.5m due to the growth of Pet £37.7m, partly offset by a decrease on Creditor and Motor Warranty.

Technical Result: represents the balance of earned income less incurred claims, commission and profit share payments, net of associated reinsurance balances. The technical result has been impacted by a loss on the reinsurance treaty with Darnell of £4.8m of which £3.9m is the write off of Deferred Acquisition costs on the non-pet business. Excluding the impact of the reinsurance with Darnell the Technical Result was £23.4m.

STRATEGIC REPORT (continued)

KEY PERFORMANCE INDICATORS

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

The investment portfolio comprises bonds, cash and term deposits of high credit quality. The total portfolio was valued at £137.7m at 31 December 2021 (2020: £179.6m) of which 37% (2020: 29% was held in bonds, 52% (2020: 51%) in term-deposits with credit institutions and 11% (2020: 19%) in cash and cash equivalents. The investment portfolio reduced by £41.9m over the year, the reduction largely being due to the payment of reinsurance premium at year end for the non pet reinsurance to Darnell.

Total net investment return for the year is £0.1m (2020: £2.9m) which comprises interest earned on financial investments of £2.2m (2020: £2.9m), realised loss on bonds of £1.2m (2020: gain £0.1m) and unrealised loss of £1.0m (2020: £0.1m).

Administration Expenses: Administration expenses represent those operating expenses incurred by the Company, which are not classified as either acquisition or claims handling costs. Administration expenses increased by £2.5m to £25.6m (2020: £23.1m), £0.5m of the increase is due to the net impact of provision and accrual releases in 2020. Aside from this, expenses increased by £2.0m, this increase was due to a number of factors including international initiatives, transfer of staff from fellow subsidiary BNP Paribas Cardif Limited to the Company's service company Cardif Pinnacle Insurance Management Services PLC, whose costs are recharged to the Company and higher volumes.

Technical Ratio: Reflects the profitability of the general business before direct and indirect costs and is calculated as the sum of commission and net incurred claims expressed relative to NEP. The technical ratio decreased to 74% (2020: 95%). Excluding the impact of the reinsurance to Darnell the Technical Ratio was 80%, the reduction in 2021 being due to the impact of unemployment claims reserved at the end of 2020.

Claims Ratio: Calculated as net claims incurred expressed as a percentage of NEP. The claims ratio in 2021 decreased to 44% (2020: 74%) due to reinsurance of non-pet business claims reserves to Darnell. Excluding the impact of the reinsurance to Darnell the Claims Ratio was 50%

Commission Ratio: Commission incurred expressed as a percentage of NEP. The Commission ratio in 2021 was 29% (2020: 21%). As a result of the reinsurance of the non-pet portfolio at the end of 2021 all Deferred Acquisition Costs for non-pet were written off, excluding this the commission ratio was 24%.

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

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

Risk	Impact on Company	Mitigation of risk
Insurance risk	The Company is exposed to insurance risk through the insurance contracts that it issues where it assumes the risk of loss from persons or organisations that are directly subject to the underlying loss. The Company is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.	The Company has a Board approved underwriting policy and agreed risk appetites, and monitors these on a regular basis. Particular attention is paid to actual and forecast loss ratios (claims over premiums).
Operational risk	Operational risk is the risk of loss resulting from inadequate internal processes, human or system errors, or from external events.	The Company seeks to manage this risk exposure through continual enhancement of its systems and controls, and ensuring appropriately experienced personnel are in place throughout the organisation. Local incident and Head Office reporting and investigation procedures are well established.
Reserving risk	Reserving risk is associated with insurance risk after the coverage is expired and it occurs when claims provisions make insufficient allowance for claims, claims handling expenses and reinsurance bad debts provisions. There is a possibility that the Company's management do not make sufficient provision for exposures which could affect the Company's earnings and capital.	The Company's actuarial team uses a range of recognised actuarial techniques to project GWP, monitor claims development patterns and determine claims provisions. The Board of Directors review the reserving position quarterly.
Credit /Counterparty risk	The Company's exposure to credit risk arises from its direct insurance trading activities, the exposure to the reinsurance it purchases and those of its investment activities. The risk is the risk of default arising from any of these exposures.	The Company 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.

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 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 that the Company is adversely affected by movements in the value of its financial assets arising from market movements.	The Company has a low risk appetite for this type of risk which has been translated into a policy allowing the Company to invest predominantly in short-term bonds or cash to match the short-tail nature of most of its claims. Longer duration assets are purchased to better match with longer duration Motor liabilities.
Conduct risk	Conduct Risk refers to the risks attached to how the company and its staff conduct their business in the market place and in respect of our customers and suppliers. Failure to create, manage and monitor the appropriate internal controls to understand and manage the company's Conduct Risks could result in regulatory sanctions and/or fines, reputation damage and loss of business.	The Company operates a Treating Customers Fairly (TCF) forum, which meets on a monthly basis, to review all issues of possible customer detriment under existing TCF guidelines and is fully supported by the whole company. The Financial Ombudsman Service (FOS) team monitors and disseminates FOS complaints, decisions and guidance. The Company's Conduct and Customer Committee meets quarterly to review all aspects of Conduct Risk.

OTHER UNCERTAINTIES

Ukraine: Following the onset of hostilities in the Ukraine, the UK National Cyber Security Centre has advised that the threat level in the UK is currently heightened; meaning the likelihood of cyber-attack has increased. The local security team have communicated the need for all staff to remain vigilant, and will continue to monitor the threat levels.

Payment Protection Insurance (PPI) Complaints: In August 2010, the former UK financial services regulator, the Financial Services Authority, published Policy Statement (PS10/12) in relation to the assessment and redress arising from PPI complaints. Management closely monitor the exposure to the PPI complaints and have taken appropriate action to mitigate the impact on the Company resulting in a provision of £0.1m (2020: £0.7m). See note 19 for further detail.

Brexit: There continues to be uncertainty with Financial Services provision between the United Kingdom and the European Union (EU), particularly with regard to reform of the Solvency II regime and equivalence with the EU. As these might affect the Company developments are being monitored carefully.

STRATEGIC REPORT (continued)

COVID-19

The effect of the Covid 19 pandemic, specifically the invocation of the remote working model, had a significant impact on a number of processes, which were assessed and remediated where appropriate.

Throughout the pandemic, the Company has maintained the level of service its customers require and has continued to meet its regulatory obligations.

As the Company planned, during 2021, for a post lock-down environment, staff welfare remained the primary consideration. A phased and flexible return to the office was implemented, with the focus on returning to the office with purpose and without compromising employee safety. Managers have continued to seek feedback from employees to ensure wellbeing remains a focus.

The Crisis Management Team (CMT) has continued to operate and to provide a focus for monitoring and responding to any future UK Government proposals.

Climate change

Financial risks from climate change do not currently represent a material risk to the company. The Executive Management and subject matter experts use the Risk Register review process to review climate related risks and have concluded that no material physical or liability financial risks from climate change could arise from the current business model and operations. Business continuity is assessed as a low risk with no material impact from climate and weather related events (through disruption to the work environment or disruption to supply chains).

In view of the existing business model, financial risks from climate change are only likely to arise as transition risks i.e. asset devaluation as a consequence of climate change factors. Transition financial risks from climate change are assessed as being more likely to arise from a reduction in asset values due to the impact from climate change. The company monitors exposure to climate change factors through the application of Group and BNP Paribas Cardif policies relating to SRI (Social Responsible Investments) and ESG (Environmental, Social & Governance) are reviewed by the Investment Committee (a sub-committee of the Board).

FUTURE DEVELOPMENTS

The core agenda defined by the Board and management is:

- Achieving strategic growth targets for Pet in a highly competitive market, where the two dominant insurers account for more than half of the market by volume;
- Containing claims costs in the face of inflation and increasing veterinary costs;
- Delivering scalability, through process digitalisation and efficient self-service;
- Managing technical obsolescence, legacy and a comprehensive security programme; and
- People
    - Attracting people in an evolving recruitment market, in which demand for specific skills currently exceeds supply,
    - Developing and retaining people when individuals' expectations as employees have changed as a result of the pandemic.

STRATEGIC REPORT (continued)

FUTURE DEVELOPMENTS (continued)

In terms of strategy, PIC took the decision, in 2020, to focus its resources on developing Pet through re-use and further development of the platform, created for Sainsbury and Argos. It decided to rationalise the Motor Warranty and Gap activity and has put in place reinsurance arrangements covering all non-pet business with the result that from 1st January 2022 PIC is in effect a monoline pet insurer.

GOING CONCERN

During the year, the Company made a loss after tax of £6.2m (2020 loss: £7.4m). The Company also has considerable financial resources, which include cash and cash equivalents of £14.7m (2020: £34.5m) and an investment portfolio of £123.0m (2020: £145.0m) as at the year-end. In addition, the Company undertakes an ongoing assessment of its Solvency Capital Requirement, including consideration of the Company's sensitivity to risk, alongside quarterly monitoring of the annual budget and forecasts.

Taking into account the company's current position and its principal risks on pages 6 to 7, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over at least the next 12 months. The Company is remunerated through sales of policies direct to the consumer, through aggregators and through partnerships. As a result of COVID-19, insurance markets might reasonably be expected to be volatile. The company holds sufficient regulatory capital to meet its regulatory requirements. In assessing the prospects of the company, the Directors note that such an assessment is subject to a degree of uncertainty that can be expected to increase looking out over time and, accordingly, that future outcomes cannot be guaranteed or predicted with certainty. The Directors' assessment has taken into account the resources of the Company, which is part of the global banking group BNP Paribas SA until such time as the sale of the company to JAB who are looking to build a top three position in Pet healthcare and insurance services.

Management have performed solvency and liquidity stress tests for the 24 month period ending December 2023 which indicates that to remain within our solvency risk appetite mitigating action would need to be considered. Management have identified possible mitigating actions which could be considered including reducing costs, deferring product launches and seeking additional support from the Shareholder and reinsurance. Taking account of these potential mitigating actions, this analysis demonstrates that the Company could continue as a going concern for at least the next year given its financial and liquidity strength.

As such, after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

STRATEGIC REPORT (continued)

Section 172 statement

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

The table below sets out the stakeholders, why it is important to engage and the methods of engagement during 2021.

Stakeholder Group	Why it is important to engage	How the Directors engaged
Shareholder	The Company seeks to create value for its ultimate and intermediate Shareholders by generating sustainable results and by protecting brand value and reputation with partners, customers and regulators.	The Board continuously monitors progress and performance towards the creation of value and sustainable results. In October 2021 BNP Paribas Cardif announced a joint business venture with JAB to deliver a range of pet insurance services throughout the UK, EMEA and Latin America. As part of the agreement, JAB will hold a majority stake in a new holding company to which Cardif Pinnacle Insurance Holdings PLC will transfer the Company and two fellow subsidiaries. With the importance attached by the Shareholder to reputation, the Directors systematically consider this risk in their decision-making and in choosing the actions they closely monitor. They regularly liaise with the Shareholder's representatives in the Board and in jointly held committees on Governance, Risk and Compliance such as the Risk and Audit Committee (RAC) and the Internal Controls Committee (ICC). Executive Directors hold regular meetings with the Shareholder on financial, strategic, customer-related and regulatory topics to understand and take into consideration its perspectives.
Regulators The Company is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the provision of regulated products and services.	The fair treatment of customers is central to the UK group ethos as is compliance with laws and regulations, Policy Statements and guidance published by the Regulator, to ensure good customer outcomes and the maintenance of the Company's reputation. The Board has no risk appetite for regulatory breaches or sanctions.	The Board receives regular updates on regulatory developments from the Legal and Compliance functions, anticipates changes, reacts and plans accordingly. The Board regularly reviews the compliance reports to assess the Company's level of compliance. The Compliance function is responsible for communications with the regulators and provides updates to the Board accordingly. Communications with the regulators are, on average, a monthly activity. The nature of the communications includes, but is not limited to, 'Dear CEO' Letters, participation in thematic reviews, completion of regulatory surveys, requests for information, notifications to regulators and completion of regulatory returns.

Section 172 continued

Stakeholder Group	Why it is important to engage	How the Directors engaged
Partners The Company also provides insurance via a number of intermediaries and partnerships	Partner engagement is important for the development of commercial relationships and value creation and to ensure good levels of customer service for policyholders.	The Board receives regular updates on partner relationships and its impact on customers. At the start of the year the Company experienced some difficulty in meeting its partner service level agreement standards for the processing of claims and telephony. This was addressed initially by the secondment of staff from other teams. Executive Directors held regular discussions with partners, agreeing short-term changes to the operating model. The outcomes were monitored and changes in direction and approach were discussed with and agreed by the RAC and the Board. All partners were contacted to explain and discuss the impact of the transaction with JAB.
Customers	Acting in the best interest of customers is core to the success of the business and the wider BNPP Group. The business is focused to deliver products and services that perform as customers expect and are of an acceptable standard. The Company also ensures customers have the ability to change products, submit claims and make complaints without hindrance. Regular engagement is essential to ensure these expectations are met and any failings are identified and remedied quickly and efficiently.	Various committees, particularly the Customer & Conduct Committee (C&CC), which reports to the RAC, the main sub-committee of the Board, monitor on a regular basis the fair treatment of customers. Executive Directors also routinely report to the Board on customer related matters and on levels of customer service. The monitoring of resource levels in customer facing areas, and of key performance indicators, such as Net Promoter Scores, complaints and root cause analysis continued to guide decisions. The ethos of the businesses in the group is founded on strategic long-term partnerships, which share a commitment to customer service. The subsidiary companies will continue to focus on serving the needs of its customers after the transaction has completed in 2022.

Section 172 continued

Stakeholder Group	Why it is important to engage	How the Directors engaged
Our communities and the environment	The Company has a responsibility to help address the challenges facing society, which is why the Company's CSR strategy aims to support the United Nations' 17 Sustainable Development Goals (SDG's). The Company's focus is on its people, community and the environment. With that in mind, the Company has chosen three SDG's in particular, which we see as core to the CSR agenda: • Good health and well-being • Quality education • Climate action	The Directors support Management in the establishment of a CSR Action Group with representatives from a broad cross section of the Company for the support, development and implementation of key CSR initiatives. The difficulties of the pandemic led the Directors to reinforce their commitment to CSR and to encourage management and staff to increase the number of volunteering and charitable initiatives undertaken.

Key decisions in 2021

In October 2021, the Shareholder announced a strategic alliance with JAB Holdings (JAB) to deliver a range of pet insurance services throughout the UK, EMEA and Latin America. As part of the agreement, JAB will hold a majority stake in a new holding company to which, subject to regulatory consent, BNP Paribas Cardif will contribute Pinnacle Insurance PLC and its fellow subsidiaries Cardif Pinnacle Insurance Management Services PLC and Everypaw Limited. In support of the transaction, the Board resolved to approve all the transaction documents to which the Company will be a party.

Following the decision to focus on pet insurance, the Company entered into a reinsurance agreement with Darnell DAC to transfer 100% of the risks net of existing reinsurance, on all non-pet insurance. The Company, through its service company, Cardif Pinnacle Insurance Management Services PLC, will continue to service all existing non-pet partners and customers.

Streamlined Energy and Carbon Reporting (SECR) disclosure

Organisation and Boundary Scope

An operational control approach has been used in order to define the organisational boundary and is the basis for determining the Scope 1, Scope 2 and Scope 3 emissions for which the Company is responsible. The data contained within this report covers a 12-month period from from 01/10/2020 to 30/09/2021 and covers 100% of the FTE workforce managed at 31 December 2021. The data collection, processing and verification periods do not allow reporting on a current calendar year.

Methodology

An environmental reporting system is in place across the BNP Paribas Group to quantify and calculate the Greenhouse Gas (GHG) emissions associated with its operations. An internal protocol is reviewed and communicated annually to all employees contributing to this reporting. The measuring and reporting of environmental performance data is carried out in line with the GHG Protocol issued by the WRI and WBCSD, the general principles of the GRI and ISO standards on environmental communication. Where available data covers only part of the reporting scope, missing data has been extrapolated using a uniform methodology across the BNP Paribas Group. For energy, if there is a value for at least one reporting unit at country level, it is used to calculate the ratio m2/building type and this country ratio is then applied. Business travel is extrapolated using a country ratio/FTE approach.

GHG Emissions & Energy Use

Absolute Emissions		**2021**	**2020**	**2019**
Scope 1: Direct GHG emissions from natural gas (tCO_2e)		223.67	142.49	143.90
Scope 2: Indirect GHG emissions from purchased electricity (tCO_2e)	*Market-based*	11.00	19.88	*
	Location-based	266.28	434.82	545.20
Total Scope 1 and 2 (tCO_2e)	*Market-based*	234.26	162.36	143.90
	Location-based	489.95	577.31	689.10
Scope 3: Indirect emissions from business travel including air, rail, company-leased and employee owned vehicles (tCO_2e)		3.28	7.01	61.24
Total Scope 1, 2 & 3 (tCO_2e)	*Location-based*	493.23	584.33	750.34
Emissions Intensity				
Occupied premises emissions intensity (tCO_2e per FTE)	*Scope 1 & 2 location-based emissions from occupied premises per full-time equivalent employee*	1.74	1.92	2.43
Occupied premises emissions intensity (tCO_2e per m^2)	*Scope 1 & 2 location-based emissions from occupied premises per m^2 of floor area*	0.12	0.14	0.17
Total emissions intensity (tCO_2e per FTE)	*Scopes 1, 2 and 3 location-based emissions per full-time equivalent employee*	1.75	1.95	2.64

Streamlined Energy and Carbon Reporting (SECR) disclosure (continued)

Absolute Energy Consumption		2021	2020	2019
Natural gas (kWh)		1,104,527	703,645	710,602
Electricity (kWh)		1,161,784	1,245,910	1,562,185
Total Energy Consumption (corresponding to Scope 1 & Scope 2 emissions) (kWh)		2,266,311	1,949,555	2,272,789
Fuel used for company-leased and employee owned vehicles (kWh)		8,059	*	*
Total Energy Consumption (Scope 1, 2 & Scope 3 employee owned vehicles) (kWh)		2,274,370	1,949,555	2,272,789
Energy Intensity				
Occupied premises energy intensity (kWh per m^2)	*Scope 1 & 2 Energy Consumption from occupied premises per m^2 of floor area*	552	475	554

** data unavailable*

Scope 1 includes emissions generated from natural gas.

Scope 2 includes emissions from purchased electricity and are reported using the GHG Protocol dual-reporting methodology, stating two figures to reflect the GHG emissions from purchased electricity, using both a **location-based method** that reflects the average emission intensity of the national electricity grids from which consumption is drawn. In addition, a **market-based method** that reflects emissions from electricity specific to each supply/contract. Where electricity supplies are known to be from a certified renewable source, a zero emissions factor is used, otherwise residual mix factors are used.

Scope 3 includes emissions generated from business travel including air, rail, company-leased vehicles and employee owned vehicles. Note emissions generated by company-leased vehicles are reported under Scope 3 to maintain continuity with the Group methodology.

Emission Factors used are dictated by the BNP Paribas Group methodology, which has kept grid electricity emission factors stable for a number of years to ensure that the annual progress assessment against the baseline year was not affected by the gradual reduction in grid emission factors. For the 2021 reporting year, the factors were changed to align with a new 2025 Group GHG reduction target, which is set against a new 2019 baseline. **Scope 1:** WRI (2008) GHG Protocol tool for stationary combustion. Version 4.0 GWP from IPPC AR4 (2007). **Scope 2: *Location-based*** IEA (CO2 Highlights) 2021 – Données 2019; ***Market based*** RE-DISS II; AIB European Residual Mix (2020). Version 1.0 2021-05-31. **Scope 3: *Air & Road*** UK DEFRA, Passenger Vehicles 2019. ***Rail*** ADEME V21.2. Energy (kWh) consumption related to company-leased and employee owned vehicles currently falls outside of the BNPP Group reporting system and has been reported using the DEFRA 2021 conversion factors.

Intensity ratios As well as absolute emissions and energy, we also report three GHG intensity ratios and one energy intensity ratio, which have been selected as the most appropriate and informative for the company.

Deloitte has verified the 2021 GHG & energy data in this report to a reasonable level of assurance, with the exception of kWh consumption related to company-leased and employee owned vehicles www.bnpparibas.co.uk/en/engagement/environment/ .

Our commitments & Energy Efficiency Actions Taken

The Company is committed to supporting the BNP Paribas Group reduce Greenhouse Gas emissions (scope 1, 2 & 3 business travel) to 1.85 teqCO2/FTE by 2025. We are committed to continuing to procure 100% electricity from renewable sources. In 2021 100% of our electricity came from renewable sources, supported by a REGO certificate.

As evidenced in the table above, our absolute emissions in 2021 reduced by 15.6% and the total emissions intensity ratio also reduced by 10.3%. We attribute this effect to a reduction in Scope 2 electricity emissions. Covid-19 had significant effects on the Company's direct environmental impacts. The periods of prolonged remote working or strict confinement decided by the authorities, have resulted in a limited presence in the building and a strong restriction on business travel, leading to reduced GHG emissions for Scopes 2 and 3. This reduction must be put into perspective by assessing the increase in Scope 3 emissions linked to home-based working; the Group continues to work to quantify this effect. Whilst we had reduced occupancy the building remained operational for those that were unable to work remotely. Due to this and the need for adequate social distancing and ventilation we have seen an increase in Scope 1 gas emissions due to having to heat the building for longer periods. However, these requirements alone do not reflect the significant increase in gas consumption reported in 2021. Ongoing investigations are taking place with our energy provider and we are working with them to improve the quality of the data that we are reporting.

In 2021 the business continued to go through significant transformation and change whilst managing the effects of the Covid Pandemic. This has meant that there has been little ability to invest in energy related projects to reduce our overall emissions. In 2022 we will identify and review the most effective and feasible energy efficiency measures to undertake based on our operational needs.

For further analysis please visit our www.bnpparibas.co.uk/en/engagement/environment and
https://group.bnpparibas/en/group/at-the-service-of-our-clients-and-society/supporting-transitions

PINNACLE INSURANCE PLC

STRATEGIC REPORT (continued)

APPROVAL

This report was approved by the Board of Directors on 6th April 2022 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 2021.

BUSINESS REVIEW AND ACTIVITIES

The principal activities of the Company are set out in the Strategic Report on page 3. The information that fulfils the Companies Act requirements of the business review is included in the Strategic Report on pages 3 to 15. This includes a review of the development of the business of the Company during the year and of likely future developments in its business. Details of the principal risks and uncertainties are included in the Strategic Report.

RESULTS AND DIVIDEND

The results of the Company for the year are set out on page 34. The loss after taxation for the year was loss £6.2m (2020: loss £7.4m).

The Company paid dividends of £nil (2020: £nil) on ordinary shares during the year to its UK parent, Cardif Pinnacle Insurance Holdings plc. There were no dividends proposed after the year end.

CAPITAL STRUCTURE

Details of the Company's authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 16. The Company has one class of ordinary shares which carry full voting, dividends and capital distribution (including on winding up) rights. They do not confer any rights of redemption.

DIRECTORS

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

G Binet (resigned 9th February 2022)
R A Hines (Chairman) * +
M Haderer (resigned 17th November 2021)
N D Rochez *
A M Wigg
M J Lorimer
S L P F Chevalet
S M Luton +
H E Rennie +

* Independent Non-Executive Director
+ subject to PRA approval

POLITICAL CONTRIBUTIONS

No political contributions were made during the year (2020: £nil).

DIRECTORS' REPORT (continued)

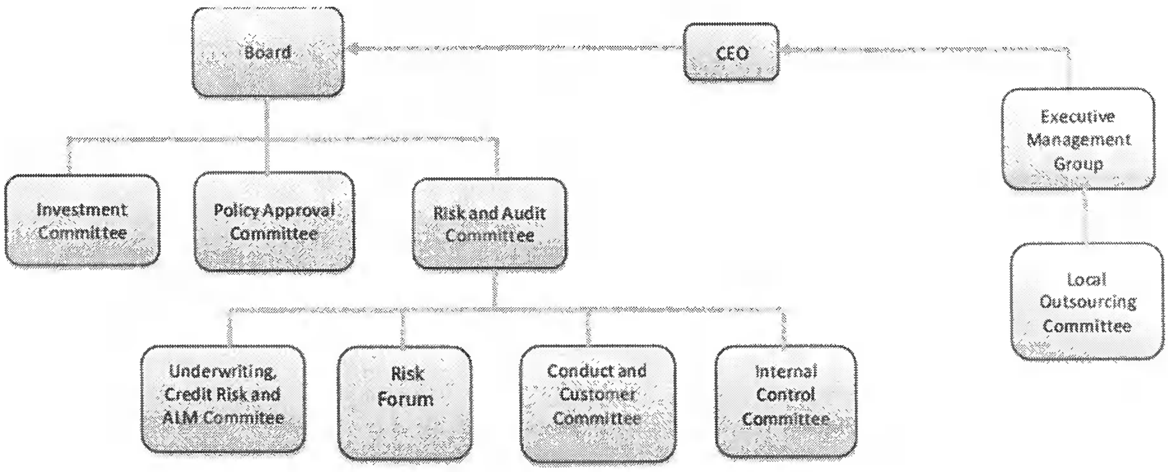
STREAMLINED ENERGY AND CARBON REPORTING
Streamlined Energy and Carbon reporting can be found in the Strategic Report on pages 13 and 14.

ACTUARIAL VALUATION
An actuarial valuation was carried out as at 31 December 2021 in respect of the long-term fund. A report has been prepared by the Actuarial function holder (Long-term fund) advising the Board on this valuation.

CORPORATE GOVERNANCE
The Company is not listed and accordingly there is no requirement to comply with the 2020 UK Corporate Governance Code. The directors have decided to voluntarily disclose Key Corporate Governance arrangements of the Company, which are highlighted below

The Board
The Company's Board comprises Directors and Non-Executive Directors who are responsible to the Shareholder and other stakeholders for ensuring that the Company is appropriately managed and achieves its objectives. The Board met six times in 2021 to determine the Company's strategic direction, review operating and financial performance, and to ensure that the Company is adequately resourced and effectively controlled.

The Company's governance regime is summarised as follows:



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 2021 was as follows:

	Board	Risk and Audit Committee	Investment Committee	Policy Approval Committee	Conduct and Customer Committee	Underwriting, Credit and ALM Risks Committee	Internal Controls Committee
Number of meetings held	**6**	**5**	**4**	**4**	**4**	**4**	**4**
G Binet ***	6	*	*	*	*	*	*
R A Hines	6	5	*	*	*	*	*
S L P F Chevalet	6	*	*	*	*	*	*
M Haderer**	6	4	*	*	*	2	*
M J Lorimer	6	5	*	3	3	*	3
N D Rochez	6	5	*	*	*	*	*
A M Wigg	6	5	4	4	2	4	4
H E Rennie	6	*	*	4	*	*	3
S M Luton	6	5	4	4	4	4	*

* indicates not a member of that Committee
** resigned from the Board 17 November 2021
*** resigned from the Board 9 February 2022

The Risk and Audit Committee,Investment committee and Policy Approval Committees are sub-committees of the Board. The Conduct and Customer Committee, Underwriting, Credit and ALM Risks Committee and Internal Controls Committee report into the Risk and Audit Committee.

Risk and Audit Committee (RAC)

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

- assist the Board in meeting its oversight responsibilities in ensuring an effective system of internal control, reporting process, audit process, compliance and accurate external financial reporting including risk controls;
- assist the Board in ensuring that internal and external audits are conducted in a thorough, efficient and effective manner;
- provide a channel of communication to the Board for the internal and external auditors;
- ensure compliance by the Cardif Pinnacle Group with BNP Paribas Cardif's governance for Risk Management and Internal Audit functions, and Articles 44, 46 and 47 of the Solvency II Directive as transposed into the PRA rulebook;
- have oversight of the work of the Internal Controls Committee (ICC), Conduct and Customer Committee (CCC), Underwriting,Credit Risk and Asset Liability Management Committee (UCAR) and Risk Forum (the work of prudential risk management within the business) and to receive minutes and verbal updates in respect of the above mentioned Committees; and
- review the work of the Risk Management and Compliance Functions.

The Company will hold a competitive tender for the external audit during 2022, meeting the requirement to tender the external audit after 10 years

DIRECTORS' REPORT (continued)

Policy Approval Committee

The Committee is chaired by Director, Matthew Lorimer and reports to the Board. It is a sub-committee of the Board. The Committee's main responsibilities are:

- to ensure all policies are reviewed and approved annually and have sufficient discussion and debate;
- to ensure the policies align with and are reflective of any policies covering the same subject matter issued by BNP Paribas or BNP Paribas Cardif;
- To ensure all approved policies are communicated to and adopted by the relevant business areas.

Investment Committee

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

- ensure asset exposures do not exceed the limits set in Investment Policy;
- maximise investment return and use of capital framework of investment policy and regulatory requirements; and
- agree investment returns to be used for future investments, new products types, constraints of asset duration, constraints on credit rating, counterparties and removal of counterparties' restrictions.

Conduct and Customer Committee (CCC)

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

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

Risk Forum

The Risk Forum is chaired by the Chief Executive Officer. It meets at least four times per year and reports to the RAC. The Risk Forum's focus on prudential regulations includes overseeing Solvency II quarterly and annual returns and Own Risk and Solvency Assessment (ORSA) runs. The Risk Forum also reviews management Infromation on a regaulr basis to identify if there have occurred any ORSA triggering events or risk appetite limit breaches.

DIRECTORS' REPORT (continued)

Internal Control Committee (ICC)

The ICC is chaired by Director, Matthew Lorimer and reports to the RAC. Its main responsibilities are to:

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

Underwriting, Credit and Asset Liability Management Risks Committee (UCAR)

This Committee is chaired by the Head of Actuarial – Closing and Risk and reports to the RAC. It meets quarterly and the Committee's main responsibilities are to:

- provide effective risk monitoring and risk follow up for all the key underwriting, credit and ALM risks, including stress test and sensitivity analysis when relevant, and guarantee the escalation process (alert system) to the Risk & Audit Committee (RAC);
- review the underwriting, credit risks, ALM risks, and the related risk mitigation techniques set out in the risk map, once per year;
- review the new products that could materially change PIC's risk profile, prior to product launch and provide an opinion as part of the approval process;
- review the adequacy of the reinsurance programme as part of the risk mitigation techniques;
- review the underwriting and credit risk monitoring procedures and the Underwriting policy at least once per year, and propose any changes to the RAC;
- report any appropriate ALM risk to the Investment Committee.

Local Outsourcing Committee (LOCC)

This Committee is chaired by Director, Matthew Lorimer . It reports into the Chief Executive Officer who reports to the Board.

The Committee's main responsibilities are to:

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

DIRECTORS' REPORT (continued)

INTERNAL AUDIT FUNCTION

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

DISCLOSING INFORMATION TO THE AUDITOR

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

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

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

Deloitte LLP has expressed their willingness to continue in office as auditor subject to being successful in a competitive audit tender.

Approved by the Board and signed on its behalf by:

Director
M J Lorimer
6th April 2022

PINNACLE INSURANCE PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with UK-adopted International accounting Standards (IFRSs. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

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

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

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

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

Report on the audit of the financial statements

1. Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 24, excluding the capital adequacy disclosure in note 22, calculated in accordance with the Solvency II regime, which is marked as unaudited'.

The financial reporting framework that has been applied in their preparation is applicable law, and United Kingdom adopted international accounting standards

2. Basis for opinion

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

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

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

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

Report on the audit of the financial statements (continued)

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of technical provisions – IBNR reserve relating to motor bodily injury claims. • Occurrence and accuracy of Pet premiums Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £2.95m, which was determined based on 2% of the company's net assets.
Scoping	Audit work to respond to the risks of material misstatement was planned and performed directly by the audit engagement team.
Significant changes in our approach	In the current year, we have used a single materiality of 2% of net assets for all balances. This is a change from the prior year in which we adopted a lower level of materiality based on 1.7% of gross written premiums for the audit of premiums, claims and acquisition costs. The use of this lower materiality in the prior year was due to the increased user scrutiny of these accounts in light of COVID-19 and its impact on uncertainty around going concern. We have recognised an additional key audit matter with respect to the occurrence and accuracy of pet premiums. Due to the pending sale and related reinsurance transaction, the pet business has become the full strategic focus of the business and its future plans. As such, risk relating to the pet business has increased. There have been no other significant changes to our audit approach from the prior year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

Report on the audit of the financial statements (continued)

- evaluated management's approach and made inquiries of senior management with regard to assessing the impact of Covid-19 on the business and its financial statement disclosures, including further steps the entity will take in case economic and other factors deteriorate further;

- evaluated management's scenario analysis including solvency coverage ratio and market and interest rates risks, and challenged management's key assumptions by assessing its consistency with available market data and other external information and our understanding of the business;

- assessed the historical accuracy of the forecasts prepared by management; and

- assessed the disclosures made by management in the financial statements against applicable accounting standards and evaluated the consistency of the disclosures with our knowledge of the business.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

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

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

5.1. Valuation of technical provisions – IBNR reserve relating to motor bodily injury claims

Key audit matter description	The company's gross general insurance claims reserve amounts to £31m (2020: £30m). The valuation of insurance reserves requires significant judgement in the selection of key methodologies and assumptions, and has been identified as a potential fraud risk area. We have identified the IBNR balance within the general insurance reserve as being inherently uncertain, due to the unavailability of reported claims data present within an IBNR calculation. More specifically, we have focused on the results of the company and its involvement of a detailed actuarial assessment which was performed by the actuarial department. The ultimate number and value of large motor bodily injury claims is inherently uncertain and volatile, driven by the low frequency and high severity nature of the claims as well as the long settlement periods

Report on the audit of the financial statements (continued)

Key audit matter description	The key judgements applied in IBNR reserve relating to motor bodily injury claims are: • The methods used to carry out actuarial calculations; and • The frequency and severity of excess bodily injury claims. For further details, please refer to Note 1 – Accounting policies and Note 17 – Insurance liabilities
How the scope of our audit responded to the key audit matter	With the involvement of our actuarial specialist we have performed the following procedures: • Obtained an understanding of the relevant controls over the reserving process for large motor bodily injury claims; • Reconciled motor bodily claims data per source systems and third party bordereaux to that used by the actuarial department, and tested samples of other relevant data which feeds into the actuarial models; • Challenged the assumptions and methodology used in comparison to standard actuarial techniques and consistency to prior year end; • Performed a graphical analysis of management's selected ultimate claims compared to historical paid and incurred claims development trends and quantified the impact of any material outliers; and • Benchmarked these results against industry experience.
Key observations	We have concluded that the methodology and assumptions used by the company to value the IBNR reserve on large motor bodily injury claims are reasonable.

6.2 Occurrence and accuracy of pet premiums

Key audit matter description	Due to the planned post year-end transaction, the strategic focus of which is the pet business, the company has undergone restructuring and has fully reinsured all non-pet business. Gross written premiums from the pet business amounts to £83.3m (2020: £64.17m) arising from contracts with key business partners. On the basis that all non-pet business is fully reinsured as of year-end, and the strategic focus of the. transaction is on the pet business, we have pinpointed the presumed risk of fraud in revenue recognition to the occurrence and accuracy of pet premiums. As a part of our focus on occurrence of pet premiums, we have considered the removal of premiums for lapsed policies as one key area of focus. For further details, please refer to Note 1- Accounting policies and Note 3 Segmental Analysis.

Report on the audit of the financial statements (continued)

How the scope of our audit responded to the key audit matter	• Obtained an understanding of the relevant controls over premiums for the pet business; including controls around lapses • Reviewed contracts with key business partnersfor any unusual terms which would impact accounting • Performed testing of lapse data to assess whether lapses have been appropriately removed from gross written premium
Key observations	We have concluded that pet premiums are appropriately stated.

6. Our application of materiality

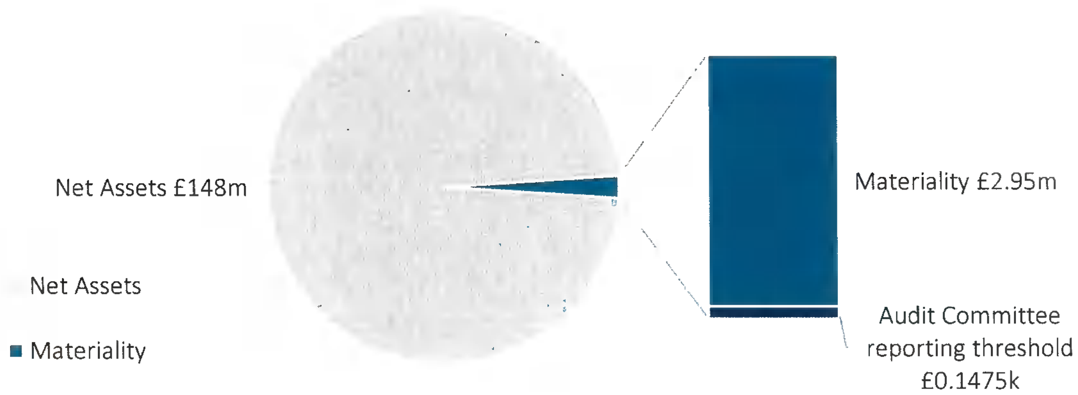
6.1.Materiality

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

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

Materiality	£2.95m (2020: £2.95m).
Basis for determining materiality	2% of net assets. This is consistent with prior year. However, last year we have used a lower level of materiality of £1.44m which was based on 1.7% of the Gross Written premiums ('GWP') figure to audit the Premiums, Claims and Acquisition Cost balances. The use of this lower materiality was in response to the additional uncertainties posed by COVID and the resulting increased user scrutiny on the profit-driving account lines. The decision to revert to a single materiality is a return to our pre-COVID approach on the basis of the significantly lessened COVID-related uncertainty in the current financial year.
Rationale for the benchmark applied	We have used net assets as the company is well established and has been trading for many years. The users of the financial statements will be interested in the net assets and the ability of the company to continue to pay claims. The company's performance has also fluctuated in recent years. We therefore believe that net assets is the most consistent and useful metric over a longer period of time.

Report on the audit of the financial statements (continued)



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2021 audit (2020: 64%) to reflect the emerging control environment. In determining performance materiality, we considered our risk assessment, including our assessment of the control environment, as well as our past experience of the audit, which has indicated a low number of misstatements identified in previous audits.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £147.5k (2019: £155k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1.Scoping

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

Report on the audit of the financial statements (continued)

7.2. Our consideration of the control environment

The entity has a number of key IT systems, impacting varying account balances and classes of transactions. We did not plan to rely on the IT controls associated with these systems due to control deficiencies identified within the premiums and reserving processes and we reported these deficiencies to management. We have obtained an understanding of relevant controls. We have involved our IT specialists to obtain an understanding of general IT controls ('GITCs') over the relevant technology elements within the IT environment, including the application system, database, operating system and network.

7.3. Our consideration of climate-related risks

We have obtained an understanding of management's process for considering the impact of climate-related risks and controls that are relevant to the entity by performing a risk assessment. In view of the existing business model, financial risks from climate change are only likely to arise as Transition risks i.e., asset devaluation as a consequence of climate change factors. The company currently monitors exposure to climate change factors through the application of Group and Cardif policies relating to SRI and ESG. For further details, please refer to the Strategic Report

We performed our own qualitative risk assessment of the potential impact of climate change on the account balances and classes of transactions.

8. Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

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

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

We have nothing to report in this regard.

Report on the audit of the financial statements (continued)

9. Responsibilities of directors

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

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

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

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
- identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance
- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud

Report on the audit of the financial statements (continued

- o the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- o the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, IT, and actuarial specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

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

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

11.2. Audit response to risks identified

As a result of performing the above, we identified valuation of technical provisions – IBNR reserve relating to motor bodily injury claims and the occurrence and accuracy of Pet premiums as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

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

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

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

Report on the audit of the financial statements (continued)

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

13.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the BNP Paribas group audit committee, Deloitte were appointed by the directors as joint auditors to the group, and were therefore appointed as auditors of Pinnacle Insurance Plc to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 10 years, covering the years ending 31 December 2012 to 31 December 2021.

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

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

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

Report on the audit of the financial statements (continued)

15. Use of our report

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

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

6th April 2022

PINNACLE INSURANCE PLC

Income Statement
For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Income			
Gross written premiums	3	107,350	86,830
Less: reinsurance premiums	3	(40,355)	(2,485)
Net written premiums		66,995	84,345
Change in the gross provision for unearned premiums	17	(11,514)	(28,669)
Less: change in provision for unearned premiums, reinsurers' share	17	12,152	1,961
Net change in provision for unearned premiums		638	(26,708)
Net earned premiums		67,633	57,637
Net investment return	4	56	2,940
Total income		67,689	60,576
Expenses			
Gross claims incurred	5	(52,741)	(39,084)
Less: claims recoveries from reinsurers	5	22,697	(3,472)
Net claims incurred		(30,044)	(42,556)
Net operating expenses	6	(44,531)	(27,609)
Total expenses		(74,575)	(70,165)
(Loss)/profit before tax		(6,886)	(9,589)
Tax credit	10	647	2,154
(Loss)/profit for the year		(6,239)	(7,435)
Attributable to:			
Owner of the Company		(6,239)	(7,435)

A statement of other comprehensive income (SOCI) or loss is not presented as there were no items requiring classification to the SOCI during the year and prior year. Hence, loss (2020: loss) represents total comprehensive loss for the year attributable to the owner of the Company.

The notes on pages 38 to 80 form an integral part of these financial statements.

PINNACLE INSURANCE PLC

Statement of Financial Position
As at 31 December 2021

	Notes	2021 £'000	2020 £'000
Assets			
Reinsurance assets	17	71,733	44,637
Insurance and other receivables	14	62,984	48,498
Deferred tax		-	233
Deferred acquisition costs	18	5,446	9,081
Financial investments	11	123,041	145,045
Cash and cash equivalents	13	14,697	34,545
Total assets		**277,901**	**282,039**
Equity			
Share capital		126,557	126,557
Share premium account		23,323	23,323
Retained earnings		(8,379)	(2,140)
Total equity	16	**141,501**	**147,740**
Liabilities			
Insurance liabilities	17	121,259	120,255
Other payables, including insurance payables	15	14,833	12,925
Provisions	19	308	1,119
Total liabilities		**136,400**	**134,299**
Total equity and liabilities		**277,901**	**282,039**

The financial statements were approved and authorised for issue on 6th April 2022 by the Board of Directors and are signed on its behalf by:

Director
A M Wigg

The notes on pages 38 to 80 form an integral part of these financial statements.

PINNACLE INSURANCE PLC

Statement of Changes in Equity
For the year ended 31 December 2021

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 January 2020	**126,557**	**23,323**	**5,295**	**155,175**
Profit for the year	-	-	(7,435)	(7,435)
Dividends paid *	-	-	-	-
At 31 December 2020	**126,557**	**23,323**	**(2,140)**	**147,740**
(Loss) for the year	-	-	(6,239)	(6,239)
Dividends paid *	-	-	-	-
At 31 December 2021	**126,557**	**23,323**	**(8,379)**	**141,501**

*Dividends paid in 2021: £nil (2020: £nil).

The notes on pages 38 to 80 form an integral part of these financial statements.

PINNACLE INSURANCE PLC

Statement of Cash Flows
For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
(Loss)/profit for the year before tax		(6,886)	(9,589)
Adjustments for non-cash items			
Net unrealised loss/(gain) on financial assets at FVTPL	4	982	62
Change in provision for unearned premiums	17	(637)	26,708
Change in outstanding claims		(25,455)	11,353
Change in deferred acquisition costs	18	5,463	(5,008)
Change in other assets		(13,229)	(31,569)
Change in other creditors		(730)	(10,512)
Tax credit		750	2,154
Cash used in operating activities		**(39,742)**	**(16,399)**
Investing activities			
Proceeds from debt securities maturities		26,531	22,826
Purchase of debt securities		(27,120)	(8,049)
Proceeds from deposits maturities		38,500	54,371
Deposits with credit institutions		(18,017)	(35,476)
Net cash from investing activities		**19,894**	**33,672**
Net increase in cash and cash equivalents		**(19,848)**	**17,272**
Cash and cash equivalents at 1 January	13	34,545	17,273
Cash and cash equivalents at 31 December	**13**	**14,697**	**34,545**

The notes on pages 38 to 80 form an integral part of these financial statements

Corporate information

The Company is incorporated and domiciled in the United Kingdom. The Company's registered office address is Pinnacle House, A1 Barnet Way, Borehamwood, Hertfordshire, WD6 2XX.

Basis of preparation

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

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

In accordance with IAS 1 "Presentation of Financial Statements," assets and liabilities in the balance sheet are presented in accordance with management's estimated order of liquidity, from least to most liquid.

Functional and presentation currency

The financial statements are presented in pounds sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Going concern

During the year, the Company made a loss after tax of £6.2m (2020 loss: £7.4m). The Company has considerable financial resources, which include cash and cash equivalents of £14.7m (2020: £34.5m) and an investment portfolio of £123.0m (2020: £145.0m) as at the year-end. In addition, the Company undertakes an ongoing assessment of its Solvency Capital Requirement (see note 22), including consideration of the Company's sensitivity to risk, alongside quarterly monitoring of the annual budget and forecasts. As such, after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Adoption of new and revised standards

The Company has adopted the following new standards and amendments to IFRSs and IASs that became mandatorily effective for the Company for the first time during 2021. However, these changes had no impact on the Company's financial statements or financial performance.

<u>Interest Rate Benchmark Reform – Phase 2 (IFRS 9, IFRS 7, IFRS 16, IFRS 4, IAS 39).</u>
Amendments relate to issues that could affect financial reporting when an IBOR is replaced with an alternative benchmark interest rate. The amendments are relevant for many entities and in particular those with financial assets, financial liabilities or lease liabilities that are subject to the interest rate benchmark reform and those that apply the hedge accounting requirements in IFRS 9 or IAS 39 to hedging relationships that are affected by the reform. The Phase 2 amendments apply to annual reporting periods beginning on or after 1 January 2021

<u>Amendments to IFRS 4 "Insurance Contracts"</u>

Amendments to IFRS 4 Insurance Contracts "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts was issued on 12 September 2016 and endorsed by the EU on 3 November 2019. These amendments permitted insurers who satisfied certain criteria to defer the effective date of IFRS 9, to January 2023. The IASB permitted this option having considered potential asset and liability matching and temporary profit and loss volatility caused by introducing these new standards in different periods within a short period of time.

Adoption of new and revised standards (continued)

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

The fair value as at 31 December 2021 for financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount is £51.2m (2020: £52.8m). The amount of change in the fair value during the year for these assets is £1.6m (2020: £14.8m).

In note 20, the Company has disclosed the carrying amount of financial assets as at the year-end by credit risk rating.

New accounting standards published but not yet applicable

IFRS 17 "Insurance Contracts"

In May 2019, the IASB issued IFRS 17 Insurance Contracts, which replaces IFRS 4. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features an entity issues, provided the same entity also issues insurance contracts. The scope of IFRS 17 is substantially consistent with that of IFRS 4.

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

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

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

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

New accounting standards published but not yet applicable (continued)

An entity shall recognise a group of insurance contracts it issues from the earliest of the following:
(a) the beginning of the coverage period of the group of contracts;
(b) the date when the first payment from a policyholder in the group becomes due; and
(c) for a group of onerous contracts, when the group becomes onerous.

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

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

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

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

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

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

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

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

New accounting standards published but not yet applicable (continued)

IFRS 17 is effective for annual periods beginning on or after 1 January 2023, with earlier application permitted if both IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have also been applied. An entity shall apply IFRS 17 retrospectively unless impracticable, in which case entities have the option of using either a modified retrospective approach or the fair value approach.

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

IFRS 9 "Financial Instruments"

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

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

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

The Company, in line with peers, has taken advantage of the exemption available to entities whose activities are predominantly insurance related to defer applying IFRS 9 'Financial Instruments' (which would otherwise be applicable for annual reporting periods beginning on or after 1 January 2020) until 1 January 2022 which will coincide with the expected implementation of IFRS 17. This will enable accounting policy choices to consider the interrelationships of IFRS 17 and 9 particularly with regards to asset and liability management. Assessment and implementation of IFRS 9 will therefore run alongside IFRS 17 activity.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

Amendment to IFRS 3 – Business Combinations -
For a provision or contingent liability that would be within the scope of IAS 37, the acquirer shall apply IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events.

For a levy that would be within the scope of IFRIC 21, the acquirer shall apply IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

The acquirer shall not recognise a contingent asset at the acquisition date

New accounting standards published but not yet applicable (continued)

Amendment to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract
Amendment to require an entity to include all costs that relate directly to a contract which is expected to provide more useful information to users of financial statements. A requirement to include all costs that relate directly to a contract is consistent with other requirements in IAS 37 and requirements in other IFRS Standards.

Amendments to IAS 16 - Property, Plant and Equipment—Proceeds before Intended Use
The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories. The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost. The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented. The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Annual Improvements to IFRS Standards 2018–2020

IFRS 1 First-time Adoption of International Financial Reporting Standards
The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a). The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

1. Accounting policies

The principal accounting policies are set out below:

1.1 Contract classification

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

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

1.2 Premiums written

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

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

In respect of life insurance and long-term investment contracts, written premiums are accounted for on a receivable basis when due from the policyholder. The premium income is stated gross of commissions paid to intermediaries and is exclusive of taxes or duties levied on premiums.

1.3 Unearned premiums

The provision for unearned premiums represents the proportion of the gross premiums written that is estimated to be earned in the following or subsequent financial years. This is calculated separately for each insurance contract on a time apportionment basis adjusted to reflect the Company's experience of the incidence of risk incurred over the term of those policies. The change in the provision is recorded in the Income Statement.

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

1.4 Deferred acquisition costs

Acquisition costs represent commission and other expenses related to acquiring insurance policies written during the financial year. Acquisition costs are deferred subject to recoverability and amortised over an equivalent period to that over which the related premiums are earned. The basis of amortisation reflects the same pattern utilised to earn the gross premiums to which the acquisition costs relate.

Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date. The change in the provision is recorded in the Income Statement.

1. Accounting policies (continued)

1.5 Insurance claims

Insurance claims in respect of general business comprise claims and related internal and external expenses paid in the financial period, the movements in the provisions for outstanding claims and provisions for claims Incurred But Not Reported (IBNR), together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries. Estimates are included for claims due but not yet notified by the year end.

For long-term business, death claims are accounted for in the financial year in which the death occurs and surrenders are accounted for when notified to the Company up to the balance sheet date. Maturities and annuities are recognised as they fall due for payment. Claims incurred in respect of long-term business include movements in the provision for accident and sickness outstanding claims including IBNR.

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

Provisions for claims outstanding comprise undiscounted estimated cost of claims incurred but not settled at the balance sheet date whether reported or not, together with related expenses.

The calculation of the provisions 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. IBNR provisions include a prudence margin calculated to cover incurred but not reported claims in a 1 in 10 scenario.

The Company's actuaries produce an estimate of reserves which are then assessed by management. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The ultimate liability arising from claims made under insurance contracts is a critical accounting estimate. As provisions for claims outstanding are based on information which is currently available, the eventual outcome may vary from the original assessment depending on the nature of information received or developments in future periods. Differences between the estimated cost and subsequent re-estimation or settlement of claims are reflected in the income statement in the year in which these claims are re-estimated or settled. These differences may be significant.

A liability adequacy provision is made for unexpired risks arising where the expected value of net claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premium reserve in relation to such policies after the deduction of any acquisition costs deferred and other prepaid amounts (for example, reinsurance). The expected value is determined by reference to recent experience and allowing for changes to the premium rates. The provision for unexpired risks is calculated separately by reference to classes of business that are managed together after taking account of relevant investment returns.

1.6 Reinsurance

The Company has reinsurance treaties and other reinsurance contracts that transfer significant insurance risk. The Company cedes insurance risk by reinsurance in the normal course of business, with the arrangement and retention limits varying by product line. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct business being reinsured. Outward reinsurance recoveries are accounted for in the same accounting period as the direct claims to which they relate.

1. Accounting policies (continued)

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

The need for a reinsurance bad debt provision is assessed in respect of reinsurance debtors, to allow for the risk that the reinsurance asset may not be collected or where the reinsurer's credit rating has been downgraded significantly. This also includes an assessment in respect of the ceded part of claims provisions to reflect the counterparty risk exposure to long-term reinsurance assets particularly in relation to periodical payments. This is affected by the Company reducing the carrying value of the asset accordingly and the impairment loss is recognised in the income statement.

1.7 Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), held to maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in Income Statement.

1. Accounting policies (continued)

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables include cash at bank, other receivables including insurance receivables which are measured at amortised cost using the effective rate except for short-term receivable when the net effect is immaterial.

Available-for-sale (AFS) financial assets
AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company's AFS financial assets include investment in associates.

The equity investment in associates is measured at cost less any impairment charges, as its fair value cannot be estimated reliably. Impairment charges are recognised in Income Statement.

Valuation methodology
Purchases of financial assets classified as loans and receivables are recognised on settlement date; all other purchases are recognised on trade date.

A financial asset is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (for example, a change in the risk-free interest rate following the most recent price quote for a corporate bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial Instruments, as appropriate.

The valuation methodology described above uses observable market data. If the market for a financial asset is not active, the Company establishes the fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties (if available), reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Company uses that technique.

Impairment of financial assets
Financial assets, other than FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investments have been affected.

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets, discounted at the effective interest rate of the instrument at initial recognition.

1. Accounting policies (continued)

Impairment losses are assessed individually where significant or collectively for assets that are not individually significant. Impairment losses are recognised in the income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for the impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

For amounts due from policyholders, the bad debt provision is calculated based upon prior loss experience. Where a policy is subsequently cancelled, the outstanding debt that is overdue is charged to the income statement and the bad debt provision is released back to the income statement.

Financial Liabilities
Financial liabilities are initially recognised at fair value net of transaction costs incurred. Other than derivatives which are recognised and measured at fair value, all other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

1.8 Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. Cash equivalents principally comprise financial assets with less than three months' maturity from the date of acquisition. Borrowings, comprising bank overdrafts, are measured at amortised cost using the effective interest rate method.

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

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

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

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

Deferred tax:
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

1. Accounting policies (continued)
Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

2. Critical accounting judgements and key sources of estimation uncertainty
The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underpin the preparation of its financial information. The Company's principal accounting policies are set out on pages 42 to 47. UK company law and IFRSs require the Directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent.

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

Accounting judgmenets

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

Sources of estimation uncertainity

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

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

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

Stress testing or testing of the impact of different assumptions is shown in Note 17

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

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

<table>
<tr><th>Business class</th><th>Key judgements</th><th>Main sources of uncertainty</th></tr>
<tr><td>Creditor</td><td>• Selection of development patterns based on historical data (including removal of development considered unrepresentative)
• Selection of loss ratios for recent periods</td><td>• Recovery (Accident, Sickness) and re-employment rates
• Claim reporting delays
• Claim acceptance rates</td></tr>
<tr><td>Household</td><td>• Selection of development patterns based on historical data
• Tail development of claims (particularly large) beyond limits of data
• Selection of frequency and severity on unreported large claims</td><td>• Future development of open claims (particularly large losses), including impacts of
o Cost inflation
o Delays in establishing final cost</td></tr>
<tr><td>Motor</td><td>• Selection of development patterns based on historical data
• Selection of tail development beyond limit of data
• Selection of frequency and severity of bodily injury claims developing from 'small' to 'large'
• Allowance for indexation of reinsurance deductible when calculating net liabilities (based on assumed settlement delay)
• Selection of Periodical Payment Order (PPO) modelling parameters (e.g. PPO propensity, mortality tables and impaired lives adjustments, claim inflation, discount rates)</td><td>• Future development of open claims (particularly large losses)
• Parts, labour and compensation cost inflation
• Uncertainty around long-term costs: care cost inflation, legal cost inflation, loss of earnings
• Periodical Payment Order (PPO) propensity.
• Settlement delays (notably impacting reinsurance deductible via indexation)
• Impact of individuals' injuries on ability to work, future care costs and mortality (noting that some individuals affected are still very young)
• Changes in Ogden discount rate
• Reinsurer default
• Court rulings impacting future claim costs</td></tr>
<tr><td>Pet</td><td>• Selection of paid development patterns
• Selection of loss ratios for less developed periods</td><td>• Claims settlement delays
• Variability in expected Loss ratios for the most recent periods</td></tr>
<tr><td>Warranty</td><td>• Selection of paid development patterns
• Selection of loss ratios for less developed periods</td><td>• Number and amount of unsettled claims
• Claim (parts and labour cost) inflation</td></tr>
</table>

3. Segmental analysis

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

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

	2021 £'000	2020 £'000
Gross written premiums		
General business	106,947	86,401
Long-term business	403	429
	107,350	86,830
Profit/(loss) before taxation:		
General business	(6,668)	(10,505)
Long-term business	(218)	917
	(6,886)	(9,589)
Segmental net assets		
General business (including shareholder's funds/total equity)	132,055	138,002
Long-term business	9,446	9,738
	141,501	147,740

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

3. Segmental analysis (continued)

	2021			
	Gross Written Premium	**Net Earned Premium**	**Net Claims Incurred**	**Net Operating Expenses**
	£'000	**£'000**	**£'000**	**£'000**
Direct Insurance				
Pet	83,263	75,542	(50,523)	(34,263)
Creditor	14,162	3,279	7,636	(8,958)
Warranty and GAP	8,808	1,573	(705)	(1,084)
MGA(Household&Motor)	(5)	(11,052)	11,431	(360)
	106,228	69,342	(32,161)	(44,665)
Inward reinsurance	719	719	(2)	(26)
	106,947	70,061	(32,163)	(44,691)
Long-term protection	403	(2,428)	2,119	160
	107,350	**67,633**	**(30,044)**	**(44,531)**

*Of the Reinsurance premium in 2021 of £40.4m £35.5m is a one off impact of entering into the non-pet reinsurance treaty with Darnell at 31st December 2021.

	2020			
	Gross Written Premium	**Net Earned Premium**	**Net Claims Incurred**	**Net Operating Expenses**
	£'000	**£'000**	**£'000**	**£'000**
Direct Insurance				
Pet	64,167	37,794	(23,644)	(23,030)
Creditor	15,527	16,063	(16,122)	(984)
Warranty and GAP	6,713	3,358	(1,634)	(3,590)
MGA(Household&Motor)	(6)	(6)	(833)	(495)
	86,402	57,209	(42,233)	(28,099)
Inward reinsurance	-	-	-	-
	86,402	57,209	(42,233)	(28,099)
Long-term protection	429	429	(323)	490
	86,831	**57,637**	**(42,556)**	**(27,609)**

4. Net investment return

	2021	2020
	£'000	£'000
Interest income from financial investments	2,198	2,884
Net realised losses on financial investments	(1,159)	118
Net unrealised gains / (losses) on financial investments	(982)	(62)
Net foreign exchange gains on investments	(1)	-
	56	2,940

5. Net claims incurred

	2021		
	General business	Long-term business	Total
Gross amount	£'000	£'000	£'000
Claims paid	62,030	1,221	63,251
Gross movement in the provision for:			
- Claims outstanding	(5,167)	(5,343)	(10,510)
- Provision for liability adequacy test	-	-	-
	56,863	(4,122)	52,741
Reinsurers' share			
Reinsurers' recoveries	(6,653)	(1,099)	(7,752)
Movement in the provision for:			
- Claims outstanding*	(18,047)	3,102	(14,945)
	(24,700)	2,003	(22,697)
	32,163	(2,119)	30,044

Of the Reinsurance claims outstanding in 2021 of £10.7m £17.2m is a one off impact of entering into the non-pet reinsurance treaty with Darnell at 31st December 2021.

The gross of reinsurance provision has decreased by £5.2m over 2021 with the reductions driven by the change in discount rate, increasing mortality and reducing exposure partially offset by an increase in inflation assumption. There has been a change in the accounting estimate of the discount rate used to discount future liabilities, which mainly impacts the RAM and GUAL products on a gross basis.

5. Net claims incurred (continued)

	2020		
	General business	Long-term business	Total
Gross amount	**£'000**	**£'000**	**£'000**
Claims paid	32,215	1,307	33,522
Gross movement in the provision for:			
- Claims outstanding	4,182	1,546	5,728
- Provision for liability adequacy test	(166)	-	(166)
	36,231	2,853	39,084
Reinsurers' share			
Reinsurers' recoveries	(1,161)	(1,158)	(2,319)
Movement in the provision for:			
- Claims outstanding	7,164	(1,372)	5,792
	6,003	(2,530)	3,473
	42,233	323	42,556

6. Net operating expenses

	2021	2020
	£'000	**£'000**
Acquisition costs	22,122	18,377
Change in gross deferred acquisition costs	3,635	(5,994)
Administrative expenses	25,569	23,095
Movement in provisions	(810)	(7,430)
Reinsurance commissions and profit participation	(5,985)	(441)
	44,531	27,609

7. Profit /(loss) before tax

Profit for the year is stated after charging	2021	2020
	£'000	**£'000**
The analysis of auditor's remuneration is as follows:		
Fees payable to the Company's auditor for the Company's annual accounts	257	250
Total audit fees	257	250

There was no fees paid to the company's auditor, Deloitte LLP, for services other than the statutory audit of the company (2020 £nil).

8. Employees

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

	2021	2020
	£'000	£'000
Total staff costs	14,871	14,181
Redundancy cost incurred	296	351
Released unused /Utilisation of provisions	-	(486)
	15,167	14,046

Included above within staff costs are the social security costs of £1.9m (2020: £1.6m) and staff pension contributions of £1.4m (2020: £1.2m).

9. Directors' remuneration

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

	2021	2020
	£'000	£'000
Emoluments	1,410	1,404
Pension contributions to a defined contribution scheme	50	31
	1,460	1,435

The remuneration of the highest paid Director:

	2021	2020
	£'000	£'000
Emoluments of highest paid Director	431	445
Pension contributions of highest paid Director	9	8
	440	453

10. Taxation

This note analyses the tax charge/(credit) for the year and explains the factors that affect it.

Tax charged / (credited) to the income statement

	General business		Long-term business		Total	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Current tax						
UK corporation tax charge/(credit) for the year	(1,181)	(1,994)	(158)	-	(1,339)	(1,994)
Prior year adjustments	459	(243)	-	-	459	(243)
Total current tax charge /(credit)	(722)	(2,237)	(158)	-	(880)	(2,237)
Deferred tax						
Prior year adjustments	-	-	117	-	117	-
Total deferred tax charge /(credit)	-	-	116	83	116	83
Total tax charged/(credited) to income statement	(722)	(2,237)	75	83	(647)	(2,154)

The Company earns its profits entirely in the UK. UK corporation tax has been charged at 19% (2020: 19%), the standard rate in the UK for the period.

	2021		
Tax reconciliation	**Long-term business**	**General business**	**Total**
Total profit before tax	(6,668)	(218)	(6,886)
Tax calculated at the standard UK corporation tax rate of 19%	(1,267)	(41)	(1,308)
Effect of:			
Expenses not deductible for tax purposes			
Brought forward losses utilised			
Reduction in claims equalisation reserve *	86		86
Tax rate difference			
Adjustment in respect of previous years			
-Under provision prior years	459		459
-Tax rate difference		-	
- Derecognition of previously recognised timing differences		116	116
Total tax credited to income statement	(722)	75	(647)

10. Taxation (continued)

	2020		
Tax reconciliation	**Long-term business**	**General business**	**Total**
Total profit before tax	917	(10,505)	(9,589)
Tax calculated at the standard UK corporation tax rate of 19%	174	(1,996)	(1,822)
Effect of:			
Expenses not deductible for tax purposes	-	2	2
Brought forward losses utilised	(58)	-	-
Reduction in claims equalisation reserve *	-	-	-
Tax rate difference	(34)	-	(34)
Adjustment in respect of previous years			
-Under provision prior years	-	(243)	(243)
-Tax rate difference	-		-
-Recognition of deferred tax asset relating to prior periods	-	-	-
Total tax credited to income statement	83	(2,237)	(2,154)

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

Deferred tax liabilities/ (asset)

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

	General business		Long-term business		Total	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
At 1 January	-	-	(233)	(316)	(233)	(316)
Derecognition of deferred tax on transitional adjustment re liabilities	-	-	117	-	117	-
Decrease in the transitional adjustments re liabilities	-	-	116	116	116	116
Losses relieved against profits arising	-	-	-	-	-	-
Decrease in claims equalisation reserve	-	-	-	-	-	-
Remeasurement of deferred tax for changes in tax rates	-	-	-	(34)	-	(34)
At 31 December	-	-	-	(233)	-	(233)

10. Taxation (continued)

Analysis of recognised deferred tax liabilities/ (asset)

	General business		Long-term business		Total	
	2021	2020	2021	2020	2021	2020
	£'000	£'000	£'000	£'000	£'000	£'000
Transitional adjustment re liabilities	-	-	-	(233)	-	(233)
Recognised deferred tax liabilities/(asset)	-	-	-	(233)	-	(233)

Deferred tax is calculated at 19% (2020: 19%).

Due to the reinsurance of all non-pet business we have derecognised the final release of the transition relief for the long-term business.

The Finance Act 2021, which was substantively enacted on 24 May 2021, increases the rate of corporation tax from 19 per cent to 25 per cent with effect from 1 April 2023. The impact of this rate change is immaterial.

Analysis of unrecognised deferred tax asset

There is an unrecognised deferred tax asset of £0.2m at 31 December 2021 (2020: £0.2m) in respect of trading losses of general business, and £0.9m (2020: £0.9m) 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. The losses relates to Pre 1 April 2017.

	General business		Long-term business		Total	
	2021	2020	2021	2020	2021	2020
	£'000	£'000	£'000	£'000	£'000	£'000
Transitional adjustment re liabilities	-	-	116	-	116	-
Losses	202	202	830	830	1,032	1,032
Unrecognised deferred tax asset	202	202	946	830	1,148	1,032

Unrecognised deferred tax is calculated at 19% (2020: 19%).

11. Financial assets and liabilities

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

	2021 £'000	2020 £'000
Financial assets		
Financial investments:		
Investments held at fair value through profit or loss		
- Debt securities /Bonds	51,232	52,782
Loans and receivables		
- Deposits with credit institutions	71,809	92,263
Total Financial investments	**123,041**	**145,045**
Loans and receivables		
- Cash and cash equivalents	14,697	34,545
- Insurance receivables	44,858	37,018
- Other receivables	18,126	11,480
	77,681	**83,043**
Total financial assets	**200,722**	**228,088**
Financial liabilities		
Insurance payables	10,034	6,749
Other payables	4,799	6,177
Total financial liabilities	**14,833**	**12,926**

12. Fair value

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

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

The methodology adopted by the Company for the fair value measurement of financial assets and liabilities and the basis for determining fair value hierarchy are explained in note 1.7.

12. Fair value (continued)

Comparison of carrying value to fair value of financial instruments

The following table comprises the carrying value and the fair value of financial instruments. Differences arise where the measurement basis of the asset is not fair value (e.g. assets/liabilities carried at amortised cost).

	2021		2020	
	Fair value	Carrying value	Fair value	Carrying value
Financial assets	**£'000**	**£'000**	**£'000**	**£'000**
Fair value through profit or loss				
Financial investments				
-Corporate bonds	21,658	21,658	40,754	40,754
-Government bonds	29,574	29,574	12,028	12,028
	51,232	51,232	52,782	52,782

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

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

Fair value hierarchy analysis

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

	2021			
	Level 1	Level 2	Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**
Financial assets at fair value through profit or loss				
-Corporate bonds	21,658	-	-	21,658
-Government bonds	29,574	-	-	29,574
	51,232	-	-	51,232

12. Fair value (continued)

	2020			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit or loss				
-Corporate bonds	40,754	-	-	40,754
-Government bonds	12,028	-	-	12,028
	52,782	-	-	52,782

There were no transfers between Level 1, Level 2 and Level 3 during the year. There were no changes in the valuation techniques during the year.

13. Cash and cash equivalents

	2021	2020
	£'000	£'000
Cash at bank and in hand	4,797	9,045
Short-term deposits with credit institutions	9,900	25,500
	14,697	34,545

The short-term deposits with credit institutions represent money market funds available for withdrawal subject to one-day notice. The effective interest rate on short-term deposits with credit institutions for the year ended 31 December 2021 was 0.10% (2020: 0.23%).

14. Insurance and other receivables

	2021	2020
	£'000	£'000
Receivables arising out of direct insurance operations		
-Due from intermediaries and policyholders	44,858	37,018
Receivables arising out of reinsurance operations	783	1,011
Other receivables		
-Amounts owed by group undertakings (see note 23)	15,743	7,974
-Accrued interest	261	500
-Corporation tax	1,339	1,994
	17,343	10,468
	62,984	48,498
Amounts to be settled within one year	61,734	47,248
Amounts to be settled after one year	1,250	1,250
	62,984	48,498

The insurance and other receivables are shown at net realisable value and are inclusive of bad debt provision of £nil (2020: £nil).

15. Other payables, including insurance payables

	2021 £'000	2020 £'000
Insurance payables arising out of direct insurance operations		
-Due to intermediaries	10,034	6,749
Insurance payables arising out of reinsurance operations	210	1,127
Amounts due to group undertakings* (see note 23)	703	1,304
Other taxation and social security	3,443	3,450
Accrued expenses	443	296
	4,799	6,177
	14,833	12,925
Amounts to be settled within one year	14,833	12,925
Amounts to be settled after more than one year	-	-
	14,833	12,925

*Included above in amounts due to group undertakings includes re-organisation costs provision of £nil (2020: £nil) which is detailed below:

Re-organisation costs provision

	2021 £'000	2020 £'000
At January	-	486
Utilisation of provision	-	-
Released unused	-	(486)
At 31 December	-	-

16. Share Capital and Reserves

The total shareholder's funds are analysed as:

	2021 £'000	2020 £'000
Authorised		
128,836,000 Ordinary shares of £1 each	128,836	128,836
Issued, allotted, called up and fully paid		
Ordinary shares of £1 each	126,557	126,557
Share Premium	23,323	23,323
	149,880	149,880
Retained earnings	(8,379)	(2,140)
Total Shareholder's funds / equity	141,501	147,740

17. Insurance liabilities

	2021				
	Unearned premiums reserve	Claims Outstanding	Long Term Business Provision	Provision for liability adequacy test	Total
	£000	£000	£000	£000	£000
Gross amount					
At 1 January 2021	39,228	49,529	31,498	-	120,255
Movement in the provision	11,514	(5,258)	(5,253)	-	1,003
At 31 December 2021	50,742	44,271	26,245	-	121,258
Reinsurance amount					
At 1 January 2021	(2,090)	(12,992)	(29,553)	-	(44,635)
Movement in the provision	(12,152)	(18,252)	3,308	-	(27,096)
At 31 December 2021	(14,242)	(31,244)	(26,245)	-	(71,731)
Net technical provisions					
Opening balance	37,138	36,537	1,945	-	75,620
Movement in the provision	(638)	(23,510)	(1,945)	-	(26,093)
At 31 December 2021	36,500	13,027	-	-	49,527

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

	Claims Outstanding		
	General business	Long-term business	Total
	£000	£000	£000
Gross amount			
At 1 January 2021	49,231	298	49,529
Movement in the provision	(5,167)	(91)	(5,258)
At at 31 December 2021	44,064	207	44,271
Reinsurance amount			
At 1 January 2021	(12,991)	(1)	(12,992)
Movement in the provision	(18,046)	(206)	(18,252)
At 31 December 2021	(31,037)	(207)	(31,244)
Net technical provisions			
Opening balance	36,240	297	36,537
Movement in the provision	(23,213)	(297)	(23,510)
At 31 December 2021	13,027	-	13,027

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

- Claims incurred but not reported of £20.1m (2020: £25.1m); and
- Claims handling expenses provision £1.1m (2020: £1.8m).

17. Insurance liabilities

	2020				
Gross Insurance liabilities	**Unearned premiums reserve £'000**	**Claims outstanding £'000**	**Long-term business provision £'000**	**Provision for liability adequacy test £'000**	**Total £'000**
At 1 January 2020	10,559	45,179	30,120	166	86,024
Movement in provision	28,669	4,350	1,377	(166)	34,231
At 31 December 2020	39,228	49,528	31,498	-	120,255
Reinsurance assets					
At 1 January 2020	(130)	(20,156)	(28,182)	-	(48,468)
Movement in provision	(1,961)	7,164	(1,372)	-	3,831
At 31 December 2020	(2,091)	(12,992)	(29,554)	-	(44,637)
Net Insurance liabilities					
At 1 January 2020	10,429	25,023	1,939	166	37,557
Movement in provision	26,708	11,514	5	(166)	38,062
At 31 December 2020	37,137	36,537	1,944	-	75,619

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

	Claims outstanding		
Gross amount	**General business £'000**	**Long-term business £'000**	**Total £'000**
At 1 January 2020	45,049	130	45,179
Movement in provision	4,181	168	4,349
At 31 December 2020	49,230	298	49,528
Reinsurance assets			
At 1 January 2020	(20,155)	(1)	(20,156)
Movement in provision	7,164	-	7,164
At 31 December 2020	(12,991)	(1)	(12,992)
Net Insurance liabilities			
At 1 January 2020	24,894	129	25,023
Movement in provision	11,345	168	11,513
At 31 December 2020	36,239	297	36,537

17. Insurance liabilities (continued)

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

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

Stress testing or testing of the impact of different assumptions:

	2021	**2020**
	£'000	**£'000**
Impact on loss before tax		
Insurance losses deteriorate against expected outcome		
5% deterioration	(651)	(1,827)
10% deterioration	(1,302)	(3,654)
Insurance losses improve against expected outcome		
5% improvement	651	1,827
10% improvement	1,302	3,654

Long-term business provision

Following the decision to reinsure non-pet business to Darnell DAC from December 31st 2021, the net of reinsurance long term business provision fell from £1.9m at YE20 to zero at YE21.

The gross of reinsurance provision has decreased by £5.2m over 2021 with the reductions driven by the change in discount rate, increasing mortality and reducing exposure partially offset by an increase in inflation assumption.

There has been a change in the accounting estimate of the discount rate used to discount future liabilities, which mainly impacts the RAM and GUAL products on a gross basis. This explains the majority of the c. £5.2m reduction in gross mathematical reserve.

PIC has historically used a flat interest rate to discount its long term liabilities, which was based on the yield to maturity on assets (mainly bonds) held to back its liabilities. As the provisions are now 100% reinsured and fully backed by the ceded reserve, there is no financial asset backing the liability. Therefore, a change in estimate is required. The chosen approach is to use risk-free interest rate (RFR) term structures provided by EIOPA that are also used for S2 technical provision valuation.
The long term claims outstanding consists of claims reserves attached to Creditor business with a death benefit attached.

See table below for detailed movement analysis:

17. Insurance liabilities (continued)

	2021					
	Gross		**Reinsurance**		**Net**	
	Long-term business provision	Claims Outstanding	Long- term business provision	Claims Outstanding	Long- term business provision	Clai Outstandi
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2021	31,499	298	29,554	1	1,945	297
Change in exposure	(2,616)	-	(2,604)	-	(12)	-
Adjustments due to change in assumptions:						
Mortality	-	-	-	-	-	-
Discount rate	(4,441)	-	(4,413)	-	(28)	-
Inflation rate	1,955	-	1,953	-	2	-
Default provision	(187)	-	(134)	-	(53)	-
Expenses	37	-	-	-	37	-
Other	(2)	(91)	1,889	206	(1,891)	(297)
At 31 December 2021	26,245	207	26,245	207	-	-

	2020					
	Gross		**Reinsurance**		**Net**	
	Long-term business provision	Claims Outstanding	Long- term business provision	Claims Outstanding	Long- term business provision	Cla Outstan
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'00**
At 1 January 2020	30,121	130	28,182	1	1,939	12
Change in exposure	(1,611)	-	(1,546)	-	(65)	
Adjustments due to change in assumptions:						
Mortality	-	-	-	-	-	
Discount rate	3,227	-	3,112	-	115	
Inflation rate	(194)	-	(194)	-	-	
Default provision	-	-	-	-	-	
Expenses	(21)	-	-	-	(21)	
Other	(23)	168	-		(23)	16
At 31 December 2020	31,499	298	29,554	1	1,945	29

17. Insurance liabilities (continued)

Long-term business provision

The long-term fund value is not sensitive to changes in EIOPA's risk free rate since all long-term business provisions are now 100% reinsured and ceded assets fully back the liabilities.

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

Rates of interest	2021	2020
RAM - Annuities	EIOPA Risk Free Rate - term structure of interest rate for YE21	-0.12%
Annuities-general	EIOPA Risk Free Rate - term structure of interest rate for YE21	-0.12%
Annuities-pension	EIOPA Risk Free Rate - term structure of interest rate for YE21	-0.12%
GUAL- Annuities	EIOPA Risk Free Rate - term structure of interest rate for YE21	-0.12%
Assurances :		
Life After Fifty	EIOPA Risk Free Rate - term structure of interest rate for YE21	-0.12%
Individual Life - WOL & DTA	EIOPA Risk Free Rate - term structure of interest rate for YE21	-0.12%
Mortality tables		
RAM – Annuities & IP	89.4% of Modified PCMA00 plus 2.1% long term mortality improvement & 91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	89.4% of Modified PCMA00 plus 2.1% long term mortality improvement & 91.6% of Modified PCFA00 plus 1.7% long term mortality improvement
Annuities-general	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement
Annuities-pension	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement
GUAL- Annuities	178.7% of Modified PCMA00 plus 2.1% long term mortality improvement & 137.4% of Modified PCFA00 plus 1.7% long term mortality improvement	178.7% of Modified PCMA00 plus 2.1% long term mortality improvement & 137.4% of Modified PCFA00 plus 1.7% long term mortality improvement
Life After Fifty	100% of ELT16 Males & ELT16 Females	100% of ELT16 Males & ELT16 Females
Individual Life - WOL & DTA	100% of A1967-70	100% of A1967-70

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

17. Insurance liabilities (continued)

Claims Development Table

Insurance Claims - Gross Accident year	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000	Total £'000
Estimate of ultimate claims costs										
At the end of accident year	56,047	95,251	121,752	58,098	25,336	20,369	18,361	34,525	54,442	
One year later	56,199	98,372	130,254	48,636	21,436	17,977	18,004	31,584		
Two years later	54,661	100,580	115,036	47,576	21,290	17,844	17,842			
Three years later	55,950	110,327	112,744	47,395	21,351	17,821				
Four years later	55,108	108,611	115,310	47,365	21,354					
Five years later	54,929	111,268	114,476	47,127						
Six years later	54,647	107,721	113,094							
Seven years later	54,408	113,734								
Eight years later	54,282									
Cumulative claims payments										
At the end of accident year	(25,935)	(42,095)	(51,502)	(29,770)	(13,751)	(11,918)	(12,089)	(19,367)	(41,904)	
One year later	(49,218)	(74,400)	(85,117)	(42,698)	(20,658)	(17,372)	(17,303)	(30,634)		
Two years later	(51,985)	(82,550)	(92,937)	(44,686)	(21,244)	(17,782)	(17,783)			
Three years later	(52,864)	(87,635)	(97,301)	(45,750)	(21,308)	(17,805)				
Four years later	(53,293)	(93,139)	(102,332)	(46,167)	(21,338)					
Five years later	(53,454)	(95,601)	(105,488)	(46,512)						
Six years later	(53,544)	(97,230)	(104,871)							
Seven years later	(53,581)	(105,005)								
Eight years later	(53,607)									
Current estimate of cumulative claims	54,282	113,733	113,094	47,127	21,353	17,820	17,842	31,584	54,442	471,280
Cumulative payments to date	(53,607)	(105,005)	(104,871)	(46,512)	(21,338)	(17,804)	(17,783)	(30,634)	(41,904)	(439,459)
Claims liability outstanding	**675**	**8,729**	**8,223**	**615**	**16**	**16**	**59**	**950**	**12,538**	**31,821**
Claims liability for prior years									**9**	**9**
Total claims liability outstanding										**31,830**
Risk margins										10,902
Claims handling expenses										1,064
Others										379
Claims liabilities –Long-term business										96
Gross Claims liabilities										**44,271**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

17. Insurance liabilities (continued)

Claims Development Tables (continued)

Insurance Claims – Net of Reinsurance Accident year	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000	Total £'000
Estimate of ultimate claims costs										
At the end of accident year	56,047	93,998	119,608	52,442	25,336	20,356	18,361	34,495	51,601	
One year later	56,025	92,180	111,276	48,918	21,436	17,977	18,004	30,810		
Two years later	54,432	93,165	106,896	47,363	21,290	17,844	17,784			
Three years later	54,372	95,331	107,064	47,088	21,351	17,805				
Four years later	54,617	94,725	107,098	47,251	21,338					
Five years later	54,476	94,648	108,301	46,512						
Six years later	54,487	95,112	104,006							
Seven years later	53,904	93,012								
Eight years later	53,607									
Cumulative claims payments										
At the end of accident year	(25,935)	(42,095)	(51,502)	(29,770)	(13,751)	(11,918)	(12,089)	(19,352)	(41,780)	
One year later	(49,218)	(74,400)	(85,117)	(42,698)	(20,658)	(17,372)	(17,303)	(30,634)		
Two years later	(51,985)	(81,843)	(92,937)	(44,686)	(21,244)	(17,782)	(17,783)			
Three years later	(52,864)	(86,389)	(97,281)	(45,750)	(21,308)	(17,805)				
Four years later	(53,293)	(89,640)	(101,008)	(46,167)	(21,338)					
Five years later	(53,454)	(91,493)	(103,765)	(46,512)						
Six years later	(53,544)	(92,732)	(104,006)							
Seven years later	(53,183)	(93,012)								
Eight years later	(53,607)									
Current estimate of cumulative claims	53,607	93,012	104,006	46,512	21,338	17,805	17,784	30,810	51,601	436,475
Cumulative payments to date	(53,607)	(93,012)	(104,006)	(46,512)	(21,338)	(17,805)	(17,783)	(30,634)	(41,780)	(426,477)
Claims liability outstanding							**1**	**176**	**9,821**	**9,999**
Claims liability for prior years										
Net liability after reinsurance										**9,999**
Risk margins										2,500
Claims handling expenses										528
Net Claims liabilities										**13,027**

18. Deferred acquisition costs

	General business	Long- term business	Total
	£000	£000	£000
Gross amount			
At 1 January 2021	9,063	18	9,081
Movement in the provision	(3,617)	(18)	(3,635)
At 31 December 2021	5,446	-	5,446
Reinsurance amount			
At 1 January 2021	(986)	-	(986)
Movement in the provision	(1,828)	-	(1,828)
At 31 December 2021	(2,814)	-	(2,814)
Net amount			
At 1 January 2021	8,077	18	8,095
Movement in the provision	(5,445)	(18)	(5,463)
At 31 December 2021	2,632	-	2,632

19. Provision

	Payment protection Income (PPI) £'000	Annual review statement provision £'000	Total £'000
At 1 January 2021	733	385	1,118
Utilisation of provision	(677)	(133)	(810)
At 31 December 2021	56	252	308

Payment Protection Insurance (PPI) Provision

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

In August 2010, the FSA (FCA since 1 April 2013) published policy statement PS10/12; the assessment and redress of payment protection insurance complaints. One of the key elements of PS10/12 is the requirement for firms to undertake detailed root cause analysis and proactively contact customers where material or systemic issues have been identified.

In addition, in March 2017, the FCA issued policy statement PS17/3; 'Payment Protection Insurance complaints: feedback on CP16/20 and final rules and guidance') which confirmed a deadline for PPI claims of August 2019, supported by an FCA led communications campaign.

19. Provision (continued)

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

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

	2021 £'000	2020 £'000
PPI provisions as at the year-end is represented by:		
Redress cost	56	233
Administrative cost	-	500
Profit Share Provisions withheld	-	-
	56	733

Annual review statement compensation provision

The Company has recognised a provision resulting from an error in some customers' PPI Annual Review Statements. The customers did not have their twelve months premium instalments amounts showing on the Annual Review Statement. The error related to business sold through a partner relating to Creditor business. The partner agreed with the Competition and Markets Authority that in these circumstances the customers would be given a refund equal to the error in their Statements. Upon further investigation, similar issues were discovered with other books of PPI business. As result, the Company recognised a provision of £0.4m in 2020, the remaining provision at year end 2021 was £0.3m.

20. Risk Management

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

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

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

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

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

20.1 Insurance risk

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

Further details regarding the Company's exposure to insurance risk are set out in notes 2 and 17.

20.2 Credit and Counterparty risk

Credit and counterparty risk arises from the potential that losses are incurred from the failure of counterparties to meet their credit obligations, due to either their failure and / or their ability to pay or their unwillingness to pay amounts due.

The main sources of credit and counterparty risk of the Company are:

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

20. Risk Management (continued)

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

The following tables analyse the carrying value of financial and insurance assets that bear counterparty risk between those assets that have not been impaired by age in relation to due date, and those that have been impaired.

	2021				
	Neither past due nor impaired	**Past due 1- 90 days**	**Past due more than 90 days**	**Assets that have been impaired**	**Carrying value in the balance sheet**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Financial investments	123,041	-	-	-	123,041
Insurance receivable and other receivables	62,984	-	-	-	62,984
Reinsurance assets	71,733	-	-	-	71,733
Cash & cash equivalents	14,697	-	-	-	14,697
	272,455	-	-	-	272,455

	2020				
	Neither past due nor impaired	**Past due 1- 90 days**	**Past due more than 90 days**	**Assets that have been impaired**	**Carrying value in the balance sheet**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Financial investments	145,045	-	-	-	145,045
Insurance receivable and other receivables	48,498	-	-	-	48,498
Reinsurance assets	44,637	-	-	-	44,637
Cash & cash equivalents	34,545	-	-	-	34,545
	272,725	-	-	-	272,725

20. Risk Management (continued)

The following table analyse the credit quality of financial investments at fair value through profit or loss and cash at bank that are neither past due nor impaired.

	2021				
Financial assets by credit rating	**Corporate bonds £'000**	**Government bonds £'000**	**Deposits with financial institution £'000**	**Cash & cash equivalents £'000**	**Total £'000**
AAA	2,020	13,033	-	-	15,053
AA	-	-	-	-	-
AA-	5,024	16,541	17,599	-	39,164
A+	2,752	-	10,035	14,697	27,484
A	9,345	-	29,392	-	38,737
A-	2,517	-	14,783	-	17,300
BBB+	-	-	-	-	-
	21,658	**29,574**	**71,809**	**14,697**	**137,738**

	2021				
Financial assets by credit rating (%)	**Corporate bonds**	**Government bonds**	**Deposits with financial institution**	**Cash & cash equivalents**	**Total**
AAA	9%	44%	-	-	11%
AA	-	-	-	-	-
AA-	23%	56%	25%	-	28%
A+	13%	-	14%	100%	20%
A	43%	-	41%	-	28%
A-	12%	-	20%	-	13%
BBB+	-	-	-	-	0%
	100%	100%	100%	100%	100%

20. Risk Management (continued)

Financial assets by credit rating	2020				
	Corporate bonds £'000	Government bonds £'000	Deposits with financial institution £'000	Cash & cash equivalents £'000	Total £'000
AAA	2,018	8,934	-	-	10,952
AA	-	-	-	-	-
AA-	7,289	3,094	27,629	-	38,012
A+	2,010	-	15,047	34,269	51,326
A	9,524	-	27,575	272	37,371
A-	6,560	-	22,012	-	28,572
BBB+	13,354	-	-	4	13,358
	40,754	**12,028**	**92,263**	**34,545**	**179,590**

Financial assets by credit rating (%)	2020				
	Corporate bonds	Government bonds	Deposits with financial institution	Cash & cash equivalents	Total
AAA	5%	74%	-	-	6%
AA	-	-	-	-	-
AA-	18%	26%	30%	-	21%
A+	5%	-	16%	99%	29%
A	23%	-	30%	1%	21%
A-	16%	-	24%	-	16%
BBB+	33%	-	-	-	7%
	100%	100%	100%	100%	100%

20. Risk Management (continued)

20.3 Liquidity Risk

Liquidity risk is the risk that the Company may be unable to pay obligations when due as a result of assets not being available in the form that can immediately be converted into cash. The Company, through Investment Committee and dedicated treasury function, manage the liquidity risk through investments in predominately liquid financial assets and constant monitoring of expected assets and liabilities maturities. The Company's Treasury department is also operationally responsible to ensure that sufficient funding is always available to meet the expected liabilities.

The following tables analyse financial investments, cash and cash equivalents, insurance and financial liability by remaining duration, in proportion to the cash flows expected to arise during that period, for each category.

	2021				
Time to maturity	**Total £'000**	**1 Year £'000**	**2-3 Years £'000**	**4-5 Years £'000**	**Over 5 Years £'000**
Financial investments					
-Corporate bonds	21,658	11,307	3,556	6,795	-
-Government bonds	29,574	5,080	4,959	10,524	9,011
-Deposits with financial institutions	71,809	37,035	31,735	3,039	-
Cash & cash equivalents	14,697	14,697	-	-	-
	137,738	68,119	40,250	20,358	9,011

	2020				
Time to maturity	**Total £'000**	**1 Year £'000**	**2-3 Years £'000**	**4-5 Years £'000**	**Over 5 Years £'000**
Financial investments					
-Corporate bonds	40,754	12,387	26,350	2,018	-
-Government bonds	12,028	563	5,231	3,094	3,141
-Deposits with financial institutions	92,263	50,111	27,875	14,276	-
Cash & cash equivalents	34,545	34,545	-	-	-
	179,590	97,606	59,456	19,388	3,141

20. Risk Management (continued)

At 31 December 2021	Total carrying value £'000	1 Year £'000	2-3 Years £'000	4-5 Years £'000	Over 5 years £'000
Gross insurance liabilities*					
-Provision for claims reported but not settled	23,557	5,223	3,474	222	14,638
-Provision for claims incurred but not reported	20,714	18,825	1,825	51	13
-Long-term business provision	26,246	1,132	2,186	2,069	20,859
	70,517	25,180	7,485	2,342	35,510
Other payables, including insurance payables	14,833	14,833	-	-	-
Total	85,350	40,013	7,485	2,342	35,510

At 31 December 2020	Total carrying value £'000	1 Year £'000	2-3 Years £'000	4-5 Years £'000	Over 5 years £'000
Gross insurance liabilities*					
-Provision for claims reported but not settled	24,420	9,202	3,882	982	10,354
- Provision for claims incurred but not reported	25,109	22,789	2,184	96	39
-Long-term business provision	31,498	1,183	2,267	2,179	25,868
	81,027	33,174	8,333	3,258	36,261
Other payables, including insurance payables	12,925	12,925	-	-	-
Total	93,952	46,099	8,333	3,258	36,261

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

20. Risk Management (continued)

20.4 Market risk

Market risk is the risk that the Company is adversely affected by movements in the value of its financial assets arising from market movements such as interest rates and foreign exchange rates or other price risk.

The Company is mainly exposed to interest rate risk

Interest rate risk:

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

The fair value of the investments in Company's balance sheet as at 31 December 2021 was £123.0m (2020: £145.1m). The sensitivity of the carrying value of the Company's total investment portfolio to a movement of 100 basis points in interest rates was as follows. Subject to any impairment charges that may result under the scenarios, the profit for the year would increase by £1.1m (2020: £1.5m) for a 100 basis points increase in interest rates. Conversely, a 100 basis points decrease in interest rates would decrease the profit for the year by £1.5m (2020: £1.8m).

21. Commitments

There were no outstanding capital commitments at 31 December 2021 (2020: £nil).

22. Capital management - Unaudited

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

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

Solvency II is the framework implemented on 1 January 2016 as the capital adequacy regime. It established a set of EU-wide capital requirements and risk management standards with aim of increasing protection for policyholders.

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

Capital position	**2021 £'000**	**2020 £'000**
Solvency Capital Requirement	73,032	68,734
Available eligible own funds	136,724	135,494
Capital surplus	**63,692**	**66,760**
Capital coverage ratio	187%	197%

Eligible own funds	**2021 £'000**	**2020 £'000**
Available capital before foreseeable dividends	136,724	137,062
Available eligible own funds	**136,724**	**137,062**

The difference between IFRS equity of £141.6m (2020: £147.7m) and the Solvency II own funds of £136.7m (2020: £135.5m) represents de-recognition of deferred acquisition costs and insurance technical provisions.

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

23. Related party transactions

The table below gives details of the transactions between the Company, its parent and other related parties which comprise other fellow group undertakings on the grounds that they are members of the same parent, Cardif Pinnacle Insurance Holdings plc.

	2021 £'000	2020 £'000
Amounts due from group undertakings		
BNP Paribas Cardif Limited	-	1,432
Cardif Pinnacle Insurance Management Services Plc	6,272	5,877
BNP London branch	2,201	650
ICARE France	14	15
Darnell Ltd	7,256	-
	15,743	7,974
Reinsurance Asset:		
Darnell Ltd	27,000	-
ICARE	67	-
	27,067	-
Amounts due to fellow group undertakings		
GIE BNP Paribas Assurance	81	414
Pinnacle Pet Healthcare Ltd	622	721
Cardif Pinnacle Insurance Holdings plc	-	169
	703	1,304

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

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

- Commission paid to BNP Paribas Cardif Limited of £0.2m (2020: £3.4m) for Warranty related insurance policies during the year.
- A fellow undertaking, Cardif Pinnacle Insurance Management Services plc charged £23.3m (2020: £20.8m) in respect of administrative expenses incurred on behalf of the Company including staff cost of £14.5m (2020: £13.2m).
- The Company paid £0.9m (2020: £1.1m) to GIE BNP Paribas Assurance in respect of costs associated for the usage of head office IT infrastructure.
- The Company reinsured its Warranty business to group company ICARE France, the £14k Balance represents the net debtor balance due under the treaty. Reinsurance Assets as shown above are included with the amount disclosed in note 20.
- The Company reinsured 100% of its non- pet business to group company Darnell Ltd. £7.3m the balance represents the reinsuance of the Company's profit share liabilities

Details of the remuneration of the Company's Directors are shown in note 9.

As at 31 December 2021 there were no loans outstanding to officers of the Company (2020: £nil).

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. Events after the balance sheet

There are no post balance sheets events.