PINNACLE INSURANCE PLC
Company Registration Number: 1007798

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2016

PINNACLE INSURANCE PLC

CONTENTS

Company Information

Directors:	G Binet (Chairman)	
	P J Box *	
	Cardif Assurance Vie	(resigned 7 January 2016)
	M Haderer	(appointed 23 November 2016)
	J-B M Laroche	(resigned 24 November 2016)
	N D Rochez *	
	A M Wigg FCA	
	M J Lorimer LLB (Hons) Solicitor	
	S.L.P.F Chevalet	(appointed 7 January 2016)
	* Independent Non-Executive Director	
Company Secretary:	M J Lorimer LLB (Hons) Solicitor	
Registered Office:	Pinnacle House A1 Barnet Way Borehamwood Hertfordshire WD6 2XX	
Actuarial Function Holder: (Long-term fund)	S K Grout BSc, FIA	
Independent Auditor:	Deloitte LLP 2 New Street Square London EC4A 3BZ	
Principal Bankers:	Barclays Bank PLC 54 Lombard Street London EC3P 3AH	

STRATEGIC REPORT

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

The Company is a subsidiary of Cardif Pinnacle Insurance Holdings plc (the "UK Parent"), a member of the BNP Paribas Cardif group, a worldwide provider of insurance and savings products. The Company is part of the global banking group BNP Paribas SA ("the Group"), a European leader in banking and financial services, with a Standard and Poor's long-term rating of A (Stable outlook). The Group has one of the largest international banking networks, with a presence in 74 countries and employs more than 190,000 employees.

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

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

BUSINESS REVIEW

Pre-tax loss

The Company reported a pre-tax loss of £0.1m (2015: loss of £31.1m) resulting from the Company's continued focus on a cost reduction, exit from loss making Household and Motor MGAs and growth in Pet and Warranty.

Included within the £0.1m loss is the impact of the recent Ogden discount rate change on motor claims. Following the announcement in February, the rate has moved from 2.5% to -0.75% and has the following impact; £3.4m increase in claim costs whilst in the balance sheet a £21.2m increase in insurance liabilities offset by a £17.8m increase in reinsurance assets.

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

Gross Written Premiums (GWP)

Creditor

The Creditor market remains weak, through a combination of low consumer and low distributor demand. Gross written premiums reduced 18% to £45.4m (2015: £55.1m) reflecting the continued low level of activity across the sector.

Household and Motor

The Company ceased writing business in these lines in 2015 and consequently gross written premium decreased to £0.5m (2015: £46.4m) in household and negative £0.9m (2015: £45.8m) in motor due to premium cancellation and refunds.

STRATEGIC REPORT (Continued)

Pet
The Company offers lifetime, per condition and time limited products. Policies are sold under the Helpucover brand direct to consumer and through aggregators. The business also operates through partnerships with consumer brands and a number of smaller niche intermediaries. Gross written premium grew by 31% in 2016 to £16.5m (2015: £12.5m).

Warranty
Gross written premiums for Warranty business decreased by 26% to £9.4m (2015: £12.7m). The decrease reflects lower motor warranty volumes distributed through Warranty Direct Limited reflecting the competitive environment.

Long-Term business
Long-term business includes business underwritten for mortgage loan protection, leasing creditor and standard of living guarantee income products. This business is in run-off and gross written premiums decreased to £1.8m in 2016 from £3.4m in 2015.

KEY PERFORMANCE INDICATORS

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

	2016	**2015**
	£'000	**£'000**
Gross Written Premiums	72,807	176,155
Net Earned Premiums	107,744	199,342
Technical Result	13,326	(5,791)
Investment Income	6,538	3,756
Administration Expenses	(20,008)	(25,781)
Loss Before Tax	(144)	(31,119)
Technical Ratio	88%	102%
Claims	44%	61%
Commission	43%	41%

Gross Written Premiums (GWP): represents the total premiums written in a given year before deductions of reinsurance and ceding commission. GWP decreased in the year by £103.3m (59%) largely due to exit of Motor, Household and the continued run off in Creditor business.

Net Earned Premiums (NEP): represents the portion of the policy's premium that applies to the expired portion of the policy. The NEP of £107.7m decreased by £91.5m substantially due to the exit from the Motor (£46.1m) and Household (£28.3m) and declining premium on Creditor (£11.1m) and Warranty (£8.0m) partly offset by an increase in Pet of £3.5m.

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

The technical result improved by £19.0m in 2016 largely driven by the exit of the unprofitable MGA household and motor business combined with growth in Pet.

STRATEGIC REPORT (Continued)

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

The investment portfolio comprises bonds, cash and term deposits of high credit quality .The total portfolio was valued at £268.3m at 31 December 2016 (2015: £314.1m) of which 49% was in bonds, 44% in deposits with credit institutions and 8% in cash and cash equivalents.

Total net investment return for the year is £6.5m (2015: £3.7m) which comprises interest earned on financial investments of £6.7m (2015: £7.6m), realised losses on bonds of £1.7m (2015 £0.9m) and unrealised gains of £1.0m (2015: loss of £2.7m).

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 decreased by £5.8m to £20.0m (2015: £25.8m) mainly due to a continued focus on operational efficiencies.

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 improved from 102% in 2015 to 88% in 2016 following the decision to exit from the motor and household business.

Claims Ratio: Calculated as net claims incurred expressed as a percentage of NEP. The claims ratio in 2016 decreased to 44% (2015: 61%) through the exit of the loss making MGA household and motor business. However, the change in Ogden rate which became effective on 27 February 2017, resulted in an additional net claims cost of £3.4m (2015: £nil).

Commission Ratio: Commission expense incurred expressed as a percentage of NEP. The Commission ratio of 43% (2015: 41%) remained broadly in line with prior year. The marginal increase in the ratio is due to higher commission in the motor warranty business.

STRATEGIC REPORT (Continued)

PRINCIPAL RISKS AND UNCERTAINTIES

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

Risk	Impact on Company	Mitigation of risk
Insurance risk	The Company's business is to accept insurance risk which is appropriate to enable the Company to meet its objectives.	Within a Board approved underwriting policy and agreed risk appetites, the Company seeks to balance this insurance risk with the pursuit of appropriate reward in the form of sufficient levels of insurance premiums. Particular attention is paid to actual and forecast loss ratios (claims over premiums).
Operational risk	Operational risk is the risk of loss resulting from inadequate internal processes, human or system errors, or from external events.	The Company seeks to 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. Claims provisions are also reviewed annually by external consulting actuaries who provide independent opinions to the Company confirming that in their view the Company's provisions are within a range of acceptable best estimates.
Credit risk	The Company's exposure to credit risk arises from its direct insurance trading activities, the exposure to the reinsurance it purchases and those of its investment activities. The risk is that in the absence of appropriate guidelines and procedures the Company might not be able to limit its credit exposure which could affect its earnings.	The Company, through the Board and the Investment Committee, seeks to limit, as far as is practical, exposure to credit risk from its investment activities. To achieve this objective it has established guidelines, procedures and monitoring requirements to manage credit risk. Particular attention has been paid to the quality of investment counterparties. In addition, the finance function reviews intermediaries' internal processes and periodically visits their premises to test controls and monitor credit risk.

STRATEGIC REPORT (Continued)

Risk	Impact on Company	Mitigation of risk
Liquidity risk	Liquidity risk is the risk that sufficient financial resources are not available in cash to enable the Company to meet obligations as they fall due.	The Company, through the Board and the Investment Committee, seeks to limit exposure to liquidity risk by ensuring liquidity is optimally managed and that all known cash flows can be met out of readily available sources of funding. The Company maintains a strong liquidity position by holding its assets predominantly in investment grade fixed income securities, call accounts and readily tradable corporate bonds.
Market risk	Market risk is the risk arising from fluctuations in the values of, or income from the Company's assets due to fluctuations in interest rates and/or exchange rates.	The Company has a low risk appetite for this type of risk which has been translated into a policy allowing the Company to invest predominantly in short-term bonds or cash to match the short-tail nature of most of its claims. Longer duration assets are purchased to better match with longer duration Motor liabilities. The risk is managed by the Board through the Investment Committee.
Conduct risk	Conduct Risk refers to the risks attached to how the company and its staff conduct their business in the market place and in respect of our customers and suppliers. Failure to create, manage and monitor the appropriate internal controls to understand and manage the company's Conduct Risks could result in regulatory sanctions and/or fines, reputation damage and loss of business.	The Company operates a Treating Customers Fairly (TCF) forum, which meets on a monthly basis, to review all issues of possible customer detriment under existing TCF guidelines and is fully supported by the whole company. The Financial Ombudsman Service (FOS) team monitors and disseminates FOS complaints, decisions and guidance. The Company's Conduct and Customer Committee meets quarterly to review all aspects of Conduct Risk.

OTHER UNCERTAINTY

Payment Protection Insurance (PPI) Complaints: In August 2010, the former UK financial services regulator, the Financial Services Authority, published Policy Statement (PS10/12) in relation to the assessment and redress arising from PPI complaints. The Company's management closely monitor the exposure to the PPI complaints and have taken appropriate action to mitigate the impact on the Company resulting in a provision of £9.5m (2015: £9.2m). See note 17 for detail.

Taxation changes: Following Brexit referendum, there is a risk that Corporation tax, Insurance Premium Taxes and Value Added Tax (VAT) may change which could impact on the Company's resources and liquidity requirements.

There is no impact on the Company's financial statements of the UK leaving the EU. The Company's Board is closely monitoring the impact it may have in the future.

STRATEGIC REPORT (Continued)

FUTURE DEVELOPMENTS

The Board and the ultimate Shareholder, BNP Paribas Cardif have defined in conjunction with management the following strategic agenda in 2017:

- Process simplification and digitalisation to drive efficiencies with the objective of delivering an efficient operating model;
- Maximise value from in force creditor business including the exit of uneconomic products and portfolios;
- Build Pet and Extended Motor Warranty propositions; and
- Investigate the development of an additional insurance product.

Looking ahead the Board is focused on ensuring the operating model and cost base remains appropriate to the level of revenue. It anticipates revenue growth in 2017 substantially through product lines for Pet and Warranty.

GOING CONCERN

During the year, the Company made a loss after tax of £0.1m (2015: £25.0m). However, the Company has considerable financial resources which include cash and cash equivalents of £20.1m (2015: £35.7m) and investment portfolio of £248.1m (2015: £278.4m) respectively 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. As such, after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

APPROVAL

This report was approved by the Board of directors on 19 April 2017 and signed on its behalf by:

Director
A M Wigg

DIRECTORS' REPORT

The Directors present this report together with the Strategic Report, financial statements and Auditor's Report, for the year ended 31 December 2016.

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 8. 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 17. The loss after taxation for the year was £0.1m (2015: Loss of £25.1m). There were no dividends paid or declared in the year.

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) right. They do not confer any rights of redemption.

POST BALANCE SHEET EVENTS

On 27th February, the Ministry of Justice announced a change in Ogden discount rate impacting motor claim costs from 2.5% to -0.75%. These changes are reflected in the financial statements.

DIRECTORS AND THEIR INTERESTS

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

G Binet (Chairman)	
P J Box *	
Cardif Assurance Vie	resigned 7 January 2016
M Haderer	appointed 23 November 2016
J-B M Laroche	resigned 24 November 2016
N D Rochez *	
A M Wigg FCA	
M J Lorimer LLB (Hons) Solicitor	
S.L.P.F Chevalet	appointed 7 January 2016

* Independent Non-Executive Director

DIRECTORS' REPORT (Continued)

POLITICAL CONTRIBUTIONS
No political contributions were made during the year (2015: £nil).

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

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

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

ACTUARIAL VALUATION
An actuarial valuation was carried out as at 31 December 2016 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 October 2014 UK Corporate Governance Code (formerly the Combined Code). Key Corporate Governance arrangements of the Company are highlighted below:

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

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

- Risk and Audit Committee (Chairman: P J Box);
- Investment Committee (Chairman: A M Wigg);
- Remuneration Committee (Chairman: N D Rochez);
- Risk Forum * (Chairman: A M Wigg);
- Underwriting and Risk Committee * (Chairman: M Haderer);
- Internal Control Committee * (Chairman: M J Lorimer) and
- Conduct and Customer Committee * (Chairman: M J Lorimer).

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

* Committees report to the Risk and Audit Committee.

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 2016 was as follows:

	Board	Risk and Audit Committee	Investment Committee	Remuneration Committee	Conduct and Customer Committee	Underwriting and Credit Risk Committee
Number of meetings held	**10**	**5**	**4**	**2**	**5**	**1**
G Binet	9	*	*	*	*	*
P J Box	10	5	*	2	*	*
S Chevalet **	9	*	*	2	*	*
Cardif Assurance Vie ***	1/1	*	*	*	*	*
M Haderer****	1/1	*	0/0	*	0/1	0/0
J-B M Laroche*****	4	*	*	*	*	*
M J Lorimer	10	*	*	*	3	1
N D Rochez	10	5	*	2	*	*
A M Wigg	10	*	4	*	4	1

* indicates not a member of that Committee
** appointed 7 January 2016
*** resigned 7 January 2016
**** appointed 23 November 2016
***** resigned on 24 November 2016

Internal controls

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

The systems are designed to:

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

DIRECTORS' REPORT (Continued)

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

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

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

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company which has operated throughout 2016 and up to the date of signing this report. The Company's risk management and control framework is designed to support the identification, assessment, monitoring, management and control of risks that are significant to the achievement of its business objectives. The Company has a set of formal policies which govern the management and control of both financial and non-financial risks.

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

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

The Committee's principal duties are to:

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

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

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

DIRECTORS' REPORT (Continued)

INTERNAL AUDIT FUNCTION

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

DISCLOSING INFORMATION TO THE AUDITOR

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

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

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

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

Approved by the Board and signed on its behalf by:

Director
M J Lorimer

19 April 2017

PINNACLE INSURANCE PLC

DIRECTORS' RESPONSIBILITY STATEMENT

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

Company law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors are required to prepare the Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the International Accounting Standard ("IAS") regulation. They have also chosen to prepare the Company financial statements under IFRSs, as adopted by the EU. 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 Company's state of affairs and profit or loss for that period.

In preparing the Company financial statements, the directors are required to:

- select suitable accounting policies and they apply them consistently;
- 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 is 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
- assess 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 disclosing, with reasonable accuracy, the Company's financial position at any time, and enable them to ensure the financial statements comply with the Companies Act 2006. Additionally, they are responsible for safeguarding the Company's assets and hence taking reasonable steps to prevent and detect fraud and other irregularities. The Directors are responsible for maintaining and ensuring the integrity of the corporate and financial information included on the Company's website at https://www.cardifpinnacle.com/content/reports-accounts.php?year. Legislation in the UK governing preparing and disseminating financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Strategic report (on pages 3 to 8) and Directors' report (on pages 9 to 13) include a fair view of the development and performance of the business, and the Company's position as a whole, together with a description of the principal risks and uncertainties they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholder to assess the Company's performance.

This responsibility statement was approved by the Board of Directors on 19 April 2017 and is signed on its behalf by:

Director
A M Wigg

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

We have audited the financial statements of Pinnacle Insurance Plc for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

As explained in Note 2 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

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

Opinion on other matter 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 and the Directors' Report.

Matters on which we are required to report by exception

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

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

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

19 April 2017

PINNACLE INSURANCE PLC

Income Statement
For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Income			
Gross written premiums	3	72,807	176,155
Less: reinsurance premiums		(2,029)	(9,258)
Net written premiums		70,778	166,897
Change in the gross provision for unearned premiums	17	38,419	35,012
Less: change in provision for unearned premiums, reinsurers' share	17	(1,454)	(2,567)
Net change in provision for unearned premiums		36,965	32,445
Net earned premiums		107,744	199,342
Net investment return	4	6,538	3,756
Total income		114,282	203,098
Expenses			
Gross claims incurred	5	(80,678)	(130,641)
Less: claims recoveries from reinsurers	5	33,086	8,707
Net claims		(47,592)	(121,934)
Net operating expenses	6	(66,834)	(112,283)
Total expenses		(114,426)	(234,217)
(Loss) before tax		(144)	(31,119)
Tax charge / (credit)	10	(4)	6,035
(Loss) for the year		(148)	(25,084)
Attributable to:			
Owner of the Company		(148)	(25,084)

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 represents total comprehensive loss for the year attributable to the owner of the Company.

Statement of Financial Position
As at 31 December 2016

	Notes	2016 £'000	2015 £'000
Assets			
Financial investments	11	248,177	278,425
Reinsurance assets	17	68,553	39,418
Insurance and other receivables	14	26,928	41,979
Cash and cash equivalents	13	20,178	35,716
Deferred acquisition costs	18	11,416	26,577
Total assets		**375,252**	**422,115**
Total equity		**153,619**	**153,767**
Liabilities			
Insurance liabilities	17	175,225	209,247
Other payables, including insurance payables	15	46,408	59,101
Total liabilities		**221,633**	**268,348**
Total equity and liabilities		**375,252**	**422,115**

The financial statements were approved and authorised for issue on 19 April 2017 by the Board of Directors and are signed on its behalf by:

Director
A M Wigg

The notes on pages 21 to 56 form an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2016

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 January 2015	126,557	23,323	28,971	178,851
Loss for the year	-	-	(25,084)	(25,084)
Other comprehensive income	-	-	-	-
At 31 December 2015	**126,557**	**23,323**	**3,887**	**153,767**
Loss for the year	-	-	(148)	(148)
Other comprehensive income	-	-	-	-
At 31 December 2016	**126,557**	**23,323**	**3,739**	**153,619**

The notes on pages 21 to 56 form an integral part of these financial statements.

PINNACLE INSURANCE PLC

Statement of Cash Flows
For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Loss for the year before tax		(144)	(31,119)
Adjustments for non-cash items			
Net unrealised gains on financial assets at FVTPL		(1,043)	3,707
Interest income	4	(5,013)	(3,756)
Provision for unearned premiums	17	(36,965)	2,567
Outstanding claims		34,985	11,683
Deferred acquisition costs	18	15,161	13,740
Other assets		(24,706)	4,204
Other creditors		(10,959)	7,150
Cash (used in)/generated from operating activities		**(28,684)**	**8,176**
Proceeds from debt securities maturities		36,307	49,789
Purchase of debt securities		(11,980)	(39,040)
Deposits with credit institutions		(14,165)	(22,449)
Interest received on financial investments		4,721	4,140
Net cash from/(used in) investing activities		**14,883**	**(7,560)**
Proceeds from intra-group loan settlements		(1,737)	(2,446)
Net cash used in financing activities		**(1,737)**	**(2,446)**
Net decrease in cash and cash equivalents		**(15,538)**	**(1,830)**
Cash and cash equivalents at 1 January	13	35,716	37,546
Cash and cash equivalents at 31 December	**13**	**20,178**	**35,716**

The notes on pages 21 to 56 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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, and Hertfordshire, WD6 2XX.

1. Accounting policies

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

The Company is exempt by virtue of IAS 27 paragraph 10 from the requirements to prepare consolidated financial statements, since it is included within the group accounts of Cardif Pinnacle Insurance Holdings plc. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

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.

New accounting standards published but not yet applicable

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments", issued by the IASB in July 2014, will replace IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments. It sets out the new principles for the classification and measurement of financial instruments, for impairment for credit risk on financial assets and for general hedge accounting (i.e. micro hedging). IFRS 9 is mandatory for annual periods beginning on or after 1 January 2018.
The Company does not intend to adopt IFRS 9 before its mandatory date.

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from Contracts with Customers, issued in May 2014, will supersede a number of standards and interpretations on revenue recognition (in particular IAS 18 Revenue and IAS 11 Construction Contracts). This standard does not apply to revenues from lease contracts, insurance contracts or financial instruments. It is based on a five-step model framework to determine the timing and amount of recognition of revenue from ordinary activities. IFRS 15 is mandatory for annual periods beginning on or after 1 January 2018 and must first be endorsed by the European Union for application in Europe. The Company is in the process of analysing the standard and its potential impacts.

1. Accounting policies (continued)

New accounting standards published but not yet applicable (continued)

IFRS 16 Leases

IFRS 16 Leases, issued in January 2016, will supersede IAS 17 Leases and the interpretations relating to the accounting of such contracts. The new definition of leases relies on both the identification of an asset and the right to control the identified asset by the lessee. From the lessor's point of view, the expected impact should be limited, as the requirements of IFRS 16 remain substantially unchanged from the current IAS 17. For the lessee, IFRS 16 will require recognition in the balance sheet of all leases, in the form of a right of-use on the leased asset presented under fixed assets, along with the recognition of a financial liability for the rent and other payments to be made over the leasing period. The right-of-use assets will be amortised on a straight-line basis and the financial liabilities will be amortised on an actuarial basis over the lease period. Under IAS 17, operating leases require no recognition in the balance sheet. IFRS 16 will become mandatory for annual periods beginning on or after 1 January 2019. Following the publication of the standard, the Company has started to analyse the standard and define its potential impact.

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.

1.1 Contract classification

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

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

1.2 Premiums written

Insurance and reinsurance premiums written comprise the total premiums receivable for the whole period of cover provided by contracts 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. Accounting policies (continued)

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

1.5 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 claims Incurred But Not Reported.

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

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

The calculation of the provision for claims incurred but not reported combines an assumption for average claims cost and frequency together with a typical delay factor. The delay factor is designed to reflect the typical delay in months between the occurrence and the notification of claims.

1. Accounting policies (continued)

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

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

1.6 Reinsurance

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

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

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.

1. Accounting policies (continued)

Financial assets

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

Financial assets at FVTPL

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

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

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

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

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

Loans and receivables

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

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.

1. Accounting policies (continued)

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

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

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

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

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

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

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. Accounting policies (continued)

1.9 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.

1.10 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.

1.11 Taxation
Income tax expense / (credit) represent the sum of current tax payable and deferred tax.

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

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

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

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

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

2. Critical accounting judgements and key sources of estimation uncertainties

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 21 to 28. 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. The use of estimates, assumptions or models that differ from those adopted by the Company would affect its reported results.

Deferred acquisition costs
The Company defers a proportion of acquisition costs incurred during the year to subsequent accounting periods. Management use estimation techniques to determine the level of costs to be deferred by category of business. Management apply earnings patterns which are based on earnings of prior years' experience of the relevant class of business to determine the amount of deferred acquisition costs in parallel with premiums.

Deferred tax
Critical accounting judgments in respect of the deferred tax are disclosed in note 10.

Claims and unexpired risk provisions
Claims and unexpired risk provisions are determined based upon previous claims experience and knowledge of events.

Where possible, the Company adopts multiple techniques such as Chain Ladder and Bornhuetter-Ferguson to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected.

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

The Company applies the following key methodologies and judgements in arriving at claims and unexpired risk provisions:

Business Class	Methodology	Key Judgement
Creditor	• Standard reserving methods analysing historical claim development.	Judgement with respect to determining how long claims will remain in payment including how unemployment or other trends might affect payment duration.
Household	• Standard reserving methods analysing historical claim development. • Separate calculation of large claims IBNER and IBNYR.	Future development of attritional claims, suitability of historical large claim and surge experience for estimating more recent month's ultimate costs.
Motor	• Standard reserving methods analysing historical claim development. • Separate analysis of large claims IBNER and IBNYR.	Interpreting changes in claims development. Significant judgement in determining claims development for claims that can take many months/years to settle.
Pet	• Standard reserving methods analysing historical claim development.	Interpreting changes in claims development and tail development patterns.
Warranty	• Standard reserving methods analysing historical claim development.	Interpreting changes in claims development and tail development patterns.

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.

	2016	2015
	£'000	£'000
Gross written premiums		
General business	70,915	172,772
Long term business	1,892	3,383
	72,807	176,155
Loss before taxation:		
General business	(386)	(31,239)
Long term business	242	120
	(144)	(31,119)
Segmental net assets		
General business (including shareholder's funds/total equity)	145,096	145,499
Long term business	8,523	8,268
	153,619	153,767

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

3. Segmental analysis (continued)

	2016			
	Gross Written Premium	**Net Earned Premium**	**Net Claims Incurred**	**Net Operating Expenses**
	£'000	**£'000**	**£'000**	**£'000**
Direct Insurance				
Pet	16,481	15,983	(10,579)	(9,166)
Creditor	45,411	46,585	(12,907)	(31,493)
Warranty	9,417	14,287	(3,620)	(10,489)
Household	519	18,981	(5,654)	(11,560)
Motor	(917)	10,012	(14,849)	(2,244)
	70,911	105,848	(47,609)	(64,952)
Reinsurance	4	4	(30)	-
	70,916	105,852	(47,639)	(64,952)
Long term protection	1,892	1,892	47	(1,882)
	72,807	107,744	(47,592)	(66,834)

	2015			
	Gross Written Premium	**Net Earned Premium**	**Net Claims Incurred**	**Net Operating Expenses**
	£'000	**£'000**	**£'000**	**£'000**
Direct Insurance				
Pet	12,572	12,434	(9,219)	(4,239)
Creditor	55,085	57,752	(12,334)	(50,393)
Warranty	12,772	22,353	(4,151)	(17,096)
Household	46,450	47,293	(36,741)	(26,415)
Motor	45,889	56,121	(60,088)	(10,054)
	172,767	195,955	(122,533)	(108,197)
Reinsurance	4	4	(13)	-
	172,772	195,959	(122,547)	(108,197)
Long term protection	3,383	3,382	612	(4,087)
	176,155	199,342	(121,934)	(112,283)

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

4. Net investment return

	2016	2015
	£'000	£'000
Interest income from financial investments	6,799	7,672
Net realised losses on financial investments	(1,786)	(963)
Net unrealised gain /(losses) on financial investments	1,042	(2,745)
Net foreign exchange gain /(losses) on investments	483	(208)
	6,538	3,756

5. Net claims costs

	2016		
	General business	Long-term business	Total
Gross amount	£'000	£'000	£'000
Claims paid	74,576	1,706	76,282
Gross movement in the provision for:			
- Claims outstanding	(749)	5,824	5,074
- Provision for liability adequacy test	(678)	-	(678)
	73,149	7,530,	80,678
Reinsurers' share			
Reinsurers' recoveries	(1,080)	(1,417)	(2,497)
Movement in the provision	(24,429)	(6,161)	(30,590)
	(25,509)	(7,578)	(33,086)
	47,640	(48)	47,592

	2015		
	General business	Long-term business	Total
Gross amount	£'000	£'000	£'000
Claims paid	89,191	1,758	90,949
Gross movement in the provision for:			
- Claims outstanding	40,531	(914)	39,616
- Provision for liability adequacy test	76	-	76
	129,798	843	130,641
Reinsurers' share			
Reinsurers' recoveries	(244)	(1,458)	(1,702)
Movement in the provision	(7,008)	3	(7,005)
	(7,252)	(1,455)	(8,707)
	122,546	(612)	121,934

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

6. Net operating expenses

	2016	2015
	£'000	£'000
Acquisition costs	22,222	54,973
Change in gross deferred acquisition costs	15,162	13,740
Administrative expenses	20,008	25,781
Reorganisation costs (see note 15)	-	3,303
Reinsurance commissions and profit participation	9,442	14,486
	66,834	112,283

7. Loss for the year is stated after charging

	2016	2015
	£'000	£'000
The analysis of auditor's remuneration is as follows:		
Fees payable to the Company's auditor for the Company's annual accounts	125	124
Fees payable to the Company's auditor for the regulatory return	122	40
Total audit fees	247	164

	2016	2015
	£'000	£'000
Review of Own Risk and Solvency Assessment report	9	-
PRA Solvency II Step 1 review	58	-
Total non-audit fees	67	-

8. Employees

The Company has had no employees during the year. A fellow subsidiary of Cardif Pinnacle Insurance Holdings plc, Cardif Pinnacle Insurance Management Services plc, provides staff management services and recharges all staff costs to the Company and wider UK group. The total management recharge includes staff costs including reorganisation cost provision which is included within the net operating expenses as follows:

	2016	2015
	£'000	£'000
Total staff costs	11,588	14,072
Redundancy costs incurred	-	411
Released unused	(408)	-
Reorganisation costs provision (see note 15)	-	3,303
	11,180	17,786

Included above within staff cost is the social security costs of £1.1m (2015: £1.3m) and staff pension contribution of £0.9m (2015: £1.1m).

9. Directors' remuneration

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

	2016 £'000	2015 £'000
Emoluments	788	1,247
Pension contributions to a defined contribution scheme	46	40
Compensation for loss of office	-	654
	834	1,941

The remuneration of the highest paid Director:

	2016 £'000	2015 £'000
Emoluments of highest paid Director	399	670
Pension contributions of highest paid Director	28	-
Compensation for loss of office *	-	654
	427	1,324

* represents compensation paid to a Director for the loss of office who left in 2015.

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	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Current tax						
UK corporation tax charge/(credit) for the year	10	(6,107)	(35)	5	(25)	(6,102)
Prior year adjustments	6	-	23	67	29	67
Total current tax charge /(credit)	16	(6,107)	(12)	72	4	(6,035)
Deferred tax						
Total deferred tax charge /(credit)	-	-	-	-	-	-
Total tax charged/(credited) to income statement	16	(6,107)	(12)	72	4	(6,035)

The Company earns its profits entirely in the UK. UK corporation tax has been charged at 20% (2015: 20.25%), the standard rate in the UK for the period.

10. Taxation (continued)

Tax reconciliation	2016 Long-term business	 General business	 Total
	£'000	£'000	£'000
Total profit/(loss) before tax	242	(386)	(144)
Tax calculated at the standard UK corporation tax rate of 20%	48	(77)	(29)
Effect of:			
Expenses not deductible for tax purposes	-	(3)	(3)
Movement in deferred tax not recognised:			
-Transitional adjustments re new life tax regime	(63)	-	(63)
- Brought forward losses utilised	(20)		(20)
-Reduction in claims equalisation reserve	-	90	90
Adjustment in respect of previous years	23	6	29
Total tax charged/(credited) to income statement	(12)	16	4

Tax reconciliation	2015 Long-term business	 General business	 Total
	£'000	£'000	£'000
Total profit/(loss) before tax	120	(31,239)	(31,119)
Tax calculated at the standard UK corporation tax rate of 20.25%	24	(6,326)	(6,302)
Effect of:			
Expenses not deductible for tax purposes	-	12	12
Movement in deferred tax not recognised:			
-Transitional adjustments re new life tax regime	12	-	12
-Brought forward losses utilised	(31)	-	(31)
-Reduction in claims equalisation reserve	-	207	207
Adjustment in respect of previous years	67	-	67
Total tax charged/(credited) to income statement	72	(6,107)	(6,035)

10. Taxation (continued)

Deferred tax asset
The following is the deferred tax asset recognised by the Company and movements therein during the current and prior reporting period.

	General business		Long-term business		Total	
	2016	2015	2016	2015	2016	2015
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	-	-	-	-	-	-
De-recognition of deferred tax asset in respect of losses	-	-	-	-	-	-
Decrease (increase) in claims equalisation reserve	104	259	-	-	104	259
Losses (de-recognised) recognised	(104)	(259)	-	-	(104)	(259)
Transitional adjustment *	-	-	50	157	50	157
Transitional adjustment re liabilities	-	-	(50)	(157)	(50)	(157)
At 31 December	-	-	-	-	-	-

* relates to deferred acquisition costs

No deferred tax asset has been recognised as at 31 December 2016 or 31 December 2015.

There is an unrecognised deferred tax asset of £711,000 at 31 December 2016 (2015: £671,000) in respect of trading losses of general business, and £1,969,000 (2015: £2,122,000) in respect of long-term business. A deferred tax asset has not been recognised because it is uncertain whether suitable taxable profits will arise in the foreseeable future.

Analysis of recognised deferred tax asset

	General business		Long-term business		Total	
	2016	2015	2016	2015	2016	2015
	£'000	£'000	£'000	£'000	£'000	£'000
Claims equalisation reserve	(384)	(488)	-	-	(384)	(488)
Losses	384	488	-	-	384	488
Recognised deferred tax asset	-	-	-	-	-	-

Deferred tax has been recognised at 17% (2015: 18%).

10. Taxation (continued)

Analysis of unrecognised deferred tax asset

	General business		Long-term business		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Transitional adjustment re deferred acquisition costs	-	-	-	(53)	-	(53)
Transitional adjustment re liabilities	-	-	625	772	625	772
Losses	516	671	1,344	1,403	2,055	2,074
Unrecognised deferred tax asset	516	671	1,969	2,122	2,680	2,793

Unrecognised deferred tax is calculated at 17% (2015: 18%).

11. Financial investments

	2016	2015
	£'000	£'000
Financial assets at fair value through profit or loss		
Debt securities /Bonds	130,440	153,725
Loans and receivables		
Deposits with credit institutions	117,737	124,700
Total financial assets	248,177	278,425

Included within financial investments is £12,563,176 (2015: £12,568,657) held on behalf of intermediaries.

12. Fair value

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

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

	2016		2015	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Financial assets	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets at fair value through profit or loss				
Financial investments				
-Corporate bonds	126,962	126,962	153,075	153,075
-Government bonds	3,478	3,478	650	650
Loans and receivables				
-Deposits with credit institutions	117,737	117,737	124,700	124,700
	248,177	248,177	278,425	278,425

Fair values of the following assets and liabilities approximate their carrying value:

- 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.

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets at fair value through profit or loss				
-Corporate bonds	126,962	-	-	126,962
-Government bonds	3,478	-	-	3,478
Loans receivables				
-Deposits with credit institutions	117,737	-	-	117,737
	248,177	-	-	248,177

12. Fair value (continued)

Fair value hierarchy analysis (continued)

	2015			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss				
-Corporate bonds	153,075	-	-	153,075
-Government bonds	650	-	-	650
Loans receivables				
-Deposits with credit institutions	124,700	-	-	124,700
	278,425	-	-	278,425

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

	2016 £'000	2015 £'000
Cash at bank and in hand	8,835	8,580
Short-term deposits with credit institutions	11,343	27,136
	20,178	35,716

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 2016 was 0.44% (2015: 0.35%).

Included within cash and cash equivalents is a balance of £262,645 (2015: £363,360) held on behalf of intermediaries.

14. Insurance and other receivables

	2016	2015
	£'000	£'000
Receivables arising out of direct insurance operations		
-Due from intermediaries	17,554	30,465
Receivables arising out of reinsurance operations	1,065	290
Other receivables		
-Amounts owed by group undertakings (see note 22)	6,899	3,155
-Accrued interest	1,249	1,541
-Prepayments	136	390
-Corporation tax	25	6,138
	8,309	11,224
	26,928	41,979
Amounts to be settled within one year	21,314	32,890
Amounts to be settled after one year	5,614	9,089
	26,928	41,979

The insurance and other receivables are shown at net of realisable value, and are inclusive of bad debt provision of £nil (2015: £24k).

15. Other payables, including insurance payables

	2016 £'000	2015 £'000
Insurance payables arising out of direct insurance operations		
-Due to intermediaries	41,643	51,616
Insurance payables arising out of reinsurance operations	195	692
Amounts owed to credit institutions	66	2
Amounts due to group undertakings* (see note 22)	2,568	4,577
Other taxation and social security	1,697	1,857
Accruals and deferred income	239	357
	4,765	7,485
	46,408	59,101
Amounts to be settled within one year	22,332	28,916
Amounts to be settled after more than one year	24,076	30,185
	46,408	59,101

*Included above in amounts due to group undertakings includes re-organisation costs provision of £1.1m (2015: £3.3m) which is detailed below:

Re-organisation costs provision	2016 £'000	2015 £'000
At January	3,303	-
Utilisation of provision	(1,832)	(411)
Released unused	(408)	-
Provision provided during the year	-	3,714
At 31 December	1,063	3,303

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

16. Share Capital and Reserves

The total shareholder's funds are analysed as:

	2016 £'000	2015 £'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	3,739	3,887
Total Shareholder's funds / equity	153,619	153,767

17. Insurance liabilities

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 2016	61,361	116,128	31,080	678	209,248
Movement in provision	(38,419)	(964)	6,038	(678)	(34,023)
At 31 December 2016	22,942	115,164	37,118	-	175,225
Reinsurance assets					
At 1 January 2016	(1,687)	(9,860)	(27,871)	-	(39,418)
Movement in provision	1,454	(24,429)	(6,160)	-	(29,136)
At 31 December 2016	(233)	(34,289)	(34,031)	-	(68,553)
Net Insurance liabilities					
At 1 January 2016	59,674	106,269	3,209	678	169,830
Movement in provision	(36,965)	(25,393)	(122)	(678)	(63,158)
At 31 December 2016	22,709	80,876	3,087	-	106,672

On 27th February, the Ministry of Justice announced a change in Ogden discount rate impacting motor claim costs from 2.5% to -0.75%. The effect of these discount rates changes is included above in the gross claims outstanding and reinsurance assets of £21.2m and £17.7m respectively.

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 2016	115,759	370	116,129
Movement in provision	(750)	(214)	(964)
At 31 December 2016	115,009	155	115,164
Reinsurance assets			
At 1 January 2016	(9,859)	(1)	(9,860)
Movement in provision	(24,429)	-	(24,429)
At 31 December 2016	(34,288)	(1)	(34,289)
Net Insurance liabilities			
At 1 January 2016	105,900	369	106,269
Movement in provision	(25,179)	(214)	(25,393)
At 31 December 2016	80,721	154	80,875

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

- Claims incurred but not reported of £60.0m (2015: £43.5m);
- Claims handling expenses provision £2.6m (2015: £2.9m); and
- Payment Protection Insurance (PPI) provision £4.7m (2015: £4.6m).

17. Insurance liabilities (continued)

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.

The Company has performed a detailed review of complaints received from policyholders to date in relation to the mis-selling of its PPI products and has estimated its liability at the year-end which is as follows:

	2016	2015
	£'000	£'000
At January	9,176	8,541
Movement during the year	164	1,024
Movement in profit share provisions held	136	(389)
At 31 December	9,476	9,176
PPI provisions as at the year end is represented by:		
Redress cost	3,262	3,068
Administrative cost	1,478	1,508
Profit Share Provisions withheld	4,736	4,600
	9,476	9,176

PPI provision relating to the administrative costs is included within claims outstanding above in note 17 "Insurance liabilities".

In addition, the Company is also withholding an amount of £4.7m (2015: £4.6m) from provisions established in relation to future payments due to intermediaries under profit-sharing arrangements, for which amounts can be withheld in respect of compensation payments made to policyholders. This amount is included within creditors arising out of direct insurance in note 19 "Other payable, including insurance payables".

17. Insurance liabilities (continued)

Long-term business provision

The long-term fund value is sensitive to changes in future investment yield assumptions, impacting the value of both assets and liabilities. Sensitivity analysis indicates that the fund value is adversely impacted by £7k (£150k) when investment yields are increased and decreased by 20% of a 15 year UK Gilt yield from the base assumption.

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

	2016	2015
Rates of interest		
Annuities :		
RAM - Annuities	1.3%	2.0%
Life After Fifty	1.3%	2.0%
Annuities-general	1.3%	2.0%
Annuities-pension	1.3%	1.35%
GUAL	1.3%	1.35%
Mortality tables		
RAM – Annuities	89.4% of Modified PCMA00 plus 2.1% p.a. mortality improvement & 91.6% of Modified PCFA00 plus 1.7% p.a. mortality improvement	60% of IM(F)80C20 & 100% of IM(F)80C20 respectively
Life After Fifty	100% of ELT16 Males & ELT16 Females	100% of ELT14
Annuities-general	91.6% of PCFA00 plus 1.7% p.a. mortality improvement	70% PMA92&PFA92
Annuities-pension	91.6% of PCFA00 plus 1.7% p.a. mortality improvement	70% PMA92&PFA92
GUAL	178.7% of Modified PCMA00 plus 2.1% p.a. mortality improvement & 137.4% of Modified PCFA00 plus 1.7% p.a. mortality improvement	85% PM(F)A92

17. Insurance liabilities (continued)

Insurance Claims - Gross

Accident year	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
Estimate of ultimate claims costs							
At the end of accident year	46,209	47,783	55,887	95,179	121,656	58,079	
One year later	42,405	46,202	56,052	98,281	130,304		
Two years later	42,861	45,616	54,535	100,951			
Three years later	42,977	45,085	56,507				
Four year later	43,049	45,812					
Five years later	43,272						
Cumulative claims payments							
At the end of accident year	(24,320)	(23,997)	(25,846)	(42,046)	(51,436)	(29,758)	
One year later	(40,645)	(42,950)	(49,102)	(74,312)	(85,169)		
Two years later	(42,431)	(44,682)	(51,859)	(82,921)			
Three years later	(42,913)	(44,855)	(53,422)				
Four years later	(43,024)	(45,684)					
Five years later	(43,266)						
Current estimate of cumulative claims	43,272	45,812	56,507	100,951	130,304	58,079	434,925
Cumulative payments to date	(43,266)	(45,684)	(53,422)	(82,921)	(85,169)	(29,758)	(340,221)
Claims liability outstanding	6	128	2,304	16,224	34,724	24,687	94,705
Claims liability for prior years	-	-	-	-	-	75	75
Total claims liability outstanding							**94,780**
Risk margins							11,546
Claims handling expenses							2,578
PPI provisions							4,740
Others							1,366
Gross Insurance liabilities- General business							**115,009**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

17. Insurance liabilities (continued)

Insurance Claims – Net of Reinsurance

Accident year	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
Estimate of ultimate claims costs							
At the end of accident year	46,209	47,783	55,887	93,926	119,512	52,423	
One year later	42,405	46,202	55,878	92,090	111,327		
Two years later	42,861	45,616	54,306	93,536			
Three years later	42,977	45,085	54,929				
Four years later	43,049	45,812					
Five years later	43,272						
Cumulative claims payments							
At the end of accident year	(24,320)	(23,997)	(25,846)	(42,046)	(51,436)	(29,758)	
One year later	(40,645)	(42,950)	(49,102)	(74,312)	(85,169)		
Two years later	(42,431)	(44,682)	(51,859)	(82,214)			
Three years later	(42,913)	(44,855)	(53,422)				
Four years later	(43,024)	(45,684)					
Five years later	(43,266)						
Current estimate of cumulative claims	43,272	45,812	54,929	93,536	111,327	52,423	401,299
Cumulative payments to date	(43,266)	(45,684)	(53,422)	(82,214)	(85,169)	(29,758)	(339,514)
Claims liability outstanding	6	128	1,480	11,235	24,967	22,273	61,785
Claims liability for prior years						75	75
Net liability after reinsurance							**61,860**
Risk margins							11,546
Claims handling expenses							2,578
PPI provisions							4,740
Others							(2)
Net insurance liabilities- General business							**80,721**

18. Deferred acquisition costs

	General business	Long- term business	Total
	£000	£000	£000
Gross amount			
At 1 January 2016	26,063	514	26,577
Movement in the provision	(14,760)	(401)	(15,161)
At 31 December 2016	11,303	113	11,416
Reinsurance amount			
At 1 January 2016	-	-	-
Movement in the provision	-	-	-
At 31 December 2016	-	-	-
Net amount			
At 1 January 2016	26,063	514	26,577
Movement in the provision	(14,760)	(401)	(15,161)
At 31 December 2016	11,303	113	11,416

19. Risk Management

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

- 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.

19.1 Counterparty risk

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 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.

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

19. Risk Management (continued)

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.

	2016				
	Neither past due nor impaired £'000	Past due 1- 90 days £'000	Past due more than 90 days £'000	Assets that have been impaired £'000	Carrying value in the balance sheet £'000
Financial investments	248,177	-	-	-	248,177
Insurance receivable and other receivables	26,800	128	-	-	26,928
Reinsurance assets	68,553	-	-	-	68,553
Cash & cash equivalents	20,178	-	-	-	20,178
	363,708	128	-	-	363,836

	2015				
	Neither past due nor impaired £'000	Past due 1- 90 days £'000	Past due more than 90 days £'000	Assets that have been impaired £'000	Carrying value in the balance sheet £'000
Financial investments	278,425	-	-	-	278,425
Insurance receivable and other receivables	41,909	70	-	-	41,979
Reinsurance assets	39,416	-	-	-	39,416
Cash & cash equivalents	35,716	-	-	-	35,716
	395,466	70	-	-	395,536

19. 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.

	2016				
Financial assets by credit rating	**Corporate bonds**	**Government bonds**	**Deposits with financial institutions**	**Cash & cash equivalents**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
AAA	2,824	3,478	-	11,343	17,645
AA	-	-	2,010	-	2,010
AA-	27,268	-	23,940	-	51,208
A+	33,333	-	14,050	397	47,782
A	20,666	-	77,737	7,116	105,519
A-	22,871	-	-	-	22,871
BBB+	17,923	-	-	707	18,630
BBB	2,077	-	-	-	2,077
BB	-	-	-	614	614
	126,962	3,478	117,737	20,178	268,355

	2016				
Financial assets by credit rating (%)	**Corporate bonds**	**Government bonds**	**Deposits with financial institutions**	**Cash & cash equivalents**	**Total**
AAA	2%	100%	-	56%	7%
AA	-	-	2%	-	1%
AA-	21%	-	20%	-	19%
A+	26%	-	12%	2%	18%
A	16%	-	66%	35%	39%
A-	18%	-	-	-	9%
BBB+	14%	-	-	4%	7%
BBB	2%	-	-	-	1%
BB	-	-	-	3%	-
	100%	100%	100%	100%	100%

19. Risk Management (continued)

	2015				
Financial assets by credit rating	Corporate bonds £'000	Government bonds £'000	Deposits with financial institutions £'000	Cash & cash equivalents £'000	Total £'000
AAA	1,835	650	-	19,137	21,622
AA	4,584	-	2,010	-	6,594
AA-	29,422	-	21,131	-	50,553
A+	44,825	-	16,554	6,305	67,684
A	35,238	-	85,005	9,396	129,639
A-	18,546	-	-	-	18,546
BBB+	16,488	-	-	632	17,120
BBB	2,136	-	-	-	2,136
BB	-	-	-	246	246
	153,075	650	124,700	35,716	314,140

	2015				
Financial assets by credit rating (%)	Corporate bonds	Government bonds	Deposits with financial institutions	Cash & cash equivalents	Total
AAA	1%	100%	-	54%	7%
AA	3%	-	2%	-	2%
AA-	19%	-	17%	-	16%
A+	29%	-	13%	18%	22%
A	24%	-	68%	25%	41%
A-	12%	-	-	-	6%
BBB+	11%	-	-	2%	5%
BBB	1%	-	-	-	1%
BB	-	-	-	1%	-
	100%	100%	100%	100%	100%

19. Risk Management (continued)

19.2 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.

	2016				
Time to maturity	**Total**	**1 Year**	**2-3 Years**	**4-5 Years**	**Over 5 Years**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Financial investments					
-Corporate bonds	126,962	53,811	56,101	17,050	-
-Government bonds	3,478	-	-	656	2,822
-Deposits with financial institutions	117,737	68,453	27,127	22,157	-
Cash & cash equivalents	20,178	20,178	-	-	-
	268,355	142,442	83,228	39,863	2,822

	2015				
Time to maturity	**Total**	**1 Year**	**2-3 Years**	**4-5 Years**	**Over 5 Years**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Financial investments					
-Corporate bonds	153,075	36,711	82,292	34,072	-
-Government bonds	650	-	-	-	650
-Deposits with financial institutions	124,700	52,054	42,947	29,699	-
Cash & cash equivalents	35,716	35,716	-	-	-
	314,140	124,481	125,240	63,770	650

19. Risk Management (continued)

At 31 December 2016	**Total carrying value £'000**	**1 Year £'000**	**2-3 Year £'000**	**4-5 Year £'000**	**Over 5 year £'000**
Gross insurance liabilities*					
-Outstanding claims provisions	55,091	23,433	17,900	8,642	5,116
-Long-term business provision	37,119	1,571	2,992	2,784	29,772
- Provision for claims incurred but not reported	60,073	19,155	15,602	15,733	9,583
	152,283	44,158	36,494	27,159	44,472
Provision arising from liability adequacy test	-	-	-	-	-
	152,283	44,158	36,494	27,159	44,472
Other payables, including insurance payables	46,408	22,332	24,076	-	-
Total	198,691	66,532	60,548	27,147	44,472

At 31 December 2015	**Total carrying value £'000**	**1 Year £'000**	**2-3 Year £'000**	**4-5 Year £'000**	**Over 5 year £'000**
Gross insurance liabilities*					
-Outstanding claims provisions	72,617	37,380	22,924	3,909	8,405
-Long-term business provision	31,080	2,618	4,529	4,465	19,468
- Provision for claims incurred but not reported	43,511	28,861	12,794	1,835	21
	147,208	68,860	40,247	10,208	27,893
Provision arising from liability adequacy test	678	379	202	26	70
	147,886	69,239	40,449	10,234	27,964
Other payables, including insurance payables	59,101	28,916	30,185	-	-
Total	206,987	98,155	70,634	10,234	27,964

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

19. Risk Management (continued)

19.3 Market risk

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

The Company is mainly exposed to the following risk factors:

- Foreign currency risk; and
- Interest rate risk.

Foreign currency risk:

The Company's foreign currency risk arises on its foreign currency deposits held in Euro currency. The total deposits amount to £0.8m (2015: £2.9m) of the total portfolio. These deposits are sensitive to any fluctuation in the exchange rates. Therefore 5% increase / (decrease) in Euro rate will decrease / (increase) profit by £0.07m (2015: £0.1m).

Interest risk:

The Company's interest rate risk arises mainly from its bonds portfolio and bank deposits with credit institutions. The average maturity duration of investment portfolio is between 1 and 7 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 2016 was £248.1m (2015: £278.4m). 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 £2.7m (2015: £2.1m) for a 100 basis points increase in interest rates. Conversely, a 100 basis points decrease in interest rates would decrease the profit for the year by £2.8m (2015: £0.9m).

20. Commitments

There were no outstanding capital commitments at 31 December 2016 (2015: £nil).

21. Capital management

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 new solvency 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 as at 1 January 2016 using the standard formula. Under the new regime, the un-audited capital position of the Company is:

Capital position - unaudited	2016 £'000	2015 £'000
Solvency Capital Requirement	53,808	79,052
Available eligible own funds	157,123	146,984
Capital surplus	**103,315**	**67,932**
Capital coverage ratio	292%	186%

Eligible own funds	2016 £'000	2015 £'000
Available capital before foreseeable dividends	158,039	146,984
Foreseeable dividends	(916)	-
Tier 1 capital	**157,123**	**146,984**

The difference between IFRS equity of £153,619k (2015: £153,767k) and Solvency II own funds of £157,123k (2015: £146,984k) represents de-recognition of deferred acquisition costs and insurance technical provisions.

The Company will formally submit its final audited Solvency II Solvency Financial Condition Report (SFCR) in May 2017 to the PRA, and expects to continue to update any relevant assumptions until then.

22. 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.

	2016	2015
	£'000	£'000
Amounts due from group undertakings		
Warranty Direct Limited	1,067	2,539
Cardif Pinnacle Insurance Management Services plc	-	-
BNP London branch	5,705	508
GIE BNP Paribas Assurance	85	55
Financial Telemarketing Services Ltd	42	-
Direct Life & Pension Services Ltd	-	52
	6,899	3,155
Amounts due to fellow group undertakings		
Cardif Pinnacle Insurance Management Services plc	2,371	4,355
Financial Telemarketing Services Ltd	-	48
Pinnacle Pet Healthcare Ltd	197	174
	2,568	4,577

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

- Commission paid to Warranty Direct Limited of £3.6m (2015: £4.3m) for Warranty related insurance policies during the year.
- Amounts paid to Cardif Services EEIG of £nil (2015: £56k) in relation to shared administrative services.
- A fellow undertaking, Cardif Pinnacle Insurance Management Services plc charged £17.8m (2015: £26.0m) in respect of administrative expenses incurred on behalf of the Company including staff cost of £11.8m (2015: £14.5m) and reorganisation cost of £nil (2015: £3.3m).

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

As at 31 December 2016 there were no loans outstanding to officers of the Company (2015: £nil).

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.