PINNACLE INSURANCE PLC

Company Registration Number: 01007798

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2022

PINNACLE INSURANCE PLC

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PINNACLE INSURANCE PLC

Company Information

Directors:	G Binet* (resigned 9th February 2022) N D Rochez * (resigned 6th June 2022) R A Hines * (Chairman) A M Wigg M J Lorimer S L P F Chevalet S M May H E Rennie (resigned 30th June 2022) C A Scarr * (appointed 16th May 2022) C A Iordache (appointed 30th June 2022) D C L Beeckman (appointed 30th June 2022) E de Talhouet * (appointed 30th June 2022) * Independent Non-Executive Director
Company Secretary:	M J Lorimer
Registered Office:	Pinnacle House A1 Barnet Way Borehamwood Hertfordshire WD6 2XX
Actuarial Function Holder: (Long-term fund)	C A Iordache
Independent Auditor:	PKF Littlejohn LLP 15 Westferry Circus London E14 4HD
Principal Bankers:	Barclays Bank PLC 54 Lombard Street London EC3P 3AH

PINNACLE INSURANCE PLC

STRATEGIC REPORT

Pinnacle Insurance plc ("the Company") is currently a composite insurance company, with a clear ambition to be the UK's leading pet healthcare and insurance services partner. All other lines of business are in run-off. The Company has c7% pet Insurance market share - pet being the only area of strategic focus. For all other lines of business the company is focussed on servicing existing customers.

In 2021, the Company's then owner, BNP Paribas Cardif, announced the intention to form a joint venture with JAB Holdings B.V., in which the Company would be placed. Until June 2022, the Company remained part of the global banking group BNP Paribas S.A. The joint venture was formed on 30 June 2022 and from this date, the Company has been a subsidiary of Pinnacle Pet Group Ltd ("PPG"), which in turn is a subsidiary of Pinnacle Pet Holdings Ltd ("PPH" or "the ultimate parent") and the Solvency II Group to which the Company now belongs. The ownership structure of PPH is split between JAB Holdings B.V. (owning 70%) and BNP Paribas Cardif (owning 30%).

Since 2021, all non-pet business has been fully reinsured to Darnell DAC (a wholly owned subsidiary of the BNP Paribas Group authorised by the Central Bank of Ireland), reflecting the decision of the Company to divest of the non-pet business and focus on pet insurance business.

On 4 April 2023, the Company's parent, Pinnacle Pet Group Limited, announced it will acquire Animal Friends Investments Ltd, which wholly owns Animal Friends Insurance Services Ltd ("Animal Friends"). The proposed transaction is subject to the approval of the FCA and CMA. If consent is provided, following the closing of the transaction, the Company will investigate the possibility of providing underwriting capacity for all or part of the business of Animal Friends. The timing and terms upon which any underwriting may be concluded between the Company and Animal Friends are not yet determined.

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

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

BUSINESS REVIEW

The Company reported a pre-tax loss of £9.1m (2021: loss of £6.9m). The 2022 loss was impacted by an increase in overheads of £6.6m, predominantly due to transitional costs incurred as a result of moving away from BNP Paribas Cardif together with legacy system write downs. In addition there was a reduction in investment return of £1.3m in the year combined with reduced investment returns due to adverse market movements of £3.6m off set interest earned on financial investments of £2.3m.

Key Performance Indicators (KPI's) are measures by which the performance or position of the Company can be assessed effectively. The Company's management monitor the progress of the Company's pet business by reference to the following KPIs:

	2022 £'000	**2021 restated £'000**
Gross Written Premiums	99,603	83,263
Net Earned Premiums	89,127	75,542
Technical Result	19,119	11,216
Investment return	(1,314)	56
Administration Expenses	(26,350)	(20,438)
(Loss) Before Tax	(8,545)	(9,166)
Technical Ratio	78%	85%
Claims Ratio	58%	67%
Commission Ratio	20%	18%

STRATEGIC REPORT (continued)

2021 KPIs are restated to show only the figures for pet reflecting the Company's strategic focus.

Gross Written Premiums (GWP): represents the total premiums written in a given year before deductions of reinsurance and ceding commission. The Company offers lifetime, per condition and time limited products. Policies are sold under the Company's own brand, Everypaw and Helpucover, direct to consumer and also through aggregators. The business also operates through partnerships with consumer brands and a number of smaller niche intermediaries.

Gross written premium for pet business increased to £99.6m (2021: £83.3m) mainly due to growth in business from partnership arrangements.

Net Earned Premiums (NEP): represents the portion of the policy's premium that applies to the expired portion of the policy.

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

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

The investment portfolio comprises bonds, cash and term deposits of high credit quality. The total portfolio was valued at £162.2m at 31 December 2022 (2021: £137.7m) of which 32% (2021: 37%) was held in bonds, 54% (2021: 52%) in term-deposits with credit institutions and 14% (2021: 11%) in cash and cash equivalents.

Total net investment return for the year is loss £1.3m (2021: gain £0.1m) which comprises interest earned on financial investments of £2.3m (2021: £2.2m), realised loss on bonds of £1.1m (2021: £1.1m) and unrealised loss of £2.5m (2021: £1.0m).

Administration Expenses: Administration expenses represent those operating expenses incurred by the Company, which are not classified as either acquisition or claims handling costs. Administration expenses increased by £6.1m to £26.4m (2021: £20.3m), £2.6m of the increase is due to transition costs incurred as a result of leaving the BNP group, £1.6m of the increase is due to asset write down of a legacy policy management system and £1.4m is due to recognition of marketing costs in overheads (2021: nil). Aside from this, expenses increased by £0.5m, materially due to amortisation.

Technical Ratio: Reflects the profitability of the general business before direct and indirect costs and is calculated as the sum of commission and net incurred claims expressed relative to NEP. The technical ratio decreased to 78% (2021: 85%).

Claims Ratio: Calculated as net claims incurred expressed as a percentage of NEP. The claims ratio in 2022 decreased to 58% (2021: 67%).

Commission Ratio: Commission incurred expressed as a percentage of NEP. The Commission ratio in 2022 increased to 20% (2021: 18%).

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

STRATEGIC REPORT (continued)

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

OTHER UNCERTAINTIES

Ukraine

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

Brexit

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

STRATEGIC REPORT (continued)

Climate change

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

In view of the existing business model, the climate related exposure is deemed non-material within all three risk categories of climate risk identified by the PRA in the Periodic Summary Meeting (PSM) letter dated 01 April 2022 sent by the Bank of England. This is outlined in the following:

1. **Physical Risk**: The impact on claims liabilities as a result of first order effects of climate change e.g. more natural disasters, is considered immaterial.
    a. Note: This is supported by quantitative analysis of historic pet claims data during UK flooding events (2014 and 2015).
    b. Business continuity is assessed as a low risk with no material impact from climate and weather related events (through disruption to the work environment or disruption to supply chains).

2. **Transition Risk**: Financial risks from climate change are only likely to arise as transition risks i.e. asset devaluation as a consequence of climate change factors. The company monitors exposure to climate change factors through the application of JAB policies relating to SRI (Social Responsible Investments) and ESG (Environmental, Social & Governance). This is reviewed by the Investment Committee (a sub-committee of the Board).

3. **Liability Risk**: As a result of first order physical impacts related to climate change, or the second order transition impacts, climate liability risks can arise from injured parties seeking compensation for those impacts. The Company does not have liability insurance exposed to this risk.

FUTURE DEVELOPMENTS

The core agenda defined by the Board and management is:

- Achieving strategic plan growth in a highly competitive market; management will focus on the driving growth through both direct and aggregator channels for partner and own brands.
- Integration of Pet Protect policies onto the company's Balance Sheet. Pet Protect is a fellow subsidiary, MGA, acquired by the PPG Group in Q4 2022. In 2023 the company will integrate Pet Protect business onto its balance sheet, through a phased approach; reinsurance and then as a direct underwriter.
- Revenue Margin: In addition to growth to lever fixed costs management will focus on developing scalability through process digitalisation and providing customers efficient self-service.
- Human capital: Attracting, developing and retaining people to deliver the strategy: management will continue to focus on enhancing the Company's attractiveness to new, and existing staff and ensure staff are supported and equipped to deliver the company's targets and operational changes following the change of control in 2022.

STRATEGIC REPORT (continued)

GOING CONCERN

During the year, the Company made a loss after tax of £7.4m (2021 loss: £6.2m). The Company also has considerable financial resources, which include cash and cash equivalents of £23.5m (2021: £14.7m) and an investment portfolio of £138.7m (2021: £123.0m) as at the year-end. In addition, the Company undertakes an ongoing assessment of its Solvency Capital Requirement, including consideration of the Company's sensitivity to risk, alongside quarterly monitoring of the annual budget and forecasts.

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

Management have performed solvency and liquidity stress tests for the 24 month period ending December 2024 which indicates that to remain within our solvency risk appetite mitigating action would need to be considered. Management have identified possible mitigating actions which could be considered including reducing costs, deferring product launches and seeking additional support from the Shareholder and reinsurance cover. Taking account of these potential mitigating actions, this analysis demonstrates that the Company could continue as a going concern for at least the next year given its financial and liquidity strength.

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

STRATEGIC REPORT (continued)

Section 172 statement

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

The table below sets out the stakeholders, why it is important to engage and the methods of engagement during 2022.

Stakeholder Group	Why it is important to engage	How the Directors engaged
Shareholder	The Company seeks to create value for its ultimate and intermediate Shareholders by generating sustainable results and by protecting brand value and reputation with partners, customers and regulators.	The Board continuously monitors progress and performance towards the creation of value and sustainable results. In 2022 the Board approved the completion of the transaction with JAB Holdings announced in 2021. Upon regulatory approval ownership of the Company was transferred to a new Holding Company, Pinnacle Pet Holdings Limited. With the importance attached by the Shareholder to reputation, the Directors systematically consider this risk in their decision-making and in choosing the actions they closely monitor. They regularly liaise with the Shareholder's representatives in the Board and in jointly held committees on Governance, Risk and Compliance such as the Risk and Audit Committee (RAC). Executive Directors hold regular meetings with the Shareholder on financial, strategic, customer-related and regulatory topics to understand and take into consideration its perspectives.
Customers	Acting in the best interest of customers is core to the success of the business and the wider Pinnacle Pet Group. The business is focused to deliver products and services that perform as customers expect and are of an acceptable standard. The Company also ensures customers have the ability to change products, submit claims and make complaints without hindrance. Regular engagement is essential to ensure these expectations are met and any failings are identified and remedied quickly and efficiently. Regular engagement is essential to ensure these expectations are met and any failings are identified and remedied quickly and efficiently.	Various committees, particularly the Conduct & Customer Committee (C&CC), which reports to the RAC, the main sub-committee of the Board, monitor on a regular basis the fair treatment of customers. Executive Directors also routinely report to the Board on customer related matters and on levels of customer service. The monitoring of resource levels in customer facing areas, and of key performance indicators, such as Net Promoter Scores, complaints and root cause analysis continued to guide decisions. Executive Directors held regular discussions with partners, agreeing short-term changes to the operating model. The outcomes were monitored and changes in direction and approach were discussed with and agreed by the RAC and the Board. The ethos of the businesses in the group is founded on strategic long-term partnerships, which share a commitment to customer service. The Board monitored the transition away from BNP Paribas and into the JAB group to ensure customers were not adversely impacted.

STRATEGIC REPORT (continued)
Section 172 continued

Stakeholder Group	Why it is important to engage	How the Directors engaged
Regulators The Company is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the provision of regulated products and services	The fair treatment of customers is central to the UK group ethos as is compliance with laws and regulations, Policy Statements and guidance published by the Regulator, to ensure good customer outcomes and the maintenance of the Company's reputation. The Board has no risk appetite for regulatory breaches or sanctions.	The Board receives regular updates on regulatory developments from the Legal and Compliance functions, anticipates changes, reacts and plans accordingly. The Board regularly reviews the compliance reports to assess the Company's level of compliance.
Partners The Company also provides insurance via a number of intermediaries and partnerships	Partner engagement is important for the development of commercial relationships and value creation and to ensure good levels of customer service for policyholders.	The Board receives regular updates on partner relationships and its impact on customers. All partners were contacted to confirm the finalisation of the transaction with JAB.
Our communities and the environment	The Company has a responsibility to help address the challenges facing society. Following the change of ownership we are creating a new strategic plan for ESG and CSR goals, taking into account the requirements of both shareholders of the Pinnacle Pet Group, JAB and BNP Paribas.	The Directors support Management in the establishment of a CSR Action Group with representatives from a broad cross section of the Company for the support, development and implementation of key CSR initiatives.

Key decisions in 2022

In 2021 the Shareholder announced a strategic alliance with JAB Holdings (JAB) to deliver a range of pet insurance services throughout the UK, EMEA and Latin America. JAB holds a majority stake in the new holding company, Pinnacle Pet Holdings Limited into which BNP Paribas Cardif contributed Pinnacle Insurance PLC , Pinnacle Insurance Management Services PLC and Everypaw Limited. Following regulatory approval the Board approved the completion of the transaction.

Following a tender process the Company has appointed PKF Littlejohn as external auditors for the 2022 year end and Ernst & Young for the 2023 year end.

Following the publication of the FCA's final rules on Consumer Duty the Board has approved an action plan based on the outcomes of a Gap Analysis, further the Board agreed that an Executive Director, Sophie May be appointed as Consumer Duty Champion.

The Board approved the Operational Resilience Self Assessment for 2022, as part of that the Board also approved the resilience plan for 2022 to 2025.

The Board has resolved to divest of all non- pet business and management is engaged with a third party in connection with a proposed disposal. The intention is for the creditor business to be transferred by tacit consent on renewal and the remainder by way of a Part VII application.

STRATEGIC REPORT (continued)

Streamlined Energy and Carbon Reporting (SECR) disclosure

The section below includes our fourth year of reporting under the Streamlined Energy & Carbon Reporting (SECR) requirements. The reporting period is 1st October 2021 to 30th September 2022.

Organisation Boundary and Scope of Emissions

We have reported on all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2018. These sources fall within the Company's financial statements.
An operational control approach has been used to define our organisational boundary. This is the basis for determining the Scope 1, 2 and 3 emissions for which the Company is responsible.

Methodology

For the Company's reporting, the Company has employed the services of a specialist adviser, Verco, to quantify and calculate the Greenhouse Gas (GHG) emissions associated with the Company's operations.
The following methodology was applied by Verco in the preparation and presentation of this data:

- The Greenhouse Gas Protocol published by the World Business Council for Sustainable Development and the World Resources Institute (the "WBCSD/WRI GHG Protocol");
- Application of appropriate emission factors to the Company's activities to calculate GHG emissions;
- Scope 2 reporting methods – application of location-based and market-based emission factors for electricity supplies;
- Inclusion of all the applicable Kyoto gases, expressed in carbon dioxide equivalents, or CO_2 e;
- Presentation of gross emissions as the Company does not purchase carbon credits (or equivalents).

Absolute Emissions

The total Scope 1, 2 and 3 GHG emissions from the Company's operations in the year ending 30th September 2022 were:

- 335.6 tonnes of CO_2 equivalent (tCO_2e) when using a 'location-based' emission factor methodology for Scope 2 emissions;
- 148.9 tonnes of CO_2 equivalent (tCO_2e) when using a 'market-based' emission factor methodology for Scope 2 emissions.

Scope 1 emissions included onsite energy combustion (natural gas) and company-owned vehicles. Refrigerant gas losses were not included due to a lack of available data.

Scope 2 emissions included purchased electricity using the location-based and market-based method. Reported electricity consumption at the Reading site pertains to the period from March 2022 to September 2022. No further electricity consumption data was available for this site.

Scope 3 emissions included fuel for personal cars for business use, other business travel, waste, and water. The Company were unable to obtain water and waste data for the Reading site and this has therefore been excluded from the Scope 3 reporting for FY2022.

STRATEGIC REPORT (continued)

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

Intensity Ratios

As well as reporting the absolute emissions, the Company's GHG emissions are reported below as the metrics of tonnes of CO_2 equivalent per FTE employee and per m^2 of floor area. These were selected as the most appropriate metrics for the Company.

The intensity metrics are as follows:

- 1.11 tCO_2e per FTE employee for the location-based method and 0.49 tCO_2e per FTE employee for the market-based method.
- 0.10 tCO_2e per m^2 for the location-based method and 0.04 tCO_2e per m^2 for the market-based method.

When considering only Scope 1 and 2 location-based emissions, the intensity metrics are as follows:

- 1.09 tCO_2e per FTE employee and 0.10 tCO_2e per m^2.

Target and Baselines

The Company recognises that it has a responsibility to minimise the impact its employees and activities have on the environment.

The Company's objective is to maintain or reduce its GHG emissions each year and will report annually whether it has been successful in these targets.

The Company's absolute emissions have seen a decrease of 32.0% using the location-based method for Scope 2 emissions, and a decrease of 37.4% using the market-based method for Scope 2 emissions.

Verification

Verco have completed a verification of the electricity, gas and fuels consumption and business travel by the Company during the reporting period. The findings of this verification process are given below.

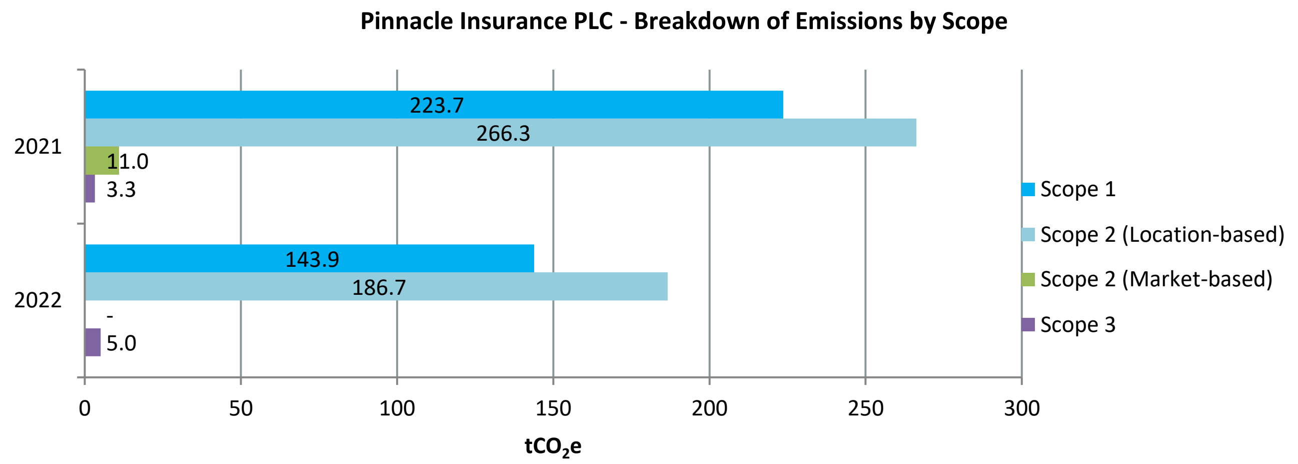
- Major Finding - MPAN 1014573000105, Pinnacle Insurance PLC Borehamwood Electricity was reported as having a consumption of 1,021,468 kWh, from our review of the evidence Verco believes this should be 963,601 kWh, this is an over reporting of 5.67%, we recommend this is corrected.
- Major Finding - Eurostar international train travel was reported as being 5,110 km for October 2021 to September 2022. From our review of the evidence Verco believes this should be 4,581km, this is an over reporting of 10.4%, we recommend this is corrected.
- Minor Finding - MPRN 7102110, Pinnacle Insurance PLC Borehamwood Gas was reported as having a consumption of 760,670 kWh, from our review of the evidence Verco believes this should be 760,698 kWh, this is an under reporting of 0.00374%.
- Fuel Use - The totals calculated from the Allstar Report provided by the Company agree to the gross figures provided by Andy Beggs in his email of 22nd December 2022, without any over or under reporting.
- Air travel - Verco have been unable to verify air travel as Pinnacle Insurance PLC could not supply evidence to support the headline figures. Air travel bookings were managed by a third-party travel provider in FY2022.

All major findings were resolved before completion of this report.

STRATEGIC REPORT (continued)

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

Key Figures



Annual Report Statement

GHG emissions	2022			2021		
	Tonnes CO_2e	tCO_2e / m^2 [5]	tCO_2e / FTE [6]	Tonnes CO_2e	tCO_2e / m^2 [5]	tCO_2e / FTE [6]
Scope 1[1]	143.89	0.04	0.48	223.67	0.05	0.79
Scope 2[2]	186.66	0.05	0.62	266.28	0.06	0.94
Scope 2[3]	0.00	0.00	0.00	11.00	0.00	0.04
Scope 3[4]	5.05	0.00	0.02	3.28	0.00	0.01
Total GHG emissions (location-based)	**335.60**	**0.10**	**1.11**	**493.23**	**0.12**	**1.75**
Total GHG emissions (market-based)	**148.94**	**0.04**	**0.49**	**237.95**	**0.06**	**0.84**

Emissions Intensity		**2022**	**2021**
Occupied premises emissions intensity (tCO2e per FTE)	Scope 1 & 2 location-based emissions from occupied premises per full-time equivalent employee	1.09	1.74
Occupied premises emissions intensity (tCO2e per m2)	Scope 1 & 2 location-based emissions from occupied premises per m2 of floor area	0.10	0.12
Total emissions intensity (tCO2e per FTE)	Scope 1, 2 & 3 location-based emissions from occupied premises per full-time equivalent employee	1.11	1.75

1 Scope 1 being emissions from the Company's combustion of fuel and operation of facilities.
2 Scope 2 being electricity (from location-based calculations) purchased for the Company's own use.
3 Scope 2 being electricity (from market-based calculations) purchased for the Company's own use.
4 Scope 3 being other business travel, water consumption and waste disposal (water and waste emissions pertain to the Borehamwood site only).
5 Occupied floor space: 3,431 m2 (2022) and 4,196 m2 (2021).
6 Full time equivalent: 302 (2022) and 282 (2021).

STRATEGIC REPORT (continued)

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

Total Energy Use

Year	Energy Use		Company-Owned Vehicles		Total Energy Use (kWh)
	Electricity (kWh)	Gas (kWh)	Diesel (kWh)[1]	Petrol (kWh)	
2022	965,258	760,670	20,872	-	**1,746,800**
2021	1,161,784	1,104,527	8,059	-	**2,274,370**

[1] In FY2021 8,059 kWh was quoted for "Fuel used for company-leased and employee-owned vehicles". In FY2022 20,872 kWh refers to fuel used in company-owned vehicles, including the company minibus.

Energy Efficiency Actions

During the financial year 2022 the Company has:

- Adjusted the Air Handling Units (AHUs) set point in the communications room to reduce the level of power consumption and to deliver a slightly higher temperature.

- Optimised the use of their building management system to reduce the heating, ventilation, and air conditioning (HVAC) operational hours within their office. This involved running the system from later in the morning and turning it off earlier in the evening, reducing the levels of consumption.

- Reduced wastage due to revised business operational strategy with greater hybrid/home working resulting in employees working in alternative locations than company-owned premises.

- Continued transitioning its customers to a digital platform, reducing the volume of paper used for fulfilment.

- Closed a floor in its building from July 2022 to reduce energy consumption.

APPROVAL

This report was approved by the Board of Directors on 5th April 2023 and signed on its behalf by:

Director
A M Wigg

PINNACLE INSURANCE PLC

DIRECTORS' REPORT

The Directors present this report together with the Strategic Report, Financial Statements and Auditor's Report, for the year ended 31 December 2022.

BUSINESS REVIEW AND ACTIVITIES

Principal 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 14. 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 28. The loss after taxation for the year was loss £7.4m (2021: loss £6.2m).

The Company paid dividends of £nil (2021: £nil) on ordinary shares during the year to its UK parent. There were no dividends proposed after the year end.

CAPITAL STRUCTURE

Details of the Company's authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 17. The Company has one class of ordinary shares which carry full voting, dividends and capital distribution (including on winding up) rights. They do not confer any rights of redemption.

DIRECTORS

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

G Binet * (resigned 9th February 2022)
R A Hines * (Chairman)
N D Rochez * (resigned 6th June 2022)
A M Wigg
M J Lorimer
S L P F Chevalet
S M May
H E Rennie (resigned 30th June 2022)
C A Scarr * (appointed 16th May 2022)
C A Iordache (appointed 30th June 2022)
D C L Beeckman (appointed 30th June 2022)
E de Talhouet * (appointed 30th June 2022)

* Independent Non-Executive Director

POLITICAL CONTRIBUTIONS

No political contributions were made during the year (2021: £nil).

DIRECTORS' REPORT (continued)

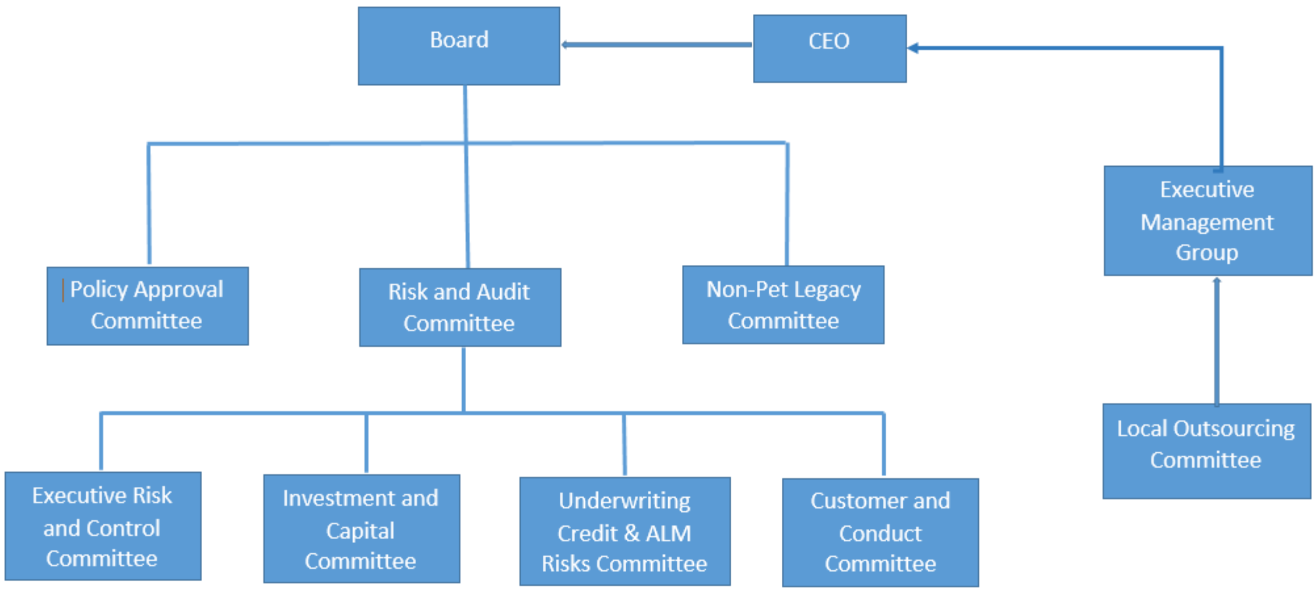
STREAMLINED ENERGY AND CARBON REPORTING
Streamlined Energy and Carbon reporting can be found in the Strategic Report on pages 12 and 15.

ACTUARIAL VALUATION
An actuarial valuation was carried out as at 31 December 2022 in respect of the long-term fund. A report has been prepared by the Actuarial function holder (Long-term fund) advising the Board on this valuation.

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

The Board
The Company's Board comprises Directors and Non-Executive Directors who are responsible to the Shareholder and other stakeholders for ensuring that the Company is appropriately managed and achieves its objectives. The Board met eight times in 2022 to determine the Company's strategic direction, review operating and financial performance, and to ensure that the Company is adequately resourced and effectively controlled.

The Company's governance regime is summarised as follows:



DIRECTORS' REPORT (continued)

Directors' attendance

The Company requires Directors to attend all meetings of the Board and the Committees on which they serve and to devote sufficient time to the Company in order to perform their duties. The attendance of the Directors at the Board and Committee meetings, of which they are a member, held in 2022 was as follows:

	Board	Risk and Audit Committee	Investment Committee	Policy Approval Committee	Conduct and Customer Committee	Underwriting, Credit and ALM Risks Committee	Executive Risk and Controls Committee	Non-Pet Legacy Committee
Number of meetings held	**8**	**5**	**4**	**4**	**4**	**4**	**4**	**1**
G Binet ***	1	*	*	*	*	*	*	*
R A Hines	8	3	*	*	*	*	*	*
S L P F Chevalet	8	2	*	*	*	*	*	1
M J Lorimer	8	5	*	4	4	*	3	1
N D Rochez**	2	1	*	*	*	*	*	*
A M Wigg	8	5	4	2	3	3	1	*
H E Rennie****	3	*	*	2	*	*	2	*
S M May	7	5	4	4	4	4	4	*
C A Scarr	6	3	*	*	*	*	*	*
D C L Beeckman	4	*	*	*	*	*	*	1
E De Talhouet	3	2	*	*	*	*	*	*
C A Iordache ****	7	5	*	1	*	4	*	*

* indicates not a member of that Committee
** resigned from the Board 6 June 2022
*** resigned from the Board 9 February 2022
**** resigned from the Board 30 June 2022
**** prior to her appointment to the Board in June 2022 C A Iordache attended the Board as Actuarial Function Holder

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

Risk and Audit Committee membership changed following the change of control in June 2022. The Executive Risk and Controls Committee replaced the Internal Controls Committee during 2022. Meeting attendance in the table above is for both committees.

Risk and Audit Committee (RAC)

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

- assist the Board in meeting its oversight responsibilities in ensuring an effective system of internal control, reporting process, audit process, compliance and accurate external financial reporting.
- provide a channel of communication to the Board for the internal and external auditors
- receive reports and review the output from the Group's Risk Management Function internal control framework and risk management, systems and procedures including the four key functions under Solvency II and systems and controls relating to financial reporting.
- have oversight of the work of the Executive Risk and Controls Committee (ERCC), Conduct and Customer Committee (CCC) and Underwriting, Credit & ALM Risks Committee (UCAR) and to receive minutes and verbal updates in respect of the above mentioned Committees.

DIRECTORS' REPORT (continued)

Risk and Audit Committee (RAC) (continued)

- receive reports from the Compliance Function including the follow-up of any outstanding recommendations, the impact of new and possibly evolving regulations and review any reports on compliance issues including all material reports to Regulators.
- review and approve the annual plan of the Risk Management Function and the annual Compliance Monitoring Plan, oversee its realisation and results and report to the Board on the sufficiency and quality of resource within the Risk Management and Compliance Departments.
- review and approve such of the Group's Policies as shall be delegated to the Committee by the Board to ensure that operations, policies and procedures comply with relevant law and regulations, industry codes and requirements of the BNP Paribas Group and JAB Group as appropriate.
- advise the Board on risk related matters including policy, strategy and implementation for each area of risk namely: Operational; Strategic, Conduct, Market Integrity, Financial, Investment, Liquidity, Credit and Insurance.
- review the firm's most significant risks on the Risk Register, monitor management's response to any major risk issues, and escalate to the Board as considered appropriate.
- review annually on behalf of the Board the proposed risk appetites and tolerances.
- Satisfy itself that there is sufficient quality and quantity of resource within Risk Management

Policy Approval Committee

This Committee is chaired by an Executive Director and reports into the Board.
The members of the committee are Executive Directors of Pinnacle Insurance plc and Head of Risk Management.The attendees are the policy owners as required.

The Committee meets quarterly and the sole purpose is to oversee the timely review and approval of all policies and other documents assigned to the Board.

The main responsibilities are to:

- to ensure all policies are reviewed and approved annually, have sufficient discussion and debate and delegates to management
- to ensure all approved policies are communicated to and adopted by the relevant business areas

Non-Pet Legacy Committee

This Committee is chaired by an Executive Director of BNP Paribas Cardif and reports into the Board.

The members are:

Executive Director of BNP Paribas Cardif,
BNP Paribas Cardif Director of Strategy & development
Representative of Pinnacle Pet Group Limited

This Committee was established in July 2022 by the Board following the joint business venture of JAB Holding Company and BNP Paribas Cardif.

The Committee's purpose is oversee and control the performance and operational management of all business and policies related to non-pet business until the date on which the Legacy business portfolio transfer has been completed.

This Committee meets quarterly.

DIRECTORS' REPORT (continued)

***Non-Pet Legacy Committee*(continued)**

Its main responsibilities are to:

- monitor and make decisions in respect of the Legacy Business Reinsurance Agreement
- monitor and make decisions Legacy Business Portfolio Transfer
- make decisions in respect of engagement and costs of third party service provider or professional advisor for the purposes of the Legacy Business Reinsurance Agreement and/or Legacy Business Portfolio transfer
- monitor and manage the financial performance and prospects of Legacy Business including expenditure against the Legacy Business budget and costs relating to individual projects;
- monitor the cost allocation, expenditure and time recording relating to the legacy business for the purposes of Profit and Loss Adjustment Mechanism
- monitor the operation and implementation of the foregoing to seek to ensure compliance with Group companies' regulatory obligations (including the requirement to treat policyholders fairly); and
- make decisions in respect of any disputes relating to Legacy Business

Investment and Capital Committee

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

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

Conduct and Customer Committee (CCC)

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

- promote and encourage a corporate culture that ensures the recognition of Conduct Risk and the fair treatment of customers;
- continue to encourage the development, analysis and use of further Conduct Risk Indicators (CRI) or other management information and to ensure the CRI measures are constantly challenged;
- ensure that staff appropriately record Conduct Risk issues including the findings and resulting outcome using an agreed process or system such as (but not limited to) Incident Reporting Treating Customers Fairly (TCF) and Root Cause Analysis ("RCA") database;
- demonstrate a positive attitude and company-wide commitment to fair treatment of customers;
- review issues brought to the CCC and make recommendations that are in the best interests of the customer and ensure those recommendations are acted upon as required; and
- monitor and maintain an understanding of developments in the market, regulatory and legal environments that may impact on the Conduct Risk framework, and to research and highlight industry best practice.

Executive Risk and Control Committee (ERCC)

The ERCC is chaired by the Chief Operating Officer and reports to the RAC. It provides a forum for the coordination and decision-making related to the internal control system. The committee's scope is non-financial risks and controls (specifically excluding underwriting, investment, capital and conduct risks that are addressed in other committees) and is focused on the provision of a comprehensive overview of the most critical risks, internal controls, monitoring of action plans and the implementation of recommendations. Its main responsibilities are to:

- oversee the risk management culture in the Company;
- identify, assess and report on key non-financial risks faced by the Company including those relating to outsourced activities (in accordance with the Group Guidance "Control of Risks Associated with Outsourced Processes");
- review the effectiveness of the internal control and compliance arrangements;
- review the Risk Appetite Limits (non-quantitative) on a regular basis
- review the Risk Register on a regular basis;
- establish effective systems of internal control and reporting for key risks, appropriate to the size, nature and complexity of the Company;establish effective systems of compliance appropriate to the size, nature and complexity of the Company;
- monitor the performance of all suppliers of outsourced activities (operational performance, quality indicators and technical monitoring including KPIs & SLAs);
- monitor the performance of security and business continuity by review of security incidents, test and exercises, critical IT risks and recommendations in progress.
- receive updates from the Data Steering Committee (DSC) on data deficiencies, to approve and monitor remediation plans, to review the data policy, communication programme and training.
- monitor the performance of all change activity by review of the IT Critical Path analysis, change incidents and key change risks and issues.

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

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

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

Local Outsourcing Committee (LOCC)

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

The Committee's main responsibilities are to:

- review the risk position of the outsourcing;
- ensure that any proposed outsourcing delivers benefits that outweigh risks;
- review potentially severe incidents on outsourced running activities;

DIRECTORS' REPORT (continued)

Local Outsourcing Committee (LOCC) (continued)

- review all inputs relating to the supervision of outsourced activity;
- oversee the invocation of exit plans;
- ensure relevant controls are in place.

INTERNAL AUDIT FUNCTION

The Company has outsourced its Internal Audit function to Grant Thornton UK LLP, 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.

Findings may contain recommendations, which will include agreed actions for closure that are deemed to have been completed only once Internal Audit is satisfied with them

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.

Ernst & Young LLP have been appointed as auditors for the 2023 year end.

Approved by the Board and signed on its behalf by:

Director
M J Lorimer
5th April 2023

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

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

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

PINNACLE INSURANCE PLC

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Pinnacle Insurance Plc (the 'company') for the year ended 31 December 2022 which comprise the Income Statement, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and notes to the Financial Statements (excluding note 23), including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- obtaining and reviewing management's going concern assessment, which is based on a detailed budget drawn up to 31 December 2024, including providing challenge to management over the appropriateness of assumptions used in the preparation of such documents;
- evaluating the liquidity and solvency position of the company by reviewing base case liquidity and solvency projections, and also assessing potential source of funding should minimum liquidity or solvency levels be breached;
- reviewing the Own Risk and Solvency Assessment ("ORSA") submitted to the Prudential Regulation Authority ("PRA");
- reviewing any correspondence with the Prudential Regulation Authority ("PRA") and assessment of whether the solvency position and any other significant PRA requirements are being complied with; and
- assessing the appropriateness of the going concern disclosures by comparing the disclosures with management's going concern assessment and for compliance with the relevant reporting requirements.

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

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

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

Report on the audit of the financial statements

Our application of materiality

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

Materiality	**£3,943,000**
Basis for determining materiality	The benchmark percentage was set at 2.5% of net assets, taking into account the nature of the entity's operations and regulatory requirements relating to capital adequacy thresholds.
Rationale for the benchmark applied	We deemed net assets to be the most appropriate benchmark as Pinnacle Insurance Plc has built up a composite insurance book via trading for many years and the business is now established. Furthermore, we deem the users of financial statements at this stage in the entity's lifecycle to be most interested in the entity's ability to settle claims arising in the future and remain solvent. Loss before tax would not be an appropriate benchmark as profitability has declined and is inconsistent year-on-year. The entity made a loss in the prior year and is currently in a loss-making position. Management have also made a decision to cease non-pet insurance products and focus only on pet insurance, which will lead to further volatility in gross written premium. Using revenue or profit before tax as a benchmark was therefore deemed inappropriate.

Performance materiality

Based on our risk assessment of the company, together with our assessment of the company's overall control environment, our judgement was that performance materiality be set at 70% of our overall materiality, which is £2,760,100. As this was our first year as auditor of the company, we used our judgement to use a slightly lower percentage for performance materiality than we might otherwise have set for a company of this complexity and the nature of its business.

Clearly trivial threshold

We agreed with the Risk and Audit Committee that we would report to them any corrected or uncorrected identified misstatements exceeding £197,150, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our approach to the audit

The assessment of audit risk, evaluation of materiality and allocation of performance materiality determine the audit scope. This enables us to form an opinion on the financial statements. We take into account the account size, risk profile and the organisation of the company and the effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. Following our work to ensure we had a sufficient understanding of the company's operations, including its systems and controls and the risks within the business, we designed our audit approach. This approach was designed so as to place appropriate focus on the most material areas and particularly those which are subject to the greatest amount of estimation uncertainty and involve the use of expert judgement. The most significant area, identified as a result of the high level of complexity and estimation uncertainty, is detailed within the Key audit matters section of this report. We ensured that our team consisted of individuals with appropriate skills and experience, including the use of experts, to be able to challenge the data, assumptions, models and results in these areas.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Report on the audit of the financial statements(continued)

Key audit matter	How our scope addressed this matter
Insurance liabilities – valuation of provision for claims outstanding (Non-Life)	
The insurance liabilities include individual estimates of claims reported but not settled at year-end ("RBNS") and claims incurred but not reported ("IBNR"). **The valuation of the provision for claims outstanding is a key area of estimation within the financial statements. There is a risk that inappropriate assumptions and judgements were made when determining the provision.** **We consider the valuation of the IBNR liability relating to the Household, Motor and Pet lines of business to be a matter of most significance to the current year audit due to the following:** • **Substantial uncertainty regarding the ultimate outcome of claims that have occurred but had not yet been reported by the reporting date;** • **The significance of estimation uncertainty as a result of actuarial assumptions (valuation rate of interest, future inflation and reinsurance credit risk);** • **the assumption that the claims will follow a historical development pattern; and** • **The magnitude of the IBNR liability and sensitivity to the key assumptions.** **We have therefore determined the valuation of the provision for claims outstanding for non-life business to be a key audit matter.** ***For further details, please refer to Note 1 – Accounting policies, Note 2 – Critical accounting judgements and key sources of estimation uncertainty and Note 18 – Insurance liabilities.***	Our work in this area included: • We assessed the relevant controls over the calculation of the provision, including management's review of any key assumptions used in the calculation and any manual adjustments made by management to the calculation, to ensure the controls are appropriately designed and implemented; • We tested, on a sample basis, the data used in calculating the technical provisions by comparing the data to the claims information on the underlying system such as accident date, gross claim amount paid and claim number; • We tested, on a sample basis, the claims information recorded on the system (such as loss event, claim estimate, and item being claimed) by tracing the claims to the relevant documentation which detailed the loss event. We compared the claim values used by management to underlying support stored on the policy administration system (e.g. claim forms, invoices and communication between policyholder and claims handler). We assessed the validity of the claims by testing if the claims related to valid policies (e.g. if the item being claimed was included in the original policy); • We assessed the reasonability of management's estimate of technical provisions by: – Analysing the run-off of the 31 December 2021 reserve to the actual development in 2022; and – Assessing whether, post year-end, the 31 December 2022 provision is running off as would be expected, comparing to the typical run-off curve observed in previous periods; • We made use of our actuarial experts to test the model used by management to calculate the IBNR by performing the following procedures: – We assessed the suitability of the methodology and assumptions applied by management for the Household, Motor and Pet books of business; – We performed an independent reprojection of the reserve position as at 31 December 2022 for the Household, Motor and Pet books of business, which included a deterministic best estimate projection and stochastic reserve analysis (where the data was statistically credible enough for this approach to be used) to identify where the reserves fall within our projected distribution of results; and • We assessed the disclosure in the financial statements against the requirements of IFRS. Based on the procedures performed above, we are satisfied that the valuation of provision for outstanding claims is not materially misstated.

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

Report on the audit of the financial statements(continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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 material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- We obtained an understanding of the company and the sector in which it operates to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, review of board minutes and performing walkthroughs of the company controls.
- We determined the principal laws and regulations relevant to the company in this regard to be those arising from the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") and the Companies Act 2006

Report on the audit of the financial statements(continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the company with those laws and regulations. These procedures included, but were not limited to:
  - Enquiries of management;
  - Review of minutes and legal and regulatory correspondence; and
  - Reviewing financial statement disclosures for consistency with regulatory requirements.
- We also identified the risks of material misstatement of the financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, that appropriate assumptions and judgements were made when determining the insurance liabilities for the non-life book of business.
- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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

Other matters which we are required to address

We were appointed by the Risk and Audit Committee on 14 September 2022 to audit the financial statements for the period ending 31 December 2022 and subsequent financial periods. Our total uninterrupted period of engagement is one year, covering the period ended 31 December 2022.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the Risk and Audit Committee.

Use of our report

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

M R Watson

Martin Watson (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

15 Westferry Circus
Canary Wharf
London E14 4HD

5 April 2023

PINNACLE INSURANCE PLC
Income Statement
For the year ended 31 December 2022

	Notes	2022 £'000	2021 restated £'000
<u>Continuing operations</u>			
Income			
Gross written premiums	3	99,603	83,263
Less: reinsurance premiums		(1,155)	(801)
Net written premiums		98,448	82,462
Change in the gross provision for unearned premiums		(9,484)	(7,035)
Less: change in provision for unearned premiums, reinsurers' share		163	116
Net change in provision for unearned premiums	18	(9,321)	(6,919)
Net earned premiums	3	89,127	75,543
Net investment return	4	(1,314)	56
Total income		87,813	75,599
Expenses			
Gross claims incurred	5	(54,073)	(50,963)
Less: claims recoveries from reinsurers	5	2,205	440
Net claims incurred		(51,868)	(50,523)
Net operating expenses	6	(44,490)	(34,242)
Total expenses		(96,358)	(84,765)
(Loss) before tax from continuing operations		(8,545)	(9,166)
Tax credit	10	1,628	1,081
(Loss) for the year from continuing operations		(6,917)	(8,085)
<u>Discontinued operations</u>			
Profit / (Loss) for the year from discontinued operations		(458)	1,846
Total loss for the year attributable to the owner		**(7,375)**	(6,239)

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, the loss of £7.4m (2021: loss £6.2m) represents total comprehensive loss for the year attributable to the owner of the Company.2021 restated to show Non pet business as a discontinued operation

The notes on pages 32 to 75 form an integral part of these financial statements.

PINNACLE INSURANCE PLC

Statement of Financial Position
As at 31 December 2022

	Notes	2022 £'000	2021 £'000
Assets			
Deferred tax	10	1,469	-
Deferred acquisition costs	19	6,385	5,446
Assets held for sale	15	58,214	-
Insurance and other receivables	14	53,957	62,984
Reinsurance assets	18	3,113	71,733
Financial investments	11	138,683	123,041
Cash and cash equivalents	13	23,517	14,697
Total assets		**285,338**	**277,901**
Equity			
Share capital		151,557	126,557
Share premium account		23,323	23,323
Retained earnings		(15,754)	(8,379)
Total equity	17	**159,126**	**141,501**
Liabilities			
Insurance liabilities	18	59,998	121,259
Liabilities held for sale	15	57,460	-
Other payables, including insurance payables	16	8,754	14,833
Provisions	20	-	308
Total liabilities		**126,212**	**136,400**
Total equity and liabilities		**285,338**	**277,901**

The financial statements were approved and authorised for issue on 5th April 2023 by the Board of Directors and are signed on its behalf by:

Director
A M Wigg

2021 restated to show Non pet business as a discontinued operation

The notes on pages 32 to 75 form an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2022

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 January 2021	**126,557**	**23,323**	**(2,140)**	**147,740**
(Loss) for the year	-	-	(6,239)	(6,239)
Dividends paid	-	-	-	-
At 31 December 2021	**126,557**	**23,323**	**(8,379)**	**141,501**
Ordinary share capital	25,000	-	-	25,000
(Loss) for the year	-	-	(7,375)	(7,375)
Dividends paid	-	-	-	-
At 31 December 2022	**151,557**	**23,323**	**(15,754)**	**159,126**

The notes on pages 32 to 75 form an integral part of these financial statements.

PINNACLE INSURANCE PLC

Statement of Cash Flows
For the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
(Loss)/profit for the year before tax		(9,111)	(6,886)
Adjustments for non-cash items			
Net unrealised loss/(gain) on financial assets at FVTPL	4	2,486	982
Change in provision for unearned premiums	18	9,322	(637)
Change in outstanding claims	18	(1,963)	(25,455)
Change in deferred acquisition costs	19	(939)	5,463
Change in other assets		(1,919)	(13,229)
Change in other creditors		3,046	(730)
Tax credit		1,736	750
Cash used in operating activities		**2,658**	**(39,742)**
Investing activities			
Proceeds from debt securities maturities		16,134	26,531
Purchase of debt securities		(19,773)	(27,120)
Proceeds from deposits maturities		34,301	38,500
Deposits with credit institutions		(49,500)	(18,017)
Net cash from investing activities		**(18,838)**	**19,894**
Financing activities			
Capital increased with cash received		25,000	-
Net cashflows from financing activities		**25,000**	**-**
Net increase in cash and cash equivalents		**8,820**	**(19,848)**
Cash and cash equivalents at 1 January	13	14,697	34,545
Cash and cash equivalents at 31 December	**13**	**23,517**	**14,697**

Cash outflow for Non Pet business as a discontinued operation is £3.3m (2021:Nil), (Note 15).

The notes on pages 32 to 75 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Corporate information

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

Basis of preparation

These financial statements have been prepared in accordance with UK-adopted international accounting standards (UK-adopted IAS) and those parts of CA 2006that are applicable.

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

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

Functional and presentation currency

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

Going concern

During the year, the Company made a loss after tax of £7.4m (2021 loss: £6.2m). The Company has considerable financial resources, which include cash and cash equivalents of £23.5m (2021: £14.7m) and an investment portfolio of £138.7m (2021: £123.0m) as at the year-end. In addition, the Company undertakes an ongoing assessment of its Solvency Capital Requirement (see note 23), including consideration of the Company's sensitivity to risk, alongside quarterly monitoring of the annual budget and forecasts. As such, after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Adoption of new and revised standards

The Company has adopted the following new standards and amendments to IFRSs and IASs that became mandatorily effective for the Company for the first time during 2022. However, these changes had no impact on the Company's financial statements or financial performance.

<u>Amendments to IFRS 3 Reference to the Conceptual Framework</u>

The Company has adopted the amendments to IFRS 3 Business Combinations for the first time in the current year. The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

<u>Amendments to IAS 16 Property, Plant and Equipment – proceeds before intended use</u>

The Company has adopted the amendments to IAS 16 Property, Plant and Equipment for the first time in the current year. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss.

Adoption of new and revised standards (continued)

The entity measures the cost of those items in accordance with IAS 2 Inventories. The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract

The Company has adopted the amendments to IAS 37 for the first time in the current year. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract)

New accounting standards published but not yet applicable

The Company has decided to convert to UKGAAP for the 2023 year end, but has not yet quantified the impact of changing its financial reporting framework.
At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective.

IFRS 17 Insurance Contracts

IFRS 17 was issued by the International Standards Board in May 2017 and amended in June 2020. The standard was endorsed by UK Endorsement Board in May 2022. IFRS 17 is effective from 1 January 2023. IFRS 17 will replace IFRS 4, the current insurance contracts standard, and it is expected to significantly change the way the Company measures and reports its insurance contracts. The overall objective of the new standard is to provide an accounting model for insurance contracts that is more useful and consistent for users.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

Amendments to IAS 1 Classification of Liabilities as Current or Non-current Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies

The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. The IASB is currently considering further amendments to the requirements in IAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments.

Amendments to IAS 8 Definition of Accounting Estimates Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction
The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications: • A change in accounting estimate that results from new information or new developments is not the correction of an error • The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors The IASB added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The IASB has deleted one example (Example 3) as it could cause confusion in light of the amendments. The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted

Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease. Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12. The IASB also adds an illustrative example to IAS 12 that explains how the amendments are applied. The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognises:

A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with: – Right-of-use assets and lease liabilities – Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.

The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

IFRS 9 “Financial Instruments”

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

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

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

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

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

1. Accounting policies

The principal accounting policies are set out below:

1.1 Contract classification

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

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

1.2 Premiums written

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

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

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

1.3 Unearned premiums

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

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

1.4 Deferred acquisition costs

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

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

1. Accounting policies (continued)

1.5 Insurance claims

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

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

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

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

The calculation of the provisions for claims incurred but not reported combines an assumption for average claims cost and frequency together with a typical delay factor. The delay factor is designed to reflect the typical delay in months between the occurrence and the notification of claims. IBNR provisions include a prudence margin calculated to cover incurred but not reported claims in a 1 in 10 scenario.

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

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

1. Accounting policies (continued)

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.

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

1. Accounting policies (continued)

- 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.

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.

1. Accounting policies (continued)

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.

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

1.9 Provisions
The Company recognises a provision for a present legal or constructive obligation from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount can be reliably estimated.
The Company makes provision for all insurance industry levies, such as the Financial Services Compensation Scheme.

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

<u>Current tax:</u>
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.

1. Accounting policies (continued)

Deferred tax:

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

1. Accounting policies (continued)

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

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

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

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

1.11 Non-current assets held for sale and discontinued operations

The Company classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell expected to be incurred by the company. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification or would be completed within one year but for externally imposed conditions, such as regulatory requirements.

Assets and liabilities classified as held for sale are presented separately in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and Is part of a single co-ordinated plan to dispose of a separate major lines of business.

Within the classification of held of sale are assets and liabilities for business lines that will not be included in the sale but are in run off and discontinued. These have not been shown separately due to materiality.

1. Accounting policies (continued)

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit after tax from discontinued operations in the Income Statement. Additional disclosures are provided in Note 15. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

2. Critical accounting judgements and key sources of estimation uncertainty

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underpin the preparation of its financial information. The Company's principal accounting policies are set out on pages 36 to 41. UK company law and IFRSs require the Directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent.

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

Accounting judgments

Unearned Premium Reserves

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

Sources of estimation uncertainty

Claims provisions

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

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

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

Stress testing or testing of the impact of different assumptions is shown in Note 18.

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

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

Business class	Key judgements	Main sources of uncertainty
Creditor	• Selection of development patterns based on historical data (including removal of development considered unrepresentative) • Selection of loss ratios for recent periods	• Recovery (Accident, Sickness) and re-employment rates • Claim reporting delays • Claim acceptance rates

Household	• Selection of development patterns based on historical data
	• Tail development of claims (particularly large) beyond limits of data
	• Selection of frequency and severity on unreported large claims
		• Future development of open claims (particularly large losses), including impacts of
		  o Cost inflation
		  o Delays in establishing final cost

Motor	• Selection of development patterns based on historical data • Selection of tail development beyond limit of data • Selection of frequency and severity of bodily injury claims developing from 'small' to 'large' • Allowance for indexation of reinsurance deductible when calculating net liabilities (based on assumed settlement delay) • Selection of Periodical Payment Order (PPO) modelling parameters (e.g. PPO propensity, mortality tables and impaired lives adjustments, claim inflation, discount rates)	• Future development of open claims (particularly large losses) • Parts, labour and compensation cost inflation • Uncertainty around long-term costs: care cost inflation, legal cost inflation, loss of earnings • Periodical Payment Order (PPO) propensity. • Settlement delays (notably impacting reinsurance deductible via indexation) • Impact of individuals' injuries on ability to work, future care costs and mortality (noting that some individuals affected are still very young) • Changes in Ogden discount rate • Reinsurer default • Court rulings impacting future claim costs
Pet	• Selection of paid development patterns • Selection of loss ratios for less developed periods	• Claims settlement delays • Variability in expected Loss ratios for the most recent periods
Warranty	• Selection of paid development patterns • Selection of loss ratios for less developed periods	• Number and amount of unsettled claims • Claim (parts and labour cost) inflation

3. Segmental analysis

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

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

	2022	2021
	£'000	£'000
Gross written premiums		
General business	111,228	106,947
Long-term business	194	403
	111,422	107,350
Less gross written premium relating to discontinued operations	(11,819)	(24,087)
Gross written premium related to continuing operations	99,603	83,263

	2022	2021
Segmental net assets		
General business (including shareholder's funds/total equity)	150,084	132,055
Long-term business(discontinued operations)	9,042	9,446
	159,126	141,501

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. Segmental analysis (continued)

	2022			
	Gross Written Premium £'000	**Net Earned Premium £'000**	**Net Claims Incurred £'000**	**Net Operating Expenses £'000**
Direct Insurance				
Pet	99,603	89,127	(51,868)	(44,490)
Creditor	10,915	-	(88)	1,568
Warranty and GAP	711	-	-	(1,904)
MGA(Household&Motor)	(2)	-	(1)	15
Inward reinsurance	-	-	-	-
Long-term protection	195	-	-	(156)
	111,422	**89,127**	**(51,957)**	**(44,967)**
Less discontinued operations	**(11,819)**	**-**	**89**	**477**
Results from continuing operations	**99,603**	**89,127**	**(51,868)**	**(44,490)**

	2021			
	Gross Written Premium £'000	**Net Earned Premium £'000**	**Net Claims Incurred £'000**	**Net Operating Expenses £'000**
Direct Insurance				
Pet	83,263	75,543	(50,523)	(34,242)
Creditor	14,162	3,278	7,636	(8,980)
Warranty and GAP	8,808	1,573	(705)	(1,084)
MGA(Household&Motor)	(5)	(11,052)	11,431	(360)
	106,228	69,342	(32,161)	(44,666)
Inward reinsurance	719	719	(2)	(26)
	106,947	70,061	(32,163)	(44,692)
Long-term protection	403	(2,428)	2,119	160
	107,350	**67,633**	**(30,044)**	**(44,532)**
Less discontinued operations	**(24,087)**	**7,910**	**20,479**	**(10,290)**
Results from continuing operations	**83,263**	**75,543**	**50,523**	**(34,242)**

4. Net investment return

	2022 £'000	2021 £'000
Interest income from financial investments	2,319	2,198
Net realised gains / (losses) on financial investments	(1,147)	(1,159)
Net unrealised (losses) on financial investments	(2,486)	(982)
Net foreign exchange (losses) on investments	-	(1)
	(1,314)	56

5. Net claims incurred

	2022		
Gross amount	**General business £'000**	**Long-term business £'000**	**Total £'000**
Claims paid	60,074	1,084	61,158
Gross movement in the provision for:			
- Claims outstanding	(9,599)	(8,370)	(17,969)
	50,475	(7,286)	43,189
Reinsurers' share			
Reinsurers' recoveries	(6,155)	(1,084)	(7,239)
Movement in the provision for:			
- Claims outstanding	7,636	8,370	16,006
	1,481	7,286	8,767
	51,956	-	51,956
Less claims incurred from discontinued operations	(88)		(88)
Claims incurred from continuing operations	51,868	-	51,868

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. Net claims incurred (continued)

	2021		
	General business	Long-term business	Total
Gross amount	**£'000**	**£'000**	**£'000**
Claims paid	62,030	1,221	63,251
Gross movement in the provision for:			
- Claims outstanding	(5,167)	(5,343)	(10,510)
	56,863	(4,122)	52,741
Reinsurers' share			
Reinsurers' recoveries	(6,653)	(1,099)	(7,752)
Movement in the provision for:			
- Claims outstanding	(18,047)	3,102	(14,945)
	(24,700)	2,003	(22,697)
	32,163	(2,119)	30,044
Less claims incurred from discontinued operations	18,360	2,119	20,479
Claims incurred from continued operations	50,523	-	50,523

6. Net operating expenses

	2022	2021
	£'000	£'000
Acquisition costs	17,820	22,122
Change in gross deferred acquisition costs	(939)	3,635
Administrative expenses	32,179	25,569
Movement in provisions	(88)	(810)
Reinsurance commissions and profit participation	(4,005)	(5,984)
	44,967	44,532
Less net operating expenses from discontinued operations	(477)	(10,290)
Net operating expenses from continued operations	44,490	34,242

7. Loss before tax

Loss for the year is stated after charging	2022	2021
	£'000	£'000
The analysis of auditor's remuneration is as follows:		
Fees payable to the Company's auditor for the Company's annual accounts	294	257
Total audit fees	294	257

Note fees for 2021 were paid to the Company's previous auditor Deloitte LLP, 2022 fees are payable to PKF Littlejohn LLP

7. Loss before tax (continued)

There were no fees paid to the company's auditor, PKF Littlejohn LLP, for services other than the statutory audit of the company (2021 £nil).

8. Employees

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

	2022	**2021**
	£'000	**£'000**
Total staff costs	16,600	14,871
Redundancy cost incurred	145	296
	16,745	15,167

Included above within staff costs are the social security costs of £2.0m (2021: £1.9m) and staff pension contributions of £1.6m (2021: £1.4m).

9. Directors' remuneration

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

	2022	**2021**
	£'000	**£'000**
Emoluments	1,488	1,410
Pension contributions to a defined contribution scheme	37	50
	1,525	1,460

The remuneration of the highest paid Director:

	2022	**2021**
	£'000	**£'000**
Emoluments of highest paid Director	549	431
Pension contributions of highest paid Director	8	9
	557	440

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 includes:

	2022 £'000	2021 £'000
Tax (credited) / charged on result of Continuing operations	(1,628)	(1,081)
Tax (credited) / charged on result of Discontinued operations	(107)	434
	(1,735)	(647)

	General business		Long-term business		Total	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Current tax						
UK corporation tax charge/(credit) for the year	(266)	(1,181)	-	(158)	(266)	(1,339)
Prior year adjustments	(1)	459	-	-	(1)	459
Total current tax charge /(credit)	(267)	(722)	-	(158)	(267)	(880)
Deferred tax						
Origination and reversal of timing differences	(1,140)	-	-	117	(1,140)	117
Derecognition of previously recognised timing difference	-	-	-	116	-	116
Effect of tax rate change on opening balance	(328)	-	-	-	(328)	-
Total tax charged/(credited) to income statement	(1,735)	(722)	-	75	(1,735)	(647)

The Company earns its profits entirely in the UK. UK corporation tax has been charged at 19% (2021: 19%), the standard rate in the UK for the period.

	2022		
Tax reconciliation	**General business**	**Long-term business**	**Total**
Total profit before tax	(8,707)	(404)	(9,111)
Tax calculated at the standard UK corporation tax rate of 19%	(1,654)	(77)	(1,731)
Effect of:			
Brought forward losses utilised	-	(117)	(117)
Tax loss	248	193	441
Adjustment in respect of previous years			
-Under provision prior years	(1)	-	(1)
-Tax rate difference	(328)	-	(328)
Total tax credited to income statement	(1,735)	-	(1,735)

10. Taxation (continued)

	2021		
Tax reconciliation	**General business**	**Long-term business**	**Total**
Total profit before tax	(6,668)	(218)	(6,886)
Tax calculated at the standard UK corporation tax rate of 19%	(1,267)	(41)	(1,308)
Effect of:			
Brought forward losses utilised	86	-	86
Tax rate difference			
Adjustment in respect of previous years	459	-	459
-Recognition of deferred tax asset relating to prior periods	-	116	116
Total tax credited to income statement	(722)	75	(647)

Deferred tax liabilities/ (asset)

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

	General business		Long-term business		Total	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
At 1 January	-	-	-	(233)	-	(233)
Derecognition of deferred tax on transitional adjustment re liabilities	-	-	-	117	-	117
Decrease in the transitional adjustments re liabilities	-	-	-	116	-	116
Losses to be relieved against profits arising	(1,140)	-	-	-	(1,140)	-
Decrease in claims equalisation reserve	-	-	-	-	-	-
Remeasurement of deferred tax for changes in tax rates	(329)	-	-	-	(329)	-
At 31 December	(1,469)	-	-	-	(1,469)	-

Recognised deferred tax using the blended rate of 23.5% for 2023, and 25% for 2024 and 2025 results in a tax rate of 24.475%.being applied to the £6m of losses that are being recognised, equating to a DTA of £1.5m. The components of this total DTA are shown as the £6m recognised at 19% (£1.2m) and the impact of the tax rate increase from 19% to 24.475% on the same £6m (£0.3m).

10. Taxation (continued)

Analysis of unrecognised deferred tax asset

There is an unrecognised deferred tax asset of £0.6m at 31 December 2022 (2021: £0.2m) in respect of trading losses of general business, and £1.3m (2021: £0.9m) in respect of long-term business.

	General business		Long-term business		Total	
	2022	2021	2022	2021	2022	2021
	£'000	£'000	£'000	£'000	£'000	£'000
Transitional adjustment re liabilities		-		116		116
Losses	592	202	1,346	830	1,939	1,032
Unrecognised deferred tax asset	592	202	1,346	946	1,939	1,148

Unrecognised deferred tax is calculated at 25% (2021: 19%).

11. Financial assets and liabilities

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

	2022 £'000	2021 £'000
Financial assets		
Financial investments:		
Investments held at fair value through profit or loss		
- Debt securities /Bonds	51,238	51,232
Loans and receivables		
- Deposits with credit institutions	87,445	71,809
Total Financial investments	**138,683**	**123,041**
Loans and receivables		
- Cash and cash equivalents	23,517	14,697
- Insurance receivables	53,312	44,858
- Other receivables	10,831	18,126
	87,660	**77,681**
Less discontinued operations	(9,433)	-
Total financial assets	**216,911**	**200,722**
Financial liabilities		
Insurance payables	12,637	10,034
Other payables	5,330	4,799
Less discontinued operations	(9,213)	-
Total financial liabilities	**8,754**	**14,833**

2021 restated to show Non Pet business as a discontinued operation

12. Fair value

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

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

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

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).

	2022		2021	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Financial assets	**£'000**	**£'000**	**£'000**	**£'000**
Fair value through profit or loss				
Financial investments				
-Corporate bonds	18,012	18,012	21,658	21,658
-Government bonds	33,226	33,226	29,574	29,574
	51,238	51,238	51,232	51,232

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

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

12. Fair value (continued)

Fair value hierarchy analysis

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

	2022			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit or loss				
-Corporate bonds	18,012	-	-	18,012
-Government bonds	33,226	-	-	33,226
	51,238	-	-	51,238

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

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

	2022	2021
	£'000	£'000
Cash at bank and in hand	4,017	4,797
Short-term deposits with credit institutions	19,500	9,900
	23,517	14,697

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 2022 was 1.3% (2021: 0.10%)

14. Insurance and other receivables

	2022 £'000	2021 £'000
Receivables arising out of direct insurance operations		
-Due from intermediaries and policyholders	53,312	44,858
Receivables arising out of reinsurance operations	7,043	783
Other receivables		
-Amounts owed by group undertakings (see note 23)	3,504	15,743
-Accrued interest	154	260
-Corporation tax	131	1,339
	3,789	17,342
	64,144	62,983
Amounts to be settled within one year	62,847	61,733
Amounts to be settled after one year	1,297	1,250
	64,144	62,983
Less receivables from discontinued operations	(10,187)	-
Receivables from continued operations	53,957	62,983

The insurance and other receivables are shown at net realisable value and are inclusive of bad debt provision of £nil (2021: £nil).

15. Transfer of business and discontinued operations

The Company has entered discussions and is committed to the disposal of its non-pet operations. The non-pet business lines have since 2021 been 100% reinsured to a BNP Paribas group company Darnell DAC. There are parts of the non pet operation that will not be part of the sale, however these are in run off and expected to terminate fully in 2024. As a result all the assets and liabilities associated with the products being sold or otherwise discontinued are classified as a disposal group held for sale and as a discontinued operation. Part of the transfer, which is subject to regulatory clearance for both parties, will be effected through a Part VII transfer.

The major classes of assets and liabilities of the products classified on the balance sheet as being held for sale as at 31 December are, as follows:

	2022 £000
Assets held for sale	
Reinsurance assets	48,027
Insurance and other receivables	10,187
	58,214
Liabilities held for sale	
Insurance liabilities	48,027
Other payables	9,433
	57,460

15. Transfer of business and discontinued operations (continued)

The net cash flows attributable to the operating activities of discontinued operations during 2022 amounted to (£3.3m) (2021: £nil).

16. Other payables, including insurance payables

	2022 £'000	2021 £'000
Insurance payables arising out of direct insurance operations		
-Due to intermediaries	12,637	10,034
Insurance payables arising out of reinsurance operations	552	210
Amounts due to group undertakings (see note 23)	-	703
Other taxation and social security	4,461	3,443
Accrued expenses	317	443
	5,330	4,799
	17,967	14,833
Amounts to be settled within one year	17,967	14,833
Amounts to be settled after more than one year	-	-
	17,967	14,833
Less payables from discontinued operations	(9,213)	-
Payables from continued operations	8,754	14,833

17. Share Capital and Reserves

The total shareholder's funds are analysed as:

	2022 £'000	2021 £'000
Authorised		
153,836,000 Ordinary shares of £1 each	153,836	128,836
Issued, allotted, called up and fully paid		
Ordinary shares of £1 each	151,557	126,557
Share Premium	23,323	23,323
	174,880	149,880
Retained earnings	(15,754)	(8,379)
Total Shareholder's funds / equity	159,126	141,501

On 19 December 2022 the share capital increased by £25m through the issue of 25,000,000 fully paid ordinary shares of £1 each, which were issued at £1.00 per share by the company during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

18. Insurance liabilities

	2022			
	Unearned premiums reserve	**Claims outstanding**	**Long-term business provision**	**Total**
Gross Insurance liabilities	**£'000**	**£'000**	**£'000**	**£'000**
Gross amount				
At 1 January 2022	50,742	44,271	26,245	121,258
Movement in the provision	4,735	(9,704)	(8,265)	(13,234)
At 31 December 2022	55,477	34,567	17,980	108,024
Less gross insurance liabilities from discontinuing operations	(9,051)	(20,995)	(17,980)	(48,026)
Gross liabilities from continuing operations	46,426	13,572	-	59,998
Reinsurance amount				
At 1 January 2022	(14,242)	(31,245)	(26,245)	(71,733)
Movement in the provision	4,587	7,741	8,265	20,594
At 31 December 2022	(9,655)	(23,504)	(17,980)	(51,139)
Less reinsurance insurance liabilities from discontinuing operations	(9,050)	(20,996)	(17,980)	(48,026)
Reinsurance liabilities from continuing operations	(605)	(2,508)	-	(3,113)
Net technical provisions				
Opening balance	36,500	13,026	-	49,526
Movement in the provision	9,321	(1,963)	-	7,358
At 31 December 2022	45,821	11,063	-	56,884

18. Insurance liabilities (continued)

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

	Claims Outstanding		
	General business	**Long-term business**	**Total**
	£000	**£000**	**£000**
Gross amount			
At 1 January 2022	44,063	207	44,271
Movement in the provision	(9,598)	(105)	(9,703)
At 31 December 2022	34,465	102	34,567
Reinsurance amount			
At 1 January 2022	(31,038)	(207)	(31,245)
Movement in the provision	7,635	105	7,740
At 31 December 2022	(23,403)	(102)	(23,504)
Net technical provisions			
Opening balance	13,025	-	13,026
Movement in the provision	(1,963)	-	(1,963)
At 31 December 2022	11,063	-	11,063

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

- Claims incurred but not reported of £20.1m (2021: £20.1m); and
- Claims handling expenses provision £0.9m (2021: £1.1m)

18. Insurance liabilities (continued)

	2021			
	Unearned premiums reserve	**Claims outstanding**	**Long-term business provision**	**Total**
Gross amount				
At 1 January 2021	39,228	49,529	31,498	120,255
Movement in the provision	11,514	(5,258)	(5,253)	1,004
At 31 December 2021	50,742	44,271	26,245	121,259
Reinsurance amount				
At 1 January 2021	(2,090)	(12,992)	(29,553)	(44,635)
Movement in the provision	(12,152)	(18,252)	3,308	(27,096)
At 31 December 2021	(14,242)	(31,244)	(26,245)	(71,731)
Net technical provisions				
Opening balance	37,138	36,537	1,945	75,620
Movement in the provision	(638)	(23,510)	(1,945)	(26,093)
At 31 December 2021	36,500	13,027	-	49,527

18. Insurance liabilities (continued)

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

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

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

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

Stress testing or testing of the impact of different assumptions:

	2022	**2021**
	£'000	**£'000**
Impact on loss before tax		
Insurance losses deteriorate against expected outcome		
5% deterioration	(553)	(651)
10% deterioration	(1,106)	(1,302)
Insurance losses improve against expected outcome		
5% improvement	553	651
10% improvement	1,106	1,302

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
18. Insurance liabilities (continued)

Long-term business provision (discontinued operations)

Following the decision to reinsure non-Pet business to Darnell DAC from December 31st 2021, the net of reinsurance long term business provision is zero. The gross of reinsurance provision has decreased by £8.3m over 2022, the most significant driver of this reduction being the increase in discount rates.The long term claims outstanding consists of claims reserves attached to Creditor business with a death benefit attached.

See the table below for a detailed movement analysis:

	2022					
	Gross		Reinsurance		Net	
	Long-term business provision	Claims Outstanding	Long- term business provision	Claims Outstanding	Long- term business provision	Claims Outstanding
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2022	26,245	207	26,245	207	-	-
Change in exposure	(754)	-	(754)	-	-	-
Adjustments due to change in assumptions:						
Mortality	-	-	-	-	-	-
Discount rate	(7,033)	-	(7,033)	-	-	-
Inflation rate	(270)	-	(270)	-	-	-
Default provision	-	-	-	-	-	-
Expenses	(208)	-	(208)	-	-	-
Other	-	(105)	-	(105)	-	-
At 31 December 2022	17,980	102	17,980	102	-	-

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

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

18. Insurance liabilities (continued)

Long-term business provision (discontinued)

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

Rates of interest	2022	2021
RAM - Annuities	EIOPA Risk Free Rate - term structure of interest rate for YE22	EIOPA Risk Free Rate - term structure of interest rate for YE21
Annuities-general	EIOPA Risk Free Rate - term structure of interest rate for YE22	EIOPA Risk Free Rate - term structure of interest rate for YE21
Annuities-pension	EIOPA Risk Free Rate - term structure of interest rate for YE22	EIOPA Risk Free Rate - term structure of interest rate for YE21
GUAL- Annuities	EIOPA Risk Free Rate - term structure of interest rate for YE22	EIOPA Risk Free Rate - term structure of interest rate for YE21
Assurances :		
Life After Fifty	EIOPA Risk Free Rate - term structure of interest rate for YE22	EIOPA Risk Free Rate - term structure of interest rate for YE21
Individual Life - WOL & DTA	EIOPA Risk Free Rate - term structure of interest rate for YE22	EIOPA Risk Free Rate - term structure of interest rate for YE21
Mortality tables		
RAM – Annuities & IP	89.4% of Modified PCMA00 plus 2.1% long term mortality improvement & 91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	89.4% of Modified PCMA00 plus 2.1% long term mortality improvement & 91.6% of Modified PCFA00 plus 1.7% long term mortality improvement
Annuities-general	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement
Annuities-pension	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement
GUAL- Annuities	178.7% of Modified PCMA00 plus 2.1% long term mortality improvement & 137.4% of Modified PCFA00 plus 1.7% long term mortality improvement	178.7% of Modified PCMA00 plus 2.1% long term mortality improvement & 137.4% of Modified PCFA00 plus 1.7% long term mortality improvement
Life After Fifty	n/a (no policies on risk)	100% of ELT16 Males & ELT16 Females
Individual Life - WOL & DTA	100% of A1967-70	100% of A1967-70

18. Insurance liabilities (continued)

Claims Development Table

Insurance Claims - Gross Accident year	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000	2022 £'000	Total £'000
Estimate of ultimate claims costs											
At the end of accident year	56,047	95,251	121,752	58,098	25,336	20,369	18,361	34,525	54,442	59,477	
One year later	56,199	98,372	130,254	48,636	21,436	17,977	18,004	31,584	50,464		
Two years later	54,661	100,580	115,036	47,576	21,290	17,844	17,842	31,298			
Three years later	55,950	110,327	112,744	47,395	21,351	17,821	17,829				
Four years later	55,108	108,611	115,310	47,365	21,354	17,813					
Five years later	54,929	111,268	114,476	47,127	21,349						
Six years later	54,647	107,721	113,094	47,092							
Seven years later	54,408	113,734	112,062								
Eight years later	54,282	110,196									
Nine Years Later	54,474										
Cumulative claims payments											
At the end of accident year	(25,935)	(42,095)	(51,502)	(29,770)	(13,751)	(11,918)	(12,089)	(19,367)	(41,904)	(41,124)	
One year later	(49,218)	(74,400)	(85,117)	(42,698)	(20,658)	(17,372)	(17,303)	(30,634)	(50,111)		
Two years later	(51,985)	(82,550)	(92,937)	(44,686)	(21,244)	(17,782)	(17,783)	(31,260)			
Three years later	(52,864)	(87,635)	(97,301)	(45,750)	(21,308)	(17,805)	(17,822)				
Four years later	(53,293)	(93,139)	(102,332)	(46,167)	(21,338)	(17,808)					
Five years later	(53,454)	(95,601)	(105,488)	(46,512)	(21,342)						
Six years later	(53,544)	(97,230)	(104,871)	(46,896)							
Seven years later	(53,581)	(105,005)	(105,573)								
Eight years later	(53,607)	(105,598)									
Nine Years Later	(53,645)										
Current estimate of cumulative claims	54,474	110,196	112,062	47,092	21,349	17,813	17,829	31,298	50,464	59,477	522,053
Cumulative payments to date	(53,645)	(105,598)	(105,573)	(46,896)	(21,342)	(17,809)	(17,822)	(31,260)	(50,111)	(49,124)	(499,179)
Claims liability outstanding	**829**	**4,598**	**6,489**	**196**	**7**	**4**	**7**	**38**	**353**	**10,353**	**22,874**
Claims liability for prior years										**9**	**9**
Total claims liability outstanding											**22,882**
Risk margins											8,200
Claims handling expenses											911
Others											2,508
Claims liabilities –Long-term business											66
Gross Claims liabilities											**34,567**

18. Insurance liabilities (continued)

Claims Development Tables (continued)

Insurance Claims – Net of Reinsurance Accident year	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000	2022 £'000	Total £'000
Estimate of ultimate claims costs											
At the end of accident year	56,047	93,998	119,608	52,442	25,336	20,356	18,361	34,495	51,601	55,710	
One year later	56,025	92,180	111,276	48,918	21,436	17,977	18,004	30,810	48,221		
Two years later	54,432	93,165	106,896	47,363	21,290	17,844	17,784	30,693			
Three years later	54,372	95,331	107,064	47,088	21,351	17,805	17,783				
Four years later	54,617	94,725	107,098	47,251	21,338	17,805					
Five years later	54,476	94,648	108,301	46,512	21,338						
Six years later	54,487	95,112	104,006	46,512							
Seven years later	53,904	93,012	104,006								
Eight years later	53,607	93,012									
Nine Years Later	53,607										
Cumulative claims payments											
At the end of accident year	(25,935)	(42,095)	(51,502)	(29,770)	(13,751)	(11,918)	(12,089)	(19,352)	(41,780)	(47,208)	
One year later	(49,218)	(74,400)	(85,117)	(42,698)	(20,658)	(17,372)	(17,303)	(30,634)	(48,120)		
Two years later	(51,985)	(81,843)	(92,937)	(44,686)	(21,244)	(17,782)	(17,783)	(30,686)			
Three years later	(52,864)	(86,389)	(97,281)	(45,750)	(21,308)	(17,805)	(17,783)				
Four years later	(53,293)	(89,640)	(101,008)	(46,167)	(21,338)	(17,805)					
Five years later	(53,454)	(91,493)	(103,765)	(46,512)	(21,338)						
Six years later	(53,544)	(92,732)	(104,006)	(46,512)							
Seven years later	(53,183)	(93,012)	(104,006)								
Eight years later	(53,607)	(93,012)									
Nine Years Later	(53,607)										
Current estimate of cumulative claims	53,607	93,012	104,006	46,512	21,338	17,805	17,783	30,690	48,221	55,710	488,683
Cumulative payments to date	(53,607)	(93,012)	(104,006)	(46,512)	(21,338)	(17,805)	(17,783)	(30,686)	(48,120)	(47,280)	(480,148)
Claims liability outstanding								**4**	**101**	**8,430**	**8,535**
Claims liability for prior years											
Total Claims liabilities outstanding Net											**8,535**
Risk Margins											2,134
Claims Handling Expenses											395
Others											-
Net Claims Liabilities											**11,063**

19. Deferred acquisition costs

	General business	Long- term business	Total
	£000	£000	£000
Gross amount			
At 1 January 2022	5,446	-	5,446
Movement in the provision	939	-	939
At 31 December 2022	6,385	-	6,385
Reinsurance amount			
At 1 January 2022	-	-	-
Movement in the provision	-	-	-
At 31 December 2022	-	-	-
Net amount			
At 1 January 2022	5,446	-	5,446
Movement in the provision	939	-	939
At 31 December 2022	6,385	-	6,385

20. Provision (discontinued operations)

	Payment protection Income (PPI) £'000	Annual review statement provision £'000	Total £'000
At 1 January 2022	56	252	308
Utilisation of provision	(29)	(58)	(88)
At 31 December 2022	**27**	**194**	**220**

Payment Protection Insurance (PPI) Provision

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

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

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

20. Provision (continued)

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

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

	2022 £'000	2021 £'000
PPI provisions as at the year-end is represented by:		
Redress cost	27	56

Annual review statement compensation provision (discontinued operations)

The Company has recognised a provision resulting from an error in some customers' PPI Annual Review Statements. The customers did not have their twelve months premium instalments amounts showing on the Annual Review Statement. The error related to business sold through a partner relating to Creditor business. The partner agreed with the Competition and Markets Authority that in these circumstances the customers would be given a refund equal to the error in their Statements. Upon further investigation, similar issues were discovered with other books of PPI business. As result, the Company recognised a provision of £0.3m in 2021, the remaining provision at year end 2022 was £0.2m.

21. Risk Management

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

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

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

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

The Company's Risk and Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risk faced by the Company. The Company's Risk and Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit 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.

21.1 Insurance risk

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

Further details regarding the Company's exposure to insurance risk are set out in notes 2 and 18.

21.2 Credit and Counterparty risk

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

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

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

21. Risk Management (continued)

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

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

	2022				
	Neither past due nor impaired	Past due 1- 90 days	Past due more than 90 days	Assets that have been impaired	Carrying value in the balance sheet
	£'000	£'000	£'000	£'000	£'000
Financial investments	138,683	-	-	-	138,683
Insurance receivable and other receivables	54,711	-	-	-	54,711
Reinsurance assets	3,113	-	-	-	3,113
Assets held for sale	57,460				57,460
Cash and cash equivalents	23,517	-	-	-	23,517
	277,484	-	-	-	277,484

	2021				
	Neither past due nor impaired	Past due 1- 90 days	Past due more than 90 days	Assets that have been impaired	Carrying value in the balance sheet
	£'000	£'000	£'000	£'000	£'000
Financial investments	123,041	-	-	-	123,041
Insurance receivable and other receivables	55,674	-	-	-	55,674
Reinsurance assets	823	-	-	-	823
Assets held for sale	78,220	-	-	-	78,220
Cash and cash equivalents	14,697	-	-	-	14,697
	272,455	-	-	-	272,455

21. 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.

	2022				
Financial assets by credit rating	**Corporate bonds £'000**	**Government bonds £'000**	**Deposits with financial institution £'000**	**Cash & cash equivalents £'000**	**Total £'000**
AAA	4,019	7,361	-	19,500	30,880
AA	-	-		-	-
AA-	3,955	25,865	17,692	-	47,512
A+	845		40,623	4,017	45,485
A	3,096		10,069		13,165
A-	3,240		19,062		22,302
BBB+	2,857				2,857
	18,012	**33,226**	**87,446**	**23,517**	**162,200**

	2022				
Financial assets by credit rating (%)	**Corporate bonds**	**Government bonds**	**Deposits with financial institution**	**Cash & cash equivalents**	**Total**
AAA	22%	22%	-	83%	19%
AA	-	-	-	-	-
AA-	22%	78%	20%	-	29%
A+	5%	-	46%	17%	28%
A	17%	-	12%	-	8%
A-	18%	-	22%	-	14%
BBB+	16%	-	-	-	2%
	100%	100%	100%	100%	100%

21. Risk Management (continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

21. Risk Management (continued)

21.3 Liquidity Risk

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

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

	2022				
Time to maturity	**Total £'000**	**1 Year £'000**	**2-3 Years £'000**	**4-5 Years £'000**	**Over 5 Years £'000**
Financial investments					
-Corporate bonds	18,012	5,332	10,660	2,020	-
-Government bonds	33,225	11,318	9,912	4,470	7,525
-Deposits with financial institutions	87,446	70,492	16,954	-	-
Cash and cash equivalents	23,517	23,517	-	-	-
	162,200	110,659	37,526	6,490	7,525

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

21. Risk Management (continued)

At 31 December 2022	Total carrying value £'000	1 Year £'000	2-3 Years £'000	4-5 Years £'000	Over 5 years £'000
Gross insurance liabilities*					
-Provision for claims reported but not settled	2,508	1,254	1,254	-	-
- Provision for claims incurred but not reported	10,669	10,564	105	-	-
-Liabilities held for sale	39,372	12,853	6,618	1,936	17,965
	52,549	24,671	7,977	1,936	17,965
Other payables, including insurance payables	8,754	8,754	-	-	-
Other payables, including insurance payables (discontinued operation)	9,213	9,213			
Total	70,516	42,638	7,977	1,936	17,965

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

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

21. Risk Management (continued)

21.4 Market risk

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

The Company is mainly exposed to interest rate risk

Interest rate risk:

The Company's Interest rate risk exists for all assets and liabilities, which are sensitive to changes in term structure of interest rate and interest rate volatility. A sensitivity analysis for interest rates was completed under Solvency 2 using the Bank of England future risk free interest rate tables and the impact on profit and loss would be loss £2.6m (2021:£1.4m) if the interest rates increase and profit £2.1m (2021:£0.8m) for the interest rate decrease.

22. Commitments

There were no outstanding capital commitments at 31 December 2022 (2021: £nil).

23. Capital management - Unaudited

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

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

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

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

	2022	2021
Capital position	**£'000**	**£'000**
Solvency Capital Requirement	84,889	73,032
Available eligible own funds	154,228	136,724
Capital surplus	**69,339**	**63,692**
Capital coverage ratio	182%	187%

	2022	2021
Eligible own funds	**£'000**	**£'000**
Available capital before foreseeable dividends	154,228	136,724
Available eligible own funds	**154,228**	**136,724**

The difference between IFRS equity of £159.1m (2021: £141.6m) and the Solvency II own funds of £154.2m (2021:£136.7m) represents de-recognition of deferred acquisition costs and insurance technical provisions.

The Company’s unaudited Solvency II Solvency Financial Condition Report (SFCR) is available at https://www.pinnaclepetgroup.com/reports/.

24. 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 Insurance Holdings plc.

	2022 £'000	2021 £'000
Amounts due from group undertakings		
Pinnacle Insurance Management Services Plc	3,504	6,272
BNP London branch	-	2,201
ICARE France	-	14
Darnell Ltd	-	7,256
	3,504	15,743
Reinsurance Asset:		
Darnell Ltd	24,052	27,000
ICARE	44	67
	24,096	27,067
Amounts due to fellow group undertakings		
GIE BNP Paribas Assurance	-	81
Pinnacle Pet Healthcare Ltd	-	622
	-	703

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

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

- Commission paid to BNP Paribas Cardif Limited of £Nil (2021: £0.2m) for Warranty related insurance policies during the year.
- A fellow undertaking, Pinnacle Insurance Management Services plc charged £32m (2021: £23.3m) in respect of administrative expenses incurred on behalf of the Company including staff cost of £18.1m (2021: £14.5m).
- The Company paid £1.7m (2021: £0.9m) to GIE BNP Paribas Assurance in respect of costs associated for the usage of BNP Paribas IT infrastructure.
- The Company reinsured its Warranty business to BNPP Cardif group company ICARE France, Reinsurance Assets as shown above are included with the amount disclosed in note 20.
- The Company reinsured 100% of its non- pet business to BNPP Cardif group company Darnell Ltd.2022 £5.7m (2021 £7.3m) the balance represents the reinsurance of the Company's profit share liabilities

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

Until June 2022, the Company was part of the global banking group BNP Paribas S.A. Post the completion of the establishment of the joint venture, it has been a subsidiary of Pinnacle Pet Group Ltd the The ownership structure of PPH is split between JAB Holdings B.V. (owning 70%) and BNP Paribas Cardif (owning 30%).

As at 31 December 2022 there were no loans outstanding to officers of the Company (2021: £nil).

25. Ultimate parent undertaking

The Company is a subsidiary of Pinnacle Pet Group ltd (the “UK Parent”), which in turn is a subsidiary of Pinnacle Pet Holdings ltd. Until June 2022 the Company was part of the global banking group BNP Paribas SA. At 30 June 2022 JAB Holding Company and BNP Paribas Cardif formed a joint business venture. JAB set up the holding company for the new JV which purchased 100% of the share capital of the Company and two fellow subsidiaries. The ownership structure of the ultimate holding company in the UK is JAB Holdings 70% and BNP Paribas Cardif 30%.

The Directors regard JAB Holding Company S.à.r.L. (incorporated in Luxemburg), as being the Company's ultimate parent undertaking and controlling party, and Pinnacle Pet Group Limited (incorporated in the United Kingdom) as the immediate parent undertaking.

The parent company of the largest Group to include the company in its consolidated financial statements is Pinnacle Pet Holdings Limited. Copies of these financial statements are available from 14th Floor 20 Eastbourne Terrace, London, United Kingdom, W2 6LG.

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

26. Events after the balance sheet

There are no post balance sheets events.