PINNACLE INSURANCE PLC

Company Registration Number: 1007798

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2018

PINNACLE INSURANCE PLC

CONTENTS

PINNACLE INSURANCE PLC

Company Information

Directors:	G Binet (Chairman) P J Box * M Haderer N D Rochez * A M Wigg FCA M J Lorimer LLB (Hons) Solicitor S.L.P.F Chevalet * Independent Non-Executive Director
Company Secretary:	M J Lorimer LLB (Hons) Solicitor
Registered Office:	Pinnacle House A1 Barnet Way Borehamwood Hertfordshire WD6 2XX
Actuarial Function Holder: (Long-term fund)	M Haderer
Independent Auditor:	Deloitte LLP 1 New Street Square London EC4A 3BZ
Principal Bankers:	Barclays Bank PLC 54 Lombard Street London EC3P 3AH

STRATEGIC REPORT

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

The Company is a subsidiary of Cardif Pinnacle Insurance Holdings plc (the "UK Parent"), a member of the BNP Paribas Cardif group, a worldwide provider of insurance and savings products. The Company is part of the global banking group BNP Paribas SA ("the Group"), a European leader in banking and financial services, with a Standard and Poor's long-term rating of A (Positive outlook). The Group has one of the largest international banking networks, with a presence in 73 countries and employs more than 198,011 employees.

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

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

BUSINESS REVIEW

Pre-tax profit

The Company reported a pre-tax profit of £2.1m (2017: profit of £4.9m) resulting from the Company's continued improved performance in Pet combined with the run-off of Household, Motor and Creditor.

The pre-tax profit is presented after taking into account expenditure incurred by the Company for the development of a new policy management system "Aquarium" for Pet products £0.3 and a data warehouse £0.5m.

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

Gross Written Premiums (GWP)

Creditor

The Creditor market remains weak, through a combination of low consumer and low distributor demand. Gross written premiums reduced 20% to £25.0m (2017: £31.3m) reflecting:

- the continued low level of activity across the sector;
- termination of contracts with unprofitable partners; and
- downward repricing.

Household and Motor

The Company ceased writing business in these lines in 2015 and consequently gross written premium decreased to £nil (2017: negative £0.04m) in household and £nil (2017: negative £0.9m) in motor.

Business will continue to run off in 2019 and subsequent years for long tail personal injury claims arising on the Motor book.

STRATEGIC REPORT (continued)

Pet

The Company offers lifetime, per condition and time limited products. Policies are sold under the Company's own brand, Helpucover, direct to consumer and also through aggregators. The Company also launched a new own brand, Everypaw, towards the end of 2018, delivering GWP of £1m.

The business also operates through partnerships with consumer brands and a number of smaller niche intermediaries. Gross written premium, including for Everypaw, increased by 2% to £17.0m (2017: £16.6m) remained broadly in line with 2017.

Warranty

Gross written premiums for Warranty business decreased by 37% to £3.4m (2017: £5.4m). The decrease reflects lower motor warranty volumes distributed through BNP Paribas Cardif Limited (formerly known as Warranty Direct Limited) reflecting the competitive environment.

Long-Term business

Long-term business includes business underwritten for mortgage loan protection, leasing creditor and standard of living guarantee income products. This business is in run-off and gross written premiums decreased to £0.74m in 2018 (2017: £1.3m).

KEY PERFORMANCE INDICATORS

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

	2018 £'000	**2017 £'000**
Gross Written Premiums	46,136	54,379
Net Earned Premiums	49,885	63,561
Technical Result	18,710	19,638
Investment return	2,112	3,214
Administration Expenses	(18,757)	(17,944)
Profit Before Tax	2,064	4,908
Technical Ratio	62%	69%
Claims Ratio	24%	28%
Commission Ratio	39%	41%

Gross Written Premiums (GWP): represents the total premiums written in a given year before deductions of reinsurance and ceding commission. GWP decreased in the year by £8.2m (15%) largely due to a fall in sales of the Motor Warranty policies and continued run off in Creditor business lines.

Net Earned Premiums (NEP): represents the portion of the policy's premium that applies to the expired portion of the policy. The NEP of £49.9m decreased by £13.7m due to declining earned premium on Creditor (£9.4m) and Motor Warranty (£3.5m) and Pet of £0.5m.

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

STRATEGIC REPORT (continued)

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

The investment portfolio comprises bonds, cash and term deposits of high credit quality. The total portfolio was valued at £226.2m at 31 December 2018 (2017: £251.5m) of which 45% (2017: 44%) was held in bonds, 51% (2017: 43%) in term-deposits with credit institutions and 4% (2017: 13%) in cash and cash equivalents.

Total net investment return for the year is £2.1m (2017: £3.2m) which comprises interest earned on financial investments of £4.8m (2017: £5.5m), realised losses on bonds of £2.0m (2017: £2.5m) and unrealised loss of £0.8m (2017: gain £0.2m).

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 £0.9m to £18.8m (2017: £17.9m) mainly due to an additional staff costs not directly attributable to the capitalised projects cost relating to the digitalisation and simplification of the IT infrastructure.

Technical Ratio: Reflects the profitability of the general business before direct and indirect costs and is calculated as the sum of commission and net incurred claims expressed relative to NEP. The technical ratio improved from 69% in 2017 to 62% in 2018 due to lower claims costs in the year. The commission cost remained broadly in line with prior year.

Claims Ratio: Calculated as net claims incurred expressed as a percentage of NEP. The claims ratio in 2018 decreased to 24% (2017: 28%) due to the running off of the Motor and Household business.

Commission Ratio: Commission expense incurred expressed as a percentage of NEP. The Commission ratio of 39% (2017: 41%) remained broadly in line with prior year.

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

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

Risk	Impact on Company	Mitigation of risk
Insurance risk	The Company's business is to accept insurance risk which is appropriate to enable the Company to meet its objectives.	Within a Board approved underwriting policy and agreed risk appetites, the Company seeks to balance this insurance risk with the pursuit of appropriate reward in the form of sufficient levels of insurance premiums. Particular attention is paid to actual and forecast loss ratios (claims over premiums).
Operational risk	Operational risk is the risk of loss resulting from inadequate internal processes, human or system errors, or from external events.	The Company seeks to manage this risk exposure through continual enhancement of its systems and controls, and ensuring appropriately experienced personnel are in place throughout the organisation. Local incident and Head Office reporting and investigation procedures are well established.
Reserving risk	Reserving risk is associated with insurance risk after the coverage is expired and it occurs when claims provisions make insufficient allowance for claims, claims handling expenses and reinsurance bad debts provisions. There is a possibility that the Company's management do not make sufficient provision for exposures which could affect the Company's earnings and capital.	The Company's actuarial team uses a range of recognised actuarial techniques to project GWP, monitor claims development patterns and determine claims provisions. The Board of Directors review the reserving position quarterly. Claims provisions are also reviewed annually by external consulting actuaries who provide independent opinions to the Company confirming that in their view the Company's provisions are within a range of acceptable best estimates.
Credit risk	The Company's exposure to credit risk arises from its direct insurance trading activities, the exposure to the reinsurance it purchases and those of its investment activities. The risk is that in the absence of appropriate guidelines and procedures the Company might not be able to limit its credit exposure which could affect its earnings.	The Company, through the Board and the Investment Committee, seeks to limit, as far as is practical, exposure to credit risk from its investment activities. To achieve this objective it has established guidelines, procedures and monitoring requirements to manage credit risk. Particular attention has been paid to the quality of investment counterparties. In addition, the finance function reviews intermediaries' internal processes and periodically visits their premises to test controls and monitor credit risk.

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

OTHER UNCERTAINTIES

Payment Protection Insurance (PPI) Complaints: In August 2010, the former UK financial services regulator, the Financial Services Authority, published Policy Statement (PS10/12) in relation to the assessment and redress arising from PPI complaints. Management closely monitor the exposure to the PPI complaints and have taken appropriate action to mitigate the impact on the Company resulting in a provision of £8.4m (2017: £9.5m). See note 17 for further detail.

STRATEGIC REPORT (continued)

Brexit uncertainty: The exact terms on which the UK will exit from the European Union (EU) and continue to trade with the remaining 27 countries are yet to be determined. The Company's business is in the UK and therefore it is not exposed to the European passporting rights risk.

While there is no wider reliance on employment of EU nationals in the Company, it is recognised that the future limitation on talent pools could impact the business. The wider economic uncertainty resulting from Brexit could impact adversely on the Company's exposure to creditor business in the event of a rise in unemployment.

The risks and uncertainties associate with exiting from EU have been considered by the Directors and, while they continue to monitor the exit negotiations, they do not currently believe there will be a material adverse impact on the Company's results or financial position in the current or following financial year.

FUTURE DEVELOPMENTS

In 2019, the core agenda defined by the Board and management is:

- Implement and launch major partnership in Pet
- Build infrastructure to support extended Motor Warranty proposition
- Maximise value from in force Creditor business including the exit of uneconomic portfolios

The Board is focused on ensuring the operating model and cost base is operating for both the revenue levels and customer.

GOING CONCERN

During the year, the Company made a profit after tax of £1.9m (2017: £4.9m). The Company also has considerable financial resources, which include cash and cash equivalents of £9.0m (2017: £32.2m) and an investment portfolio of £217.2m (2017: £219.3m) as at the year-end. In addition, the Company undertakes an ongoing assessment of its Solvency Capital Requirement, including consideration of the Company's sensitivity to risk, alongside quarterly monitoring of the annual budget and forecasts. As such, after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

APPROVAL

This report was approved by the Board of directors on 16 April 2019 and signed on its behalf by:

Director
A M Wigg

DIRECTORS' REPORT

The Directors present this report together with the Strategic Report, financial statements and Auditor's Report, for the year ended 31 December 2018.

BUSINESS REVIEW AND ACTIVITIES

The principal activities of the Company are set out in the Strategic Report on page 3. The information that fulfils the Companies Act requirements of the business review is included in the Strategic Report on pages 3 to 8. This includes a review of the development of the business of the Company during the year and of likely future developments in its business. Details of the principal risks and uncertainties are included in the Strategic Report.

RESULTS AND DIVIDEND

The results of the Company for the year are set out on page 24. The profit after taxation for the year was £1.9m (2017: £4.9m). There were no dividends paid or declared in the year.

CAPITAL STRUCTURE

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

DIRECTORS AND THEIR INTERESTS

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

G Binet (Chairman)
P J Box *
M Haderer
N D Rochez *
A M Wigg FCA
M J Lorimer LLB (Hons) Solicitor
S.L.P.F Chevalet

* Independent Non-Executive Director

POLITICAL CONTRIBUTIONS

No political contributions were made during the year (2017: £nil).

DIRECTORS' REPORT (continued)

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

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

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

ACTUARIAL VALUATION
An actuarial valuation was carried out as at 31 December 2018 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 2018 UK Corporate Governance Code. Key Corporate Governance arrangements of the Company are highlighted below:

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

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

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

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

* Committees report to the Risk and Audit Committee.

DIRECTORS' REPORT (continued)

Directors' attendance
The Company requires Directors to attend all meetings of the Board and the Committees on which they serve and to devote sufficient time to the Company in order to perform their duties. The attendance of the Directors at the Board and Committee meetings, of which they are a member, held in 2018 was as follows:

	Board	Risk and Audit Committee	Investment Committee	Remuneration Committee	Conduct and Customer Committee	Underwriting and Credit Risk Committee	Internal Controls Committee
Number of meetings held	**6**	**5**	**3**	**3**	**4**	**4**	**4**
G Binet	6	*	*	*	*	*	*
P J Box	6	5	*	3	*	*	*
S Chevalet	6	*	*	3	*	*	*
M Haderer	6	*	*	*	*	4	2
M J Lorimer	6	*	*	*	4	3	3
N D Rochez	5	4	*	3	*	*	*
A M Wigg	6	*	3	*	1	4	3

* indicates not a member of that Committee

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

The systems are designed to:

- Safeguard assets;
- Maintain proper accounting records;
- Provide reliable financial information;
- Identify and manage business risks;
- Maintain compliance with appropriate legislation and regulation; and
- Identify and adopt best practice.

DIRECTORS' REPORT (continued)

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

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

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

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company which has operated throughout 2018 and up to the date of signing this report. The Company's risk management and control framework is designed to support the identification, assessment, monitoring, management and control of risks that are significant to the achievement of its business objectives. The Company has a set of formal policies which govern the management and control of both financial and non-financial risks.

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

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

The Committee's principal duties are to:

- Coordinate and have oversight of the Company's financial reporting process, specifically;
  - Integrity of the financial statements
  - Review and monitor the reserving process and recommend to the Board; and
  - Valuation of assets and impairment reviews.
- Monitor compliance function;
- Have oversight of internal and external audit functions;
- Have oversight of the systems of internal control;
- Review matters relating to legal, risk and compliance;
- Provide assurance on the effectiveness of the Company's risk management; and
- Considers the performance of the external auditor.

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

The Committee meets periodically with internal and external auditors without management present.

DIRECTORS' REPORT (continued)

INTERNAL AUDIT FUNCTION

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

DISCLOSING INFORMATION TO THE AUDITOR

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

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

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

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

Approved by the Board and signed on its behalf by:

Director
M J Lorimer

16 April 2019

PINNACLE INSURANCE PLC

DIRECTORS' RESPONSIBILITY STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

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

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

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

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Pinnacle Insurance plc (the 'company'):
- **give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:
- the income statement;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 20, and 22 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

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

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

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

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition – earning patterns applied to the unearned premium reserve; and • Valuation of technical provisions – IBNR reserve relating to motor bodily injury claims. Within this report, any new key audit matters are identified with ⊗ and any key audit matters which are the same as the prior year identified with ⊗.
Materiality	The materiality that we used in the current year was £3.2m, which was determined based on 2% of the company's net assets.
Scoping	Audit work to respond to the risks of material misstatement was planned and performed directly by the audit engagement team.
Significant changes in our approach	The basis for materiality used for the 2018 year-end is different to that used for the 2017 year-end, which was 2% of the three-year average gross written premium.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

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

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

Revenue recognition – earning patterns of unearned premium reserve ("UPR")	
Key audit matter description	Pinnacle Insurance Plc earns revenue through premium income. Revenue is recognised at the point at which a contract of insurance is on-risk, driven by the timing and terms of the agreements with the policyholders. Pinnacle Insurance must defer its recognition of the premium income in line with the period of time for which Pinnacle Insurance is on-risk. However, the selection of an appropriate earning pattern is an area of significant management judgement. The gross unearned premium reserve is valued at £8.8m. We identified a key audit matter relating to the appropriateness of the patterns and methodology used to defer premium income over periods for which Pinnacle Insurance is on risk, specifically on multi-year policies within the warranty business. In the prior year, management began applying straight line earning patterns to multi-annual policies, affecting the gross earned premium balance. Due to the level of management judgement and opportunity for manipulation, we identified this as a potential area for fraud. For further details, please see Note 1 – Accounting policies, Note 3 – Segmental analysis and Note 17 – Insurance liabilities.
How the scope of our audit responded to the key audit matter	We have gained a detailed understanding of the end to end revenue process, including the process of adjusting revenue with the movement in unearned premium reserve; which is intrinsically linked to the calculation of the unearned premium reserve through use of the determined earning patterns. We assessed whether there were any key controls present regarding the determination of earning patterns used to defer premium income and assessed the design and implementation of those controls In addition, we have: • Identified the books of business with material unearned premium reserve (UPR). • Inspected management's calculation of the amount of unearned premium as at the year-end for mechanical accuracy and compliance with management's accounting policy. • Recalculated a new earning pattern based on paid claims data and compared to the straight line pattern used by the company. Tested the completeness and accuracy of underlying data.
Key observations	No material misstatements have been noted with respect to our revenue recognition testing. We have concluded that the earning patterns applied to the Warranty lines of business are reasonable.

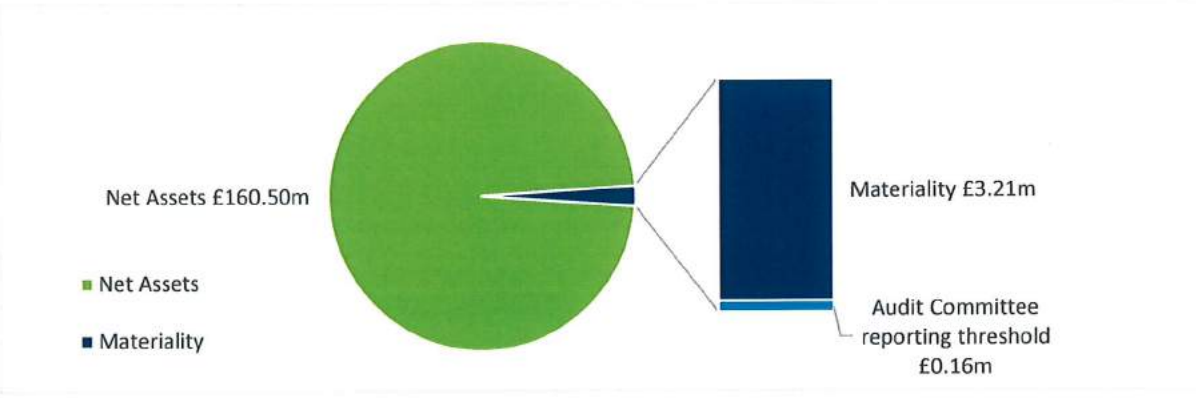
Valuation of technical provisions – IBNR reserve	
Key audit matter description	The company's gross general insurance claims reserve amounts to £58m. The valuation of insurance reserves requires significant judgement in the selection of key methodologies and assumptions, and has been identified as a potential fraud risk area. We have identified the IBNR balance within the general insurance reserve as being inherently uncertain, due to the unavailability of reported claims data present within an IBNR calculation. More specifically, we have focused on the results of the company and its involvement of a detailed actuarial assessment. The ultimate number and value of large bodily injury claims is inherently uncertain and volatile, driven by the low frequency and high severity nature of the claims as well as the long settlement periods. The key judgements are: • the methods used to carry out actuarial calculations; and • the frequency and severity of excess bodily injury claims. For further details, please refer to Note 1 – Accounting policies and Note 17 – Insurance liabilities.
How the scope of our audit responded to the key audit matter	We have gained a detailed understanding of the end to end reserving process. We have identified the key controls within the reserving cycle and have evaluated the design and implementation of those controls. We engaged Deloitte actuaries to assist in performing the audit procedures for this balance. We have: • Reviewed and challenged the company's methodologies and assumptions used to calculated best estimate claims reserves and reinsurance recoveries; • Reviewed the materiality of any changes in methodology from the prior year; and • Reviewed the company's approach to the revised Ogden discount rate. The audit team has substantively tested the underlying data used by both Pinnacle Insurance plc and Deloitte actuaries.
Key observations	We have concluded that the methodology and assumptions used by Pinnacle Insurance to value the IBNR reserve on large bodily injury claims are reasonable.

Our application of materiality

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

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

Materiality	£3.2m (2017: £1.91m)
Basis for determining materiality	2% of net assets. In the prior year we used 2% of the three-year average gross written premium balance.
Rationale for the benchmark applied	After discussion with the Risk and Audit Committee, we have decided that net assets is the most appropriate benchmark for the company due to Solvency Capital requirements, as well as allowing the company to continue to pay claims. This also provides the most stable materiality benchmark over time.



We agreed with the Risk and Audit Committee that we would report to the Committee all audit differences in excess of £161k (2017: £96k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

Other information

We have nothing to report in respect of these matters.

The directors are responsible for the other information. The other information comprises the information included in the annual report including the Director's Report and the Strategic Report, other than the financial statements and our auditor's report thereon.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

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.

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

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

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

- enquiring of management and the audit committee, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations; and
- discussing among the engagement team and involving relevant internal experts and specialists, including tax and actuarial experts and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: technical provisions and the manipulation of earning patterns used for calculating the unearned premium reserve; and
- obtaining an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation, tax legislation and the industry regulators, namely the PRA & FCA.

Audit response to risks identified

As a result of performing the above, we identified revenue recognition and valuation of technical provisions as key audit matters. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

Following the recommendation of the BNP Paribas group audit committee, Deloitte were appointed by the company as joint auditors to the group, and were therefore appointed as auditors of Pinnacle Insurance Plc to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ending 31 December 2012 to 31 December 2018.

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

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

Use of our report

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

Adam Addis ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
16 April 2019

PINNACLE INSURANCE PLC

Income Statement
For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Income			
Gross written premiums	3	46,136	54,379
Less: reinsurance premiums		(462)	(763)
Net written premiums		45,674	53,616
Change in the gross provision for unearned premiums	17	4,231	9,958
Less: change in provision for unearned premiums, reinsurers' share	17	(20)	(13)
Net change in provision for unearned premiums		4,210	9,945
Net earned premiums		49,885	63,561
Net investment return	4	2,112	3,214
Total income		51,996	66,775
Expenses			
Gross claims incurred	5	(5,148)	(8,324)
Less: claims recoveries from reinsurers	5	(6,635)	(9,480)
Net claims incurred		(11,783)	(17,804)
Net operating expenses	6	(38,149)	(44,063)
Total expenses		(49,932)	(61,867)
Profit before tax		2,064	4,908
Tax charge	10	(125)	(10)
Profit for the year		1,940	4,898
Attributable to:			
Owner of the Company		1,940	4,898

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, profit (2017: profit) represents total comprehensive profit for the year attributable to the owner of the Company.

The notes on pages 28 to 68 form an integral part of these financial statements.

PINNACLE INSURANCE PLC

Statement of Financial Position
As at 31 December 2018

	Notes	2018 £'000	2017 £'000
Assets			
Financial investments	11	217,169	219,339
Reinsurance assets	17	46,216	56,782
Insurance and other receivables	14	10,812	17,830
Deferred acquisition costs	18	3,543	6,161
Cash and cash equivalents	13	9,043	32,210
Total assets		**286,783**	**332,322**
Total equity		**160,454**	**158,514**
Liabilities			
Insurance liabilities	17	97,457	130,520
Other payables, including insurance payables	15	28,872	43,289
Total liabilities		**126,329**	**173,808**
Total equity and liabilities		**286,783**	**332,322**

The financial statements were approved and authorised for issue on 16 April 2019 by the Board of Directors and are signed on its behalf by:

Director
A M Wigg

The notes on pages 28 to 68 form an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 January 2017	126,557	23,323	3,736	153,616
Profit for the year	-	-	4,898	4,898
At 31 December 2017	**126,557**	**23,323**	**8,634**	**158,514**
Profit for the year	-	-	1,940	1,940
At 31 December 2018	**126,557**	**23,323**	**10,574**	**160,454**

The notes on pages 28 to 68 form an integral part of these financial statements.

PINNACLE INSURANCE PLC

Statement of Cash Flows
For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Profit/(loss) for the year before tax		2,064	4,908
Adjustments for non-cash items			
-Net unrealised loss on financial assets at FVTPL	4	772	(142)
Change in provision for unearned premiums	17	(4,210)	(9,945)
Change in outstanding claims		(18,286)	(22,989)
Change in deferred acquisition costs	18	2,618	5,255
Change in other assets		1,302	7,606
Change in other creditors		(14,359)	(1,650)
Proceeds from debt securities maturities		33,161	53,214
Purchase of debt securities		(23,760)	(34,498)
Proceeds from deposits maturities		-	10,264
Deposits with credit institutions		(8,004)	-
Tax		5,636	10
Cash generated / (used in) from operating activities		**(23,167)**	**12,032**
Net (decrease) / increase in cash and cash equivalents		**(23,167)**	**12,032**
Cash and cash equivalents at 1 January	13	32,210	20,178
Cash and cash equivalents at 31 December	**13**	**9,043**	**32,210**

The notes on pages 28 to 68 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Corporate information

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

Basis of preparation

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

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 profit after tax of £1.9m (2017: £4.9m). The Company also has considerable financial resources, which include cash and cash equivalents of £9.0m (2017: £32.2m) and an investment portfolio of £217.2m (2017: £219.3m) as at the year-end. In addition, the Company undertakes an ongoing assessment of its Solvency Capital Requirement, including consideration of the Company's sensitivity to risk, alongside quarterly monitoring of the annual budget and forecasts. As such, after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Directors have also considered the risks and uncertainties associated with the UK leaving the EU and, while they continue to monitor the exit negotiations, they do not currently believe there will be a material adverse impact on the Company's results or financial position in the current or following financial year.

Adoption of new and revised standards

The Company has adopted the following new standards and amendments to IFRSs and ISAs that became mandatorily effective for the Company for the first time during 2018. However, these changes had no impact on the Company's financial statements or financial performance.

<u>IFRS 15 "Revenue from Contracts with Customers"</u>

IFRS 15 introduces new recognition and disclosure requirements. Entities are required to recognised revenue as goods and services transferred to the customer in proportion to the total consideration it expects to receive in exchange for those services. The Company adopted the standard on a fully retrospective basis. However, it had no impact on the Company's financial statements as insurance contracts are out of the scope of IFRS 15.

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

Amendments to IFRS 4 Insurance Contracts "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts was issued on 12 September 2016 and endorsed by the EU on 3 November 2017. These amendments permitted insurers who satisfied certain criteria to defer the effective date of IFRS 9, to January 2022. The IASB permitted this option having considered potential asset and liability matching and temporary profit and loss volatility caused by introducing these new standards in different periods within a short period of time.

Adoption of new and revised standards (continued)

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

The fair value as at 31 December 2018 for financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount is £101.6m. The amount of change in the fair value during the year for these assets is £10.1m.

In note 19, the Company has disclosed the carrying amount of financial assets as at the year-end by credit risk rating.

Any other standards effective at the year-end did not have any material impact on the Company's financial statements.

New accounting standards published but not yet applicable

IFRS 17 "Insurance Contracts"

In May 2017, the IASB issued IFRS 17 Insurance Contracts, which replaces IFRS 4. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features an entity issues, provided the same entity also issues insurance contracts. The scope of IFRS 17 is substantially consistent with that of IFRS 4.

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

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

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

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

New accounting standards published but not yet applicable (continued)

An entity shall recognise a group of insurance contracts it issues from the earliest of the following:

(a) the beginning of the coverage period of the group of contracts;
(b) the date when the first payment from a policyholder in the group becomes due; and
(c) for a group of onerous contracts, when the group becomes onerous.

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

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

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

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

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

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

New accounting standards published but not yet applicable (continued)

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

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

IFRS 17 is effective for annual periods beginning on or after 1 January 2022, with earlier application permitted if both IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have also been applied. An entity shall apply IFRS 17 retrospectively unless impracticable, in which case entities have the option of using either a modified retrospective approach or the fair value approach.

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

IFRS 9 "Financial Instruments"

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

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

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

The Company, in line with peers, has taken advantage of the exemption available to entities whose activities are predominantly insurance related to defer applying IFRS 9 'Financial Instruments' (which would otherwise be applicable for annual reporting periods beginning on or after 1 January 2018) 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.

New accounting standards published but not yet applicable (continued)

IFRS 16 "Leases"

IFRS 16 Leases, issued in January 2017, will supersede IAS 17 Leases and the interpretations relating to the accounting of such contracts. The new definition of leases relies on both the identification of an asset and the right to control the identified asset by the lessee.

From the lessor's point of view, the expected impact should be limited, as the requirements of IFRS 16 remain substantially unchanged from the current IAS 17. For the lessee, IFRS 16 will require recognition in the balance sheet of all leases, in the form of a right of-use on the leased asset presented under fixed assets, along with the recognition of a financial liability for the rent and other payments to be made over the leasing period. The right-of-use assets will be amortised on a straight-line basis and the financial liabilities will be amortised on an actuarial basis over the lease period. Under IAS 17, operating leases require no recognition in the balance sheet.

IFRS 16 will become mandatory for annual periods beginning on or after 1 January 2019. The Company has analysed the impact of the standard and established that it has not entered into any contractual agreement which meets the definition of lease as defined by IFRS 16. Therefore, the Directors consider the Standard will have no impact on the Company's financial results.

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 principle 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 policyholder.

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

1.2 Premiums written

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

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

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

1. Accounting policies (continued)

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

The provision for 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.

1.5 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 as the claims incurred for the related direct insurance business being reinsured.

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

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

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

1. Accounting policies (continued)

subsequent re-estimation or settlement of claims are reflected in the income statement in the year in which these claims are re-estimated or settled. These differences may be significant.

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

1.6 Reinsurance

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

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

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

1.7 Financial instruments

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

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

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.

1. Accounting policies (continued)

Financial assets at FVTPL

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

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

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

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

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

Loans and receivables

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

Available-for-sale (AFS) financial assets

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

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

Valuation methodology

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

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.

1. Accounting policies (continued)

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

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

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

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

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

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

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

1.8 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. Accounting policies (continued)

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

Current tax:

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

Deferred tax:

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

2. Critical accounting judgements and key sources of estimation 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 26 to 35. 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.

Unearned Premium Reserves and Deferred acquisition costs
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.

The Company also defers a proportion of acquisition costs incurred during the year to subsequent accounting periods. The Deferred Acquisition Cost (DAC) is generally calculated using the earning pattern applied to calculate the UPR.

Deferred tax
Critical accounting judgments in respect of the deferred tax are disclosed in note 1.10 and note 10.

Payment Protection Insurance (PPI) provisions
The Company has a provision for potential policyholder redress in relation to PPI. For further details, including the key assumptions made in arriving at the provisions, refer to note 17.

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.

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

The key judgements and areas of uncertainty present when assessing PIC's IBNR are summarised in the following table:

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 incurred development patterns • Selection of loss ratios for less developed periods	• Number and amount of future treatments needed on a condition • Claim reporting delays • Claim inflation including impact of medical advances
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.

	2018 £'000	2017 £'000
Gross written premiums		
General business	45,399	53,117
Long-term business	737	1,262
	46,136	54,379
Profit/(loss) before taxation:		
General business	1,501	2,027
Long-term business *	563	2,881
	2,064	4,908
Segmental net assets		
General business (including shareholder's funds/total equity)	148,499	147,133
Long-term business	11,955	11,384
	160,454	158,517

*The profit before tax relating to the Long-term business fund includes £Nil (2017: £2.4m), arising from an allocation of a profit share cost provisions from the Long-term business fund to the General business fund. The allocation is based on the actuarial review and an assessment of the associated costs in relations to these funds.

3. Segmental analysis (continued)

	2018			
	Gross Written Premium £'000	Net Earned Premium £'000	Net Claims Incurred £'000	Net Operating Expenses £'000
Direct Insurance				
Pet	17,025	15,804	(8,047)	(12,606)
Creditor	24,961	27,942	(5,465)	(19,297)
Warranty	3,411	5,358	(2,103)	(4,922)
Household	5	1	2,051	(378)
Motor	(3)	43	1,605	(431)
	45,399	49,148	(11,959)	(37,634)
Inward reinsurance	-	-	-	-
	45,399	49,148	(11,959)	(37,634)
Long term protection	737	737	176	(515)
	46,136	49,885	(11,783)	(38,149)

	2017			
	Gross Written Premium £'000	Net Earned Premium £'000	Net Claims Incurred £'000	Net Operating Expenses £'000
Direct Insurance				
Pet	16,545	16,336	(8,895)	(9,576)
Creditor	31,317	37,402	(11,945)	(29,428)
Warranty	5,396	8,952	(3,033)	(6,018)
Household	(42)	(91)	1,326	(377)
Motor	(99)	(299)	4,892	(194)
	53,117	62,300	(17,655)	(45,593)
Inward reinsurance	-	-	(5)	-
	53,117	62,300	(17,600)	(45,593)
Long term protection	1,262	1,261	(144)	1,530
	54,379	63,561	(17,804)	(44,063)

4. Net investment return

	2018	2017
	£'000	£'000
Interest income from financial investments	4,838	5,493
Net realised losses on financial investments	(1,973)	(2,506)
Net unrealised (losses) / gains on financial investments	(772)	142
Net foreign exchange gains on investments	19	85
	2,112	3,214

5. Net claims incurred

	2018		
	General business	Long-term business	Total
Gross amount	£'000	£'000	£'000
Claims paid	32,215	1,765	33,980
Gross movement in the provision for:			
- Claims outstanding	(23,493)	(5,338)	(28,831)
	8,722	(3,574)	5,148
Reinsurers' share			
Reinsurers' recoveries	(2,354)	(1,557)	(3,911)
Movement in the provision for:			
- Claims outstanding	5,592	4,954	10,546
	3,238	3,397	6,635
	11,959	(177)	11,783

	2017		
	General business	Long-term business	Total
Gross amount	£'000	£'000	£'000
Claims paid	41,307	1,764	43,071
Gross movement in the provision for:			
- Claims outstanding	(34,648)	(99)	(34,747)
	6,659	1,665	8,324
Reinsurers' share			
Reinsurers' recoveries	(749)	(1,530)	(2,279)
Movement in the provision for:			
- Claims outstanding	11,749	9	11,758
	11,001	(1,521)	9,480
	17,660	144	17,804

6. Net operating expenses

	2018 £'000	2017 £'000
Acquisition costs	10,190	13,547
Change in gross deferred acquisition costs	2,618	5,255
Administrative expenses	18,757	17,944
Reinsurance commissions and profit participation	6,584	7,318
	38,149	44,063

7. Profit before tax

Profit for the year is stated after charging	2018 £'000	2017 £'000
The analysis of auditor's remuneration is as follows:		
Fees payable to the Company's auditor for the Company's annual accounts	170	165
Fees payable for audit assurance services pursuant to legislation	-	135
Total audit fees	170	297

Fees paid to the company's auditor, Deloitte LLP, for services other than the statutory audit of the company are disclosed in the relevant group company accounts..

8. Employees

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

	2018 £'000	2017 £'000
Total staff costs	12,524	10,575
Redundancy cost incurred	396	-
Utilisation of provisions	(396)	-
	12,524	10,575

Included above within staff costs are the social security costs of £1.1m (2017: £1.0m) and staff pension contributions of £0.9m (2017: £0.9m).

9. Directors' remuneration

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

	2018	2017
	£'000	£'000
Emoluments	1,019	1,052
Pension contributions to a defined contribution scheme	61	47
	1,080	1,099

The remuneration of the highest paid Director:

	2018	2018
	£'000	£'000
Emoluments of highest paid Director	358	405
Pension contributions of highest paid Director	21	32
	379	437

10. Taxation

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

Tax charged / (credited) to the income statement

	General business		Long-term business		Total	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Current tax						
UK corporation tax charge/(credit) for the year	-	-	-	-	-	-
Prior year adjustments	84	(10)	-	20	84	10
Total current tax charge /(credit)	84	(10)	-	20	84	10
Deferred tax						
Total deferred tax charge /(credit)	49	-	(8)	-	41	-
Total tax charged/(credited) to income statement	133	(10)	(8)	20	125	10

The Company earns its profits entirely in the UK. UK corporation tax has been charged at 19% (2017: 19.25%), the standard rate in the UK for the period.

10. Taxation (continued)

	2018		
Tax reconciliation	**Long-term business**	**General business**	**Total**
	£'000	**£'000**	**£'000**
Total profit before tax	563	1,501	2,064
Tax calculated at the standard UK corporation tax rate of 19%	107	285	392
Effect of:			
Expenses not deductible for tax purposes	-	8	8
Movement in deferred tax not recognised:			
-Transitional adjustments *	(116)	-	(116)
- Brought forward losses utilised	-	(379)	(379)
-Reduction in claims equalisation reserve	-	141	141
-Tax rate difference	1	(6)	(5)
Adjustment in respect of previous years	-	84	84
Total tax charged/(credited) to income statement	(8)	133	125

	2017		
Tax reconciliation	**Long-term business**	**General business**	**Total**
	£'000	**£'000**	**£'000**
Total profit/(loss) before tax	2,881	2,027	4,908
Tax calculated at the standard UK corporation tax rate of 19.25%	555	390	945
Effect of:			
Expenses not deductible for tax purposes	-	-	-
Movement in deferred tax not recognised:			
-Transitional adjustments *	(118)	-	(118)
- Brought forward losses utilised	(437)	(477)	(914)
-Reduction in claims equalisation reserve	-	87	87
Adjustment in respect of previous years	20	(10)	10
Total tax charged/(credited) to income statement	20	(10)	10

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

10. Taxation (continued)

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	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	-	-	-	-	-	-
Losses arising in the period			(8)		(8)	
Losses relieved against profits arising	126	77	-	-	126	77
Decrease in claims equalisation reserve	(77)	(77)	-	-	(77)	(77)
Losses recognised	-	-	-	-	-	-
At 31 December	49	-	(8)	-	41	-

No deferred tax asset has been recognised as at 31 December 2018 or 31 December 2017.

There is an unrecognised deferred tax asset of £nil at 31 December 2018 (2017: £358,000) in respect of trading losses of general business, and £1,520,000 (2017: £1,479,000) in respect of long-term business. A deferred tax asset has not been recognised because it is uncertain whether suitable taxable profits will arise in the foreseeable future.

Analysis of recognised deferred tax liabilities/ (asset)

	General business		Long-term business		Total	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Claims equalisation reserve	230	307	-	-	230	307
Trading losses	(181)	(307)	(8)	-	(189)	(307)
Recognised deferred tax liabilities/(asset)	49	-	(8)	-	41	-

Deferred tax has been recognised at 17% (2017: 17%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

10. Taxation (continued)

Analysis of unrecognised deferred tax asset

	General business		Long-term business		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Transitional adjustment re liabilities	-	-	417	521	417	521
Losses	-	358	1,103	958	1,103	1,316
Unrecognised deferred tax asset	-	358	1,520	1,479	1,520	1,837

Unrecognised deferred tax is calculated at 17% (2017: 17%).

11. Financial assets and liabilities

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

	2018	**2017**
	£'000	**£'000**
Financial assets		
Financial investments:		
Investments held at fair value through profit or loss		
- Debt securities /Bonds	101,694	111,867
Loans and receivables		
- Deposits with credit institutions	115,475	107,472
Total Financial investments	**217,169**	**219,339**
Loans and receivables		
- Cash and cash equivalents	9,043	32,210
- Insurance receivables	6,799	9,657
- Other receivables	4,013	8,177
	19,855	**50,044**
Total financial assets	**237,024**	**269,383**
Financial liabilities		
Insurance payables	26,388	40,727
Other payables	2,484	2,562
Total financial liabilities	**28,872**	**43,289**

Included within financial investments is £nil (2017: £11,534,143) held on behalf of intermediaries.

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).

	2018		2017	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Financial assets	**£'000**	**£'000**	**£'000**	**£'000**
Fair value through profit or loss				
Financial investments				
-Corporate bonds	77,078	77,078	83,686	83,686
-Government bonds	24,616	24,616	28,181	28,181
	101,694	101,694	111,867	111,867

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.

	2018			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit or loss				
-Corporate bonds	77,078	-	-	77,078
-Government bonds	24,616	-	-	24,616
	101,694	-	-	101,694

Fair value hierarchy analysis (continued)

	2017			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit or loss				
-Corporate bonds	83,686	-	-	83,686
-Government bonds	28,181	-	-	28,181
	111,867	-	-	111,867

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

	2018	2017
	£'000	£'000
Cash at bank and in hand	4,420	16,580
Short-term deposits with credit institutions	4,622	15,630
	9,043	32,210

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 2018 was 0.20% (2017: 0.29%).

Included within cash and cash equivalents is a balance of £nil (2017: £1,046,798) held on behalf of intermediaries.

14. Insurance and other receivables

	2018 £'000	2017 £'000
Receivables arising out of direct insurance operations		
-Due from intermediaries	6,799	9,657
Receivables arising out of reinsurance operations	538	282
Other receivables		
-Amounts owed by group undertakings (see note 22)	2,327	6,626
-Accrued interest	1,102	1,152
-Prepayments	45	98
-Corporation tax	-	15
	3,475	7,891
	10,812	17,830
Amounts to be settled within one year	9,362	15,080
Amounts to be settled after one year	1,450	2,750
	10,812	17,830p

The insurance and other receivables are shown at net realisable value and are inclusive of bad debt provision of £nil (2017: £ nil).

15. Other payables, including insurance payables

	2018 £'000	2017 £'000
Insurance payables arising out of direct insurance operations		
-Due to intermediaries	26,388	40,727
Insurance payables arising out of reinsurance operations	62	53
Amounts owed to credit institutions	31	32
Amounts due to group undertakings* (see note 22)	641	824
Other taxation and social security	1,170	1,375
Deferred tax liabilities	41	-
Accrued expenses	539	278
	2,484	2,562
	28,872	43,289
Amounts to be settled within one year	24,117	38,724
Amounts to be settled after more than one year	4,755	4,566
	28,872	43,289

*Included above in amounts due to group undertakings includes re-organisation costs provision of £0.5m (2017: £0.9m) which is detailed below:

Re-organisation costs provision	2018 £'000	2017 £'000
At January	902	1,063
Utilisation of provision	(396)	(161)
Released unused	-	-
At 31 December	506	902

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

16. Share Capital and Reserves

The total shareholder's funds are analysed as:

	2018 £'000	2017 £'000
Authorised		
128,836,000 Ordinary shares of £1 each	128,836	128,836
Issued, allotted, called up and fully paid		
Ordinary shares of £1 each	126,557	126,557
Share Premium	23,323	23,323
	149,880	149,880
Retained earnings	10,577	8,637
Total Shareholder's funds / equity	160,454	158,517

17. Insurance liabilities

2018	Unearned premiums reserve £'000	Claims outstanding £'000	Long-term business provision £'000	Total £'000
Gross Insurance liabilities				
At 1 January 2018	12,984	81,532	36,004	130,520
Movement in provision	(4,231)	(23,556)	(5,275)	(33,062)
At 31 December 2018	8,753	57,976	30,728	97,457
Reinsurance assets				
At 1 January 2018	(220)	(23,620)	(32,942)	(56,782)
Movement in provision	20	5,692	4,854	10,566
At 31 December 2018	(200)	(17,928)	(28,088)	(46,216)
Net Insurance liabilities				
At 1 January 2018	12,764	57,912	3,061	73,737
Movement in provision	(4,210)	(17,864)	(421)	(22,496)
At 31 December 2018	8,554	40,047	2,640	51,241

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

	Claims outstanding		
	General business £'000	Long-term business £'000	Total £'000
Gross amount			
At 1 January 2018	80,361	1,171	81,532
Movement in provision	(23,493)	(63)	(23,556)
At 31 December 2018	56,868	1,108	57,976
Reinsurance assets			
At 1 January 2018	(22,539)	(1,081)	(23,620)
Movement in provision	5,592	100	5,692
At 31 December 2018	(16,947)	(981)	(17,928)
Net Insurance liabilities			
At 1 January 2018	57,822	90	57,912
Movement in provision	(17,901)	37	(17,864)
At 31 December 2018	39,921	127	40,048

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

- Claims incurred but not reported of £19.6m (2017: £30.1m);
- Claims handling expenses provision £2.0m (2017: £2.4m); and
- Payment Protection Insurance (PPI) provision £3.8m (2017: £5.1m), excluding profit share provisions withheld.

17. Insurance liabilities

	2017			
	Unearned premiums reserve	**Claims outstanding**	**Long-term business provision**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Gross Insurance liabilities				
At 1 January 2017	22,942	115,164	37,118	175,225
Movement in provision	(9,958)	(33,633)	(1,115)	(44,706)
At 31 December 2017	12,984	81,532	36,004	130,520
Reinsurance assets				
At 1 January 2017	(233)	(34,289)	(34,031)	(68,553)
Movement in provision	13	10,669	1,089	11,771
At 31 December 2017	(220)	(23,620)	(32,942)	(56,782)
Net Insurance liabilities				
At 1 January 2017	22,709	80,876	3,087	106,672
Movement in provision	(9,945)	(22,964)	(26)	(32,935)
At 31 December 2017	12,764	57,912	3,061	73,737

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 2017	115,009	155	115,164
Movement in provision	(34,648)	1,016	(33,632)
At 31 December 2017	80,361	1,171	81,532
Reinsurance assets			
At 1 January 2017	(34,288)	(1)	(34,289)
Movement in provision	11,749	(1,080)	10,669
At 31 December 2017	(22,539)	(1,081)	(23,620)
Net Insurance liabilities			
At 1 January 2017	80,721	154	80,875
Movement in provision	(22,899)	(64)	(22,963)
At 31 December 2017	57,822	90	57,912

17. Insurance liabilities (continued)

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

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

	2018	2017
	£'000	£'000
Impact on profit before tax		
Insurance losses deteriorate against expected outcome		
5% deterioration	(2,002)	(2,896)
10% deterioration	(4,005)	(5,791)
Insurance losses improve against expected outcome		
5% improvement	2,002	2,896
10% improvement	4,005	5,791

Long-term business provision

The long-term business provision consists mainly of annuities in payment which are c. 97% reinsured. The gross of reinsurance provision has reduced by £5.2m over 2018, due mainly to reducing exposure, reducing life expectancy and an increase in the rate of interest used to value the liabilities. There has also been a reduction in the level of expenses related to this business. See table below for detailed movement analysis:

	Gross		Reinsurance		Net	
	Long term business provision	Long term business Claims Outstanding	Long term business provision	Long term business Claims Outstanding	Long term business provision	Long term business Claims Outstanding
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	36,003	1,171	32,942	1,081	3,061	90
Change in exposure	(2,262)	-	(2,234)	-	(27)	-
Adjustments due to change in assumptions:						
Mortality	(1,376)	-	(1,313)	-	(63)	-
Discount rate	(1,404)	-	(1,378)	-	(26)	-
Inflation rate	72	-	71	-	0	-
Default provision	(59)	-	-	-	(59)	-
Expenses	(129)	-	-	-	(129)	-
Other	(118)	(63)	-	(100)	(118)	37
At 31 December 2018	30,728	1,108	28,088	981	2,640	127

17. Insurance liabilities (continued)

Long-term business provision

The long-term fund value is sensitive to changes in future investment yield assumptions, impacting the value of both assets and liabilities. Sensitivity analysis indicates that the fund value is adversely impacted by £10k (2017: £10k) when investment yields are decreased by 20% of a 15 year UK Gilt yield from the base assumption.

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

	2018	2017
Rates of interest		
RAM - Annuities	1.21%	0.92%
Life After Fifty	1.21%	0.92%
Annuities-general	1.21%	0.92%
Annuities-pension	1.21%	0.92%
GUAL- Annuities	1.21%	0.92%
Assurances :		
Life After Fifty	1.21%	0.92%
Individual Life - WOL & DTA	1.21%	0.92%
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
Life After Fifty	100% of ELT16 Males & ELT16 Females	100% of ELT16 Males & ELT16 Females
Annuities-general	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement
Annuities-pension	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement
GUAL- Annuities	178.7% of Modified PCMA00 plus 2.1% long term mortality improvement & 137.4% of Modified PCFA00 plus 1.7% long term mortality improvement	178.7% of Modified PCMA00 plus 2.1% long term mortality improvement & 137.4% of Modified PCFA00 plus 1.7% long term mortality improvement
Life After Fifty	100% of ELT16 Males & ELT16 Females	100% of ELT16 Males & ELT16 Females
Individual Life - WOL & DTA	100% of A1967-70	100% of A1967-70

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

17. Insurance liabilities (continued)

Claims Development Table

Insurance Claims - Gross

Accident year	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	Total £'000
Estimate of ultimate claims costs							
At the end of accident year	56,047	95,251	121,752	58,098	25,236	20,369	
One year later	56,199	98,372	130,254	48,636	21,436		
Two years later	54,661	100,580	115,036	47,576			
Three years later	55,950	110,327	112,744				
Four years later	55,108	108,611					
Five years later	54,929						
Cumulative claims payments							
At the end of accident year	(25,935)	(42,095)	(51,502)	(29,770)	(13,751)	(11,918)	
One year later	(49,218)	(74,400)	(85,117)	(42,698)	(20,658)		
Two years later	(51,985)	(82,550)	(92,937)	(44,686)			
Three years later	(52,864)	(87,635)	(97,301)				
Four years later	(53,293)	(93,139)					
Five years later	(53,454)						
Current estimate of cumulative claims	54,929	108,610	112,744	47,576	21,436	20,369	365,664
Cumulative payments to date	(53,454)	(93,139)	(97,301)	(44,686)	(20,658)	(11,918)	(321,156)
Claims liability outstanding	1,475	15,471	15,443	2,890	778	8,451	44,508
Claims liability for prior years						40	40
Total claims liability outstanding							**44,548**
Risk margins							6,232
Claims handling expenses							2,027
PPI provisions							3,841
Others							220
Gross Insurance liabilities- General business							**56,868**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

17. Insurance liabilities (continued)

Claims Development Tables (continued)

Insurance Claims – Net of Reinsurance

Accident year	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	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	
One year later	56,025	92,180	111,276	48,918	21,436		
Two years later	54,432	93,165	106,896	47,363			
Three years later	54,372	95,331	107,064				
Four years later	54,617	94,725					
Five years later	54,476						
Cumulative claims payments							
At the end of accident year	(25,935)	(42,095)	(51,502)	(29,770)	(13,751)	(11,918)	
One year later	(49,218)	(74,400)	(85,117)	(42,698)	(20,658)		
Two years later	(51,985)	(81,843)	(92,937)	(44,686)			
Three years later	(52,864)	(86,389)	(97,281)				
Four years later	(53,293)	(89,640)					
Five years later	(53,454)						
Current estimate of cumulative claims	54,476	94,725	107,064	47,363	21,436	20,356	345,420
Cumulative payments to date	(53,454)	(89,640)	(97,281)	(44,686)	(20,658)	(11,918)	(317,636)
Claims liability outstanding	1,023	5,085	9,783	2,677	778	8,438	27,784
Claims liability for prior years						40	40
Net liability after reinsurance							**27,824**
Risk margins							6,232
Claims handling expenses							2,027
PPI provisions							3,841
Others							(3)
Net insurance liabilities- General business							**39,921**

17. Insurance liabilities (continued)

Payment Protection Insurance (PPI) Provision

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

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

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.

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 relating to the administrative costs and redress costs are included within claims outstanding above in note 17 "Insurance liabilities".

In addition, the Company is also withholding an amount of £4.6m (2017: £4.4m) from provisions in relation to future payments due to intermediaries under profit-sharing arrangements, for which amounts can be withheld in respect of compensation payments made to policyholders or for which payments of profit share to intermediaries are currently withheld in line with PPI settlement agreements. This amount is included within creditors arising out of direct insurance in note 19 "Other payable, including insurance payables".

Management's best estimate of the Company's liability at the year-end is as follows:

	2018 £'000	2017 £'000
At 1 January	9,476	9,476
Movement during the year	(1,246)	347
Movement in profit share provisions held	189	(347)
At 31 December	8,419	9,476
PPI provisions as at the year-end is represented by:		
Redress cost	2,864	3,653
Administrative cost	977	1,433
Profit Share Provisions withheld	4,578	4,390
	8,419	9,476

18. Deferred acquisition costs

	General business	Long- term business	Total
	£000	£000	£000
Gross amount			
At 1 January 2018	6,125	36	6,161
Movement in the provision	(2,599)	(19)	(2,618)
At 31 December 2018	3,527	16	3,543
Reinsurance amount			
At 1 January 2018	-	-	-
Movement in the provision	-	-	-
At 31 December 2018	-	-	-
Net amount			
At 1 January 2018	6,126	36	6,161
Movement in the provision	(2,599)	(19)	(2,618)
At 31 December 2018	3,527	16	3,543

19. 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;
- Counterparty risk;
- Liquidity risk; and
- Market risk.

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

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

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

19.1 Insurance risk

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

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

19.2 Counterparty risk

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

The main sources of counterparty risk of the Company are:

- Investment counterparty – this arises from the investment of monies in the range of corporate bonds and bank deposits permitted by the investment policy;

- Insurance debtors – the counterparty risk is influenced by the individual characteristics of each customer including the MGAs. However, management also consider the factors that may influence the credit risk of its customer base, including the default risk of industry and country in which customers operate and provide bad debts provisions where appropriate to reflect their recoverable amount; and

19. 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.

	2018				
	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	217,169	-	-	-	217,169
Insurance receivable and other receivables	10,812	-	-	-	10,812
Reinsurance assets	46,216	-	-	-	46,216
Cash & cash equivalents	9,043	-	-	-	9,043
	283,240	-	-	-	283,240

	2017				
	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	219,339	-	-	-	219,339
Insurance receivable and other receivables	17,834	-	-	-	17,834
Reinsurance assets	56,782	-	-	-	56,782
Cash & cash equivalents	32,210	-	-	-	32,210
	326,165	-	-	-	326,165

19. Risk Management (continued)

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

Financial assets by credit rating	2018				
	Corporate bonds £'000	Government bonds £'000	Deposits with financial institution £'000	Cash & cash equivalents £'000	Total £'000
AAA	-	20,643	-	4,622	25,265
AA	2,082	3,973	-	-	6,055
AA-	10,407	-	27,108	-	37,516
A+	17,842	-	42,648	665	61,155
A	23,891	-	45,719	3,653	73,263
A-	9,725	-	-	-	9,725
BBB+	13,131	-	-	-	13,131
BBB	-	-	-	103	103
BBB-	-	-	-	-	-
	77,078	**24,616**	**115,475**	**9,043**	**226,212**

Financial assets by credit rating (%)	2018				
	Corporate bonds	Government bonds	Deposits with financial institution	Cash & cash equivalents	Total
AAA	-	84%	-	52%	11%
AA	3%	16%	-	-	3%
AA-	14%	-	23%	-	17%
A+	23%	-	37%	7%	27%
A	31%	-	40%	40%	32%
A-	13%	-	-	-	4%
BBB+	16%	-	-	-	6%
BBB	-	-	-	1%	-
BBB-	-	-	-	-	-
	100%	100%	100%	100%	100%

19. Risk Management (continued)

Financial assets by credit rating	2017 Corporate bonds £'000	Government bonds £'000	Deposits with financial institutions £'000	Cash & cash equivalents £'000	Total £'000
AAA	4,778	7,692	-	15,631	28,101
AA	2,019	20,489	-	-	22,508
AA-	12,958	-	55,886	-	68,844
A+	6,932	-	3,009	-	9,941
A	29,522	-	48,577	15,159	93,258
A-	19,980	-	-	-	19,980
BBB+	5,462	-	-	1,003	6,465
BBB	2,035	-	-	-	2,035
BBB-	-	-	-	417	417
	83,686	28,181	107,472	32,210	251,549

Financial assets by credit rating (%)	2017 Corporate bonds	Government bonds	Deposits with financial institutions	Cash & cash equivalents	Total
AAA	6%	27%	-	49%	11%
AA	2%	73%	-	-	9%
AA-	15%	-	52%	-	27%
A+	8%	-	3%	-	4%
A	35%	-	45%	47%	37%
A-	24%	-	-	-	8%
BBB+	7%	-	-	3%	3%
BBB	2%	-	-	-	2%
BBB-	-	-	-	1%	1%
	100%	100%	100%	100%	100%

19. Risk Management (continued)

19.3 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.

	2018				
Time to maturity	**Total £'000**	**1 Year £'000**	**2-3 Years £'000**	**4-5 Years £'000**	**Over 5 Years £'000**
Financial investments					
-Corporate bonds	77,078	24,562	29,496	23,020	-
-Government bonds	24,616	-	7,602	14,144	2,870
-Deposits with financial institutions	115,475	73,271	37,687	4,517	-
Cash & cash equivalents	9,043	9,043	-	-	-
	226,212	106,876	74,785	41,681	2,870

	2017				
Time to maturity	**Total £'000**	**1 Year £'000**	**2-3 Years £'000**	**4-5 Years £'000**	**Over 5 Years £'000**
Financial investments					
-Corporate bonds	83,686	28,710	41,330	13,647	-
-Government bonds	28,181	-	-	9,736	18,445
-Deposits with financial institutions	107,472	59,228	35,682	12,561	-
Cash & cash equivalents	32,210	32,210	-	-	-
	251,549	120,148	77,012	35,944	18,445

19. Risk Management (continued)

At 31 December 2018	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	38,371	17,741	7,726	1,596	11,307
- Provision for claims incurred but not reported	19,605	12,432	6,012	1,152	8
-Long-term business provision	30,728	1,413	2,681	2,464	24,171
	88,705	31,585	16,420	5,212	35,487
Other payables, including insurance payables	28,872	24,117	4,755	-	-
Total	117,577	55,702	21,175	5,212	35,487

At 31 December 2017	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	51,410	19,055	13,628	3,078	15,649
- Provision for claims incurred but not reported	30,122	15,430	9,878	3,779	1,035
-Long-term business provision	36,004	1,538	2,914	2,688	28,865
	117,536	36,022	26,419	9,545	45,549
Other payables, including insurance payables	43,289	38,723	4,566	-	-
Total	160,826	74,745	30,985	9,545	45,549

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

19. Risk Management (continued)

19.4 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 the following risk factors:

- Foreign currency risk; and
- Interest rate risk.

Foreign currency risk:
The Company's foreign currency risk arises on its foreign currency deposits held in Euro currency. The foreign currency total deposits amount to £1.9m (2017: £1.8m) of the total portfolio. These deposits are sensitive to any fluctuation in the exchange rates. Therefore, a 5% increase / (decrease) in Euro exchange rate will decrease / (increase) profit by £0.09m (2017: £0.10m).

Interest risk:
The Company's interest rate risk arises mainly from its bonds portfolio and bank deposits with credit institutions. The maturity duration of investment portfolio is between 1 and 10 years and therefore the Company is only exposed to the interest rate fluctuations upon their maturity or when the term of the fixed term deposits expires.7

The fair value of the investments in Company's balance sheet as at 31 December 2018 was £217.1m (2017: £219.3m). The sensitivity of the carrying value of the Company's total investment portfolio to a movement of 100 basis points in interest rates was as follows. Subject to any impairment charges that may result under the scenarios, the profit for the year would increase by £2.1m (2017: 2.3m) for a 100 basis points increase in interest rates. Conversely, a 100 basis points decrease in interest rates would decrease the profit for the year by £2.3m (2017: £2.4m).

20. Commitments

There were no outstanding capital commitments at 31 December 2018 (2017: £nil).

21. 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 2017 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:

	2018	2017
Capital position	**£'000**	**£'000**
Solvency Capital Requirement	36,008	39,374
Available eligible own funds	157,957	150,865
Capital surplus	**121,949**	**111,491**
Capital coverage ratio	439%	383%

	2018	2017
Eligible own funds	**£'000**	**£'000**
Available capital before foreseeable dividends	157,957	155,763
Foreseeable dividends	-	4,898
Available eligible own funds	**157,957**	**150,865**

The difference between IFRS equity of £160.5m (2017: £159.2m) and Solvency II own funds of £158.0m (2017:£150.9m) represents de-recognition of deferred acquisition costs and insurance technical provisions.

The Company will formally submit its final unaudited Solvency II Solvency Financial Condition Report (SFCR) in May 2019 to the PRA.

22. Related party transactions

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

	2018 £'000	2017 £'000
Amounts due from group undertakings		
BNP Paribas Cardif Limited	875	920
BNP London branch	-	5,705
GIE BNP Paribas Assurance	-	-
Cardif Pinnacle Insurance Management Services plc	1,452	920
	2,327	6,626
Amounts due to fellow group undertakings		
BNP London branch	202	-
Cardif Pinnacle Insurance Management Services plc	-	139
GIE BNP Paribas Assurance	167	20
Pinnacle Pet Healthcare Ltd	271	664
	641	824

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

- Commission paid to BNP Paribas Cardif Limited of £1.7m (2017: £3.0m) for Warranty related insurance policies during the year.
- A fellow undertaking, Cardif Pinnacle Insurance Management Services plc charged £16.8m (2017: £16.1m) in respect of administrative expenses incurred on behalf of the Company including staff cost of £12.5m (2017: £10.6m).
- The balance with BNP Paribas London was in respect of a group tax relief of £nil (2017: £5.7m) which was settled during the year.
- The Company paid £0.6m (2017: £0.3m) to GIE BNP Paribas Assurance in respect of cost associated for the usage of head office IT infrastructure.

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

As at 31 December 2018 there were no loans outstanding to officers of the Company (2017: £nil).

23. Ultimate parent undertaking

The Directors regarded BNP Paribas SA (incorporated in France), as being the Company's ultimate parent undertaking and controlling party, and Cardif Pinnacle Insurance Holdings plc (incorporated in the United Kingdom) as being the immediate parent undertaking.

The parent company of the largest Group to include the Company in its consolidated financial statements is BNP Paribas SA. Copies of these financial statements are available from 16 boulevard des Italiens, 75009 Paris, France.

24. Events after the balance sheet

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