

**PINNACLE INSURANCE PLC**  
Company Registration Number: 01007798

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 December 2020**

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# **PINNACLE INSURANCE PLC**

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# **PINNACLE INSURANCE PLC**

## **Company Information**

**Directors:**

G Binet (Chairman)  
M Haderer  
N D Rochez \*  
R A Hines \*  
A M Wigg  
M J Lorimer  
S.L.P.F Chevalet  
S M Luton (appointed 10 December 2020)\*\*  
H E Rennie (appointed 10 December 2020)\*\*

\* Independent Non-Executive Director  
\*\* subject to PRA approval

**Company Secretary:** M J Lorimer

**Registered Office:** Pinnacle House  
A1 Barnet Way  
Borehamwood  
Hertfordshire  
WD6 2XX

**Actuarial Function Holder:** M Haderer  
(Long-term fund)

**Independent Auditor:** Deloitte LLP  
1 New Street Square  
London  
United Kingdom  
EC4A 3HQ

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

## PINNACLE INSURANCE PLC

### STRATEGIC REPORT

Pinnacle Insurance plc ("the Company") was formed in 1971 and has established itself as a 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+ (Negative outlook). The Group has one of the largest international banking networks, with a presence in 68 countries and employs more than 193,000 employees.

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

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

### BUSINESS REVIEW

#### Pre-tax loss

The Company reported a pre-tax loss of £9.6m (2019: profit of £0.4m), predominantly due to the impact of unemployment claims on the creditor business line and increased overheads.

Despite the significant disruption caused by COVID-19, the Company successfully completed the migration of two Pet back books from a key partner.

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

#### Gross Written Premiums (GWP)

##### *Pet*

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

Gross written premium for Pet business increased by 213% to £64.1m (2019: £20.5m) mainly due to growth in new retail partnership arrangements.

##### *Warranty and GAP*

The Company distributes motor extended Warranty and GAP insurance through a fellow group undertaking, BNP Paribas Cardif Limited under the brand name of Warranty Direct. Following a strategic review, the Board agreed with the Shareholder that the Company will no longer support Motor Warranty or GAP as strategic business lines. While it will cease writing direct to customer business for GAP and Warranty, the Company will continue to support the Shareholder on large strategic relationships.

Gross written premiums for the Warranty and GAP business increased by 91% to £6.7m (2019: £3.5m). The growth was driven by a new GAP partnership with a leading car manufacturer.

## PINNACLE INSURANCE PLC

### STRATEGIC REPORT (continued)

#### **Creditor**

Gross written premiums reduced by 20% to £15.0m (2019: £19.4m). The sale of new Creditor products has ceased and all intermediary business is in run-off.

#### **Household and Motor**

The Company ceased writing business in these lines in 2015.

Business will continue to run off in 2021 and subsequent years for long tail personal injury claims arising on the Motor book.

#### **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 £0.4m in 2020 (2019: £0.6m).

### 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:

	2020 £'000	2019 £'000
Gross Written Premiums	86,830	43,928
Net Earned Premiums	57,637	41,721
Technical Result	10,566	15,944
Investment return	2,940	4,432
Administration Expenses	(23,095)	(19,986)
(Loss) / Profit Before Tax	(9,589)	390
Technical Ratio	95%	62%
Claims Ratio	74%	33%
Commission Ratio	21%	29%

**Gross Written Premiums (GWP):** represents the total premiums written in a given year before deductions of reinsurance and ceding commission. GWP increased in the year by £42.4m (96%) due to the growth of the Pet business, offset by a the continued and expected decrease in Creditor.

**Net Earned Premiums (NEP):** represents the portion of the policy's premium that applies to the expired portion of the policy. The NEP of £57.6m increased by £15.9m due to the growth of Pet £20.0m, partly offset by a decrease on Creditor (£3.5m) and Motor Warranty (£0.6m) .

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

## PINNACLE INSURANCE PLC

### STRATEGIC REPORT (continued)

#### KEY PERFORMANCE INDICATORS

**Investment Income:** Investment income represents income arising from the Company's investment portfolio income, including the impact of marked to market revaluations, 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 £179.6m at 31 December 2020 (2019: £195.9m) of which 29% (2019: 34%) was held in bonds, 51% (2019: 57%) in term-deposits with credit institutions and 19% (2019: 9%) in cash and cash equivalents.

Total net investment return for the year is £2.9m (2019: £4.4m) which comprises interest earned on financial investments of £2.9m (2019: £4.1m), realised gain on bonds of £0.1m (2019: loss £2.7m) and unrealised loss of £0.1 (2019: gain £3.0m).

**Administration Expenses:** Administration expenses represent those operating expenses incurred by the Company, which are not classified as either acquisition or claims handling costs. Administration expenses increased by £3.1m to £23.1m (2019: £19.9m), £1.6m of the increase is due to the net impact of provision and accrual releases in 2019 and 2020. Aside from this, expenses increased by £1.5m, this increase was due to a number of factors including amortisation as well as an increases in fees recharged from the group.

**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 which increased to 95% (2019: 62%) is mainly driven by an increase in incurred claims.

**Claims Ratio:** Calculated as net claims incurred expressed as a percentage of NEP. The claims ratio in 2020 increased to 74% (2019: 33%) due to increased number of unemployment related claims on Creditor business driven by the COVID-19 pandemic.

**Commission Ratio:** Commission incurred expressed as a percentage of NEP. The Commission ratio in 2020 decreased to 21% (2019: 29%) mainly due to profit share movements on the creditor book arising as a result of an increase in expected unemployment claims incurred in the year.

## PINNACLE INSURANCE PLC

### 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
<b>Insurance risk</b>	The Company is exposed to insurance risk through the insurance contracts that it issues where it assumes the risk of loss from persons or organisations that are directly subject to the underlying loss. The Company is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.	The Company has a Board approved underwriting policy and agreed risk appetites, and monitors these on a regular basis. Particular attention is paid to actual and forecast loss ratios (claims over premiums).
<b>Operational risk</b>	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.
<b>Reserving risk</b>	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.
<b>Credit /Counterparty risk</b>	The Company's exposure to credit risk arises from its direct insurance trading activities, the exposure to the reinsurance it purchases and those of its investment activities. The risk is the risk of default arising from any of these exposures.	The Company seeks to limit, as far as is practical, exposure to credit risk from its investment activities. To achieve this objective it has established guidelines, procedures and monitoring requirements to manage credit risk. Particular attention has been paid to the quality of investment counterparties.

## PINNACLE INSURANCE PLC

### STRATEGIC REPORT (continued)

Risk	Impact on Company	Mitigation of risk
<b>Liquidity risk</b>	Liquidity risk is the risk that sufficient financial resources are not available in cash to enable the Company to meet obligations as they fall due.	The Company, seeks to limit exposure to liquidity risk by ensuring liquidity is optimally managed and that all known cash flows can be met out of readily available sources of funding. The Company maintains a strong liquidity position by holding its assets predominantly in investment grade fixed income securities, call accounts and readily tradable corporate bonds.
<b>Market risk</b>	Market risk is the risk that the Company is adversely affected by movements in the value of its financial assets arising from market movements.	The Company has a low risk appetite for this type of risk which has been translated into a policy allowing the Company to invest predominantly in short-term bonds or cash to match the short-tail nature of most of its claims. Longer duration assets are purchased to better match with longer duration Motor liabilities.
<b>Conduct risk</b>	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 £0.7m (2019: £7.1m). See note 19 for further detail.

**Brexit:** We continue to monitor developments in relation to the withdrawal of the United Kingdom from the European Union. A review of all of PIC's remaining non-UK business was completed and all non-UK business was closed before the end of 2019.

At the present time, having regard to the current macro-economic environment and the fact that all the business is in the UK, we believe the largest impact could arise from a recession following Brexit. PIC has no exchange rate exposure and no risk to staff from the EU being prevented from remaining employed by PIC post Brexit.



## **PINNACLE INSURANCE PLC**

### **STRATEGIC REPORT (continued)**

#### **COVID-19**

The effect of the COVID-19 pandemic, specifically the invocation of the remote working model has had a significant impact on a number of processes. In anticipation of the first lockdown, a comprehensive re-assessment of the key processes, resources and suppliers was carried out to identify the best way to provide continuity of service to our customers. This has been reviewed throughout successive lockdowns.

This assessment also identified a small number of processes that could only be undertaken on the premises and consideration was given to the protection of information with additional security protocols being introduced to reduce the impact of data loss or human error. As the Company begins to plan for a post lock down environment, continued staff welfare remains the primary consideration. All staff will be consulted before being asked to return to the office, to ensure their individual circumstances and responsibilities are considered and accounted for.

#### **Climate change**

Financial risks from climate change can arise through Physical risks (e.g. specific weather events and longer term shifts in climate), Transition risks (arising from the process of adjustment towards a low-carbon economy) and Liability risks (from parties who have suffered loss or damage from physical or transition risk factors).

In response to the PRA Policy Statement on the management of financial risks from climate change issued in 2019, and the subsequent update in 2020, the Company will create a plan expected to be completed by the end of 2021. This will define a strategic framework for governance:

- that embeds the consideration of financial risks from climate change in the Company's governance arrangements;
- risk management that incorporates the financial risks from climate change into existing financial risk management practice;
- the use of scenario analysis to inform strategy setting and risk assessment and identification and developing an approach to disclosure on financial risks from climate change.

This framework will be aligned with the PRA's expectation.

#### **FUTURE DEVELOPMENTS**

In 2020, the core agenda defined by the Board and management is:

- Growth of the Company's Pet business with a focus on the launch of new partnerships.
- Continuation of the re-engineering of the Pet business, with technology as the enabler to expand the distribution channels and to ensure the delivery of a scalable operating model with an efficient cost structure; and
- Expense management.

#### **GOING CONCERN**

During the year, the Company made a loss after tax of £7.4m (2019 profit: £1.1m). The Company also has considerable financial resources, which include cash and cash equivalents of £34.5m (2019: £17.2m) and an investment portfolio of £145.0m (2019: £178.7m) 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.

## **PINNACLE INSURANCE PLC**

### **STRATEGIC REPORT (continued)**

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

Management have performed solvency and liquidity stress tests for the 24 month period ending December 2022 which indicates that to remain within our solvency risk appetite mitigating action would need to be considered. Management have identified possible mitigating actions which could be considered including reducing costs, deferring product launches and seeking additional support from the Shareholder and reinsurance. Taking account of these potential mitigating actions, this analysis demonstrates that the Company could continue as a going concern for at least the next year given its financial and liquidity strength.

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

## PINNACLE INSURANCE PLC

### STRATEGIC REPORT (continued) Section 172 Statement

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

The table below sets out the stakeholders, why it is important to engage and the methods of engagement during 2020.

Stakeholder Group	Why it is important to engage	How the Directors engaged
<b>Shareholder</b>	The company seeks to create value for its ultimate and intermediate Shareholders by generating sustainable results and by protecting brand value and reputation with partners, customers and regulators.	<p>The Board continuously monitors progress and performance towards the creation of value and sustainable results. It decided in 2020 to conduct strategic reviews for the UK entities, which it shared with the Shareholder leading to the closure of some activities.</p> <p>With the importance attached by the Shareholder to reputation, the Directors systematically consider this risk in their decision-making and in choosing the actions they closely monitor.</p> <p>They regularly liaise with the Shareholder's representatives in the Board and in jointly held committees on Governance, Risk and Compliance such as the Risk and Audit Committee (RAC) and the Internal Controls Committee (ICC).</p> <p>Executive Directors also hold regular meetings with the Shareholder on financial, strategic, customer-related and regulatory topics to understand and take into consideration its perspectives.</p>
<b>Partners</b> The Company also provides insurance via a number of intermediaries and partnerships	Partner engagement is important for the development of commercial relationships and value creation and to ensure good levels of customer service for policyholders.	<p>The Board receives regular updates on partner relationships and its impact on customers.</p> <p>In response to the pandemic, senior management discussed and agreed with the Board and the Company's partners changes to the operational model for claims by relaxing some claims procedures and policy terms. This was to support claimants by relaxing rules and processes, in addition the Company signed up to and implemented the ABI pledge for the Company's Pet customers.</p>

**PINNACLE INSURANCE PLC**

**STRATEGIC REPORT (continued)**

**Section 172 Statement (continued)**

<b>Stakeholder Group</b>	<b>Why it is important to engage</b>	<b>How the Directors engaged</b>
<b>Customers</b>  <p>The Company is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the provision of regulated products and services.</p>	<p>Acting in the best interest of customers is core to the success of the business and the wider BNPP Group.</p> <p>The business is focused to deliver products and services that perform as customers expect and are of an acceptable standard. The Company also ensures customers have the ability to change products, submit claims and make complaints without hindrance.</p> <p>Regular engagement is essential to ensure these expectations are met and any failings are identified and remedied quickly and efficiently.</p>	<p>Various committees, particularly the Customer &amp; Conduct Committee (C&amp;CC), which reports to the RAC, the main sub-committee of the board, monitor on a regular basis the fair treatment of customers.</p> <p>Executive Directors also routinely report to the Board on customer related matters and on levels of customer service.</p> <p>The monitoring of resource levels in customer facing areas, and of key performance indicators, such as Net Promoter Scores, complaints and root cause analysis continued to guide decisions.</p> <p>This became particularly important in 2020 as the pandemic required remote working. It led to even closer examination by the Executive Directors and the delivery of specific IT solutions to meet the challenges and changes to serve customers.</p> <p>Executive Directors also held regular discussions with partners, agreeing short-term changes to the operating model. The outcomes were monitored and changes in direction and approach were discussed with and agreed by the RAC and the Board.</p>
<b>Regulators</b> <p>The Company is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the provision of regulated products and services.</p>	<p>The fair treatment of customers is central to the UK group ethos as is compliance with laws and regulations, Policy Statements and guidance published by the Regulator, to ensure good customer outcomes and the maintenance of the Company's reputation.</p> <p>The Board has no risk appetite for regulatory breaches or sanctions.</p>	<p>The Board receives regular updates on regulatory developments from the Legal and Compliance functions, anticipates changes and reacts and plans accordingly.</p> <p>The Board regularly reviews the compliance reports to assess the company's level of compliance.</p>

**PINNACLE INSURANCE PLC**

**STRATEGIC REPORT (continued)**

**Section 172 Statement (continued)**

Stakeholder Group	Why it is important to engage	How the Directors engaged
<p><b>Workforce</b></p> <p>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.</p> <p>We define workforce as employees, contractors and agency staff</p> <p>Key metrics:</p> <ul style="list-style-type: none"> <li>- Employee satisfaction survey</li> <li>- Employee turnover rate</li> <li>- Sickness rates</li> </ul>	<p>The company's success is predicated on the commitment of the workforce to deliver the company's objectives.</p> <p>The Company engages with the workforce to ensure that it provides staff with adequate resource and materials to enable them to work effectively and in an environment that best supports their well-being.</p>	<p>The Executive Directors ensure effective engagement with all the workforce and report regularly to the board on it:</p> <ul style="list-style-type: none"> <li>- They communicate regularly through formal and informal meetings as well as newsletters and journals published on the company's intranet.</li> <li>- They consult regularly with Employee representatives on a wide range of matters affecting their current and future interests.</li> <li>- They monitor key metrics to identify and address any issues that may have an impact on employee well-being.</li> </ul> <p>These interactions have been particularly important in 2020 due to the pandemic and the remote working.</p> <p>All employees take part in an annual group-wide survey, which measures staff satisfaction against a number of criteria including well-being, employee engagement, corporate social responsibility, respect and conduct and others.</p> <p>The results of this survey, the relevant action plans and more generally workforce related issues are presented to the board and closely followed by it.</p>
<p><b>Our communities and the environment</b></p>	<p>The Company has a responsibility to help address the challenges facing society, which is why the Company's CSR strategy aims to support the United Nations' 17 Sustainable Development Goals (SDG's).</p> <p>The company's focus is on its people, community and the environment. With that in mind, the Company has chosen three SDG's in particular, which we see as core to the CSR agenda:</p> <ul style="list-style-type: none"> <li>• Good health and well-being</li> <li>• Quality education</li> <li>• Climate action</li> </ul>	<p>The Directors support Management in the establishment of a CSR Action Group with representatives from a broad cross section of the Company for the support, development and implementation of key CSR initiatives.</p> <p>The difficulties of the pandemic led the Directors to reinforce their commitment to CSR and to encourage management and staff to increase the number of volunteering and charitable initiatives undertaken.</p>

## PINNACLE INSURANCE PLC

### STRATEGIC REPORT (continued)

#### Section 172 Statement (continued)

##### Key decisions in 2020

Following a strategic review, the Board agreed with the Shareholder that the Company will no longer support Motor Warranty or GAP as strategic business lines. While it will cease writing direct to customer business for GAP and Warranty, the Company will continue to support the Shareholder on large strategic relationships.

Following the publication of a consultation paper by the PRA and FCA on Operational Resilience, the Board have agreed a plan to assess operational resilience and to address any gaps identified in 2021.

Following the publication by the FCA of PS 20-9 General Insurance Value Measures Reporting, the Board, in consideration of its activities (Pet insurance), agreed a plan and the requisite resource to analyse the impact and possible answers to these proposed measures. While pet Insurance is not currently included in the proposal from the FCA, the Board nonetheless requested management to consider it and have actions plans ready should the situation evolve.

## PINNACLE INSURANCE PLC

### STRATEGIC REPORT (continued)

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

To monitor the successful implementation of the measures the Company is taking to address its direct environmental impact, an environmental reporting system is in place. The environmental performance data contained in this report has been compiled in line with the GHG Protocol Corporate Accounting and Reporting Standard issued by WRI and WBCSD, the ISO standards on environmental communication, the Global Reporting Initiative (GRI) and relevant regulations on the disclosure of non-financial information. The reporting scope covers all physical locations where we have operational control. Where available data covers only part of the reporting scope, missing data had been extrapolated using a uniform methodology.

Scope 1 comprises emissions generated from natural gas and fuel oil used in buildings.

Scope 2 emissions are reported using GHG Protocol dual-reporting methodology, stating two figures to reflect the GHG emissions from purchased electricity, using both:

- a location-based method that reflects the average emission intensity of the national electricity grids from which consumption is drawn;
- and a market-based method that reflects emissions from electricity specific to each supply/contract. Where electricity supplies are known to be from a certified renewable source, a zero emissions factor is used, otherwise residual mix factors are used.

Scope 3 emissions comprises emissions generated from business travel including air, rail, leased company and employee vehicles.

**PINNACLE INSURANCE PLC**

**STRATEGIC REPORT (continued)**

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

**Greenhouse Gas Emissions<sup>1</sup>**

Absolute GHG Emissions in tonnes of CO<sub>2</sub>e

tonnes of CO<sub>2</sub>e

**Scope 1: Direct GHG emissions due to combustion of fossil fuels**

2020 2019

**Scope 2: Indirect GHG emissions from imported energy**

Market-based 19.88 0

Location-based 434.82 545.20

**Total Scope 1 and 2**

Market-based 162.36 143.90

Location-based 577.31 689.10

**Scope 3: Indirect emissions from mobility (air, rail, company and employee vehicles)**

7.01 61.24

**Total Scope 1, 2 & 3**

Location-based 584.32 750.34

Intensity

GHG Emissions in tonnes of CO<sub>2</sub>e (location based)

**Total Scope 1 & 2 GHG Emissions from occupied premises per full-time equivalent employee (FTE)**

1.92 2.43

**Total Scope 1 & 2 GHG Emissions from occupied premises per floor area (m<sup>2</sup>)**

0.14 0.17

**Total Scope 1, 2 & 3 GHG Emissions per FTE**

1.95 2.64

Energy Consumption

Absolute energy consumption in kWh

kWh

2020 2019

**Total Scope 1 & Scope 2 Energy Consumption**

1,949,555 2,272,789

**Total Scope 1 & 2 Energy Consumption from occupied premises per floor area (m<sup>2</sup>)**

475 554

<sup>1</sup> Emission Factors Scope 1: IEA CO<sub>2</sub> Highlights (2015). Scope 2: *Location-based* WRI (2008) GHG Protocol tool for stationary combustion; *Market based* RE-DISS II; AIB European Residual Mix (2017). Scope 3: *Air & Rail* ADEME V6.11; *Road* DEFRA GHG Conversion Factors (2011).



## PINNACLE INSURANCE PLC

### STRATEGIC REPORT (continued)

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

The data in this report has been verified to a reasonable level of assurance by PwC in accordance with IFAC standard ISAE 3000. You can access our assurance statement [here](https://group.bnpparibas/en/group/corporate-social-responsibility) at <https://group.bnpparibas/en/group/corporate-social-responsibility>.

#### Reducing energy consumption and emissions

Climate Change is undeniably one of the greatest challenges of our times. In 2019, the UK government committed to bring all greenhouse gas emissions to net zero by 2050. The Company has joined the BNP Paribas Group initiative in order to support the [UN Sustainable Development Goals](#). By engaging with employees and working in partnership with suppliers, we are committed to reducing the impact of the Company's operations on the environment.

The Company's Carbon Management Strategy provides a clear roadmap to future-proofing our business and our planet. The company is committed to:

- supporting the BNP Paribas Group with reducing green-house gas emissions by 25% per employee by 2020 compared with a 2012 baseline.
- investing in even more energy efficiency technologies across our sites, including those highlighted through ESOS<sup>2</sup> assessments;
- transitioning to a greener fleet;
- and to procuring all electricity from renewable sources by 2021.

Between 2019 and 2020 the Company delivered a number of energy efficiency initiatives following an ESOS audit including improvements to building management controls and improving operational practices. Other on-going initiatives remain in progress but have been delayed due to COVID-19.

The Company's Carbon intensity reduced by 10% per employee in 2019 versus the 2012 baseline. Driven by COVID-19 related reduced building occupancy and travel restrictions, BNP Paribas Cardiff Pinnacle's carbon intensity reduced by 21% per employee in 2020 against 2019. Furthermore, 95.6% of electricity purchased by the Company in 2020 came from renewable sources supported by a REGO certificate.

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<sup>2</sup> Energy Savings Opportunity Scheme – mandatory energy assessment scheme for qualifying UK organisations

## PINNACLE INSURANCE PLC

### STRATEGIC REPORT (continued)

#### APPROVAL

This report was approved by the Board of Directors on 7<sup>th</sup> April 2021 and signed on its behalf by:

  
Director  
A M Wigg

## **PINNACLE INSURANCE PLC**

### **DIRECTORS' REPORT**

The Directors present this report together with the Strategic Report, Financial Statements and Auditor's Report, for the year ended 31 December 2020.

#### **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 17. 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 35. The loss after taxation for the year was £7.4m (2019: profit: £1.1m).

The Company paid dividends of £nil (2019: £5.8m) on ordinary shares during the year to its UK parent, Cardif Pinnacle Insurance Holdings plc. There were no dividends proposed after the year end.

#### **CAPITAL STRUCTURE**

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

#### **DIRECTORS**

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

G Binet (Chairman)  
R A Hines \*  
M Haderer  
N D Rochez \*  
A M Wigg  
M J Lorimer  
S.L.P.F Chevalet  
S M Luton (appointed 10 December 2020)\*\*  
H E Rennie (appointed 10 December 2020) \*\*

\* Independent Non-Executive Director

\*\* subject to PRA approval

#### **POLITICAL CONTRIBUTIONS**

No political contributions were made during the year (2019: £nil).

## PINNACLE INSURANCE PLC

### DIRECTORS' REPORT (continued)

#### EMPLOYEE INVOLVEMENT AND CONSULTATION

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

The Company places considerable value on the involvement of the 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. See s172 statement on pages 10-13.

#### 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, be identical to that of other employees.

#### ACTUARIAL VALUATION

An actuarial valuation was carried out as at 31 December 2020 in respect of the long-term fund. A report has been prepared by the Actuarial function holder (Long-term fund) advising the Board on this valuation.

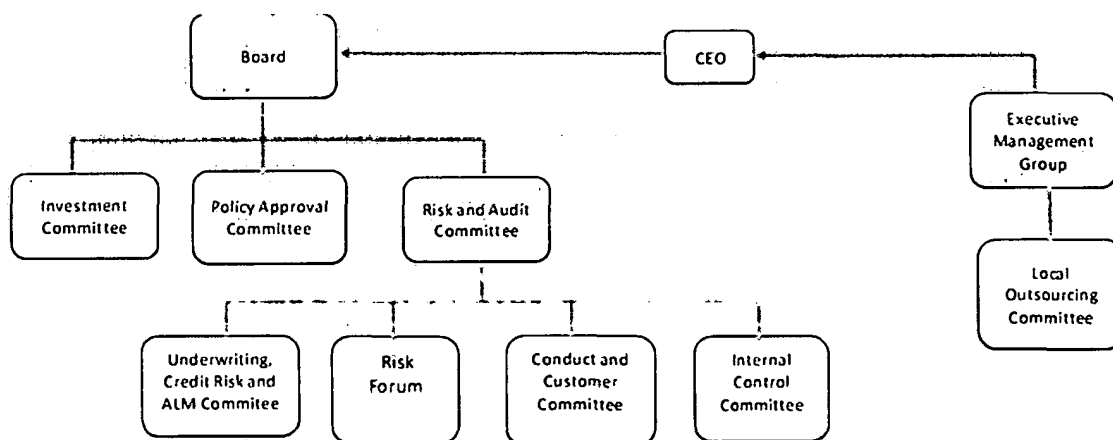
#### CORPORATE GOVERNANCE

The Company is not listed and accordingly there is no requirement to comply with the 2020 UK Corporate Governance Code. Key Corporate Governance arrangements of the Company are highlighted below:

##### *The Board*

The Company's Board comprises Directors and Non-Executive Directors who are responsible to the Shareholder and other stakeholders for ensuring that the Company is appropriately managed and achieves its objectives. The Board met six times in 2020 to determine the Company's strategic direction, review operating and financial performance, and to ensure that the Company is adequately resourced and effectively controlled.

The Company's governance regime is summarised as follows:



## PINNACLE INSURANCE PLC

### DIRECTORS' REPORT (continued)

#### *Directors' attendance*

The Company requires Directors to attend all meetings of the Board and the Committees on which they serve and to devote sufficient time to the Company in order to perform their duties. The attendance of the Directors at the Board and Committee meetings, of which they are a member, held in 2020 was as follows:

	Board	Risk and Audit Committee	Investment Committee	Policy Approval Committee	Conduct and Customer Committee	Underwriting, Credit and ALM Risks Committee	Internal Controls Committee
Number of meetings held	6	8	4	2	4	4	4
G Binet	6	*	*	*	*	*	*
R A Hines	6	8	*	*	*	*	*
S.L.P.F Chevalet	6	*	*	*	*	*	*
M Haderer	6	6	*	1	*	4	*
M J Lorimer	6	8	*	2	4	*	4
N D Rochez	6	8	*	*	*	*	*
A M Wigg	6	7	4	1	3	3	4
H E Rennie**	1	*	*	*	*	*	3
S M Luton**	1	8	4	*	1	4	*

\* indicates not a member of that Committee

\*\* appointed to the Board 10 December 2020.

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

#### *Risk and Audit Committee (RAC)*

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

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

## PINNACLE INSURANCE PLC

### DIRECTORS' REPORT (continued)

#### ***Policy Approval Committee***

The Committee is chaired by the General Counsel and reports to the Board. It was established in June 2020 by the Board as a sub-committee to review and approve all policies that require Board approval only. The Committee's main responsibilities are:

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

#### ***Investment Committee***

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

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

#### ***Conduct and Customer Committee (CCC)***

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

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

#### ***Risk Forum***

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

## **PINNACLE INSURANCE PLC**

### **DIRECTORS' REPORT (continued)**

#### ***Internal Control Committee (ICC)***

The ICC is chaired by the General Counsel and reports to the RAC. Its main responsibilities are to:

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

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

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

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

#### ***Local Outsourcing Committee (LOCC)***

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

The Committee's main responsibilities are to:

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

## PINNACLE INSURANCE PLC

### DIRECTORS' REPORT (continued)

#### *Project Review Board*

The review Board is chaired by the Chief Executive and convenes monthly. The Review Board's main responsibilities are:

- Ensure the programme and project road map is in line with the agreed business strategy;
- Makes decisions regarding resource priorities;
- To review all programmes and projects within CP for budgetary performance (resource and financial), delivery status and risks;
- Ensure appropriate Group and local governance is applied to all programmes and projects.

#### INTERNAL AUDIT FUNCTION

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

#### DISCLOSING INFORMATION TO THE AUDITOR

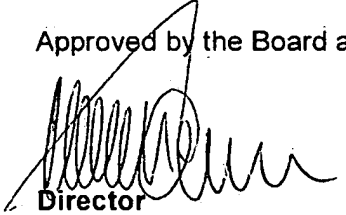
Each of the persons who is a Director as at the date of this report confirms that:

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

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

Deloitte LLP has expressed their willingness to continue in office as auditor 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  
7<sup>th</sup> APRIL 2021



## **PINNACLE INSURANCE PLC**

### **DIRECTORS' RESPONSIBILITIES STATEMENT**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with 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.

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

**Report on the audit of the financial statements**

**1. Opinion**

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

- give a true and fair view of the state of the company's affairs as at 31 December 2020 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 flow; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

**2. Basis for opinion**

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that 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.

**PINNACLE INSURANCE PLC**

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

**Report on the audit of the financial statements (continued)**

3. Summary of our audit approach

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>Valuation of technical provisions – IBNR reserve relating to motor bodily injury claims.</li> </ul> <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> <li>⚠ Newly identified</li> <li>⬆ Increased level of risk</li> <li>↔ Similar level of risk</li> <li>⬇ Decreased level of risk</li> </ul>
<b>Materiality</b>	The materiality that we used in the current year was £2.95m, which was determined based on 2% of the company's net assets.
<b>Scoping</b>	Audit work to respond to the risks of material misstatement was planned and performed directly by the audit engagement team.
<b>Significant changes in our approach</b>	<p>We have used a lower level of materiality of £1.44m which was based on 1.7% of the Gross Written premiums ('GWP') figure to audit the Premiums, Claims and Acquisition Cost balances. We have used a lower materiality for these specific account balances due to increased user scrutiny on these accounts, and the users of the financial statements will consider these account lines on a profit-driven basis of materiality as opposed to balance sheet.</p> <p>In addition to the above we have not considered 'Revenue recognition - earning patterns applied to the unearned premium reserve' -as a key audit matter in the current year. In the previous year we considered the appropriateness of the patterns and methodology used to defer premium income over periods for which the company is on risk, specifically on multi-year policies within the warranty business as a key audit matter. Given we have not previously noted errors in GWP, all the premiums are earned on a straight line basis and the incidence of claims is not materially seasonal we no longer consider this a key audit matter.</p> <p>There have been no other significant changes to our audit approach from the prior year.</p>

4. Conclusions relating to going concern

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

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

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

**Report on the audit of the financial statements (continued)**

- evaluated management's approach and made inquiries of senior management with regard to assessing the impact of Covid-19 on the business and its financial statement disclosures, including further steps the entity will take in case economic and other factors deteriorate further;
- 
- evaluated management's scenario analysis including solvency coverage ratio and market and interest rates risks, and challenged management's key assumptions by assessing its consistency with available market data and other external information and our understanding of the business;
- assessed the historical accuracy of the forecasts prepared by management; and
- assessed the disclosures made by management in the financial statements against applicable accounting standards and evaluated the consistency of the disclosures with our knowledge of the business.

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

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

**5. Key audit matters**

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

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

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

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Key audit matter description	The company's gross general insurance claims reserve amounts to £49m (2019: £45m). 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.
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**PINNACLE INSURANCE PLC**

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

**Report on the audit of the financial statements (continued)**

Key audit matter description	<p>The key judgements applied in IBNR reserve relating to motor bodily injury claims are:</p> <ul style="list-style-type: none"> <li>• The methods used to carry out actuarial calculations; and</li> <li>• The frequency and severity of excess bodily injury claims.</li> </ul> <p>For further details, please refer to Note 1 – Accounting policies and Note 17 – Insurance liabilities.</p>
How the scope of our audit responded to the key audit matter	<p>With the involvement of our actuarial specialist we have performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of the relevant controls over the reserving process for large motor bodily injury claims;</li> <li>• Reconciled motor bodily claims data per source systems and third party bordereaux to that used by the BNP Paribas Cardif group actuarial department, and tested samples of other relevant data which feeds into the actuarial models;</li> <li>• Challenged the assumptions and methodology used in comparison to standard actuarial techniques and consistency to prior year end;</li> <li>• Performed a graphical analysis of management's selected ultimate claims compared to historical paid and incurred claims development trends and quantified the impact of any material outliers; and</li> <li>• Benchmarked these results against industry experience.</li> </ul>
Key observations	<p>We have concluded that the methodology and assumptions used by the company to value the IBNR reserve on large bodily injury claims are reasonable.</p>

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

**Report on the audit of the financial statements (continued)**

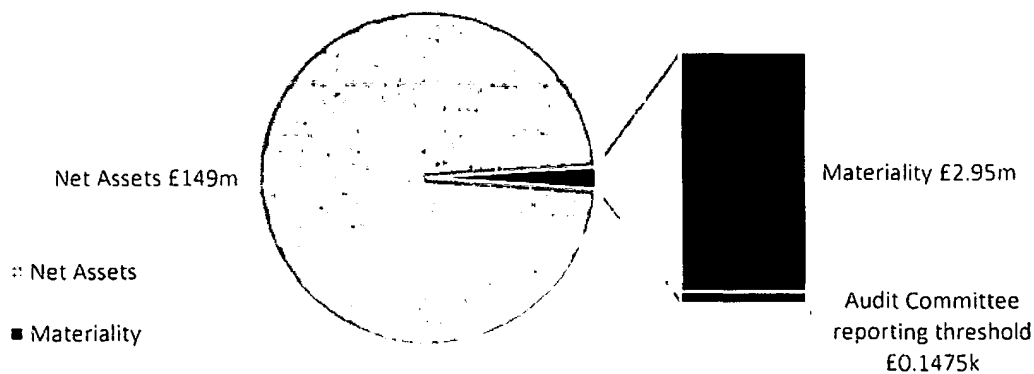
**6. Our application of materiality**

**6.1. Materiality**

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

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

<b>Materiality</b>	£2.95m (2019: £3.1m). We have used a lower level of materiality of £1.44m which was based on 1.7% of the Gross Written premiums ('GWP') figure to audit the Premiums, Claims and Acquisition Cost balances. We have used a lower materiality for these specific account balances due to increased user scrutiny on these accounts, and the users of the financial statements will consider these account lines on a profit-driven basis of materiality as opposed to balance sheet.
<b>Basis for determining materiality</b>	2% of net assets.  This is consistent with prior year.
<b>Rationale for the benchmark applied</b>	We have used net assets as the company is well established and has been trading for many years. The users of the financial statements will be interested in the Solvency Capital requirements and the ability of the company to continue to pay claims. The company's performance has also fluctuated in recent years. We therefore believe that net assets is the most consistent and useful metric over a longer period of time.



## **PINNACLE INSURANCE PLC**

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

#### **Report on the audit of the financial statements (continued)**

##### **6.2. Performance materiality**

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 64% of materiality for the 2020 audit (2019: 64%). In determining performance materiality, we considered the control environment, including how we did not take a controls reliance approach, as well as the nature and level of misstatements identified in previous audits.

##### **6.3. Error reporting threshold**

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

#### **7. An overview of the scope of our audit**

##### **7.1. Scoping**

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

##### **7.2. Our consideration of the control environment**

The entity has a number of key IT systems, impacting varying account balances and classes of transactions. We did not plan to rely on the IT controls associated with these systems due to control deficiencies identified within the premiums, claims and reserving processes. We have engaged our IT specialists to test the GITCs over the relevant technology elements within the IT environment, including the application system, database, operating system and network.

#### **8. Other information**

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

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

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

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

We have nothing to report in respect of these matters.

## **PINNACLE INSURANCE PLC**

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

#### **Report on the audit of the financial statements (continued)**

#### **9. Responsibilities of directors**

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

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

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

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

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

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

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

##### **11.1. Identifying and assessing potential risks related to irregularities**

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

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



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**INDEPENDENT AUDITOR'S REPORT**  
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**Report on the audit of the financial statements (continued)**

- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax, IT, and actuarial specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

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

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

**11.2. Audit response to risks identified**

As a result of performing the above, we identified revenue recognition and valuation of technical provisions – IBNR reserve - as key audit matters related to the potential risk of fraud. 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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with 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.

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

**Report on the audit of the financial statements (continued)**

**Report on other legal and regulatory requirements**

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

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

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

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

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

**13.1. Adequacy of explanations received and accounting records**

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

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

We have nothing to report in respect of these matters.

**13.2. Directors' remuneration**

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

We have nothing to report in respect of this matter.

**14. Other matters**

**14.1. Auditor tenure**

Following the recommendation of the BNP Paribas group audit committee, Deloitte were appointed by the directors as joint auditors to the group, and were therefore appointed as auditors of Pinnacle Insurance Plc to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 9 years, covering the years ending 31 December 2012 to 31 December 2020.

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

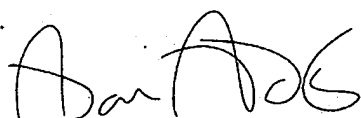
Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

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

**Report on the audit of the financial statements (continued)**

**15. Use of our report**

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



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

7<sup>th</sup> April 2021

**PINNACLE INSURANCE PLC**  
**Income Statement**  
**For the year ended 31 December 2020**

	Notes	2020 £'000	2019 £'000
<b>Income</b>			
Gross written premiums	3	86,830	43,928
Less: reinsurance premiums		<u>(2,485)</u>	<u>(332)</u>
Net written premiums		84,345	43,596
Change in the gross provision for unearned premiums	17	<u>(28,669)</u>	<u>(1,805)</u>
Less: change in provision for unearned premiums, reinsurers' share	17	<u>1,961</u>	<u>(70)</u>
Net change in provision for unearned premiums		<u>(26,708)</u>	<u>(1,875)</u>
Net earned premiums		57,637	41,721
Net investment return	4	<u>2,940</u>	<u>4,432</u>
<b>Total income</b>		60,576	46,153
<b>Expenses</b>			
Gross claims incurred	5	(39,084)	(19,764)
Less: claims recoveries from reinsurers		<u>(3,472)</u>	<u>5,628</u>
Net claims incurred		(42,556)	(14,136)
Net operating expenses	6	<u>(27,609)</u>	<u>(31,627)</u>
<b>Total expenses</b>		<u>(70,165)</u>	<u>(45,763)</u>
<b>(Loss)/profit before tax</b>		(9,589)	390
Tax credit	10	<u>2,154</u>	<u>668</u>
<b>(Loss)/profit for the year</b>		<u>(7,435)</u>	<u>1,058</u>
Attributable to:			
Owner of the Company		<u>(7,435)</u>	<u>1,058</u>

A statement of other comprehensive income (SOCi) or loss is not presented as there were no items requiring classification to the SOCi during the year and prior year. Hence, loss (2019: profit) represents total comprehensive profit for the year attributable to the owner of the Company.

The notes on pages 39 to 80 form an integral part of these financial statements.

**PINNACLE INSURANCE PLC**

Company number: 01007798

**Statement of Financial Position  
As at 31 December 2020**

	Notes	2020 £'000	2019 £'000
<b>Assets</b>			
Financial investments	11	145,045	178,660
Reinsurance assets	17	44,637	48,468
Deferred tax		233	316
Insurance and other receivables	14	48,498	16,963
Deferred acquisition costs	18	9,081	3,087
Cash and cash equivalents	13	34,545	17,273
<b>Total assets</b>		<b>282,039</b>	<b>264,767</b>
<b>Equity</b>			
Share capital		126,557	126,557
Share premium account		23,323	23,323
Retained earnings		(2,140)	5,295
<b>Total equity</b>	16	<b>147,740</b>	<b>155,175</b>
<b>Liabilities</b>			
Insurance liabilities	17	120,255	86,024
Other payables, including insurance payables	15	12,925	15,020
Provisions	19	1,119	8,548
<b>Total liabilities</b>		<b>134,299</b>	<b>109,592</b>
<b>Total equity and liabilities</b>		<b>282,039</b>	<b>264,767</b>

The financial statements were approved and authorised for issue on 7<sup>th</sup> April 2021 by the Board of Directors and are signed on its behalf by:



Director  
A M Wigg

The notes on pages 39 to 80 form an integral part of these financial statements.

# PINNACLE INSURANCE PLC

## Statement of Changes in Equity For the year ended 31 December 2020

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
<b>At 1 January 2019</b>	<b>126,557</b>	<b>23,323</b>	<b>10,037</b>	<b>159,917</b>
Profit for the year	-	-	1,058	1,058
Dividends paid *	-	-	(5,800)	(5,800)
<b>At 31 December 2019</b>	<b>126,557</b>	<b>23,323</b>	<b>5,295</b>	<b>155,175</b>
(Loss) for the year	-	-	(7,435)	(7,435)
Dividends paid *	-	-	-	-
<b>At 31 December 2020</b>	<b>126,557</b>	<b>23,323</b>	<b>(2,140)</b>	<b>147,740</b>

\*Dividends paid in 2020: £nil (2019: £5,800k per ordinary share is £0.0458).

The notes on pages 39 to 80 form an integral part of these financial statements.

# PINNACLE INSURANCE PLC

## Statement of Cash Flows For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
<b>(Loss)/profit for the year before tax</b>		(9,589)	390
<b>Adjustments for non-cash items</b>			
Net unrealised loss/(gain) on financial assets at FVTPL	4	62	(3,006)
Change in provision for unearned premiums	17	26,708	1,875
Change in outstanding claims		11,353	(11,720)
Change in deferred acquisition costs	18	(5,008)	(207)
Change in other assets		(31,569)	(3,626)
Change in other creditors		(10,512)	(9,144)
Tax credit		2,154	668
<b>Cash used in operating activities</b>		<b>(16,399)</b>	<b>(24,769)</b>
<b>Investing activities</b>			
Proceeds from debt securities maturities		22,826	45,054
Purchase of debt securities		(8,049)	(10,572)
Proceeds from deposits maturities		54,371	41,358
Deposits with credit institutions		(35,476)	(37,038)
<b>Net cash from investing activities</b>		<b>33,672</b>	<b>38,802</b>
<b>Financing activities</b>			
Dividend paid		-	(5,800)
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>(5,800)</b>
<b>Net increase in cash and cash equivalents</b>		<b>17,272</b>	<b>8,230</b>
Cash and cash equivalents at 1 January	13	17,273	9,043
<b>Cash and cash equivalents at 31 December</b>	<b>13</b>	<b>34,545</b>	<b>17,273</b>

The notes on pages 39 to 80 form an integral part of these financial statements

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### Corporate information

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

#### Basis of preparation

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

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

#### Functional and presentation currency

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

#### Going concern

During the year, the Company made a loss after tax of £7.4m (2019 profit: £1.1m). The Company has considerable financial resources, which include cash and cash equivalents of £34.5m (2019: £17.3m) and an investment portfolio of £145.0m (2019: £178.7m) as at the year-end. In addition, the Company undertakes an ongoing assessment of its Solvency Capital Requirement (see note 22), including consideration of the Company's sensitivity to risk, alongside quarterly monitoring of the annual budget and forecasts. As such, after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### Adoption of new and revised standards

The Company has adopted the following new standards and amendments to IFRSs and IASs that became mandatorily effective for the Company for the first time during 2020. However, these changes had no impact on the Company's financial statements or financial performance.

#### Amendments to IFRS 4 "Insurance Contracts"

Amendments to IFRS 4 Insurance Contracts "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" was issued on 12 September 2016 and endorsed by the EU on 3 November 2019. These amendments permitted insurers who satisfied certain criteria to defer the effective date of IFRS 9, to January 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.



## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 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 2020 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 £52.8m (2019: £67.5m). The amount of change in the fair value during the year for these assets is £14.8m (2019: £34.1m).

In note 20, 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 2019, the IASB issued IFRS 17 Insurance Contracts, which replaces IFRS 4. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features an entity issues, provided the same entity also issues insurance contracts. The scope of IFRS 17 is substantially consistent with that of IFRS 4.

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

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

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

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

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### **New accounting standards published but not yet applicable (continued)**

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

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

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

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

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

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

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

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

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

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

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### New accounting standards published but not yet applicable (continued)

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

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

#### IFRS 9 "Financial Instruments"

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

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

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

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

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

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 1. Accounting policies

The principal accounting policies are set out below:

##### 1.1 Contract classification

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

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

##### 1.2 Premiums written

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

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

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

##### 1.3 Unearned premiums

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

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

##### 1.4 Deferred acquisition costs

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

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

## **PINNACLE INSURANCE PLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **1. Accounting policies (continued)**

##### **1.5 Insurance claims**

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

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

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

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

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

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

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

##### **1.6 Reinsurance**

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

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

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 1. Accounting policies (continued)

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

#### 1.7 Financial instruments

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

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

#### Financial assets

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

#### Financial assets at FVTPL

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

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

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

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

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

#### 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.

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 1. Accounting policies (continued)

##### Available-for-sale (AFS) financial assets

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

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

##### Valuation methodology

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

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

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

##### Impairment of financial assets

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

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

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.

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 1. Accounting policies (continued)

##### Financial Liabilities

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

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

##### 1.8 Cash and cash equivalents

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

##### 1.9 Provisions

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

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

##### 1.10 Taxation

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

##### Current tax:

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

##### Deferred tax:

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



## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 1. Accounting policies (continued)

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 43 to 47. UK company law and IFRSs require the Directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent.

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

##### Accounting judgements

###### 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.

##### Sources of estimation uncertainty

###### 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 19.

###### 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.

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

Business class	Key judgements	Main sources of uncertainty
Creditor	<ul style="list-style-type: none"> <li>Selection of development patterns based on historical data (including removal of development considered unrepresentative)</li> <li>Selection of loss ratios for recent periods</li> </ul>	<ul style="list-style-type: none"> <li>Recovery (Accident, Sickness) and re-employment rates</li> <li>Claim reporting delays</li> <li>Claim acceptance rates</li> </ul>
Household	<ul style="list-style-type: none"> <li>Selection of development patterns based on historical data</li> <li>Tail development of claims (particularly large) beyond limits of data</li> <li>Selection of frequency and severity on unreported large claims</li> </ul>	<ul style="list-style-type: none"> <li>Future development of open claims (particularly large losses), including impacts of <ul style="list-style-type: none"> <li>Cost inflation</li> <li>Delays in establishing final cost</li> </ul> </li> </ul>
Motor	<ul style="list-style-type: none"> <li>Selection of development patterns based on historical data</li> <li>Selection of tail development beyond limit of data</li> <li>Selection of frequency and severity of bodily injury claims developing from 'small' to 'large'</li> <li>Allowance for indexation of reinsurance deductible when calculating net liabilities (based on assumed settlement delay)</li> <li>Selection of Periodical Payment Order (PPO) modelling parameters (e.g. PPO propensity, mortality tables and impaired lives adjustments, claim inflation, discount rates)</li> </ul>	<ul style="list-style-type: none"> <li>Future development of open claims (particularly large losses)</li> <li>Parts, labour and compensation cost inflation</li> <li>Uncertainty around long-term costs: care cost inflation, legal cost inflation, loss of earnings</li> <li>Periodical Payment Order (PPO) propensity.</li> <li>Settlement delays (notably impacting reinsurance deductible via indexation)</li> <li>Impact of individuals' injuries on ability to work, future care costs and mortality (noting that some individuals affected are still very young)</li> <li>Changes in Ogden discount rate</li> <li>Reinsurer default</li> <li>Court rulings impacting future claim costs</li> </ul>
Pet	<ul style="list-style-type: none"> <li>Selection of paid development patterns</li> <li>Selection of loss ratios for less developed periods</li> </ul>	<ul style="list-style-type: none"> <li>Claims settlement delays</li> <li>Variability in expected Loss ratios for the most recent periods</li> </ul>
Warranty	<ul style="list-style-type: none"> <li>Selection of paid development patterns</li> <li>Selection of loss ratios for less developed periods</li> </ul>	<ul style="list-style-type: none"> <li>Number and amount of unsettled claims</li> <li>Claim (parts and labour cost) inflation</li> </ul>

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 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.

	2020 £'000	2019 £'000
<u>Gross written premiums</u>		
General business	86,401	43,362
Long-term business	429	566
	<u>86,830</u>	<u>43,928</u>
<u>Profit/(loss) before taxation:</u>		
General business	(10,505)	(2,044)
Long-term business	917	2,433
	<u>(9,589)</u>	<u>390</u>
<u>Segmental net assets</u>		
General business (including shareholder's funds/total equity)	138,002	146,270
Long-term business	9,738	8,905
	<u>147,740</u>	<u>155,175</u>

**PINNACLE INSURANCE PLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

**3. Segmental analysis (continued)**

<b>2020</b>				
	<b>Gross Written Premium</b>	<b>Net Earned Premium</b>	<b>Net Claims Incurred</b>	<b>Net Operating Expenses</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Direct Insurance</b>				
Pet	64,167	37,794	(23,644)	(23,030)
Creditor	15,527	16,063	(16,122)	(984)
Warranty and GAP	6,713	3,358	(1,634)	(3,590)
Household	(6)	(6)	(174)	(141)
Motor	-	-	(659)	(354)
	<u>86,402</u>	<u>57,209</u>	<u>(42,233)</u>	<u>(28,099)</u>
<b>Inward reinsurance</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>86,402</u>	<u>57,209</u>	<u>(42,233)</u>	<u>(28,099)</u>
<b>Long-term protection</b>	<u>429</u>	<u>429</u>	<u>(323)</u>	<u>490</u>
	<u><b>86,831</b></u>	<u><b>57,637</b></u>	<u><b>(42,556)</b></u>	<u><b>(27,609)</b></u>
<b>2019</b>				
	<b>Gross Written Premium</b>	<b>Net Earned Premium</b>	<b>Net Claims Incurred</b>	<b>Net Operating Expenses</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Direct Insurance</b>				
Pet	20,495	17,727	(8,359)	(17,712)
Creditor	19,357	19,553	(6,033)	(11,645)
Warranty and GAP	3,513	3,914	(2,025)	(2,762)
Household	-	-	835	-
Motor	(2)	(40)	865	(339)
	<u>43,363</u>	<u>41,154</u>	<u>(14,717)</u>	<u>(32,458)</u>
<b>Inward reinsurance</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>43,363</u>	<u>41,154</u>	<u>(14,717)</u>	<u>(32,458)</u>
<b>Long-term protection</b>	<u>566</u>	<u>566</u>	<u>581</u>	<u>833</u>
	<u><b>43,928</b></u>	<u><b>41,721</b></u>	<u><b>(14,136)</b></u>	<u><b>(31,627)</b></u>

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 4. Net investment return

	2020	2019
	£'000	£'000
Interest income from financial investments	2,884	4,136
Net realised losses on financial investments	118	(2,715)
Net unrealised gains / (losses) on financial investments	(62)	3,006
Net foreign exchange gains on investments	-	5
	<u>2,940</u>	<u>4,432</u>

### 5. Net claims incurred

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

	2019		
	General business	Long-term business	Total
	£'000	£'000	£'000
Gross amount			
Claims paid	27,859	1,303	29,162
Gross movement in the provision for:			
- Claims outstanding	(7,977)	(1,586)	(9,563)
- Provision for liability adequacy test	166	-	166
	<u>20,048</u>	<u>(283)</u>	<u>19,765</u>
Reinsurers' share			
Reinsurers' recoveries	(2,122)	(1,185)	(3,307)
Movement in the provision for:			
- Claims outstanding	(3,208)	887	(2,321)
	<u>(5,330)</u>	<u>(298)</u>	<u>(5,628)</u>
	<u>14,718</u>	<u>(581)</u>	<u>14,136</u>

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 6. Net operating expenses

	2020	2019
	£'000	£'000
Acquisition costs	18,377	9,654
Change in gross deferred acquisition costs	(5,994)	(207)
Administrative expenses	23,095	19,986
Movement in provisions	(7,430)	129
Reinsurance commissions and profit participation	(441)	2,065
	<u>27,609</u>	<u>31,627</u>

### 7. Profit /(loss) before tax

	2020	2019
	£'000	£'000
Profit for the year is stated after charging		
The analysis of auditor's remuneration is as follows:		
Fees payable to the Company's auditor for the Company's annual accounts	250	229
Total audit fees	<u>250</u>	<u>229</u>

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

### 8. Employees

The Company had no employees during the year. A fellow subsidiary of Cardiff Pinnacle Insurance Holdings plc, Cardiff 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:

	2020	2019
	£'000	£'000
Total staff costs	14,181	12,721
Redundancy cost incurred	351	20
Released unused /Utilisation of provisions	(486)	(20)
	<u>14,046</u>	<u>12,721</u>

Included above within staff costs are the social security costs of £1.6m (2019: £1.3m) and staff pension contributions of £1.2m (2019: £1.1m).

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 9. Directors' remuneration

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

	2020 £'000	2019 £'000
Emoluments	1,404	1,225
Pension contributions to a defined contribution scheme	31	16
	<u>1,435</u>	<u>1,241</u>

The remuneration of the highest paid Director:

	2020 £'000	2019 £'000
Emoluments of highest paid Director	445	462
Pension contributions of highest paid Director	8	3
	<u>453</u>	<u>465</u>

### 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	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
<b>Current tax</b>						
UK corporation tax charge/(credit) for the year	(1,994)	(302)	-	-	(1,994)	(302)
Prior year adjustments	(243)	-	-	(9)	(243)	(9)
Total current tax charge /(credit)	<u>(2,237)</u>	<u>(302)</u>	<u>-</u>	<u>(9)</u>	<u>(2,237)</u>	<u>(311)</u>
<b>Deferred tax</b>						
Prior year adjustments	-	-	-	(424)	-	(424)
Total deferred tax charge /(credit)	<u>-</u>	<u>(49)</u>	<u>83</u>	<u>116</u>	<u>83</u>	<u>67</u>
<b>Total tax charged/(credited) to income statement</b>	<u>(2,237)</u>	<u>(351)</u>	<u>83</u>	<u>(317)</u>	<u>(2,154)</u>	<u>(668)</u>

The Company earns its profits entirely in the UK. UK corporation tax has been charged at 19% (2019: 19%), the standard rate in the UK for the period.

**PINNACLE INSURANCE PLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

**10. Taxation (continued)**

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

	<b>2019</b>		
	<b>Long-term business £'000</b>	<b>General business £'000</b>	<b>Total £'000</b>
	<u>2,433</u>	<u>(2,044)</u>	<u>390</u>
Tax calculated at the standard UK corporation tax rate of 19%	462	(388)	74
Effect of:			
Expenses not deductible for tax purposes	-	1	1
Brought forward losses utilised	(346)	-	(346)
Reduction in claims equalisation reserve	-	27	27
Tax rate difference	-	(9)	(9)
Adjustment in respect of previous years			
-Under provision prior years	-	-	-
-Tax rate difference	(1)	-	(1)
-Recognition of deferred tax asset relating to prior periods	(432)	-	(432)
Total tax credited to income statement	<u>(317)</u>	<u>(351)</u>	<u>(668)</u>



# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 10. Taxation (continued)

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

#### Deferred tax liabilities/ (asset)

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

	General business		Long-term business		Total	
	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	-	49	(316)	(8)	(316)	41
Recognition of deferred tax on transitional adjustment re liabilities	-	-	-	(316)	-	(316)
Decrease in the transitional adjustments re liabilities	-	-	116	-	116	-
Losses relieved against profits arising	-	-	-	8	-	8
Decrease in claims equalisation reserve	-	(49)	-	-	-	(49)
Remeasurement of deferred tax for changes in tax rates	-	-	(34)	-	34	-
At 31 December	-	-	(233)	(316)	(233)	(316)

#### Analysis of recognised deferred tax liabilities/ (asset)

	General business		Long-term business		Total	
	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Transitional adjustment re liabilities	-	-	(233)	(316)	(233)	(316)
Recognised deferred tax liabilities/( asset)	-	-	(233)	(316)	(233)	(316)

Deferred tax has been recognised at a rate between 19% according to the expected timing of reversal (2019: 17%).

The recognised deferred tax represents future tax deductions arising from the legislative change to the basis on which long-term business is taxed from 2013.

These deductions will arise in the years from 2020 to 2022 and it is expected that there will be sufficient taxable profits available in the group to fully utilise them.

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 10. Taxation (continued)

#### Analysis of unrecognised deferred tax asset

There is an unrecognised deferred tax asset of £0.2m at 31 December 2020 (2019: £0.03) in respect of trading losses of general business, and £0.9m (2019: £0.8m) in respect of long-term business. A deferred tax asset has not been recognised because it is uncertain whether suitable taxable profits will arise in the foreseeable future. The losses relates to Pre 1 April 2017.

	<u>General business</u>		<u>Long-term business</u>		<u>Total</u>	
	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Transitional adjustment re liabilities	-	(154)	-	-	-	(154)
Losses	202	181	830	794	1,032	975
Unrecognised deferred tax asset	202	27	830	794	1,032	821

Unrecognised deferred tax is calculated at 19% (2019: 17%).

### 11. Financial assets and liabilities

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

	2020 £'000	2019 £'000
<b>Financial assets</b>		
<i>Financial investments:</i>		
<u>Investments held at fair value through profit or loss</u>	52,782	67,503
- Debt securities /Bonds		
<u>Loans and receivables</u>		
- Deposits with credit institutions	92,263	111,157
<b>Total Financial investments</b>	<b>145,045</b>	<b>178,660</b>
<u>Loans and receivables</u>		
- Cash and cash equivalents	34,545	17,273
- Insurance receivables	37,018	9,448
- Other receivables	11,480	7,515
	<b>83,043</b>	<b>34,236</b>
<b>Total financial assets</b>	<b>228,088</b>	<b>212,896</b>
<b>Financial liabilities</b>		
Insurance payables	6,749	12,890
Other payables	6,177	2,130
<b>Total financial liabilities</b>	<b>12,926</b>	<b>15,020</b>

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 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).

	2020		2019	
	Fair value	Carrying value	Fair value	Carrying value
	£'000	£'000	£'000	£'000
<b>Financial assets</b>				
<u>Fair value through profit or loss</u>				
Financial investments				
-Corporate bonds	40,754	40,754	55,676	55,676
-Government bonds	12,028	12,028	11,827	11,827
	<u>52,782</u>	<u>52,782</u>	<u>67,503</u>	<u>67,503</u>

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.

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 12. Fair value (continued)

#### Fair value hierarchy analysis

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

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

	2019			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<u>Financial assets at fair value through profit or loss</u>				
-Corporate bonds	55,676	-	-	55,676
-Government bonds	11,827	-	-	11,827
	67,503	-	-	67,503

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

	2020	2019
	£'000	£'000
Cash at bank and in hand	9,045	3,273
Short-term deposits with credit institutions	25,500	14,000
	<u>34,545</u>	<u>17,273</u>

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 2020 was 0.23% (2019: 0.76%).

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 14. Insurance and other receivables

	2020 £'000	2019 £'000
Receivables arising out of direct insurance operations		
-Due from intermediaries and policyholders	37,018	9,448
Receivables arising out of reinsurance operations	1,011	693
Other receivables		
-Amounts owed by group undertakings (see note 23)	7,974	5,680
-Accrued interest	500	714
-Corporation tax	1,994	428
	<u>10,468</u>	<u>6,822</u>
	<u>48,498</u>	<u>16,963</u>
Amounts to be settled within one year	47,248	15,713
Amounts to be settled after one year	<u>1,250</u>	<u>1,250</u>
	<u>48,498</u>	<u>16,963</u>

The insurance and other receivables are shown at net realisable value and are inclusive of bad debt provision of £nil (2019: £nil).

# **PINNACLE INSURANCE PLC**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

### **15. Other payables, including insurance payables**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Insurance payables arising out of direct insurance operations		
-Due to intermediaries	6,749	12,891
Insurance payables arising out of reinsurance operations	1,127	24
Amounts due to group undertakings* (see note 23)	1,304	556
Other taxation and social security	3,450	1,430
Accrued expenses	296	120
	<u>6,177</u>	<u>2,130</u>
	<u>12,925</u>	<u>15,020</u>
Amounts to be settled within one year	12,925	15,020
Amounts to be settled after more than one year	-	-
	<u>12,925</u>	<u>15,020</u>

\*Included above in amounts due to group undertakings includes re-organisation costs provision of £nil (2019: £0.48) which is detailed below:

<u>Re-organisation costs provision</u>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
At January	486	506
Utilisation of provision	-	(20)
Released unused	(486)	-
At 31 December	<u>-</u>	<u>486</u>

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:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Authorised		
128,836,000 Ordinary shares of £1 each	<u>128,836</u>	<u>128,836</u>
Issued, allotted, called up and fully paid		
Ordinary shares of £1 each	126,557	126,557
Share Premium	<u>23,323</u>	<u>23,323</u>
	149,880	149,880
Retained earnings	<u>(2,140)</u>	<u>5,295</u>
Total Shareholder's funds / equity	<u>147,740</u>	<u>155,175</u>

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 17. Insurance liabilities

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

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

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

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

- Claims incurred but not reported of £25.1m (2019: £23.4m); and
- Claims handling expenses provision £1.8m (2019: £1.4m).

**PINNACLE INSURANCE PLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

**17. Insurance liabilities**

	<b>2019</b>				
	<b>Unearned premiums reserve £'000</b>	<b>Claims outstanding £'000</b>	<b>Long-term business provision £'000</b>	<b>Provision for liability adequacy test £'000</b>	<b>Total £'000</b>
<b>Gross Insurance liabilities</b>					
At 1 January 2019	8,753	54,135	30,728	-	93,616
Movement in provision	1,805	(8,956)	(608)	166	(7,592)
At 31 December 2019	10,559	45,179	30,120	166	86,024
<b>Reinsurance assets</b>					
At 1 January 2019	(200)	(17,928)	(28,088)	-	(46,216)
Movement in provision	70	(2,228)	(93)	-	(2,252)
At 31 December 2019	(130)	(20,156)	(28,182)	-	(48,468)
<b>Net Insurance liabilities</b>					
At 1 January 2019	8,554	36,207	2,640	-	47,400
Movement in provision	1,875	(11,184)	(701)	166	(9,844)
At 31 December 2019	10,429	25,023	1,939	166	37,556

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

	<b>Claims outstanding</b>		
	<b>General business £'000</b>	<b>Long-term business £'000</b>	<b>Total £'000</b>
<b>Gross amount</b>			
At 1 January 2019	53,027	1,108	54,135
Movement in provision	(7,978)	(978)	(8,956)
At 31 December 2019	45,049	130	45,179
<b>Reinsurance assets</b>			
At 1 January 2019	(16,947)	(981)	(17,928)
Movement in provision	(3,208)	980	(2,228)
At 31 December 2019	(20,155)	(1)	(20,156)
<b>Net Insurance liabilities</b>			
At 1 January 2019	36,080	127	36,207
Movement in provision	(11,186)	2	(11,184)
At 31 December 2019	24,894	129	25,023



## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 17. Insurance liabilities (continued)

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

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

	2020 £'000	2019 £'000
<i>Impact on loss before tax</i>		
<u>Insurance losses deteriorate against expected outcome</u>		
5% deterioration	(1,827)	(1,251)
10% deterioration	(3,654)	(2,502)
<u>Insurance losses improve against expected outcome</u>		
5% improvement	1,827	1,251
10% improvement	3,654	2,502

#### 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 increased by £1.4m over 2020 with reducing exposure and reducing life expectancy offset by the decrease in the rate of interest used to value the liabilities. Impact of rate of interest on discounting expense and default provision is also shown under Discount rate section. The long term claims outstanding consists of claims reserves attached to Creditor business with a death benefit attached. Provision is increased to account for COVID-19 related claims. See table below for detailed movement analysis:

**PINNACLE INSURANCE PLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

**17. Insurance liabilities (continued)**

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

	<b>2019</b>					
	<b>Gross</b>		<b>Reinsurance</b>		<b>Net</b>	
	Long-term business provision	Claims Outstanding	Long-term business provision	Claims Outstanding	Long-term business provision	Claims Outstanding
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2019	30,728	1,107	28,083	981	2,645	12
Change in exposure	(1,360)	(980)	(650)	(980)	(710)	-
Adjustments due to change in assumptions:						
Mortality	26	-	25	-	1	-
Discount rate	1,458	-	1,472	-	(14)	-
Inflation rate	(754)	-	(754)	-	-	-
Default provision	-	-	-	-	-	-
Expenses	5	-	-	-	5	-
Other	17	2	-	-	11	-
At 31 December 2019	<u>30,120</u>	<u>129</u>	<u>28,176</u>	<u>1</u>	<u>1,939</u>	<u>12</u>

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 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 below £1k (2019: £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:

	2020	2019
<u>Rates of interest</u>		
RAM - Annuities	-0.12%	0.57%
Annuities-general	-0.12%	0.57%
Annuities-pension	-0.12%	0.57%
GUAL- Annuities	-0.12%	0.57%
<u>Assurances :</u>		
Life After Fifty	-0.12%	0.57%
Individual Life - WOL & DTA	-0.12%	0.57%
<u>Mortality tables</u>		
RAM – Annuities & IP	89.4% of Modified PCMA00 plus 2.1% long term mortality improvement & 91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	89.4% of Modified PCMA00 plus 2.1% long term mortality improvement & 91.6% of Modified PCFA00 plus 1.7% long term mortality improvement
Annuities-general	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement
Annuities-pension	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement	91.6% of Modified PCFA00 plus 1.7% long term mortality improvement
GUAL- Annuities	178.7% of Modified PCMA00 plus 2.1% long term mortality improvement & 137.4% of Modified PCFA00 plus 1.7% long term mortality improvement	178.7% of Modified PCMA00 plus 2.1% long term mortality improvement & 137.4% of Modified PCFA00 plus 1.7% long term mortality improvement
Life After Fifty	100% of ELT16 Males & ELT16 Females	100% of ELT16 Males & ELT16 Females
Individual Life - WOL & DTA	100% of A1967-70	100% of A1967-70

**PINNACLE INSURANCE PLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

**17. Insurance liabilities (continued)**

**Claims Development Table**

<b>Insurance Claims - Gross</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
<b>Accident year</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Estimate of ultimate claims costs</b>									
At the end of accident year	56,047	95,251	121,752	58,098	25,336	20,369	18,361	34,525	
One year later	56,199	98,372	130,254	48,636	21,436	17,977	18,004		
Two years later	54,661	100,580	115,036	47,576	21,290	17,844			
Three years later	55,950	110,327	112,744	47,395	21,351				
Four years later	55,108	108,611	115,310	47,365					
Five years later	54,929	111,268	114,476						
Six years later	54,647	107,721							
Seven years later	54,408								
<b>Cumulative claims payments</b>									
At the end of accident year	(25,935)	(42,095)	(51,502)	(29,770)	(13,751)	(11,918)	(12,089)	(19,367)	
One year later	(49,218)	(74,400)	(85,117)	(42,698)	(20,658)	(17,372)	(17,303)		
Two years later	(51,985)	(82,550)	(92,937)	(44,686)	(21,244)	(17,782)			
Three years later	(52,864)	(87,635)	(97,301)	(45,750)	(21,308)				
Four years later	(53,293)	(93,139)	(102,332)	(46,167)					
Five years later	(53,454)	(95,601)	(105,488)						
Six years later	(53,544)	(97,230)							
Seven years later	(53,581)								
Current estimate of cumulative claims	54,408	107,721	114,476	47,365	21,351	17,844	18,004	34,525	415,696
Cumulative payments to date	(53,581)	(97,230)	(105,488)	(46,167)	(21,308)	(17,782)	(17,303)	(19,367)	(378,226)
Claims liability outstanding	<b>827</b>	<b>10,491</b>	<b>8,989</b>	<b>1,198</b>	<b>43</b>	<b>62</b>	<b>701</b>	<b>15,158</b>	<b>37,470</b>
Claims liability for prior years								<b>55</b>	<b>55</b>
<b>Total claims liability outstanding</b>									<b>37,525</b>
Risk margins									9,915
Claims handling expenses									1,775
Others									190
Claims liabilities –Long-term business									124
<b>Gross Claims liabilities</b>									<b>49,529</b>

**PINNACLE INSURANCE PLC**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

**17. Insurance liabilities (continued)**

**Claims Development Tables (continued)**

<b>Insurance Claims – Net of Reinsurance Accident year</b>	<b>2013 £'000</b>	<b>2014 £'000</b>	<b>2015 £'000</b>	<b>2016 £'000</b>	<b>2017 £'000</b>	<b>2018 £'000</b>	<b>2019 £'000</b>	<b>2020 £'000</b>	<b>Total £'000</b>
<b>Estimate of ultimate claims costs</b>									
At the end of accident year	56,047	93,998	119,608	52,442	25,336	20,356	18,361	34,495	
One year later	56,025	92,180	111,276	48,918	21,436	17,977	18,004		
Two years later	54,432	93,165	106,896	47,363	21,290	17,844			
Three years later	54,372	95,331	107,064	47,088	21,351				
Four years later	54,617	94,725	107,098	47,251					
Five years later	54,476	94,648	108,301						
Six years later	54,487	95,112							
Seven years later	53,904								
<b>Cumulative claims payments</b>									
At the end of accident year	(25,935)	(42,095)	(51,502)	(29,770)	(13,751)	(11,918)	(12,089)	(19,352)	
One year later	(49,218)	(74,400)	(85,117)	(42,698)	(20,658)	(17,372)	(17,303)		
Two years later	(51,985)	(81,843)	(92,937)	(44,686)	(21,244)	(17,782)			
Three years later	(52,864)	(86,389)	(97,281)	(45,750)	(21,308)				
Four years later	(53,293)	(89,640)	(101,008)	(46,167)					
Five years later	(53,454)	(91,493)	(103,765)						
Six years later	(53,544)	(92,732)							
Seven years later	(53,183)								
Current estimate of cumulative claims	53,904	95,112	108,301	47,251	21,351	17,844	18,004	34,495	396,261
Cumulative payments to date	(53,183)	(92,732)	(103,765)	(46,167)	(21,308)	(17,782)	(17,303)	(19,352)	(371,592)
Claims liability outstanding	721	2,380	4,536	1,084	43	62	701	15,143	24,669
Claims liability for prior years								55	55
<b>Net liability after reinsurance</b>									<b>24,724</b>
Risk margins									9,915
Claims handling expenses									1,775
Others									-
Net insurance liabilities long-term business									124
<b>Net Claims liabilities</b>									<b>36,537</b>

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 18. Deferred acquisition costs

	General business £000	Long- term business £000	Total £000
Gross amount			
At 1 January 2020	3,066	22	3,087
Movement in the provision	5,997	(4)	5,993
At 31 December 2020	9,063	18	9,081
Reinsurance amount			
At 1 January 2020	-	-	-
Movement in the provision	(987)	-	(987)
At 31 December 2020	(987)	-	(987)
Net amount			
At 1 January 2020 – as restated	3,067	22	3,088
Movement in the provision	5,011	(4)	5,007
At 31 December 2020	8,077	18	8,094

### 19. Provision

	Payment protection Income (PPI) £'000	Annual review statement provision £'000	Total £'000
At 1 January 2020	7,063	1,485	8,548
Utilisation of provision	(6,330)	(1,100)	(7,430)
At 31 December 2020	733	385	1,118

### 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.

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 19. Provision ( continued)

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

In addition, the Company is also withholding an amount of £nil (2019: £4.6m) 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 PPI provisions.

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

	2020 £'000	2019 £'000
<u>PPI provisions as at the year-end is represented by:</u>		
Redress cost	233	1,580
Administrative cost	500	883
Profit Share Provisions withheld	-	4,600
	<u>733</u>	<u>7,063</u>

### Annual review statement compensation provision

The Company has recognised a provision resulting from an error in some customers' PPI Annual Review Statements. The customers did not have their twelve months premium instalments amounts showing on the Annual Review Statement. The error related to business sold through a partner relating to Creditor business. The partner agreed with the Competition and Markets Authority that in these circumstances the customers would be given a refund equal to the error in their Statements. Upon further investigation, similar issues were discovered with other books of PPI business. As result, the Company recognised a provision of £1.4m in 2019, the remaining provision at year end 2020 was £0.4m.

## **PINNACLE INSURANCE PLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **20. Risk Management**

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

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

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

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

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

##### **20.1 Insurance risk**

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

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

##### **20.2 Credit and Counterparty risk**

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

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

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



# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 20. Risk Management (continued)

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

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

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

	2019				
	Neither past due nor impaired £'000	Past due 1- 90 days £'000	Past due more than 90 days £'000	Assets that have been impaired £'000	Carrying value in the balance sheet £'000
Financial investments	178,660	-	-	-	178,660
Insurance receivable and other receivables	16,963	-	-	-	16,963
Reinsurance assets	48,468	-	-	-	48,468
Cash & cash equivalents	17,273	-	-	-	17,273
	261,364	-	-	-	261,364

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 20. Risk Management (continued)

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

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

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

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

20. Risk Management (continued)

<i>Financial assets by credit rating</i>	2019				
	Corporate bonds £'000	Government bonds £'000	Deposits with financial institution £'000	Cash & cash equivalents £'000	Total £'000
AAA	-	8,809	-	14,230	23,039
AA	-	3,018	-	-	3,018
AA-	6,630	-	19,589	-	26,219
A+	12,131	-	32,680	142	44,953
A	12,678	-	45,790	2,898	61,366
A-	13,975	-	11,090	-	25,065
BBB+	10,263	-	2,008	4	12,275
	<b>55,676</b>	<b>11,827</b>	<b>111,157</b>	<b>17,273</b>	<b>195,935</b>

<i>Financial assets by credit rating (%)</i>	2019				
	Corporate bonds	Government bonds	Deposits with financial institution	Cash & cash equivalents	Total
AAA	-	74%	-	82%	12%
AA	-	26%	-	-	2%
AA-	12%	-	18%	-	13%
A+	22%	-	29%	1%	23%
A	23%	-	41%	17%	31%
A-	25%	-	10%	-	13%
BBB+	18%	-	2%	-	6%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 20. Risk Management (continued)

#### 20.3 Liquidity Risk

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

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

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

<u>Time to maturity</u>	2019				
	Total £'000	1 Year £'000	2-3 Years £'000	4-5 Years £'000	Over 5 Years £'000
Financial investments					
-Corporate bonds	55,676	15,521	34,325	5,830	-
-Government bonds	11,827	-	5,818	3,018	2,991
-Deposits with financial institutions	111,157	74,827	20,624	15,706	-
Cash & cash equivalents	17,273	17,274	-	-	-
	195,934	107,622	60,767	24,554	2,991

# PINNACLE INSURANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

### 20. Risk Management (continued)

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

<b>At 31 December 2019</b>	<b>Total carrying value £'000</b>	<b>1 Year £'000</b>	<b>2-3 Years £'000</b>	<b>4-5 Years £'000</b>	<b>Over 5 years £'000</b>
Gross insurance liabilities*					
-Provision for claims reported but not settled	23,476	11,069	9,621	2,770	16
- Provision for claims incurred but not reported	21,703	8,292	3,036	1,026	9,348
-Long-term business provision	30,121	1,253	2,406	2,244	24,217
-Provision for liability for adequacy test	166	161	4	1	-
	<b>75,466</b>	<b>20,775</b>	<b>15,068</b>	<b>6,041</b>	<b>33,581</b>
Other payables, including insurance payables	15,020	15,020	-	-	-
<b>Total</b>	<b>90,486</b>	<b>35,795</b>	<b>15,068</b>	<b>6,041</b>	<b>33,581</b>

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

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 20. Risk Management (continued)

##### 20.4 Market risk

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

The Company is mainly exposed to 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 £nil (2019: £nil) of the total portfolio. These deposits, when held, were sensitive to any fluctuation in the exchange rates. In 2020 a 5% increase / (decrease) in the Euro exchange rate would have resulted in a decrease / (increase) profit of £0.08m (2019: £0.09m)

##### 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.

The fair value of the investments in Company's balance sheet as at 31-December 2020 was £145.1m (2019: £178.7m). The sensitivity of the carrying value of the Company's total investment portfolio to a movement of 100 basis points in interest rates was as follows. Subject to any impairment charges that may result under the scenarios, the profit for the year would increase by £1.5m (2019: £1.9m) for a 100 basis points increase in interest rates. Conversely, a 100 basis points decrease in interest rates would decrease the profit for the year by £1.8m (2019: £2.0m).

#### 21. Commitments

There were no outstanding capital commitments at 31 December 2020 (2019: £nil).

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 22. Capital management - Unaudited

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

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

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

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

	2020	2019
	£'000	£'000
<b>Capital position</b>		
Solvency Capital Requirement	68,734	59,395
Available eligible own funds	<u>135,494</u>	<u>147,864</u>
<b>Capital surplus</b>	<u><b>66,760</b></u>	<u><b>88,469</b></u>
Capital coverage ratio	197%	248%
	2020	2020
	£'000	£'000
<b>Eligible own funds</b>		
Available capital before foreseeable dividends	<u>137,062</u>	<u>147,864</u>
<b>Available eligible own funds</b>	<u><b>137,062</b></u>	<u><b>147,864</b></u>

The difference between IFRS equity of £147.7m (2019: £155.2m) and the Solvency II own funds of £135.5m (2019: £147.9m) represents de-recognition of deferred acquisition costs and insurance technical provisions.

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

## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 23. Related party transactions

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

	2020 £'000	2019 £'000
<b><u>Amounts due from group undertakings</u></b>		
BNP Paribas Cardiff Limited	1,432	1,209
Cardif Pinnacle Insurance Management Services Plc	5,877	4,471
BNP London branch	650	-
ICARE France	15	-
	<u>7,974</u>	<u>5,680</u>
<b><u>Amounts due to fellow group undertakings</u></b>		
BNP London branch	-	11
GIE BNP Paribas Assurance	414	176
Pinnacle Pet Healthcare Ltd	721	369
Cardif Pinnacle Insurance Holdings plc	169	-
	<u>1,304</u>	<u>556</u>

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

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

- Commission paid to BNP Paribas Cardiff Limited of £3.4m (2019: £1.3m) for Warranty related insurance policies during the year.
- A fellow undertaking, Cardif Pinnacle Insurance Management Services plc charged £20.8m (2019: £18.6m) in respect of administrative expenses incurred on behalf of the Company including staff cost of £13.2m (2019: £12.7m).
- The Company paid £1.1m (2019: £0.7m) 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 Directors are shown in note 9.

As at 31 December 2020 there were no loans outstanding to officers of the Company (2019: £nil).

#### 24. Ultimate parent undertaking

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

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

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



## PINNACLE INSURANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 25. Events after the balance sheet

The UK Budget on 3 March 2021 included an announcement that the corporation tax rate will increase to 25% from 1 April 2023 for certain companies. This increase has not yet been substantively enacted although was included in the Finance Bill published on 11 March 2021. Under IAS 12 and FRS 102, deferred tax is required to be calculated using rates that have been substantively enacted at the balance sheet date. Consequently, deferred tax should continue to be calculated at 19% until the 25% tax rate has been substantively enacted.

Therefore the 25% tax rate announcement is a non-adjusting post balance sheet event. Based on the current level of recognition of deferred tax, the impact on the Company would be an increase of £66k in the deferred tax asset.

In addition, legislation is also introduced in the Finance Bill 2021 to temporarily increase the period over which companies can carry back trading losses from one year to three years. For companies, after unlimited carry back to the preceding year, a maximum of £2,000,000 of unused losses will be available for carry back against trading profits to the preceding two years.

Given the Company's ability to surrender its current year losses via group relief to the London branch of the bank, the Directors consider no benefit to the Company from the additional flexibility for loss carry back.

There is no other impact of the Finance Bill 2021 on the Company's tax position.