

CARDIF PINNACLE INSURANCE HOLDINGS PLC
Company Registration Number: 2713318

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2018

THURSDAY



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CARDIF PINNACLE INSURANCE HOLDINGS PLC

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CARDIF PINNACLE INSURANCE HOLDINGS PLC

Company Information

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

CARDIF PINNACLE INSURANCE HOLDINGS PLC

STRATEGIC REPORT

Cardif Pinnacle Insurance Holdings plc ("the Company") was formed in 1992. The principal activity of the Company is that of a holding company investing in the provision of underwriting, brokerage and insurance administrative services through its subsidiary undertakings in the UK. The Company and its subsidiaries form the Cardif Pinnacle Group ("the Group").

Trading under the brand of Cardif Pinnacle, underwriting is provided by Pinnacle Insurance plc which has established itself as a provider of personal lines insurance, principally within the UK. The subsidiary provides Creditor, Warranty and Pet insurance products.

The Group's brokerage activity is carried out through its subsidiary, BNP Paribas Cardif Limited (formerly known as Warranty Direct Limited) and third party administration is provided by Cardif Pinnacle Insurance Management Services plc.

The Company is a subsidiary of BNP Paribas Cardif (formerly BNP Paribas Assurance), a worldwide provider of insurance and savings products. The Company is part of the global banking group BNP Paribas SA, a European leader in banking and financial services, with a Standard and Poor's long-term rating of A (stable outlook). BNP Paribas SA has one of the largest international banking networks, with a presence in 75 countries and employs more than 189,000 employees.

The financial statements for the year have been prepared in accordance with International Financial Reporting Standards (IFRSs).

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 £5.4m (2017: loss £2.4m). The results for the year are set out on page 5.

Key Performance Indicators

Key performance indicators are factors by reference to which the performance or position of the business of the Company can be measured effectively. The Company's key financial performance indicators during the year were as follows:

	2018 £'000	2017 £'000
Pre-tax loss	(5,432)	(2,415)
Pre-tax profit before impairment charges	468	1,266
Shareholder's funds	136,234	141,626

Pre-tax profit before impairment charges decreased by £0.8m to £0.5m (2017: £1.3m) in 2018 due to a reduction in dividend income received from subsidiaries and realised loss on disposal of a subsidiary. Impairment charge relating to BNP Paribas Cardif Limited which was £5.9m in 2018 (2017: £3.7m).

The Company's shareholder's funds decreased by £5.4m to £136.2m (2017: £141.6m) in 2018 due to the reported after-tax loss for the year. Opening adjustment relating to adopted of the IFRS9.

CARDIF PINNACLE INSURANCE HOLDINGS 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 an appropriate structure for managing these risks is maintained. The key risks and risk mitigation framework are highlighted below:

Operational Risk

Operational risk is the risk of loss resulting from inadequate internal processes, human or system errors, or from external events. The Company seeks to mitigate this risk through continual enhancement of the systems and controls, and ensuring appropriately experienced personnel are in place throughout the organisation. Incident reporting and investigation procedures are well established.

Liquidity Risk

Liquidity risk is risk that sufficient financial resources are not available in cash to enable the Company to meet obligations as they fall due. The Company, through the Board, seeks to limit exposure to liquidity risk by negotiating settlement terms for its outflows that can be managed against its own working capital cycles.

Credit Risk

Credit risk refers to the risk that the Company debtors will default by failing to make required payments. The Company, through the Board, accepts only credit risk associated with other related parties from the BNP Paribas Group. In the context of the Company's service arrangements with its related parties, contractual terms regulate the collection of cash flows for the activities rendered. The timing of these cash flows is one of the factors the Company considers to manage the liquidity risk noted earlier.

Brexit uncertainty


The exact terms on which the UK will exit from the European Union (EU) and continue to trade with the remaining 27 countries are yet to be determined. The Company's business is in the UK and therefore it is not exposed to the European passporting rights risk. The risks and uncertainties associate with exiting from EU have been considered by the Directors and, while they continue to monitor the exit negotiations, they do not currently believe there will be a material adverse impact on the Company's results or financial position in the current or following financial year.

GOING CONCERN

The Company is part of the global banking group BNP Paribas SA, a European leader in banking and financial services, and is supported by its strong parent with strong capital and cash flows. In addition, the Company has financial resources in the form of cash of £1,692k (2017: £895k) to meet its operational needs. As such the Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

APPROVAL

This Report was approved by the Board of Directors on 16 July 2019 and signed on its behalf by:



A.M. Wigg
Director

CARDIF PINNACLE INSURANCE HOLDINGS PLC DIRECTORS' REPORT

The Directors present this report together with the Strategic Report and the audited financial statements of the Company for the year ended 31 December 2018.

The financial statements for the year have been prepared in accordance with International Financial Reporting Standards (IFRS).

In the current year, the Directors have chosen to take advantage of the exemption in IAS 27 paragraph 10 from the requirements to produce consolidated financial statements, since the Company is included within the group accounts of BNP Paribas S.A. As such these financial statements present information about the Company as an individual undertaking and not about its group.

BUSINESS REVIEW AND ACTIVITIES

The principal activities of the Company are set out 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 4 which also includes details of principal risks and uncertainties.

DIVIDENDS

The Company paid a dividend of £nil (2017: £6k) on the preference shares for the year. There were no ordinary dividends paid or declared in the year. There are no balance sheet events to report at the date of approving these financial statements.

DIRECTORS AND THEIR INTERESTS

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

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

* Independent Non-Executive Director

There are no Directors' interests in shares of the Company.

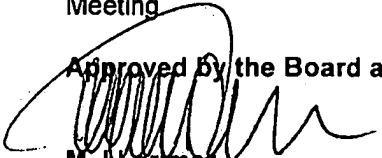
AUDITOR

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

- a) so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- b) the Directors have taken all the steps that he/she ought to have taken as 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 section 418 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:



M J Lorimer
Company Secretary
16 July 2019

**CARDIF PINNACLE INSURANCE HOLDINGS PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

Company law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors are required to prepare the Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the International Accounting Standard ("IAS") regulation. They have also chosen to prepare the Company financial statements under IFRSs, as adopted by the EU. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the Company's state of affairs and profit or loss for that period.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclosing, with reasonable accuracy, the Company's financial position at any time, and to enable them to ensure the financial statements comply with the Companies Act 2006. Additionally, they are responsible for safeguarding the Company's assets and hence for taking reasonable steps to prevent and detect fraud and other irregularities. The Directors are responsible for maintaining and ensuring the integrity of the corporate and financial information. Legislation in the UK governing preparing and disseminating financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Strategic report (on pages 3 to 4) and Directors' report (on pages 5 to 6) include a fair view of the development and performance of the business, and the Company's position as a whole, together with a description of the principal risks and uncertainties they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholder to assess the Company's performance.

This responsibilities statement was approved by the Board of Directors on 16 July 2019 and is signed on its behalf by:



Director
A M Wigg

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31st December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 13.

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

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

Report on the audit of the financial statements (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

Report on the audit of the financial statements (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

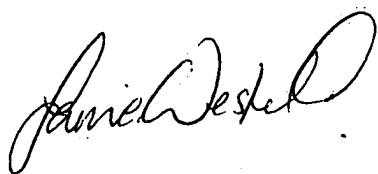
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

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.



Jamie Weisfeld ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
16 July 2019

CARDIF PINNACLE INSURANCE HOLDINGS PLC
Company Registration Number: 2713318

Income Statement
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Dividend income		1,347	1,557
Administrative expenses		(75)	(86)
Interest income		79	75
Interest expenses		<u>(234)</u>	<u>(279)</u>
Net interest expenses	5	(155)	(204)
Realised loss on disposal of the subsidiary	8	(649)	-
Impairment losses on investment in subsidiaries		(2,934)	(3,681)
Impairment on Subordinated loan	4	<u>(2,967)</u>	<u>-</u>
Loss before tax		(5,432)	(2,415)
Income tax credit	7	43	56
Loss for the year		<u>(5,389)</u>	<u>(2,359)</u>
Attributable to:			
Owner of the Company		<u>(5,389)</u>	<u>(2,359)</u>

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

The notes on pages 14 to 31 form an integral part of these financial statements.

CARDIF PINNACLE INSURANCE HOLDINGS PLC
Company Registration Number: 2713318

Statement of Financial Position
As at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Investments in subsidiaries	8	162,306	165,889
Subordinated loan	10	-	2,592
Amounts due from group undertakings	11	241	170
Corporation tax		44	111
Cash & cash equivalents		1,692	895
Total Assets		164,283	169,657
 Total Equity		 136,234	 141,626
 Liabilities			
Accruals and other creditors		299	281
Borrowings	9	27,750	27,750
Total liabilities		28,049	28,031
 Total equity and liabilities		 164,283	 169,657

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

Signed on behalf of the Board by:


Director
A M Wigg

The notes on pages 14 to 32 form an integral part of these financial statements.

CARDIF PINNACLE INSURANCE HOLDINGS PLC
Company Registration Number: 2713318

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

	Share capital £'000	Share Premium £'000	Revaluation reserve £'000	Profit & loss account £'000	Total £'000
At 1 January 2017	2,230	139,915	9,180	(7,340)	143,985
Loss for the year	-	-	-	(2,359)	(2,359)
At 31 December 2017	<u>2,230</u>	<u>139,915</u>	<u>9,180</u>	<u>(9,699)</u>	<u>141,626</u>
Loss for the year	-	-	-	(5,389)	(5,389)
At 31 December 2018	<u>2,230</u>	<u>139,915</u>	<u>9,180</u>	<u>(15,088)</u>	<u>136,237</u>

The notes on pages 14 to 32 form an integral part of these financial statements.

CARDIF PINNACLE INSURANCE HOLDINGS PLC
Company Registration Number: 2713318

Statement of Cash Flows
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Net profit/ loss before tax		(5,432)	(2,416)
Adjustments for non-cash items			
Impairment		5,901	3,681
Loss on disposal of subsidiary		649	-
Interest income		(75)	(74)
Interest expense		233	273
Cash generated from operating activities before movements in working capital		1,276	1,465
Change in other receivables		(71)	(23)
Change in other payables and borrowings		9	(27)
Cash generated from operations		1,214	1,415
Tax refund		110	34
Cash generated from operating activities		1,324	1,449
Repayment of borrowings	9	-	(1,500)
Interest paid on borrowings		(227)	(326)
Increase of subordinated loan		(300)	(400)
Cash generated (used in) / from financing activities		(527)	(2,226)
Net (decrease) in cash and cash equivalents		797	(777)
Cash and cash equivalents at 1 January		895	1,673
Cash and cash equivalents at 31 December		1,692	895

The notes on pages 14 to 32 form an integral part of these financial statements.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

1. General information

Cardif Pinnacle Insurance Holdings plc ("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. The principal activity of the Company is managing its investments in subsidiaries, providing loans to those subsidiaries, and receipt and payment of dividends.

2. 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.

3. Adoption of new and revised standards

The Company has adopted the following new standards and amendments to IFRSs and IASB that became mandatorily effective for the Company for the first time during 2018.

IFRS 9 "Financial Instruments"

The Company has adopted IFRS 9 "Financial Instruments" and the related consequential amendments to other standards for the first time in the current year. IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement', introducing new guidance on the classification and measurement of financial assets, an expected credit loss impairment model, and new hedge accounting requirements.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Debt instruments, including subordinated loans, that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

- (1) Debt investments measured subsequently at amortised cost or at FVTOCI;
- (2) Lease receivables;
- (3) Trade receivables and contract assets; and
- (4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

3. Adoption of new and revised standards (continued)

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL.

IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The impact of the adoption of IFRS 9 on the financial statements has been set out in note 4.1.

4 Significant accounting policies

a) Basis of preparation

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

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

b) Brexit uncertainty

The exact terms on which the UK will exit from the European Union (EU) and continue to trade with the remaining 27 countries are yet to be determined. The Company's business is in the UK and therefore it is not exposed to the European passporting rights risk. The risks and uncertainties associate with exiting from EU have been considered by the Directors and, while they continue to monitor the exit negotiations, they do not currently believe there will be a material adverse impact on the Company's results or financial position in the current or following financial year.

c) Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the strategic report on page 4.

d) Investment in subsidiaries

Investments in subsidiaries are stated at cost less any impairment.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

4 Significant accounting policies (continued)

e) Dividend income

Dividend income from investments in subsidiaries is recognised when the right to receive payment is established.

Dividends are received from financial assets measured at fair value through profit or loss (FVPL) and at fair value through other comprehensive income (FVOCI) (2017 – from financial assets at FVPL and available-for-sale financial assets). Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI.

f) Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets, see note 5(b) below. Interest income on financial assets at amortised cost and financial assets at FVOCI (2017 – available-for-sale securities, held-to-maturity investments and loans and receivables) calculated using the effective interest method is recognised in the statement of profit or loss as part of other income.

g) Taxation

Income tax is recognised in the Income Statement except where it relates to items which are recognised directly in equity, in which case the associated income tax charge or credit is recognised in equity. Current tax is the expected tax payable on the income for the year, using tax rates enacted or substantively enacted on the balance sheet date and any adjustment to tax payable in respect of previous years.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

4. Significant accounting policies (continued)

i) Financial instruments

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

Financial assets are classified on initial recognition and subsequently measured as held at amortised cost. The classification of financial assets at initial recognition depends on the financial assets contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus transaction costs. On recognition of the financial asset an expected credit loss allowance assessment is conducted. A financial asset is written off when there is no reasonable expectation of recovery.

Amortised cost

Assets which are held to collect contractual cash flows, and with contractual terms which give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding, are classified as financial assets held at amortised cost. They are subsequently measured using the effective interest rate method where applicable and are subject to impairment. Gains or losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Impairment of financial assets

At each balance sheet date the Company assesses, on a forward looking basis, whether there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as held at amortised cost is expected. The Company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets including an allowance for expected losses at initial recognition, and the present value of estimate future cash flows from the asset or group of assets, discounted at the effective interest rate of the instrument at initial recognition. The expected loss allowance for financial assets is based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the credit quality and history of the financial asset or group of financial assets, as well existing market conditions and forward-looking expectations.

The Company applies the simplified impairment approach to its trade receivables, grouping receivables into categories with shared credit risk characteristics and estimating expected future loss rates based on historical experience.

Impairment losses, including the expected credit allowance, 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 expected impairment allowance reduces and this can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

4. Significant accounting policies (continued)

i) Financial instruments (continued)

Derecognition of financial assets

A financial asset is derecognised when the rights to receive the cash flows from that asset have expired or when the Company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risk and rewards of ownership of the asset.

Loans and debt securities are written off when the Company has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Company may apply enforcement activities to financial assets written off. Recoveries resulting from the Company's enforcement activities will result in impairment gains, which will be presented in 'net impairment loss on financial assets' in the statement of profit or loss."

Cash and cash equivalents

Cash and cash equivalents comprises cash in hand and demand deposits with banks together with short-term highly liquid investments, such as money market funds, that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

Financial liabilities

Financial liabilities are initially recognised at fair value net of transaction costs incurred and subsequently measured at amortised cost using the effective interest method. A financial liability is derecognised when the obligation under the liability is discharged, cancelled, or expires.

Borrowings

Borrowings are initially measured at fair value, net of transaction costs incurred. They are subsequently measured at amortised cost using the effective interest rate method.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

4 Significant accounting policies (continued)

j) Critical accounting judgements and key sources of estimation uncertainty

i) Valuation of investment in subsidiaries

The Company states investments in its subsidiaries at cost less impairment. The Company performed a detailed impairment review of its investment in BNP Paribas Cardif Limited based on discounted cash flow model which included the following assumptions:

- Free cash flow is derived from the business forecast for the next four years from 2019 to 2023. The forecast assumptions are based on the Company's business strategy.
- A discount rate of 11% is used to calculate the present value of future cash flow; and
- The terminal value is assumed to be of 2%.

The Directors considered the discount rate and the terminal value deemed appropriate considering the size of the Company.

The estimation uncertainty in the valuation arises from actual cash flow that may be significantly different to the forecast used in the model, and the discount rate affects the valuation significantly.

ii) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of defaulting and resulting losses).

A number of significant judgments are also required in apply the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establish the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establish groups of similar financial assets for the purposes of measuring ECL.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

4 Significant accounting policies (continued)

4.1 Transitional Considerations on the First-time Adoption of IFRS9

The Company has adopted IFRS9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amount previously recognised in the financial statement. The Company did not elect for early adoption.

As permitted by the transitional provisions of IFRS9, the Company elected not to restate comparative figures. Any adjustments to the carrying amount of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of current period.

Consequently, for notes' disclosures, the consequential amendments to IFRS7 disclosure have also only been applied to the current period. The comparative period notes' disclosures repeat those disclosures made in the prior year.

The adoption of IFRS9 has resulted in changes in the Company accounting policy for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS9 also significantly amends other standards dealing with financial instruments such as IFRS7 'Financial Instruments: Disclosures'.

i) Classification and measurement of financial instruments

The Company assessed which business models apply to the financial assets held by the Company and classified its financial instruments into the appropriate IFRS 9 categories. Financial assets previously classified as loans and receivables were reclassified as financial assets held at amortised cost. There were no changes to the classification or measurement of financial liabilities.

ii) Impairment

The Company assesses on a forward- looking basis the expected credit losses '(ECL)' associated with its debt instruments assets carried at amortised cost and with the exposure arising from loan commitments. The Company recognises a loss allowance for such losses at each reporting date.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcome;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The following table reconciles the current period's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model as at 31 December 2018:

	ECL allowance £'000
Subordinated Loan	
Opening ECL allowance in accordance with IAS39	-
Expected credit loss on subordinated loan	(2,967)
Opening ECL allowance in accordance with IFRS9	<u><u>(2,967)</u></u>

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

4.1 Transitional Considerations on the First-time Adoption of IFRS9 (continued)

I) Impairment (continued)

The expected credit loss allowance of £2,967k as at 31 December 2018 has been recognised in the Income Statement.

Note 10 provides more details of how the expected credit loss allowance is measured.

5 Dividend and interest income/(expenses)

	2018 £'000	2017 £'000
Dividend income on ordinary shareholdings	1,290	1,500
Dividend income on preference shareholdings	57	57
Net interest (expenses)/income	<u>1,347</u>	<u>1,557</u>

	2018 £'000	2017 £'000
Interest income from bank	4	1
Interest income from subordinated loan	75	74
Interest expenses on borrowings	(234)	(279)
Net interest (expenses)/income	<u>(155)</u>	<u>(204)</u>

6 Operating profit

The operating profit is stated after charging:

	2018 £'000	2017 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	<u>74</u>	<u>85</u>

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

7 Taxation

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

	2018 £'000	2017 £'000
Current tax		
UK corporation tax for year	(44)	(55)
Prior year adjustments	<u>1</u>	<u>(1)</u>
Total current tax credit	<u>(43)</u>	<u>(56)</u>

The Company earns its profits entirely in the UK.

UK corporation tax has been charged at 19% (2017: 19.25%) the standard rate in the UK for the period.

Tax reconciliation

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK. The difference is explained below:

	2018 £'000	2017 £'000
Total (loss) before tax	(5,432)	(2,415)
Tax calculated at the standard UK corporation tax rate of 19%	(1,032)	(465)
Effect of:		
Capital loss on disposal of subsidiary	123	-
Expenses not deductible for tax purposes	-	1
Current tax adjustment in respect of previous years	1	(1)
Dividend income not taxable	(256)	(300)
Impairment	<u>1,121</u>	<u>709</u>
Total tax (credited) to income statement	<u>(43)</u>	<u>(56)</u>

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

8 Investment in subsidiaries

	2018	2017
	£'000	£'000
Cost		
At 1 January	198,867	198,867
Additions	-	-
Disposal recognised upon liquidation	(9,825)	-
At 31 December	<u>189,042</u>	<u>198,867</u>
Provisions for Impairments		
At 1 January	32,978	29,296
Impairment charge for the year	2,934	3,681
Disposal recognised upon liquidation	(9,176)	-
At 31 December	<u>26,736</u>	<u>32,978</u>
Net book value	<u><u>162,306</u></u>	<u><u>165,889</u></u>

The cost of investment in subsidiaries includes £2,500,000 preference shares holding in Cardif Pinnacle Insurance Management Services plc.

On 4 June 2019 the Company's subsidiary, Financial Telemarketing Services Limited ("FTS") finalised a Member's Voluntary Liquidation. As FTS was under the control of the appointed liquidators as at the reporting date, the book value of the Company's investment in FTS, £0.6m, was derecognised during the year and the Company accordingly recognised a loss on liquidation of £0.6m.

The Company received a cash dividend distribution of £1,290k from FTS on 18 July 2018 prior to the finalisation of the liquidation.

The Company states investments in its subsidiaries at cost less impairment. The Company performed a detailed impairment review of its investment in BNP Paribas Cardif Limited based on discounted cash flow model which included following assumptions:

- Free cash flow is derived from business forecast for the next four years from 2019 to 2023. The forecast assumptions are based the Company's business strategy.
- A discount rate of 11% is used to calculate the present value of future cash flow; and
- The terminal value is assumed to be of 2%.

The Directors considered the discount rate and the terminal value deemed appropriate considering the size of the Company.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

8 Investment in subsidiaries (continued)

The Directors' have determined the carrying value of the investment in subsidiary using net assets of the investee companies and have recognised impairment loss accordingly except in BNP Paribas Cardif Limited where the carrying value is based on the present value of the future cash flow using 8% discount rate.

The balance comprises the investments in the following subsidiary undertakings:

Subsidiary Company	Country of Incorporation	Holdings	
		2018	2017
Pinnacle Insurance plc	United Kingdom	100%	100%
Cardif Pinnacle Insurance Management Services plc	United Kingdom	100%	100%
BNP Paribas Cardif Limited	United Kingdom	100%	100%
Pinnacle Pet Healthcare Limited	United Kingdom	100%	100%
Financial Telemarketing Services Limited	United Kingdom	Nil	100%
Pinnacle Partnerships Ltd **	United Kingdom	100%	100%
Cardif Pinnacle Ltd **	United Kingdom	100%	100%
Every paw Ltd (Helpucover Ltd) **	United Kingdom	100%	100%
Warranty Direct Limited **	United Kingdom	100%	100%

** Dormant companies

Subsidiaries liquidated during the year and before the date of signing are:

Cardif Pinnacle Insurance Pension Trust	(liquidated on 3 February 2018)
Investment Product Solutions Ltd	(liquidated on 3 February 2018)
Pinnacle Direct Ltd	(liquidated on 3 February 2018)
Cardif Pinnacle Secretaries Ltd	(liquidated on 3 February 2018)
Pinnacle Net	(liquidated on 3 February 2018)
St. George's Insurance Services Limited	(liquidated on 2 November 2018)
Financial Telemarketing Services Limited	(liquidated on 4 June 2019)

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

9 Borrowings

	2018	2017
	£'000	£'000
Loans - Group undertaking	27,500	27,500
Preference shares	250	250
	<u>27,750</u>	<u>27,750</u>
Amount due for settlement within one year	27,500	27,500
Amount due for settlement after more than one year	250	250
	<u>27,750</u>	<u>27,750</u>

The loan amount is from group undertaking, BNP Paribas London Branch which is renewed on one year terms. The loan amount comprises:

Loans from BNP Paribas London Branch	Loan roll- over date	Final maturity date	Principal amount £'000	Loan repayment £'000	Loan payable at the year end £'000	Interest rate (LIBOR plus)
Loan 1	18/12/2018	18/12/2019	1,500	-	1,500	1.36%
Loan 2	20/03/2018	20/03/2019	10,000	-	10,000	1.06%
Loan 3	10/01/2018	10/01/2019	13,000	-	13,000	0.89%
Loan 4	30/05/2018	30/05/2019	3,000	-	3,000	0.97%
			<u>27,500</u>	<u>-</u>	<u>27,500</u>	

All loans have been renewed on their respective maturity date.

For the majority of the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature. Material differences are identified only for the following borrowings:

	Principal amount	2018 Carrying amount £'000	2018 Fair value £'000	2017 Carrying amount £'000	2017 Fair value £'000
Loan 1	1,500	1,520	1,522	1,514	1,519
Loan 2	10,000	10,106	10,115	10,084	10,103
Loan 3	13,000	13,115	13,125	13,106	13,120
Loan 4	3,000	3,029	3,032	3,023	3,028
	<u>27,500</u>	<u>27,770</u>	<u>27,794</u>	<u>27,727</u>	<u>27,770</u>

The fair values of non-current borrowings are based on discounted cash flows using a current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy (see note 10b) due to the use of unobservable inputs, including own credit risk.

Preference shares issued by the Company are classified as liabilities because they carry a non-discretionary obligation to pay a dividend to their holders. A perpetual instrument such as these preference shares with a mandatory dividend is a liability in its entirety because the whole of its value is derived from the stream of future dividend payments. The fact that the payment is non-cumulative and it depends on the availability of distributable reserves at the time the dividend is due does not remove the perpetual unavoidable obligation of the Company to pay cash to the holders of these preference shares.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

10 Financial instruments – Fair values and risk management

(a) Accounting classification and fair values

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 10(b).

	<u>31 December 2018</u>		<u>31 December 2017</u>	
	Amortised cost	Total	Amortised cost	Total
	£'000	£'000	£'000	£'000
Financial assets				
Cash and cash equivalents	1,692	1,692	895	895
Subordinated loans	-	-	2,592	2,592
Amounts owed by group undertakings	241	241	170	170
	<u>1,933</u>	<u>1,933</u>	<u>3,657</u>	<u>3,657</u>
Financial liabilities				
Redeemable preference shares	(250)	(250)	(250)	(250)
Loans from group undertakings	(27,500)	(27,500)	(27,500)	(27,500)
Accruals and other creditors	(299)	(299)	(281)	(281)
	<u>(28,049)</u>	<u>(28,049)</u>	<u>(28,031)</u>	<u>(28,031)</u>

Fair values of the above financial assets and liabilities approximate their carrying value.

Fair value hierarchy analysis

All of the Company's financial instruments are categorized as Level 1 except Redeemable preference share.

There were no transfers between Level 1, Level 2 and Level 3 during the year.

* Redeemable preference shares are categorized as level 3

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

10 Financial instruments – Fair values and risk management (continued)

(b) Basis for determining fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the 'fair value hierarchy' described as follows, based on the lowest level input that is significant to the fair value measurement as a whole

- **Level 1:** inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities that the entity can access at the measurement date;
- **Level 2:** inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- **Level 3:** inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant.

(c) Financial risk management

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

- Credit risk
- Liquidity risk; and
- Market risk

(i) Risk management framework

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.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

10 Financial instruments – Fair values and risk management (continued)

(c) Financial risk management (continued)

ii) Credit risk

Credit risk is the risk of suffering a financial loss, should any of the Company customers, clients or market counterparties fail to fulfill their contractual obligations to the Company. Credit risk arises mainly from interbank and loan commitments arising from such lending activities. The Company is also exposed to other credit risk arising from investments in debt securities.

Credit risk is the single largest risk for the Company's business; management therefore carefully manages its exposure to credit risk.

(ii.1) Credit risk measurement

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for its loans and other trade receivables. The assessment of credit risk of the assets entails estimations of the likelihood of defaults occurring and the associated loss rates.

(ii.2) Expected credit loss measurement

The following diagram summarizes the impairment requirement under IFRS 9:

Change in credit quality since initial recognition		
Step1	Step2	Step3
(Initial Recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit loss	Lifetime expected credit losses	Lifetime expected credit losses

IFRS 9 outlines a "three stage" model for impairment based on changes in credit quality since initial recognition, as summarized below:

- A Financial instrument that is not credit-impaired recognition is classified in "stage 1" and has its credit risk continuously monitored by the Company.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

10 Financial instruments – Fair values and risk management (continued)

(c) Financial risk management (continued)

(ii.2) Expected credit loss measurement (continued)

- If a significant increase a credit risk since initial recognition is identified, the financial instrument is move to "stage2" but is not yet deemed to be credit impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to "stage3".
- Financial instrument in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit loss that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage3).

(ii.3) Measuring ECL- Explanation of inputs, assumptions and estimation.

The Expected Credit Loss (ECL) is measured on either a 12 month (12m) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the probability of default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of the borrower defaulting on its financial obligation, either over 12 months, or over the remaining lifetime of the obligation.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. For example, for revolving commitment, the Company includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents The Company's expectation of extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unite of exposure at the time of default (EAD).

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival. This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

(ii.4) Credit risk exposure- Financial instruments subject to impairment

The company entered into a subordinated loan agreement with its subsidiary company BNP Paribas Cardif Limited. The company has concluded that the borrower does not have assets or sources of income that would enable it to repay the balance of the loan. The loan has therefore been assessed as credit impaired (IFRS 9 stage 3), the balance including interest has been written off in full.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

10 Financial instruments – Fair values and risk management (continued)

(ii.4) Credit risk exposure- Financial instruments subject to impairment (continued)

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised.

Subordinated Loan	2018
	£'000
Gross carrying amount	2,967
Loss allowance current charge to profit and loss	<u>(2,967)</u>
Net carrying amount	<u>-</u>

Cash and cash equivalents

The Company held cash and cash equivalents of £1,692k (2017: £895k). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A+ (Stable) or A (Stable).

(iii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's Treasury department is also operationally responsible to ensure that sufficient funding is always available to meet the expected liabilities

(iv) Interest rate risk

The Company is exposed to interest rate risk arising principally on its cash and cash equivalents which earn interest at variable rates. The Company does not enter into hedging transactions for the purposes of minimising its exposure to interest rate risk.

11 Related party transactions

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

The Company made a £2.8m Subordinated loan advance to BNP Paribas Cardif Limited, subject to an interest rate of 3% per annum see note 10.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

11 Related party transactions (continued)

	2018	2017
	£'000	£'000
<u>Amounts due from group undertakings</u>		
BNP Paribas Cardif Limited	138	138
Cardif Pinnacle Insurance Management Services plc	83	32
Pet Healthcare Limited	18	-
CBUK	3	-
	<u>241</u>	<u>171</u>

Details of the remuneration of the Company's key management personnel through a fellow group undertaking, Cardif Pinnacle Insurance Management Services plc.

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

12 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.

13 Events after the balance sheet

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