

Registered number: SC295513 (Scotland)

**Group Strategic Report, Report of the Directors and
Consolidated Financial Statements**

For the year ended 31 December 2016

for

Kinnell Holdings Limited



KINNELL HOLDINGS LIMITED (Registered number: SC295513)

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KINNELL HOLDINGS LIMITED (Registered number: SC295513)

Company Information for the year ended 31 December 2016

DIRECTORS:	P Dawson M Dawson
REGISTERED OFFICE:	4 Forbes Drive Heathfield Industrial Estate Ayr KA8 9FG
REGISTERED NUMBER:	SC295513 (Scotland)
INDEPENDENT AUDITORS:	PricewaterhouseCoopers LLP Chartered Accountant & Registered Auditors 141 Bothwell Street Glasgow G2 7EQ
BANKERS:	Royal Bank of Scotland 36 St Andrews Square Edinburgh EH2 2YB
SOLICITORS:	DAC Beachcroft 1 Minster Court Mincing Lane London EC3R 7AA

The directors present their strategic report for the year ended 31 December 2016.

RESULTS

The consolidated profit for the year, after taxation, amounted to £1,260,894 (2015: £1,667,569).

PRINCIPAL ACTIVITIES

The principal activity of the company in the year under review was that of a holding company. Providing a complete insurance package from risk design and brokering to underwriting capacity is the core business of the group. Central to this is the provision of Insurance Backed Guarantees and other 'Warranty' insurances primarily to the building and remedial treatment industries.

REVIEW OF BUSINESS AND RESULTS

The results for the year and financial position of Kinnell Holdings Limited are as shown in the annexed financial statements. Kinnell Holdings Limited is a holdings company, and has no external income outwith the group. The strategic view of the business going forward, is that it will remain a holding company with no trading activity.

The consolidated financial statements incorporate the audited financial statements of Kinnell Holdings Limited and its subsidiaries as at 31 December 2016, known as The Kinnell Group.

Kinnell Holdings Limited has ultimate ownership of three separate regulated firms. In addition to the regulated firms, The Kinnell Group has other interests that support its main activities. A summary of review of all the subsidiaries is detailed below.

Warranty Services Ltd principal activity was that of providing and administering Insurance Backed Guarantees and other "warranty" related insurance products primarily focused in the building and remedial treatment industries.

The director's report shows an expected and anticipated decrease in turnover from £4.85m in 2015 to £3.30m in 2016 resulting in a decrease in operating profit from £2.1m in 2015 to £988k in 2016. The reduction of turnover and profit is mainly driven from the change in Government focus within the home energy and renewable market. Notwithstanding this decrease, the Directors are pleased to note the strong underlying pattern of growth and profitability from the Warranty Services Ltd core markets supported through strong partnerships and strategic delivery platforms.

Whilst the change in Government outlook may continue to affect some of the markets that Warranty Services Ltd operates within most notably the Renewable and the Energy Improvement Sectors, early indicators show that whilst these clearly impacted results in 2016 it is hoped 2017 will see a return to a Government Focus on these sectors which will in turn benefit our business. This will be supplemented further by the continued growth of the core business and diversification into new markets ensuring that the risk and potential impact of Government Policy changes are reduced.

Guarantee Protection Insurance Ltd (GPI Ltd) is a PRA authorised and PRA/FCA regulated Insurer that underwrites mainly in the Insurance Backed Guarantee, Excess Protection, and Warranty Insurance sectors.

GPI Ltd operates principally in the UK but has some legacy run off schemes in Europe via passporting arrangements.

During the course of the year, the GPI Ltd written premium income decreased by 11% from 2015. This was the direct result of the strategic decision to reduce non-core insurance premium and to focus growth on the core products of Insurance Backed Guarantees and structural warranties.

The return to core Insurance Backed Guarantees and the termination of less profitable schemes, has had a direct result in profit after tax of £1,765,382 (2015 £2,463,299).

In addition to the traditional work types covered by Insurance Backed Guarantees, GPI Ltd is actively involved with the Energy Company Obligation, which is administered by OFGEM on behalf of the Department for Business, Energy & Industrial Strategy. Following a review by OFGEM of the Appropriate Guarantee criteria set down by OFGEM and published on their website, GPI Ltd maintained its approval and remains listed as an appropriate guarantee provider, with effect from 1st August 2016.

During the year the accounting policy for the recognition of policy premium revenue has been reviewed. As a result GPI Ltd has changed the approach taken to a basis which better reflects that nature of the underlying policies.

Previously the premium earning pattern adopted had been to recognise a proportion of the premium at inception based on actuarial loss ratios, with the balance being released over the term of the policy.

Upon review, it was concluded that the loss ratios did not give a meaningful indication of the profile of the incidence of risk over the life of policies or the timing that the premium was earned. As such, premiums earned are now recognised on a straight-line basis over the life of the policies, as a proxy for the incidence of risk. This should better match the recognition of revenue with the underlying policies and provide a more stable and comparable future revenue profile. The impact of making this change was an increase in the Unearned Premium Reserve as at 31 December 2015 from £14.2m to £19.1m.

This does not affect the underlying profitability of the business written or GPI Ltd's regulatory capital requirement as it is simply an adjustment to the presentation of the financial statements and timing of recognition.

Kinnell Corporate Limited continues to provide a commercial broking service for contractors and provide alternative insurance solutions for risks out with the Group's Insurer, Guarantee Protection Insurance Limited (GPI Ltd). This is primarily around the Latent Defect and Structural Warranty market. Kinnell Corporate Limited is also pivotal to partnered branded commercial insurance lines.

In addition to the regulated firms, The Kinnell Group has other interests that support its main activities. In 2016 there was continued focus on delivering core interactive business activity and affinity product initiatives.

The Confederation Holdings Ltd website and branding image has been redesigned in Jan 2016 with a re-launch of the products being rolled out during the year in a drive to gain new members, with very little corresponding costs. This initiative was supported by additional sale team resource.

During 2016 Bondpay Solutions Limited was wound up and voluntarily struck off the Companies House register.

In relation to regulatory solvency the Group continues to transition through the Solvency II Directive. As at 31st December 2016, the Group maintains a capital level in excess of 287% of the minimum capital requirement, and 71% of the full Solvency II SCR requirement of Group operations. As at 31st December 2016, the solo firm of GPI Ltd maintains a capital level in excess of 352% of the minimum capital requirement, and 88% of the full Solvency II SCR requirement based on the individual firm requirements. Both the Group and solo firm continues to progress through its plan to fully meet its SII SCR by 31st December 2017.

Group Governance

The Group operates an industry standard three lines of defence model within its governance structure.

Risk Management continues to be central to all areas of operations and the company has invested in external risk consultants to provide industry benchmarking in order to strengthen this area further.

Principle risks and uncertainties

Market risk

The investment portfolio has shown considerable volatility during 2016 due to international market reactions to the UK referendum vote to leave the EU, and the US presidential elections. This volatility is expected to continue with a forthcoming general election taking place in June, although overall returns are within appetite. Nevertheless, the Profit and Loss Account remains volatile to the monthly unpredictability of the markets.

This risk is mitigated today through using appropriately skilled investment managers and reducing volatility in the portfolio by investing in assets classes such as corporate bonds and gilts that are less susceptible to volatility.

Reserve Risk

With the long tail nature of our business we are exposed to claims arising in a pattern different to assumed in the technical provisions. This risk is mitigated by:

Setting a clear reserving policy for our business based on what is now a significant history of claims i.e. over the last 15 years;

Robust monthly management information tracking loss ratios, key risks and early warning indicators;

Obtaining an external actuarial validation (experience analysis) of the reserves.

Regulatory Risk

As we operate in a highly regulated environment we are cognisant of the exposure to potential regulatory action that may be punitive for the business, financially or reputational. This risk is mitigated through establishing systems and controls that monitor our adherence to regulatory obligations and in particular to our treatment of customers. This is also validated with our open and proactive dialogue with the regulator.

Strategic Risks

A key strategy of The Kinnell Group is to be a market leader in the insurance of ECO / Green Deal obligations introduced by the government. While this has created a significant opportunity we are exposed to changes in political appetite in the carbon emissions arena.

The Brexit process has also created uncertainty. The Group no longer has any active schemes in Europe, however our main competitors operate in the UK via passporting arrangements. Uncertainty around freedom of services is likely to structure future strategic decisions and has the potential to fundamentally change our market place. This is viewed as a positive impact of Brexit.

Operational Risks

The Group has a low appetite for operational risk. The Group acknowledges that some level of operational risk is inherent in any business operation however, the business keeps operational risk at the lowest degree possible through application of the governance, risk, and control frameworks, and associated resources.

The structure of the Key Risk Indicator (“KRI”) dashboard provides an expandable view of risk from the high-level risk appetites set by the Board down to the granular metrics that are managed at an operational level, and aggregated upwards into the Board metrics.

The KRI dashboard also incorporates operational risk events and near misses and is reviewed by each monthly Executive Committee and bi-monthly Group Board Risk Committee, to ensure that the business frequently assesses the Group’s actual risk profile against the Board-approved risk appetite settings. This allows the second line of defence to provide robust challenge and effective reporting of its assessment of the Group’s risk profile to the Board. This challenge and review process provides for the potential that risk metrics can be added or removed, risk tolerances can be amended, and emerging risks can be incorporated prior to Board reporting and approval. Due to the nature and size of the Group, and considering the proportionality principle, operational risk is relatively low in relation to our business activity. Exposure to people, systems and control failures, external fraud, conduct risk, and IT security / cyber risks are though considered within the risk management framework to ensure that appropriate focus is maintained that will identify any significant issues that suggest fundamental control failures.

Future Developments

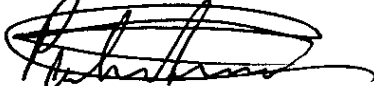
2016 has been strong year for The Kinnell Group both in terms of profit delivery and also progress within the Solvency II regime, encompassing advancements in the risk management framework and embedment into the Group. The Directors look forward to delivering similar results to the 2016 consolidated profit after taxation of £1,286,721 in 2017 also.

The Group will continue to focus on core areas and products looking to grow current premium along with maintenance and evolution of the ECO line of business. Additional work types and term are also being considered.

The board has a number of established external relationships with advisors which includes the continued use of Actuaries to provide guidance and specialist knowledge in regard to Solvency II, capital adequacy and reviews of technical provisions. Advisors in relation to risk, compliance and the internal auditors, Grant Thornton UK LLP have also been retained.

One of the main priorities for 2017 beyond the business as usual work stream will be the continued progression of the Group through its capital transition requirements of the Solvency II directive. We will continue to embrace the regulatory, compliance and operational outputs associated with this directive, which the Group has been working toward for the last few years.

ON BEHALF OF THE BOARD



P Dawson

Date..29-09-17

KINNELL HOLDINGS LIMITED (Registered number: SC295513)

Report of the directors for the year ended 31 December 2016

The directors present their report together with the audited financial statements for the year ended 31 December 2016

DIVIDENDS

No dividends will be distributed for the year ended 31 December 2016.

DIRECTORS

The directors shown below have held office during the whole of the year from 1 January 2016 to the date of this report:

P Dawson

M Dawson

Other changes in directors holding office are as follows:

J Reid – resigned 31 August 2016

S Reid – resigned 31 August 2016

J Frew – resigned 31 August 2016

L Wilson – resigned 31 August 2016

AF Wilson – resigned 31 August 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors 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 prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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 group and the company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and the company's transactions and disclose with reasonable accuracy at any time the financial position of and the group and 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 group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

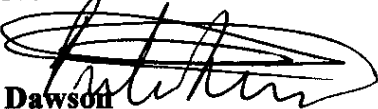
STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD


P Dawson

Date. 29-9-17

Report on the financial statements

Our opinion

In our opinion, Kinnell Holdings Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2016 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Group Strategic Report, Report of the Directors and Consolidated Financial Statements (the "Annual Report"), comprise:

- the Consolidated Balance Sheet and Company Balance Sheet as at 31 December 2016;
- the Consolidated Technical Profit and Loss Account and the Consolidated Non Technical Profit and Loss Account for the year then ended;
- the Consolidated Statement of Cash flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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 Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

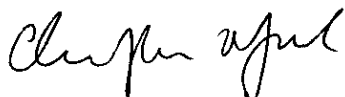
- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

Independent auditors' report to the members of Kinnell Holdings Limited

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.



Christopher Meyrick (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
29 September 2017

KINNELL HOLDINGS LIMITED (Registered number: SC295513)**Consolidated Technical Profit and Loss Account Non Life Insurance - for the year ended 31 December 2016**

	Note	2016 £	2015 as restated¹ £
Earned premiums, net of reinsurance			
Gross written premiums	4	4,034,979	5,129,187
Outward reinsurance premiums		<u>-</u>	<u>-</u>
Net premiums written		4,034,979	5,129,187
Change in the gross provision for unearned premiums	4	(452,754)	(582,154)
Change in the net provision for unearned premiums		(452,754)	(582,154)
Earned premiums, net of reinsurance		<u>3,582,225</u>	<u>4,547,033</u>
Total technical income		3,582,225	4,547,033
Claims incurred, net of reinsurance			
Claims paid			
– Gross amount		(1,839,922)	(2,543,705)
Change in the provision for claims			
– Gross amount		<u>233,222</u>	<u>338,433</u>
Claims incurred, net of reinsurance		(1,606,700)	(2,205,272)
Net operating expenses	8	<u>(1,492,715)</u>	<u>(1,609,147)</u>
Balance on technical account for non life insurance business		482,810	759,614

¹ See Note 2

KINNELL HOLDINGS LIMITED (Registered number: SC295513)**Consolidated Non Technical Profit and Loss Account - for the year ended 31 December 2016**

	Note	2016 £	2015 as restated ² £
Balance on the technical account – non life insurance business		482,810	759,614
Non insurance company turnover		4,109,131	5,763,321
Cost of sales		(592,523)	(796,785)
Administration expenses		(3,045,558)	(3,952,952)
Investment income			
– Income from other investments	5	381,522	303,395
– Gains (loss) on the realisation of investments	5	377,856	246,162
Unrealised gains on investments	5	193,280	62,311
Investment charges			
– Investment management expenses	5	(54,931)	(30,166)
Profit on ordinary activities before tax		1,851,587	2,354,900
Taxation on profit from ordinary activities	7	(590,693)	(687,331)
Profit for the financial year	20	<u>1,260,894</u>	<u>1,667,569</u>

All amounts arise from continuing activities.

There were no recognised gains or losses other than those included in the profit and loss account.

The accompanying notes form an integral part of these financial statements.

The Company has elected to take advantage of the exemption under Section 408 of the Companies Act 2006 not to present the parent company income statement or the parent company cashflow statement.

² See Note 2

KINNELL HOLDINGS LIMITED (Registered number: SC295513)**Consolidated Balance Sheet at 31 December 2016**

	Note	2016	2015
		£	as restated³
		£	£
ASSETS			
Fixed Assets			
Tangible assets	18	89,100	117,321
Investments			
Investment property	12	450,000	436,455
Intangible fixed assets	13	1,216,224	1,824,335
Other financial investments			
Investment securities	14	14,568,347	9,952,992
Debtors			
Debtors arising from direct insurance operations	16	257,180	255,395
Debtors arising out of reinsurance operations	17	5,138	42,219
Other debtors	17	848,160	781,554
		1,110,478	1,079,168
Other assets			
Cash at bank		6,687,984	9,334,642
		6,687,984	9,334,642
Prepayments and accrued income			
Accrued interest	17	17,909	10,689
Prepayments and other accrued income	17	73,475	67,193
		91,384	77,882
Provision for Deferred tax assets	23	440,046	753,571
Total assets		24,653,563	23,576,366

³ See Note 2

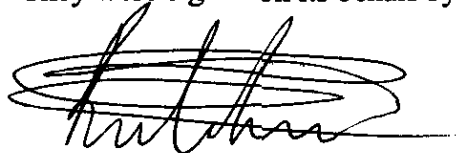
KINNEL HOLDINGS LIMITED (Registered number: SC295513)**Consolidated Balance Sheet at 31 December 2016**

	Note	2016 £	2015 ⁴ as restated £
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	19	108	108
Profit and loss account	20	1,071,237	(189,657)
Capital redemption reserve	20	74,179	74,179
Total Shareholders' funds/(deficit)		1,145,524	(115,370)
Technical provisions			
Provision for unearned premiums	22	19,646,756	19,194,002
Claims outstanding	22	<u>757,077</u>	<u>990,299</u>
		20,403,833	20,184,301
Provisions for other risks and charges			
Provisions for deferred tax	23	8,363	14,869
Creditors			
Creditors arising out of direct insurance operations	24	273,229	351,586
Other creditors including taxation and social welfare	25	<u>1,690,301</u>	<u>1,851,487</u>
		1,963,530	2,203,073
Creditors falling in more than one year			
Deferred revenue	25	450,600	464,049
Accruals and deferred income			
		681,713	825,444
Total liabilities and Total Shareholders' equity		<u>24,653,563</u>	<u>23,576,366</u>

The accompanying notes form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 29.9.17

They were signed on its behalf by:



P Dawson
Director

⁴ See Note 2

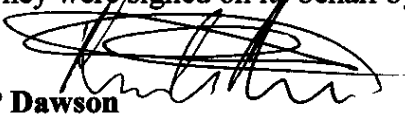
KINNELL HOLDINGS LIMITED (Registered number: SC295513)**Company Balance Sheet at 31 December 2016**

	Note	2016 £	2015 £
Fixed Assets			
Tangible assets	18	-	-
Investments			
Investments in Subsidiaries	14	<u>5,929,323</u>	<u>5,884,423</u>
		5,929,323	5,884,423
Current Assets			
Debtors	17	5,839	5,124
Cash at bank		<u>5,552</u>	<u>69,658</u>
		11,391	74,782
Creditors			
Amounts falling due within one year	25	<u>(814,224)</u>	<u>(955,848)</u>
Net Current Liabilities		(802,833)	(881,066)
Total Assets less Current Liabilities		5,126,490	5,003,357
Creditors			
Amounts falling due after more than one year	25	(2,437,585)	(2,396,111)
Net Assets		<u>2,688,905</u>	<u>2,607,246</u>
Capital and Reserves			
Called up share capital	19	108	108
Profit and loss account	20	2,688,797	2,607,138
Shareholders' Funds		<u>2,688,905</u>	<u>2,607,246</u>

The accompanying notes form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 29-9-17

They were signed on its behalf by:


P Dawson
Director

KINNEL HOLDINGS LIMITED (Registered number: SC295513)**Consolidated Statement of Cash Flows for the year ended 31 December 2016**

	Note	2016	2015
		£	as restated
			£
Net cash from operating activities	26	2,022,688	3,048,933
Cash flows from investing activities			
Purchase of equipment		(6,220)	(105,107)
Other financial instruments		(4,615,355)	(2,688,972)
Sale of equipment		-	5,668
Interest received		<u>26,646</u>	<u>89,888</u>
Net cash flows from investing activities		(4,594,929)	(2,698,523)
Cash flows from financing activities			
Loan payments made in the year		<u>(194,325)</u>	<u>(196,289)</u>
Net cash flows from financing activities		(194,325)	(196,289)
Net (increase) decrease in cash and cash equivalents		(2,646,658)	154,121
Cash and cash equivalents at the beginning of the year		9,334,642	9,180,521
Cash and cash equivalents at the end of the year		<u>6,687,984</u>	<u>9,334,642</u>

The Company has elected to take advantage of the exemption under Section 408 of the Companies Act 2006 not to present the parent company income statement or the parent company cashflow statement.

KINNELL HOLDINGS LIMITED (Registered number: SC295513)**Consolidated Statement of Changes in Equity for the year ended 31 December 2016**

Group	Called up share capital	Restated⁵ Profit and loss account	Capital redemption reserve	Restated⁶ Total Shareholders' Funds
	£	£	£	£
At 1 January 2015	108	(1,857,226)	74,179	(1,782,939)
Profit for the financial year	-	1,667,569	-	1,667,569
At 31 December 2015	108	(189,657)	74,179	(115,370)
Profit for the financial year	-	1,286,721	-	1,286,721
At 31 December 2016	<u>108</u>	<u>1,097,064</u>	<u>74,179</u>	<u>1,171,351</u>

Company	Called up Share capital	Retained Earnings account	Capital redemption reserve	Total Shareholders' Funds
	£	£	£	£
At 1 January 2015	108	3,076,756	-	3,076,864
Loss for the financial year	-	(469,618)	-	(469,618)
At 31 December 2015	108	2,607,138	-	2,607,246
Profit for the financial year	-	81,659	-	81,659
At 31 December 2016	<u>108</u>	<u>2,688,797</u>	<u>-</u>	<u>2,688,905</u>

⁵ See Note 2⁶ See Note 2

1. General information

Kinnell Holdings Limited is a company incorporated in Scotland. The address to the registered office is given on page 1. The nature of the company's operations and principal activities are set out in the strategic review.

2. Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the audited financial statements of Kinnell Holdings Limited and its subsidiaries as at 31 December 2016.

No individual profit and loss account or cash flow statement is prepared for Kinnell Holdings Limited as provided by Section 408 of the Companies Act 2006.

Basis of accounting

The financial statements have been prepared under the historical cost convention, except for the revaluation of investments, and are in accordance with Financial Reporting Standards 102 and 103 issued by the Financial Reporting Council. The company is also subject to the requirements of the Companies Act 2006.

During the year the accounting policy for the recognition of insurance policy premium revenue has been reviewed. As a result the Group has changed the approach taken to a basis which better reflects that nature of the underlying policies.

Previously the premium earning pattern adopted had been to recognise a proportion of the premium at inception based on actuarial loss ratios, with the balance being released over the term of the policy.

Upon review, it was concluded that the loss ratios did not give a meaningful indication of the profile of the incidence of risk over the life of policies or the timing that the premium was earned. As such, premiums earned are now recognised on a straight-line basis over the life of the policies, as a proxy for the incidence of risk. This should better match the recognition of revenue with the underlying policies and provide a more stable and comparable future revenue profile. The impact of making this change was an increase in the Unearned Premium Reserve as at 31 December 2015 of £5m to £19.1m.

This does not affect the underlying profitability of the business written or the Group's regulatory capital requirement as it is simply an adjustment to the presentation of the financial statements and timing of recognition.

2. Significant accounting policies (continued)

A prior year adjustment has been recorded to reflect this. This adjustment occurred in the subsidiary company GPI Ltd, and as such flows up into the consolidated Group financial statements. The impact of this adjustment is summarised below:

	2015	Adjustments	2015 Restated
<u>Income Statement</u>	£	£	£
Change in provision for unearned premiums in respect for premiums receivable	581,746	(26,592)	555,154
Tax expense	241,718	4,340	246,058
<u>Balance Sheet</u>			
Provision for unearned premiums	14,194,987	(4,999,015)	19,194,002
Deferred tax asset	(209,995)	963,566	753,571
Profit and loss account	3,845,792	4,035,449	(189,657)

The directors have a reasonable expectation that the Group 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 annual financial statements.

Foreign currencies

The presentation currency of the Company is Sterling. The financial statements of the company are presented in the currency of the primary economic environment in which it operates (its functional currency).

Insurance classification

The Group's contracts are classified at inception, for accounting purposes, as insurance contracts. A contract is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Insurance contracts are those contracts that transfer significant insurance risk, if an insured event could cause an insurer to make significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts may also transfer financial risk.

2. Significant accounting policies (continued)

Revenue recognition

Gross written premiums

Gross premiums comprise the total premiums inceptioned during the year regardless of whether such amounts may relate in whole or part to a later financial year end. Estimates are included for premiums not yet notified by the financial year end. Written premiums are stated exclusive of taxes and duties levied on premiums.

Unearned premiums

Unearned premiums represent the proportion of premiums written in the year which is estimated to be earned in subsequent financial years.

Outstanding claims

Estimates are made for the expected ultimate cost of claims reported but not yet settled. Estimated amounts are recorded for every claim form received at the average claims cost of the policy work type, until superseded with new information such as repair invoice, or decline notification.

In addition, an estimate is made on the value of claims incurred but not year reported ('IBNR') to the insurer at the year end. The Group uses an independent actuary in calculating the estimated IBNR. The actuary uses estimation techniques based on statistical analyses of historical experience which gives a meaningful indication.

Claims Provision

The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Policies written provide protection to policyholders for multiple years. Reflecting this, revenue earned is recognised over the life of the policy. In the absence of historical claims profile data over policy life cycles which is considered to give a meaningful indication of future earning patterns, the premium received is recognised on a straight line basis over the policy life.

Investment return

Investment return consists of dividends, interest, unrealised/realised gains and losses and related expenses. These are taken to the non-technical account in the year in which they arise.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

2. Significant accounting policies (continued)

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Investment realised gains and losses

Realised gains and losses on investments are calculated as the difference between net sales proceeds and purchase price or, if previously valued, the valuations at the last balance sheet date.

Investment unrealised gains and losses

Unrealised gains and losses represent the difference between the carrying value at the financial year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect on disposals during the year.

Deferred Revenue

A deferral of revenue is included for the administration of future claims handling costs yet to be delivered and is deferred over the period of the life of the policies. The methodology used and assumptions are further explained within the use of estimates and judgements section below. The provision for unearned premiums is considered deferred revenue and represents that part of written premiums received for policies sold that is estimated to be earned in subsequent periods. The change in provision is recorded in the profit and loss statement to recognise revenue over the period of the risk.

Taxation

Current tax including UK Corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the financial year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are not taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2. Significant accounting policies (continued)

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Group anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than investment properties, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight line basis over its expected useful life as follow:

Freehold property	- 20% on cost per annum
Improvements to property	- 10% on cost per annum
Fixtures and fittings	- 20% on cost per annum
Office equipment	- 20% on cost per annum
Computer equipment	- 33% on cost per annum

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. Where a reversal of impairment occurs in respect of a cash generating unit, the reversal is applied to the assets of the cash generating unit on a pro-rata basis.

2. Significant accounting policies (continued)

Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Financial assets and liabilities

The Group's financial assets comprise of equity investments, debt securities, cash and cash equivalents, loans and receivables, and investment in subsidiaries.

Recognition

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Initial measurement

All financial assets and liabilities are initially measured at fair value unless the arrangement constitutes a financing arrangement. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Subsequent measurement

Realised and unrealised gains and losses arising from changes in fair value of investments are presented in the non-technical profit and loss account in the period in which they arise. Dividend and interest income is recognised when earned. Investment management and other related expenses are recognised when occurred.

2. Significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risk and rewards of ownership of the financial asset, or c) the Group, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party, and, the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specific in the contract is discharged, cancelled or expires.

Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the Group estimates the fair value by using a valuation technique. See note 3 for further information on the Group's valuation techniques.

Financial assets

Valuation of listed investments

The valuation of investments are at fair value, which is generally deemed to be bid market price, excluding any accrued interest in the of debt securities, at close of business on the last valuation day of the accounting year, 31 December 2016. Investments in collective investment schemes ("CIS") have been valued at cancellation prices. For those CIS funds that are not dual priced, single prices are used.

Impairment of financial instruments measured at cost

For financial assets carried at cost less impairment, the impairment loss is the difference between the assets carrying amount and the higher of recoverable amount or value in use.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value

2. Significant accounting policies (continued)

had no impairment been recognised. The amount of the reversal is recognised in profit and loss immediately.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand, 30 day deposits, and are subject to an insignificant risk of changes in value.

Investments in subsidiaries

In the Company balance sheet, investments in subsidiaries are measured at cost less impairment.

Operating leases

The annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Provisions

Provisions for legal claims are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligations. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to the present value where the effect is material. Provisions are not recognised for future operating losses.

Insurance contracts

Claims

Claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years. The provision for claims outstanding is made on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date.

Reinsurance

The Group cedes reinsurance in specific courses of business, with retention limits varying by line of business. Reinsurance contracts that principally transfer financial risk are accounted for directly through the technical account within the profit and loss account.

Provision for outstanding claims

Provision for the liabilities of non-life insurance contracts is made for outstanding claims and settlement expenses incurred at the balance sheet date. Included in the provision is an estimate of the internal and external costs of handling the outstanding claims.

2. Significant accounting policies (continued)

Some delays are experienced in the notification and settlement of insurance claims, the ultimate cost of which may vary from the original assessment. Adjustments to the amounts of claim provisions established in prior financial years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately, if material.

Provision for claims incurred but not reported

An estimate for the cost of claims incurred but not reported (IBNR) is included at the balance sheet date

Provision for unearned premium

The provision for unearned premiums represents that part of written premiums received for policies sold that is estimated to be earned in subsequent periods. The change in provision is recorded in the profit and loss statement to recognise revenue over the period of the risk.

Reinsurance assets

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and are measured consistently with the amounts associated with the underlying insurance contract with the terms of the reinsurance contract. Reinsurance is recorded as an asset unless a right of set-off exists, in which case the associated liabilities are reduced to take accounts of reinsurance.

Reinsurance assets are subject to impairment testing and the carrying amount is reduced to its recoverable amount. The asset is impaired if objective evidence is available to suggest that it is probable that the Group will not be able to collect the amounts due from reinsurers.

Insurance receivables and payables

Receivables and payables arising under insurance contracts are recognised when due and measured at amortised cost, using the effective interest rate method. Those payable or receivable within one year shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received so long as the arrangement does not constitute a financing arrangement. A provision for impairment is established when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been impacted.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Valuation of provisions of non-life insurance contracts

Unearned Premium Reserve and Premium recognition

In the absence of historical claims profile data over policy life cycles which is considered to give a meaningful indication of future earning patterns, the premium received is recognised on a straight-line basis over the policy life. See Note 2 on revenue recognition policy.

Outstanding claims

Estimates are made for the expected ultimate cost of claims reported but not yet settled. Estimated amounts are recorded for every claims form received at the average claims cost of the policy work type, until superseded with new information such as repair invoice, or decline notification.

In addition, an estimate is made on the value of claims incurred but not yet reported to the insurer at the year end. The Group uses an actuary in calculating the estimated provision including IBNR. The actuary uses estimation techniques based on statistical analyses of historical experience which gives a meaningful indication.

Fair value measurement

Investment property

Investment properties are shown at most recent valuation, being fair value at the balance sheet date. Any aggregate surplus or deficit arising from changes in fair value is recognised in the profit and loss in the year in which it occurs.

Valuation of listed investments

All investments are valued at their fair value 31 December 2016 determined as follows:

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

- Managed fund investments (Equities and debt securities) are stated at bid price of the latest prices quoted by the managers at 31 December 2016.

FRS102 section 11.27, establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices for an identical asset in an active market. Quoted in an active market in this context means quoted prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 – When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstance or a significant lapse of time since the transaction took place. If it can be demonstrated

that the last transaction price is not a good estimate of fair value (eg because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

Level 3 – If the market for the asset is not active and recent transaction of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, yield curves, credit spreads, liquidity statistics and other factors.

Pension costs and other post-retirement benefits

The Group operates a defined contribution pension scheme. Contributions payable to the Group's pension scheme are charged to the profit and loss account in the period to which they relate.

Deferred revenue

Deferred revenue is calculated using the current costs of handling claims forecast over the life of the policies and discounted back to present value. The assumptions used in the calculation are the growth in the costs over the life of the policies, the run of the policies and the discount factor applied.

4. Premiums written and change in provision for unearned premiums

Premiums written during the year are as follows:

	2016	2015⁷
	£	£
Premiums receivable	3,841,285	4,906,527
Policy fees receivable	<u>193,694</u>	<u>222,660</u>
	<u>4,034,979</u>	<u>5,129,187</u>
 Change in provision for unearned premiums In respect of premiums receivable	 <u>452,754</u>	 <u>555,154</u>

The 2016 written premium shown above includes £205,133 (2015: £160,792) of premiums generated in Europe outwith the United Kingdom.

⁷ See Note 2

5. Net investment return

	Net investment income 2016 £	Net investment expense 2016 £	Net realised gains and losses 2016 £	Changes in fair value 2016 £	Net investment result 2016 £
Equities	256,811	-	377,856	179,735	814,402
Loans and receivables	26,646	-	-	-	26,646
Investment property	-	-	-	13,545	13,545
Cash and cash equivalents	-	(54,931)	-	-	(54,931)
Other investment income	98,065	-	-	-	98,065
	381,522	(54,931)	377,856	193,280	897,727

	Net investment income 2015 £	Net investment expense 2015 £	Net realised gains and losses 2015 £	Changes in fair value 2015 £	Net investment result 2015 £
Equities	117,152	-	246,162	62,311	425,625
Loans and receivables	25,832	-	-	-	25,832
Cash and cash equivalents	64,056	(30,166)	-	-	33,891
Other investment income	96,354	-	-	-	96,354
	303,394	(30,166)	246,162	62,311	581,702

6. Directors Remuneration

The directors' salaries and payments analysed under the heading required by company law are set out below:

	2016	2015
	£	£
Emoluments		
Directors' salaries	371,094	454,564
Pensions		
Directors' pension	7,564	5,781
	<u>378,658</u>	<u>460,345</u>

The number of directors to whom retirement benefits were accruing was as follows:

Money purchase schemes	<u>2</u>	<u>2</u>
------------------------	----------	----------

Information regarding the highest paid directors is as follows:

	2016	2015
	£	£
Emoluments	<u>138,052</u>	<u>187,780</u>

7. Taxation on profit on ordinary activities

The tax charge comprises:	2016	2015⁸
	£	£
<i>Current tax on profit on ordinary activities</i>		
UK corporation tax on profits of the year	243,256	676,093
<i>Adjustments in respect of prior year</i>		
UK corporation tax	40,418	2,956
Total current tax	283,674	679,049
<i>Deferred tax</i>		
Accelerated capital allowances	307,019	5,914
Total deferred tax	307,019	5,914

⁸ See Note 2

7. Taxation on profit on ordinary activities (continued)

	2016 £	2015 ⁹ £
Total current and deferred tax charge	590,693	687,331

The Group is liable to UK corporation tax on its investment income and realised chargeable gains. The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follow:

	2016 £	2015 £
Profit on ordinary activities before tax	1,877,414	2,354,900
Tax on ordinary activities at the standard rate of corporation tax in the UK of 20% (2015: 20%)	375,483	470,980
Effects of:		
Adjustment in respect of previous periods	40,845	2,955
Expenses not deductible for tax purposes	102,228	268,954
Income not taxable	(29,084)	(64,746)
Change in rates	81,078	-
Deferred tax not recognised	(8,371)	(208)
Fixed asset differences	25,802	-
Chargeable gain	2,709	-
Other permanent differences	3	9,396
Current tax charge for year	590,693	687,331

8. Net operating expenses

Profit of the financial year has been arrived at after charging/(crediting):

	2016 £	2015 £
Auditors' remuneration	105,364	59,120
Hire of other assets – operating leases – land and buildings	37,547	68,888
Depreciation – owned assets	34,441	44,822
Goodwill amortisation and impairment	608,112	1,216,193
Foreign currency (gain) / loss	(1,970)	1,153
Loss on sale of fixed asset	-	10,454
Loss on sale of investment	100	-

⁹ See Note 2

KINNELL HOLDINGS LIMITED (Registered number: SC295513)

Notes to the financial statements for the year ended 31 December 2016 (continued)

8. Net operating expenses (continued)

The analysis of the auditor's remuneration is as follows:

	2016	2015
	£	£
Audit of the parent company financial statements	18,788	6,350
Audit of the subsidiary companies	37,576	41,550
Tax advisory	-	7,220
Other fees pursuant to legislation	49,000	4,000
	<u>105,363</u>	<u>59,120</u>

9. Employee Information

	2016	2015
	£	£
Staff costs, including directors' salaries (note 6) consists of:		
Wages and salaries	1,974,369	2,098,515
Social security costs	191,488	212,197
Other pension costs	85,915	58,943
	<u>2,251,772</u>	<u>2,369,655</u>

The average number of employees including directors during the year was 63 (2015: 63).

10. Investment return summary

	2016	2015
	£	£
Realised gain on investments	377,856	246,162
Unrealised gain on investments	179,735	62,311
	<u>557,591</u>	<u>308,473</u>

11. Dividends

	2016	2015
	£	£
Ordinary shares of £1 each		
Interim	-	-
	<u>-</u>	<u>-</u>

12. Investment Property

	2016	2015
	£	£
Cost or valuation		
As at 1 January 2016	436,455	436,455
Revaluation	13,455	-
As at 31 December 2016	<u>450,000</u>	<u>436,455</u>
Net Book Value		
At 31 December 2016	<u>450,000</u>	<u>436,455</u>
At 31 December 2015	<u>450,000</u>	<u>436,455</u>
31 December 2016 is represented by:		Total
Cost		£
Valuation		565,625
		(115,625)
		<u>450,000</u>

The property was valued on an open market basis by the directors during the year.

13. Intangible assets

Group	£
COST	
At 31 December 2016 and 31 December 2015	<u>5,646,656</u>
ACCUMULATED AMORTISATION	
At 1 January 2016	3,822,320
Amortisation for year	608,112
At 31 December 2016	<u>4,430,432</u>
NET BOOK VALUE	
As at 31 December 2016	<u>1,216,224</u>
As at 31 December 2015	<u>1,824,336</u>

KINNELL HOLDINGS LIMITED (Registered number: SC295513)

Notes to the financial statements for the year ended 31 December 2016 (continued)

14. Financial investments

Group	Fair Value 2016 £	Cost 2016 £	Fair Value 2015 £	Cost 2015 £
Total listed investments				
- Bonds	9,648,853	9,562,991	-	-
- Equities	2,847,047	2,792,966	581,768	-
- Collective Investment Undertakings	1,996,389	1,707,037	8,381,010	8,703,774
	<u>14,492,289</u>	<u>14,062,994</u>	<u>8,962,778</u>	<u>8,703,774</u>

At 31 December 2016, financial instruments are stated at bid price.

Company

	Shares in group undertakings £
COST	
At 1 January 2016	6,312,173
Additions	45,000
Disposals	(100)
At 31 December 2016	<u>6,357,073</u>
IMPAIRMENT	
At 1 January 2016 and 31 December 2016	<u>427,750</u>
NET BOOK VALUE	
At 31 December 2016	<u>5,929,323</u>
At 31 December 2015	<u>5,884,423</u>

The company's investments at the balance sheet date in the share capital of companies include the following:

Warranty Services Limited

Nature of business: Administration of insurance backed guarantees

14. Financial investments (continued)

	%
Class of shares:	Holding
Ordinary	100.00

Kinnell Corporate Limited

Nature of business: Insurance Brokers

	%
Class of shares:	Holding
Ordinary	100.00

Guarantee Protection Insurance Limited

Nature of business: Authorised insurer

	%
Class of shares:	Holding
Ordinary	100.00

The Remedial Company Limited

Nature of business: Repair work

	%
Class of shares:	Holding
Ordinary	100.00

Confederation Holdings Limited

Nature of business: Trade association

	%
Class of shares:	Holding
Ordinary	100.00

During the year the company acquired 45 £1,000 preference shares in Kinnell Corporate Ltd. The company also disposed of 100 £1 ordinary shares in Bondpay Solutions Ltd during the year. The company has been dissolved.

15. Financial Instruments

The carrying values of the Group's financial assets and liabilities are summarised by category below:

	2016 £	2015 £
Financial assets		
<i>Measured at fair value through profit and loss</i>		
- Equities	2,847,047	581,768
- Bonds	9,648,853	-
- Collective Investment Undertakings	1,996,389	8,381,010
- Investment property	450,000	436,455
<i>Measured at cost</i>		
- Cash and cash equivalents	6,687,984	9,334,642
-		
<i>Measures at undiscounted amount receivable</i>		
- Other debtors	1,625,682	2,940,274
Total financial assets	<u>23,255,955</u>	<u>21,674,149</u>
Financial liabilities		
<i>Measures at amortised costs</i>		
- Other creditors	2,046,675	2,355,217
Total financial liabilities	<u>2,046,675</u>	<u>2,355,217</u>

KINNELL HOLDINGS LIMITED (Registered number: SC295513)

Notes to the financial statements for the year ended 31 December 2016 (continued)

16. Debtors arising from direct insurance operations	2016	2015
	£	£
Due from intermediaries	257,180	255,395

All amounts shown under debtors fall due for payment within one year.

17. Debtors

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Due from reinsurance	5,138	42,219	-	-
	-----	-----	-----	-----
	5,138	42,219	-	-
	=====	=====	=====	=====
Other debtors				
Trade debtors	249,716	302,711	804	1,574
Sundry debtors	584,014	462,222	50	50
VAT	119	38	-	-
Tax	14,311	16,583	-	-
Deferred tax asset	440,046	753,571	251	-
Group balances	-	-	2,005	1,104
Prepayments and accrued income	91,384	77,882	2,729	2,396
	-----	-----	-----	-----
	1,379,590	1,613,007	5,839	5,124
	=====	=====	=====	=====

All amounts shown within other debtors above are due within one year.

Prepayments and accrued interest

All amounts shown within prepayments and accrued interest are due within one year.

KINNEL HOLDINGS LIMITED (Registered number: SC295513)**Notes to the financial statements for the year ended 31 December 2016 (continued)****18. Tangible assets**

Group	Improvements to Property £	Fixtures & fittings £	Office Equipment £	Computer Equipment £	Total £
COST					
At 1 January 2016	42,245	54,109	22,012	79,890	198,256
Additions	-	331	961	4,928	6,220
Disposals	-	-	-	(555)	(555)
At 31 December 2016	42,245	54,440	22,973	84,263	203,921
ACCUMULATED DEPRECIATION					
At 1 January 2016	1,408	23,316	11,376	44,835	80,935
Charge for year	4,224	6,750	3,735	19,732	34,441
Disposals	-	-	-	(555)	(555)
At 31 December 2016	5,632	30,066	15,111	64,012	114,821
NET BOOK VALUE					
At 31 December 2016	36,613	24,374	7,862	20,251	89,100
At 31 December 2015	40,837	30,793	10,636	35,055	117,321
Company				Fixtures & fittings £	Total £
COST					
At 1 January 2015 and 31 December 2016				3,450	3,450
ACCUMULATED DEPRECIATION					
At 1 January 2015 and 31 December 2016				3,450	3,450
NET BOOK VALUE					
At 31 December 2016				-	-
At 31 December 2015				-	-

19. Called up share capital

	Number/ Class	Nominal Value	2016 £	2015 £
Authorised	20,000 Ordinary	£0.01	<u>200</u>	<u>200</u>
Allotted, issued and fully paid	10,753 Ordinary	£0.01	<u>108</u>	<u>108</u>

20. Reserves

	Profit and Loss Account £	Group Capital Redemption Reserve £
At 1 January 2016	(189,657)	74,179
Profit for the financial year	1,260,894	-
At 31 December 2016	<u>1,071,237</u>	<u>74,179</u>

Company	Profit and Loss Account £
At 1 January 2016	2,607,138
Profit for the financial year	81,659
At 31 December 2016	<u>2,688,797</u>

20. Reserves (continued)

	Profit and¹⁰ Loss Account	Group Capital Redemption Reserve
	£	£
At 1 January 2015	(1,857,226)	74,179
Profit for the financial year	1,667,569	-
At 31 December 2015	<u>(189,657)</u>	<u>74,179</u>
Company	Profit and Loss Account	
	£	
At 1 January 2015	3,076,756	
Loss for the financial year	(469,618)	
At 31 December 2015	<u>2,607,138</u>	

21. Movement in Shareholders' Funds

Group 2016	Share Capital	Profit and Loss Account	Capital Redemption Reserve	Total
	£	£	£	£
At the beginning of the financial year	108	(189,657)	74,179	(115,370)
Profit for the financial year	-	1,286,721	-	1,286,721
At the end of the financial year	<u>108</u>	<u>1,097,064</u>	<u>74,179</u>	<u>1,171,351</u>

¹⁰ See Note 2

21. Movement in Shareholders' Funds (continued)

Group 2015 as restated

	Share Capital £	Profit and Loss Account¹¹ £	Capital Redemption Reserve £	Total £
At the beginning of the financial year	108	(1,857,226)	74,179	(1,782,939)
Profit for the financial year	-	1,667,569	-	1,667,569
	<u>108</u>	<u>(189,657)</u>	<u>74,179</u>	<u>(115,370)</u>
	-----	-----	-----	-----

Company 2016

	Share Capital £	Profit and Loss Account £	Total £
At the beginning of the financial year	108	2,607,138	2,607,246
Profit for the financial year	-	81,659	81,659
	<u>108</u>	<u>2,688,797</u>	<u>2,688,905</u>
	=====	=====	=====

Company 2015

	Share Capital £	Profit and Loss Account £	Total £
At the beginning of the financial year	108	3,076,756	3,076,864
Profit for the financial year	-	(469,618)	(469,618)
	<u>108</u>	<u>2,607,138</u>	<u>2,607,246</u>
	=====	=====	=====

¹¹ See Note 2

22. Technical Provisions

2016	Provision for	Claims	
Gross Amount	Unearned	Outstanding	Total
	Premium		
	£	£	£
At 1 January 2016	19,194,002 ¹²	990,299	20,184,301
Movement in provision	452,754	(233,222)	219,532
At 31 December 2016	<u>19,646,756</u>	<u>757,077</u>	<u>20,403,833</u>

2015	Provision for	Claims	
Gross Amount	Unearned	Outstanding	Total
	Premium		
	£	£	£
At 1 January 2015	18,638,848 ¹³	1,328,732	19,967,580
Movement in provision	555,154	(338,433)	216,721
At 31 December 2015	<u>19,194,002</u>	<u>990,299</u>	<u>20,184,301</u>

Net Technical Provision

At 31 December 2016	<u>19,646,756</u>	<u>757,077</u>	<u>20,403,833</u>
At 31 December 2015 as restated	<u>19,194,002</u>	<u>990,299</u>	<u>20,184,301</u>

¹² See Note 2

¹³ See Note 2

23. Provisions for other risks and charges

	2016 £	2015 as restated £
Deferred taxation	8,363	14,869
	<u>8,363</u>	<u>14,869</u>
	Deferred Tax £	Total £
At 1 January 2016	14,869	14,869
Movement in the year	(6,506)	(6,506)
	<u>8,363</u>	<u>8,363</u>

Deferred tax is in respect of accelerated capital allowances.

24. Creditors arising out of insurance operations

	2016 £	2015 £
Due to intermediaries	273,229	351,586
	<u>273,229</u>	<u>351,586</u>

25. Other creditors including taxation and social welfare

	Group		Company	
Due within one year	2016 £	2015 £	2016 £	2015 £
Trade creditors	155,178	133,445	5,994	1,155
Corporation tax	124,380	339,597	22,261	4,391
Amounts owed to group undertakings	-	-	-	91
Social security and other taxes	247,485	264,638	643	680
Other creditors	546,893	299,205	278,204	231,525
Directors current accounts	501,581	695,906	501,581	695,906
VAT	25,320	26,540	5,541	22,100
Deferred revenue	89,494	92,156	-	-
	<u>1,690,331</u>	<u>1,851,487</u>	<u>814,224</u>	<u>955,848</u>

25. Other creditors including taxation and social welfare (continued)

Due after more than one year	Group		Company	
	2016 £	2015 £	2016 £	2015 £
Amounts owed to group undertakings	-	-	2,437,585	2,396,111
Deferred revenue	450,600	464,049	-	-
	<u>450,600</u>	<u>464,049</u>	<u>2,437,585</u>	<u>2,396,111</u>

The Company has an outstanding directors loan owed to P Dawson of £501,581 (2016: £695,906). The loan is interest free, and has no fixed repayment date. The fair value is cost.

The balance at 31 December in respect of deferred revenue represents administration of future claims handling costs yet to be delivered and is deferred over the period of the life of the policies.

26. Notes to the cash flow statement

	2016 £	2015 as restated £
Profit on the ordinary activities before tax	1,851,587	2,354,900
Interest paid	54,931	30,166
Depreciation	34,441	44,822
Amortisation of goodwill	608,111	1,216,193
Loss on disposal of property, plant and equipment	-	10,454
Revaluation of investment property	(13,545)	-
Interest received	(26,646)	(89,888)
Dividends received	-	(175,928)
Increase in provisions	177,593	(428,074)
Operating cash flows before movements in working capital	<u>2,686,472</u>	<u>2,962,645</u>
(Decrease)/increase in receivables	(47,085)	183,783
(Increase)/decrease in payables	28,931	412,172
Cash generated by operations	<u>2,668,318</u>	<u>3,558,600</u>
Corporation tax (paid)	(590,699)	(479,501)
Interest paid	(54,931)	(30,166)
Net cash from operating activities	<u>2,022,688</u>	<u>3,048,933</u>

27. Leasing agreements

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2016	2015
	£	£
Within one year	115,093	110,268
Between one and five years	347,931	312,453
In more than five years	405,472	430,375
	<u>868,496</u>	<u>853,096</u>

28. Capital management

The Group is exclusively funded through retained earnings and maintains an efficient capital structure, consistent with the Group's risk profile and the regulatory requirements of its business. The Group does not hold any other capital such as subordinated debt, preference shares or borrowings.

The Group's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business
- to maintain financial strength to support new business growth
- to satisfy the requirements of its policyholders and regulators
- to retain financial flexibility by maintaining strong liquidity
- to allocate capital efficiently to support growth
- to comply with transitional requirements of Pillar 1 transition from Solvency I to Solvency II.

The Group is regulated by the UK's Prudential Regulation Authority ("PRA"). As a result, the Group must maintain capital resources as prescribed by the PRA through its Prudential Sourcebook.

The Solvency II regime has been effective since 1 January 2016 and establishes a new set of EU-wide capital requirements, risk management and disclosure standards. The Group is required to meet a Minimum Capital Requirement ("MCR") and a Solvency Capital Requirement ("SCR"), which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12-month time frame.

The Group calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations.

There were no changes made to the capital base or to the objectives, policies and processes for managing capital in the financial year.

28. Capital management (continued)

The Group is currently in transitional arrangements with the PRA (approved 6th October 2015). As met it's SII MCR at 1st January 2016 and has provided a credible plan on how it intends to meet its SII SCR by 31st December 2017.

As at 31st December 2016, the Group maintains a capital level in excess of 287% of the minimum capital requirement, and 71% of the full Solvency II SCR requirement. As at 31st December 2016, the solo firm of GPI Ltd maintains a capital level in excess of 352% of the minimum capital requirement, and 88% of the full Solvency II SCR requirement. Both the Group and solo firm continues to progress through its plan to fully meet its SII SCR by 31st December 2017.

Governance is central to the prudential regulatory requirements contained within the Solvency II Directive (2009/138/EC). The primary objective being to drive effective risk management through a risk based capital requirement. The regulation requires that insurers captured by the directive establish and maintain an Own Risk and Solvency Assessment (ORSA). An ORSA is effectively a risk management process that seeks to document, consider and equate an insurer's established systems and controls to its balance sheet strength. It therefore forms an important and integral part of a firm's risk management framework, and is a key tool to managing capital.

The Own Risk and Solvency Assessment (ORSA) process constitutes the continuous identification and management of financial and non-financial risk within the Group. The ORSA report is a fundamental document that supports and informs the Board and the Executive Management team in pursuit of its strategy and to understand the risks faced by the Group, its appetite to endure and accept those risks and to provide a clear and unambiguous process to manage capital in a prudent and stable manner.

The ORSA is integrated into the business and strategic planning processes. It is recognised that the ORSA is an on-going process that reflects the Group's risk profile and capital requirements at any given time, relative to the strategy being pursued. At each Executive Committee meeting, there is due consideration given to the Group's risk profile, and would, if any significant financial issue or potential risk crystallisation be identified, escalate the matter immediately to the Board. This would be done to facilitate a decision as to whether to re-run the models to reflect the impact, and consider any necessary actions in mitigation. The subsequently updated ORSA would then be formally reviewed by the Board Risk Committee prior to Board approval. In the absence of any escalation, the document is formally reviewed by the Board twice yearly. Similarly, it is expected that future iterations of the ORSA report will continue to be refined and developed in accordance with the Group's risk management enhancements and feedback sought from significant stakeholders. The development of the report will assist the Group in meeting its strategic objectives as it responds to an evolving market place. The Group will continue to invest in sustainable and integrated processes, including the ORSA process, to seek to ensure that it maintains sufficient capital resources aligned to the risks driven from established business activities, this will also maintain capital resources in excess of regulatory requirements post Transition

The Group has met the key deliverable requirements of the PRA. The Own Risk and Solvency Assessment ("ORSA") was submitted in June 2016. Quantitative reporting templates ("QRTs") have been submitted to the PRA for all quarters in 2016, along with qualitative information, which have been submitted as part of transitional Day 1 compliance reporting. All submissions were made before the last submission dates.

The Group is compliant with PRA and Solvency II requirements under the transitional capital arrangement.

29. Financial risk management

The Group monitors and manages financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (currency risk, interest rate risk and pricing risk), credit risk and liquidity risk.

The Group does not have a large exposure of risk in relation to currency and interest rate risk, and does not use derivative financial instruments to hedge risk exposures.

(a) Fair Value

Fair value is the amount for which an asset or liability can be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Group applies valuation techniques to measure such instruments. These valuation techniques maximise use of market observable data but in some cases management estimate other than observable market inputs within the valuation model. There is no standard model and different assumptions would generate different results. Fair values are subject to a control framework designed to ensure input variables and output are assessed independent of the risk taker. The Group has a low level of exposure to financial assets or liabilities which are valued at other than quoted market prices in an active market.

2016

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Bonds	-	9,649	-	9,649
Equities	2,847	-	-	2,847
Collective investment schemes	1,996	-	-	1,996

2015

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Bonds	-	-	-	-
Equities	581	-	-	581
Collective investment schemes	8,381	-	-	8,381

29. Financial risk management (continued)

(b) Market Risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency and exchange rates, interest rates and other price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities. The objective of the Group in managing its market risk is to ensure risk is managed in line with the Group's risk appetite.

The Group has established policies and procedures in order to manage market risk and methods to measure it.

There were no changes in the Group's market risk exposure in the financial year or to the objectives, policies and processes for managing market risk.

i. Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The Group has minimal exposure to currency risk as foreign currency transactions make up less than 3% of annual income. In addition, any claims costs are offset against incoming premium allowing for a self-hedge, while the schemes continue to operate. Should the schemes terminate, currency risk appetite would be reassessed.

The following table details the Group's sensitivity to a 10% increase and decrease in the Euro against the GBP. This demonstrates the low level of risk exposure associated with currency fluctuations.

	Impact on gross and net liabilities £'000	Impact on profit before tax £'000
2016		
10% increase to € rate on held balance at year end	(2)	2
10% decrease to € rate on held balance at year end	2	(2)
2015		
10% increase to € rate on held balance at year end	(13)	13
10% decrease to € rate on held balance at year end	13	(13)

29. Financial risk management (continued)

The Group's method for sensitivity to currency rate fluctuations has not changed significantly over the financial year. The Group has exposure to the following currencies through the investment portfolio. During the year the managed portfolios were moved from indirect holdings in collective investment schemes to direct holdings of equity and bonds.

2016

	USD \$'000	EUR '000	CHF CHF'000
Equities	603	47	46
Collective Investment Schemes	224	-	-

2015

	USD \$'000	EUR '000	CHF CHF'000
Equities	-	-	-
Collective Investment Schemes	619	139	-

ii. Interest rate risk management

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk as entities in the Group invest in long term debt at fixed interest rates. As at 31 December 2017, the value of these investments was £9,649,000 and whilst the prior year comparative was nil, there was a proportionate exposure held indirectly through collective investment schemes.

Due to the nature of the investments in fixed interest debt and bonds, hedging activities do not form part of the risk mitigation plan. The Group does not participate in any form of interest rate swap or forward interest rate contracts. In addition the interest rate risk element on the fixed interest bonds and gilts is captured in the market risk sensitivity analysis, as the market value of bonds is linked to the rise or fall of interest rates.

The Group has no significant concentration of interest rate risk. It manages this residual risk by adopting close asset/liability matching criteria through its Asset and Liability Management Committee, to minimise the impact of mismatches between asset and liability values arising from interest rate movement.

29. Financial risk management (continued)

The sensitivity analyses below have been determined based on the exposure to interest rates for any instruments providing an output sensitive to interest rates at the balance sheet date. A 0.5% increase or decrease is used for reporting and represents management's assessments of the reasonably possible change in interest rates. The figures below show the impact to Balance Sheet and the reverse of this would be the impact to profitability.

	Impact on gross and net liabilities £'000	Impact on profit before tax £'000
2016		
0.5% increase to interest rate on variable rate assets at year end	24	(24)
0.5% decrease to interest rate on variable rate assets at year end	(24)	24
2015		
0.5% increase to interest rate on variable rate assets at year end	4	(4)
0.5% decrease to interest rate on variable rate assets at year end	(4)	4

The Group's method for sensitivity to interest rate fluctuations has not changed significantly over the financial year.

iii. Other price risk management

The Group is exposed to price risk arising from fluctuations in the value of financial instruments as a result of changes in the market prices and the risks inherent in all investments. The Group has no significant concentration of price risk. The risk is managed by the Group by maintaining balanced portfolios and utilising the resources of high calibre investment managers. The investments managers are provided with the appropriate mandate detailing the Group's risk appetite and corresponding risk thresholds.

29. Financial risk management (continued)

During the year the managed portfolios were moved from indirect holdings in collective investment schemes to direct holdings of equity and bonds. This move was within the Group's risk appetite and corresponding risk thresholds, but allowed for more efficient reporting of look through reporting required under regulatory reporting.

The Group's sensitivity to a 0.5% increase and decrease on market prices is as follows:

	Impact on gross and net liabilities £'000	Impact on profit before tax £'000
2016		
0.5% increase to fair value of shares and other collective investment undertakings	482	482
0.5% decrease to fair value of shares and other collective investment undertakings	(482)	(482)
0.5% increase to fair value of debt securities	242	242
0.5% decrease to fair value of debt securities	(242)	(242)
2015		
0.5% increase to fair value of shares and other collective investment undertakings	448	448
0.5% decrease to fair value of shares and other collective investment undertakings	(448)	(448)
0.5% increase to fair value of debt securities	-	-
0.5% decrease to fair value of debt securities	-	-

The Group's method for sensitivity to pricing risk management has not changed significantly over the financial year. The figures above show the impact to Balance Sheet and the reverse of this would be the impact to profitability.

29. Financial risk management (continued)

(c) Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The key areas of exposure to credit risk for the Group are in relation to its investment portfolio, reinsurance programme and to a lesser extent amounts due from policy holders and intermediaries.

The objective of the Group in managing its credit risk is to ensure risk is managed in line with the Group's risk appetite. The Group has established policies and procedures in order to manage credit risk and methods to measure it.

There were no changes in the Group's credit risk exposure in the financial year nor to the objectives, policies and processes for managing credit risk.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent to investment grade or above.

The information is supplied by independent rating agencies where available and if not available the Group uses other publicly available financial information and its own trading records to rate its major policy holders. The Group only uses reinsurers of a minimum of A- rating.

The Group's exposures and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Credit exposure is controlled by counterparty limits set by the Group risk appetite and appropriate investment policy. Investment managers assess credit risk of securities are in line with the agreed investment mandate of minimum BBB rating prior to purchase. The exposures are reviewed monthly via Key Risk Indicators.

Whilst the Group's exposure to credit risk on its fixed interest investments has changed to be direct rather than through collective investment schemes, there were no significant changes in the Group's underlying credit risk exposure in the financial year nor to the objectives, policies and processes for managing credit risk.

Receivables consist of a small set of regulated insurance intermediaries, spread over the UK. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure beyond its subsidiary Warranty Services Limited to any single counterparty. Concentration of credit was reduced from 10.2% to under 7.5% during the year. The credit risk on liquid funds and financial instruments is limited through the high credit ratings assigned by international credit-rating agencies to the bank counterparties, which are within the Groups risk appetite limit of counterparties to BBB+.

29. Financial risk management (continued)

The carrying amount of financial assets and reinsurance assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking into account the value of collateral obtained.

The Group monitors credit risk in relation to its investment portfolio via our delegated investment managers, and reinsurance programme by monitoring external credit ratings monthly to the credit risk appetite set by the Board of a minimum of BBB+ rating, to insure portfolio meets the mandate provided to the delegated investment managers.

Reinsurance assets are reinsurers' share of claims paid. All reinsurers are minimum A- rating.

Loans and insurance receivables, and investment in subsidiaries generally do not have a credit rating.

The following table shows the carrying value of assets that are neither past due nor impaired, the ageing of assets that are past due but not impaired, and lastly past due and impaired. The factors considered in determining that the value of the assets have been impaired were, analysis of impairment, ageing of balances, past loss experience, current economic conditions and other relevant circumstances.

	Neither past due or impaired	2016 £'000's Past due and impaired	Carrying Value
Debt securities	9,649	-	9,649
Reinsurance assets	6	-	6
Insurance receivables	257	-	257
Cash and cash equivalents	6,687	-	6,687
	16,599	-	16,599

	Neither past due or impaired	2015 £'000's Past due and impaired	Carrying Value
Debt securities	-	-	-
Reinsurance assets	42	-	42
Insurance receivables	255	-	255
Cash and cash equivalents	9,334	-	9,334
	9,631	-	9,631

29. Financial risk management (continued)
(d) Liquidity Risk Management

The following table details the Group's expected maturity for its non-derivative assets. The tables below have been drawn up based on the undiscounted contractual maturities of the assets. Where assets are held in open market securities they are classed as liquid within a month.

Assets and liabilities are monitored via the Group's Asset Liability Management Committee, where the selection of assets and their respective liquidity is matched to the technical provisions of the firm, and the anticipated run off liquidity requirement.

2016 £'000's

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5 years +
Debt securities	9,649	-	-	-	-
Equities	4,843	-	-	-	-
Reinsurance assets	-	6	-	-	-
Insurance receivables	257	-	-	-	-
Cash and cash equivalents	6,687	-	-	-	-
	21,436	6	-	-	-

2015 £'000's

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5 years +
Debt securities	-	-	-	-	-
Equities	8,962	-	-	-	-
Reinsurance assets	-	-	22	-	-
Insurance receivables	636	-	-	-	-
Cash and cash equivalents	9,334	-	-	-	-
	18,932	-	22	-	-

30. Insurance risk management

Introduction

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

The Group manages its risk via its underwriting and reinsurance strategy within an overall risk management framework. Pricing is based on assumptions which have regard to trends and past experience. Exposures are managed by having documented underwriting limits and criteria

Concentration

The Group writes Miscellaneous Financial Loss insurance products for periods of up to 25 years. They are sold to a diverse portfolio of Contractors varying in size, location and work type. Although the core product sold creates a concentration risk (from product type) this is mitigated by diversification via the network of contractors through which the cover is sold.

Underwriting risk

Underwriting and Core Products

The Group ensures that a proportionate, robust underwriting function exists to demonstrate to the Board that major business risks associated with ongoing and new insurance risks that are being underwritten are managed, and that the framework for onboarding and assessment of risks is aligned to the risk appetites set by the Board, the risk management framework, and internal control framework. The risk management and mitigation tools used monitor loss or adverse changes in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.

The current appetite statements are set by the Board and drive the business core strategy to which the Underwriting Function adhere to and against which each risk is assessed:

- There is no appetite for undertaking activities that are not aligned with the Board approved core strategy, and/or undertaking activities for which the Group does not currently hold the necessary skills and capabilities;
- The Group will only underwrite products within its core area of expertise; being insurance backed guarantees, together with structural warranties and ECO funded projects;
- Board approval must be sought for any new risks with a Contract Value in excess of £250,000;

30. Insurance risk management (continued)

- The Group seeks to limit its term exposure to 10 years for new business with the exception of ECO or Government led business which has a regulatory requirement of 25 years; Board approval must be sought for any new risks outside of this tolerance.
- The Group will not write any (new) business outside the UK/Ireland without Board approval;
- Any new reinsurance will require Board approval and any reinsurance placed must be with a minimum 'A' rated insurer (rating assessed using rating agencies S&P and AM Best; the higher of which will be applied).

The Group's claims incidences have been largely predictable over recent years due to increase in frequency and quality of management information. The 10 year nature of the majority of the products, means full claims history over the full cycle of 10 years is not as predictable as the period that is open to variable change is greater. Examples of these changes are regulatory and compliance changes, policy scope amendments, internal operational changes. However long term experience indicatively shows some overlap with market risk in that an economic downturn can result in higher contractor failure rates which would therefore bring more installations into eligibility for cover should any installation prove to be defective. Despite the significant economic crisis experienced during 2008/9 this did not result in an exponential rise in claims. We have identified higher contractor failure rates and associated claims but at a more modest level. A more likely point of volatility is the cost of claims.

Sufficiency tests of the UPR have been established assuming current levels of claims remediation costs with an implicit assumption that investment returns will mitigate general claims inflation. The business is exposed to a more significant "spike" in claims remediation costs. This risk is heavily mitigated through the establishment of an in-house remediation Group (The Remedial Group) that undertakes the bulk of the repairs for the 10 year IBG book. This claims cost is monitored on a monthly basis through an operational risk dashboard. The Group could also be exposed to a spike in high value claims, in particular in structural warranties that can have significantly high contract values. This risk is mitigated on a go-forward basis through reducing underwriting risk appetite to a cap of £250k in any one-loss event, but older policies do exist with higher exposures. While any single large loss is possible in any year, the likelihood of an amalgamation of large losses is extremely remote

31. Subsequent events

A claim was made against a group company GPI Ltd in August 2013 by a Belgian individual purporting to hold a valid policy of insurance. The claim was in relation to damages relating to vandalism at commercial premises. This purported policy was issued through a local agent, who does not hold any direct authority to GPI Ltd and without any premium being paid to GPI Ltd.

An initial award of £1.4 - £1.6 Million, based on the assumption of the application of apparent authority, was made in February 2017, in local jurisdiction lower court of Charleroi, with the option of appeal in the higher Court de Mons, where a more specialised panel will review the pleadings, with an output expected in Spring of 2018.

GPI Ltd has since decided on early settlement direct with the claimant of a full and final payment of £550K. GPI Ltd has instructed recovery proceedings for all damages plus costs against the intermediary broker. GPI Ltd is also working with the Professional Indemnity Insurer of the broker involved to ensure the Group's position is protected regardless of outcome.

32. Related party transactions

The Group consider key management personnel to be the directors. The total remuneration for key management personnel for the year totalled £371,094 (2015: £454,564).

Included within other creditors falling due within one year is £501,581 (2015: £695,906) due to P Dawson by the group. Repayments of £168,000 were made to P Dawson in the year, and £26,325 of charges relating to costs incurred on behalf of P Dawson were allocated to the balance.

Certass Limited is a Group owned by P Dawson, a director of Kinnell Holdings Limited, the parent Group. At 31 December 2016 £22,631 (2015: £18,648) is due to the group from Certass Limited. Certass Limited was invoiced £421,842 in the year, and made payments of £417,860 in the year.

33. Ultimate controlling party

The Group is controlled by P Dawson.