Registered number: SC295513 (Scotland)

Kinnell Holdings Limited

Group Strategic Report, Report of the Directors and

Consolidated Financial Statements

For the Year Ended

31 December 2017

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Registered number: SC295513 (Scotland)

KINNELL HOLDINGS LIMITED

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KINNELL HOLDINGS LIMITED

Company Information for the year ended 31 December 2017

Directors:	Mr P Dawson Mrs M Dawson Mr J Brettell Mr P B Wakefield
Secretary:	Mrs L Wilson
Registered Office:	4 Forbes Drive Heathfield Industrial Estate Ayr KA8 9FG
Registered Number:	SC295513 (Scotland)
Independent Auditors:	PricewaterhouseCoopers LLP Chartered Accountants & Statutory Auditors 141 Bothwell Street Glasgow G2 7EQ
Bankers:	Royal Bank of Scotland 36 St Andrews Square Edinburgh EH2 2YB
Solicitors:	Eversheds Sutherland Eversheds House 70 Great Bridgewater Street Manchester M1 5ES

KINNELL HOLDINGS LIMITED

Group Strategic Report for the year ended 31 December 2017

The directors present their strategic report of Kinnell Holdings Limited for the year ended 31 December 2017.

Results
The consolidated profit for the financial year, after taxation, amounted to £768,019 (2016: £1,260,894).

Principal Activities
The principal activity of the company in the year under review was that of a holding company. The core business of the Kinnell Group is to provide a complete insurance package from risk design and brokering to underwriting capacity. 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 holding company, and has no external income out with the group. The strategic view of the business going forward, is that it will remain a holding company with no external trading activity.

The consolidated financial statements incorporate the audited financial statements of Kinnell Holdings Limited and its subsidiaries as at 31 December 2017, known as The Kinnell Group.

The Kinnell Group continues to be signed up to the Scottish Business Pledge, which is a value-led partnership between the Scottish Government and businesses which aims for a fairer Scotland through equality, opportunity and innovation in business. We continue to pay Living Wage for all staff and have widened our investment in youth projects in 2017.

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 Limited

Warranty Services Limited (hereafter WSL) 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.

WSL's profit for the year, after taxation, was £550,633 (2016: £759,173). The reduction of 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 Limited core markets supported through strong partnerships and strategic delivery platforms.

The change in Government outlook may continue to affect some of the markets that WSL operates within most notably the Renewable and the Energy Improvement Sectors. The output of Each Home Counts independent review commissioned by the UK Government is likely to see a return of government focus to 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 Limited

Guarantee Protection Insurance Limited (hereafter 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 company's written premium income decreased by 23% from 2016. This was the result of the continued strategic policy to reduce non-core insurance premium, and associated claims costs, and to focus growth on the core products of Insurance Backed Guarantees and structural warranties within Board approved risk tolerances.

In addition to the traditional work types covered by Insurance Backed Guarantees, the Company 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, the Company maintained its approval and remains listed as an appropriate guarantee provider, with effect from 1st August 2016.

A Loss Portfolio Transfer and Adverse Development Cover reinsurance contract was purchased in the year for a cost of £1.2 Million. The contract covers all business written in the period 1st January 2002 to 31st December 2017 and offers protection to the claims costs occurring from these policies. This arrangement provides reinsurance protection on claims experience cumulatively in excess of £5.17 Million over the life of the policies. This resultant risk transfer also provides a material beneficial reduction in capital requirement in relation to these policies.

The return to core Insurance Backed Guarantees and termination of less profitable schemes, combined with the payment of outward reinsurance and exceptional item costs has had a direct result in the profit after tax for the financial year of £900,002 (2016: £1,765,383).

In 2017 the investment portfolio was rebalanced from a portfolio of both equity and fixed income products to fixed income only. As a result the future cashflows for both assets and liabilities are aligned.

A non -recurring material cost occurred in the year and is reported under exceptional items. GPI Ltd negotiated an early settlement payment of £546,939 (€600,000) in relation to an ongoing Belgian court case regarding a disputed policy issued through a local agent. GPI Ltd were found liable under an apparent authority ruling by the local jurisdiction lower court of Charleroi during 2017, and were ordered to pay between £1.4-£1.6 Million, despite the local agent holding no direct authority to GPI Ltd and without premium being paid to GPI Ltd. This was successfully settled at the significantly lower amount of £546,939.

GPI Ltd have sought recovery of this sum plus costs, a total of circa £1 Million from the broker that acted negligently outside of their authority and through breach of contract caused the disputed policy to be issued. In November 2017 GPI Ltd were awarded a high court judgement and hold an order for payment from Arx Insurance Brokers Ltd for the full amount.

A winding up order was issued to Arx Insurance Brokers Ltd on failure to pay, and this was issued in February 2018.

GPI Ltd are working with the liquidator of Arx Insurance Brokers Ltd to recover any amounts from the assets of the firm, together with the Professional Indemnity Insurer of Arx Insurance Brokers Ltd in order to recoup their loss.

Kinnell Corporate Limited

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, 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, such as Confederation Holdings Limited and The Remedial Company Limited. In 2017 there was continued focus on delivering core interactive business activity and affinity product initiatives.

Group Solvency
In relation to regulatory solvency the Group is compliant with PRA and Solvency II requirements.

The Group has met key deliverable requirements of the PRA. The Own Risk and Solvency Assessment ("ORSA") was submitted in June 2017. Quantitative Reporting Templates ("QRTs") have been submitted to the PRA for all quarters in 2017. All submissions were made in line with the PRA reporting schedule.

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 Group 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 volatility during 2017 due to continued uncertainty regarding the UK leaving the European Union, 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 asset 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:

- Robust monthly management information tracking loss ratio changes, key risks and early warning indicators, in order to monitor key assumptions used within the technical provisions;
- 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.

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 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.

Solvency II

The Solvency II ('SII') 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 SII regulations.

The Group has met the key deliverable requirements of the PRA. The Own Risk and Solvency Assessment ("ORSA") was submitted in June 2017. Quantitative Reporting Templates ("QRTs") have been submitted to the PRA for all quarters in 2017. All submissions were made in line with the PRA reporting schedule.

The Group is compliant with PRA and Solvency II requirements.

Future Developments

2017 has been a 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 Group will continue to focus on core areas and products looking to grow current premium along with maintenance and evolvement of the ECO line of business, with additional work types and term are also being considered.

New specialist staff have been engaged to further the business development department, and we expect to see gains in premium volumes as a result of this.

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. The Group also employed its own in-house actuary in 2017 in order to enhance the communication and knowledge between the management team and its advisors. 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 implementation and embedment of key legal and regulatory outputs.

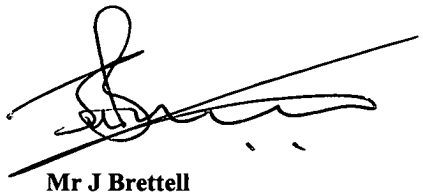
The General Data Protection Regulation (GDPR) will affect the Group and we need to ensure that every employee has the knowledge and understanding of this legislation as it represents a change for all businesses across the UK and Europe in terms of the approach to data protection. Essentially the Group will need to treat data (any information whether corporate, personal, or special category/sensitive) as an asset to the business that should be protected.

The Insurance Distribution Directive (IDD) will have fundamental changes to the documents that we distribute to insurance policyholders; to our training and competency regime; and to how we classify and treat our customers.

In addition, the full Senior Managers & Certification Regime (SMCR) is being extended to insurers in 2018 and as such the Group will be included within in it. SMCR seeks to improve governance, culture and accountability in the financial services industry in terms of conduct and competency.

The Group has projects underway to ensure our compliance with these three key pieces of legislation, and we are currently progressing on track.

On behalf of the Board:



Mr J Brettell
Director

Date 15 JUNE 2018

The directors present their report together with the audited financial statements for the year ended 31 December 2017.

Directors
The directors below have held office during the whole period from 1 January 2017 to the date of this report.

Mr P Dawson
Mrs M Dawson

Other changes in directors holding office are as follows:

Mr J Brettell was appointed as a director after 31 December 2017 but prior to the date of this report.
Mr P B Wakefield was appointed as a director after 31 December 2017 but prior to the date of this report.

Statement of directors' responsibilities in respect of the financial statements
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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;
- make judgements and accounting estimates that are reasonable and prudent; 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 the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors 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.

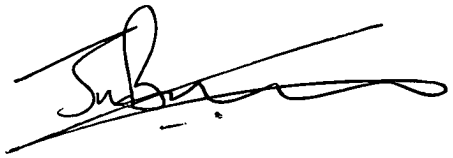
In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Statement as to disclosure of information to independent 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
A resolution to reappoint PricewaterhouseCoopers LLP as auditors will be proposed at the next Annual General Meeting.

On behalf of the board:



Mr J Brettell
Director

Date 15 JUNE 2018

Report on the audit of the financial statements

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 2017 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 (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Group Strategic Report, Report of the Directors and Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated Balance Sheet and Company Balance Sheet as at 31 December 2017; 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 description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors Responsibilities in respect of the Financial Statements set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made; 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.

Christopher Meyrick (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
15 June 2018

KINNELL HOLDINGS LIMITED

Consolidated Technical Profit and Loss Account Non Life Insurance for the year ended 31 December 2017

	Note	2017 £	2016 £
Earned premiums, net of reinsurance			
Gross written premiums	4	3,097,320	4,034,979
Outward reinsurance premiums	32	(183,480)	-
Net premiums written		2,913,840	4,034,979
Change in the gross provision for unearned premiums	4	513,176	(452,754)
Change in the provision for unearned premiums, reinsures share		-	-
Change in the net provision for unearned premiums		513,176	(452,754)
Earned premiums, net of reinsurance		**3,427,016**	**3,582,225**
Allocated investment return transferred from the non technical account		-	-
Other technical income, net of reinsurance		-	-
Total technical income		3,427,016	3,582,225
Claims incurred, net of reinsurance			
Claims paid			
- Gross amount		(1,322,086)	(1,839,922)
- Reinsurers share		-	-
		(1,322,086)	(1,839,922)
Change in the provision for claims			
- Gross amount		36,656	233,222
- Reinsurers share		-	-
		36,656	233,222
Claims incurred, net of reinsurance		**(1,285,430)**	**(1,606,700)**
Net operating expenses	8	(1,741,330)	(1,492,715)
Other technical charges net of reinsurance		-	-
Total technical charges		(3,026,760)	(3,099,415)
Balance on technical account for non life insurance business		**400,256**	**482,810**

KINNELL HOLDINGS LIMITED

Non Technical Profit and Loss Account Non Life Insurance for the year ended 31 December 2017

	Note	2017 £	2016 £
Balance on technical account for non life insurance business		**400,256**	**482,810**
Non insurance company turnover		3,711,944	4,109,131
Cost of sales		(462,908)	(592,523)
Administration expenses		(2,690,456)	(3,045,558)
Investment income			
- Income from other investments	5	427,773	381,522
- Gains on the realisation of investments	5	759,185	377,856
Unrealised gains/(losses) on investments	5	(438,805)	193,280
Investment charges			
- Investment expense	5	(7,285)	(54,931)
- Investment portfolio management		(130,254)	-
Exceptional item	30	(546,939)	-
Foreign exchange gain/(loss)		(16,810)	-
Profit/(loss) on ordinary activities before tax		**1,005,701**	**1,851,587**
Taxation on profit/(loss) from ordinary activities	7	(237,682)	(590,693)
Profit/(loss) for the financial year	20	768,019	1,260,894

All amounts arise from continuing activities.

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

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 profit and loss account or cash flow statement of the parent company.

KINNELL HOLDINGS LIMITED

Consolidated Balance Sheet as at 31 December 2017

	Note	2017 £	2016 £
ASSETS			
Fixed assets			
Office and computer equipment	18	**71,624**	**89,100**
Investments			
Investment property	12	**220,000**	**450,000**
Intangible fixed assets	13	**608,112**	**1,216,224**
Other financial investments			
Investment securities	14	**17,263,403**	**14,568,347**
Debtors			
Debtors arising from direct insurance operations	16	265,044	257,180
Debtors arising out of reinsurance operations		34,769	5,138
Other debtors	17	979,035	848,160
		1,278,848	**1,110,478**
Other assets			
Cash at bank		**3,713,476**	**6,687,984**
Prepayments and accrued income			
Accrued interest	17	676	17,909
Prepayments and other accrued income	17	1,082,177	73,475
		1,082,853	**91,384**
Provision for deferred tax assets	23	**439,608**	**440,046**
Total assets		**24,677,924**	**24,653,563**

KINNELL HOLDINGS LIMITED

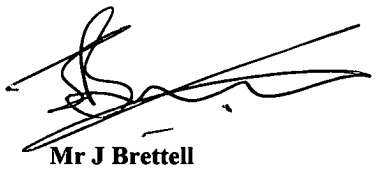
Consolidated Balance Sheet as at 31 December 2017 (continued)

	Note	2017 £	2016 £
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital presented as equity	19	108	108
Profit and loss account	20	1,839,256	1,071,237
Capital redemption reserve	20	74,179	74,179
Total shareholders' funds		**1,913,543**	**1,145,524**
Technical provisions			
Provision for unearned premiums	22	19,133,582	19,646,756
Claims outstanding	22	720,421	757,077
		19,854,003	**20,403,833**
Provisions for other risks and charges			
Provisions for deferred tax	23	**6,691**	**8,363**
Creditors			
Creditors arising out of direct insurance operations	24	143,060	273,229
Other creditors including taxation and social welfare	25	1,783,194	1,690,301
		1,926,254	**1,963,530**
Creditors falling due after more than one year			
Deferred revenue	25	**438,327**	**450,600**
Accruals and deferred income		**539,106**	**681,713**
Total liabilities and total shareholders' funds		**24,677,924**	**24,653,563**

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 15 JUNE 2018.

They were signed on its behalf by:



Mr J Brettell
Director

KINNELL HOLDINGS LIMITED

Company Balance Sheet as at 31 December 2017

	Note	2017 £	2016 £
Fixed assets			
Tangible assets	18	-	-
Investments			
Investment in subsidiaries	14	5,926,463	5,929,323
		5,926,463	**5,929,323**
Current assets			
Debtors	17	6,174	5,839
Cash at bank		1,211	5,552
		7,385	11,391
Creditors			
Amounts falling due within one year	25	(623,241)	(814,224)
Net current liabilities		**(615,856)**	**(802,833)**
Total assets less current liabilities		**5,310,607**	**5,126,490**
Creditors			
Amounts falling due after more than one year	25	(2,462,058)	(2,437,585)
Net assets		**2,848,549**	**2,688,905**
Capital and reserves			
Called up share capital	19	108	108
Profit and loss account	20	2,848,441	2,688,797
Shareholders' funds		**2,848,549**	**2,688,905**

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 15 JUNE 2018.

They were signed on its behalf by:

Mr J Brettell
Director

KINNELL HOLDINGS LIMITED

Consolidated Statement of Cash Flows for the year ended 31 December 2017

	Note	2017 £	2016 £
Net cash from operating activities	26	(62,012)	2,142,596
Cash flows from investing activities			
Purchase of tangible assets		(14,396)	(6,220)
Proceeds from sale of investment property		240,000	-
Other financial investments		(3,209,919)	(4,615,355)
Dividends receivable		-	-
Interest received		71,819	26,646
Net cash flows from investing activities		(2,912,496)	(4,594,929)
Cash flows from financing activities			
Loan repayments made in the year		-	(194,325)
Net cash flows from financing activities		-	(194,325)
Net decrease in cash and cash equivalents		(2,974,508)	(2,646,658)
Cash and cash equivalents at the beginning of the year		6,687,984	9,334,642
Cash and cash equivalents at the end of the year		3,713,476	6,687,984
Reconciliation to cash and cash equivalents			
Cash at bank		3,713,476	6,687,984

The Company has elected to take advantage of the exemption under Section 408 of the Companies Act 2006 not to present the profit and loss account or cash flow statement of the parent company.

KINNELL HOLDINGS LIMITED

Consolidated Statement of Changes in Equity for the year ended 31 December 2017

	Called up share capital £	Profit and loss account £	Capital redemption reserve £	Total shareholders' funds £
At 1 January 2016	**108**	**(189,657)**	**74,179**	**(115,370)**
Profit for the financial year	-	1,260,894	-	1,260,894
Dividends paid on equity shares	-	-	-	-
At 31 December 2016	**108**	**1,071,237**	**74,179**	**1,145,524**
Profit for the financial year	-	768,019	-	768,019
Dividends paid on equity shares	-	-	-	-
At 31 December 2017	**108**	**1,839,256**	**74,179**	**1,913,543**

KINNELL HOLDINGS LIMITED

Company Statement of Changes in Equity for the year ended 31 December 2017

	Called up share capital £	Profit and loss account £	Total shareholders' funds £
At 1 January 2016	**108**	**2,607,138**	**2,607,246**
Profit for the financial year	-	81,659	81,659
Dividends paid on equity shares	-	-	-
At 31 December 2016	**108**	**2,688,797**	**2,688,905**
Profit for the financial year	-	159,644	159,644
Dividends paid on equity shares	-	-	-
At 31 December 2017	**108**	**2,848,441**	**2,848,549**

1. General information

Kinnell Holdings Limited ('the Company') 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 2017 ('the Group').

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.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review which forms part of the directors' report. The director's report also describes the financial position of the Group; its cash flows and liquidity position; the Group's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposure to credit risk and liquidity risk.

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 British 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 incepted 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.

Dividend income

Dividend income from investments is recognised when the group's 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.

2. Significant accounting policies (continued)

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 off of the policies and the discount factor applied.

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 policy note.

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.

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 making 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 follows:

Improvements to property -	in accordance with the property
Fixtures and fittings -	20% per annum straight line
Office equipment -	20% per annum straight line
Computer equipment -	33% per annum straight line

Intangible assets

Intangible assets are initially measured at cost. After initial recognition, intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. Previously the amortisation policy was to amortise the assets evenly over twenty years, however this changed in 2015 and the policy now is to amortise the asset evenly over five years.

2. Significant accounting policies (continued)

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 account 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 against the assets of the cash generating unit on a pro-rata basis.

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 Groups'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 specified 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.

Valuation of listed investments

All investments are valued at their fair value as at 31 December 2017 determined as follows:

- Managed fund investments (debt securities) are stated at bid price of the latest prices quoted by the market at 31 December 2017.

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 had no impairment been recognised. The amount of the reversal is recognised through the profit and loss account 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.

2. Significant accounting policies (continued)

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 obligation. 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.

Outward reinsurance premiums
Outward reinsurance premiums are recognised as an expense on a straight line basis, for each contract, over the life of the contract. This is consistent with the profile of recognition for unearned premiums in the absence of historical profile data which gives a meaningful indication of future earning pattern.

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.

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.

2. Significant accounting policies (continued)

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 account 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 is it 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 form 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.

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, Premium recognition and Reinsurance premiums

In the absence of stable historical information of when in the policy life cycle the loss event will occur which could be 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.

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

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. It is assumed that this accurately reports the best estimate of the outstanding claims. A 1% movement in the value of outstanding claims equates to £6,861.

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.

A key assumption underlying the appropriateness of the approach taken to calculate IBNR is that the level of prudence within the case estimates remains consistent over time. The methodology of setting case estimates has remained unchanged over the past year, and the sensitivity of this assumption is therefore irrelevant as the approach is unchanged.

A 1% movement in the value of IBNR equates to £343.

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 account in the year in which it occurs.

Valuation of listed investments

All investments are valued at their fair value at 31 December 2017 determined as follows:

- Managed fund investments (debt securities) are stated at bid price of the latest prices quoted by the market at 31 December 2017.

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 (e.g. 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 transactions 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.

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

Investments in subsidiaries

In the event a trigger event exists, an annual impairment test is performed by determining the value in use and comparing this to the carrying value. Where the carrying value exceed the value in use an impairment is recognised. The investment in Kinnell Corporate Limited triggered and annual impairment assessment. The following key assumptions applied to Kinnell Corporate Limited have been applied by management to the value in use calculations tailored to reflect the nature and risk profile of related future cash flows:

- Forecasts: a 5 year outlook based on existing business with a 2% growth factor;
- Costs base: existing cost base and margins adjusted for inflation assumed at 2% per annum; and
- Discount factor: 10%

The assumption that contributes most to volatility of the output is the discount factor rate, as the income and cost base assumptions are matched. For investment in Kinnell Corporate Limited:

- A 1% movement in the growth factor used, equates to a valuation movement of £26,974.
- A 1% movement in the inflation rate used, equates to a valuation movement of £12,815.
- A 1% movement in the discount factor used, equates to a valuation movement of £35,861.

Pension costs and other post- retirement benefits

The Group operates a defined contribution pension scheme. Contributions payable to the Company'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 claims handling forecast over the lives of the policies and discounted back to present value. The assumptions used in the calculation are:

- Cost base – existing cost base adjusted for inflation assumed at 3% per annum; and
- Discount factor – 2.5%

A 1% movement in the inflation rate used equates to a valuation movement of £21,696. A 1% movement in the discount factor used equates to a valuation movement of £22,618.

4. Premiums written and change in provision for unearned premiums

	2017 £	2016 £
Premiums receivable	2,943,398	3,841,285
Policy fees receivable	153,922	193,694
	3,097,320	4,034,979
Change in provision for unearned premiums in respect of premiums receivable	513,176	(452,754)

The written premium shown above for the year ended 31 December 2017 includes £99,233 (2016: £205,133) of premiums generated in Europe outwith the United Kingdom.

5. Net investment return

	Investment income	Investment expense	Net realised gains and losses	Changes in fair value	Net investment result
	2017 £	2017 £	2017 £	2017 £	2017 £
Government bonds	108,425	-	(5,332)	(105,128)	(2,035)
Corporate bonds	194,709	-	(157)	9,756	204,308
Equity	51,689	-	161,238	(54,081)	158,846
Collective investment undertakings	22,027	-	593,436	(289,352)	326,111
Cash and deposits	-	-	-	-	-
Loans and receivables	-	(612)	-	-	(612)
Cash and cash equivalents	9,765	(6,673)	-	-	3,092
Investment property	-	-	10,000	-	10,000
Other investment income	41,158	-	-	-	41,158
	427,773	(7,285)	759,185	(438,805)	740,868

5. Net investment return (continued)

	Investment income	Investment expense	Net realised gains and losses	Changes in fair value	Net investment result
	2016 £	2016 £	2016 £	2016 £	2016 £
Government bonds	7,777	-	(976)	2,331	9,132
Corporate bonds	37,278	-	-	(21,631)	15,647
Equity	113,902	-	4,057	28,105	146,064
Collective investment undertakings	96,815	-	374,775	170,930	642,520
Cash and deposits	1,039	-	-	-	1,039
Loans and receivables	26,646	-	-	-	26,646
Cash and cash equivalents	-	(54,931)	-	-	(54,931)
Investment property	-	-	-	13,545	13,545
Other investment income	98,065	-	-	-	98,065
	381,522	(54,931)	377,856	193,280	897,727

6. Directors' remuneration

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

	2017 £	2016 £
Emoluments		
Directors' salaries	-	371,094
Compensation for loss of office	-	-
Pensions		
Directors' pension	-	7,564
Compensation for loss of office	-	-
	-	378,658

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

Money purchase schemes	-	2

Information regarding the highest paid director is as follows:

	2017 £	2016 £
Emoluments	-	138,052

7. Taxation on profit on ordinary activities

The tax charge comprises:

	2017 £	2016 £
Current tax on profit on ordinary activities		
UK corporation tax	219,451	243,256
Adjustments in respect of prior year		
UK corporation tax	19,465	40,418
Total current tax	238,916	283,674
Deferred tax		
Losses	782	-
Accelerated capital allowances	(2,324)	307,019
Short-term timing differences	308	-
Total deferred tax	(1,234)	307,019
Total current and deferred tax	237,682	590,693

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:

	2017 £	2016 £
Profit/(loss) on ordinary activities before tax	1,005,701	1,851,587
Tax on ordinary activities at the standard rate of corporation tax in the UK of 19.247% (2016: 20.00%)	193,567	370,317
Effect of:		
Adjustment in respect of previous periods	19,465	40,418
Expenses not deductible for tax purposes	99,112	107,824
Income not taxable	(96,687)	(29,084)
Chargeable gains/(losses)	20,208	2,709
Adjust deferred tax on change of tax rate	(4,622)	81,078
Fixed asset differences	24,438	25,802
Deferred tax not recognised	(17,799)	(8,371)
Current tax charge for the year	237,682	590,693

8. Net operating expenses

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

	2017 £	2016 £
Auditor's remuneration	174,786	105,364
Depreciation – owned assets	31,872	34,441
Goodwill amortisation	608,112	608,112
Foreign currency (gain)/loss	16,810	(1,970)
Loss on sale of investment	-	100

The analysis of auditor's remuneration is as follows:

	2017 £	2016 £
Fees payable to the Group's auditor and its associates for the audit of the parent company's financial statements	22,545	18,788
Fees payable to the Group's auditor and its associates for the audit of the subsidiary companies financial statements	78,934	37,576
Fees payable to the Group's auditor and its associates for other services:		
Other fees pursuant to legislation	73,307	49,000
	174,786	105,364

9. Employee information

Staff costs, including directors' remuneration (Note 6) consists of:

	2017 £	2016 £
Wages and salaries	1,911,155	1,974,369
Social security costs	182,234	191,488
Other pension costs	116,079	85,915
	2,209,468	2,251,772

The average number of employees including directors during the year was 60 (2016: 63).

10. Investment return summary

	2017 £	2016 £
Realised gain/(loss) on investments	759,185	377,856
Unrealised gain/(loss) on investments	(438,805)	193,280
	320,380	571,136

11. Dividends

	2017 £	2016 £
Ordinary shares of £1 each		
Interim	-	-

12. Investment property

Group	2017 Total £	2016 Total £
Cost or valuation		
As at 1 January	450,000	436,455
Disposals	(230,000)	-
Revaluation	-	13,545
As at 31 December	220,000	450,000
Net book value		
As at 31 December	220,000	450,000

Cost or valuation at 31 December 2017 is represented by:	Total £
Cost	228,455
Valuation	(8,455)
	220,000

The property held at the balance sheet date was last valued independently in 2016 by Humphreys and Dancer, Chartered Surveyors and Valuers, and no independent professional valuation was carried out in 2017. The Directors conclude that the valuation of the property has not materially changed during the year by carrying out the following analysis; recognising that rent yields remain unchanged despite tenant change; a review of market rates of similar properties in the area; an analysis of Land Registry to confirm recent sale prices from an independent source.

Cost or valuation at 31 December 2016 is represented by:	Total £
Cost	565,625
Valuation	(115,625)
	450,000

13. Intangible assets

Group	Goodwill £	Intangible asset £	Total £
Cost			
At 31 December 2017 and 31 December 2016	3,990,408	1,656,248	5,646,656
Accumulated amortisation			
At 1 January 2017	3,028,144	1,402,288	4,430,432
Impairment charge in year	481,132	126,980	608,112
At 31 December 2017	3,509,276	1,529,268	5,038,544
Net book value			
At 31 December 2017	481,132	126,980	608,112
At 31 December 2016	962,264	253,960	1,216,224

Goodwill relates to the premium paid following acquisition of subsidiary companies and has a carrying value of £481,132 with one year of amortisation remaining before it is fully written down.

The intangible asset relates to the volume of customer relationships acquired with the acquisition of a business and recognised through the subsidiary company Warranty Services Limited. The intangible asset has a carrying value of £126,980 with one year of amortisation remaining before it is fully written down.

14. Financial investments

Group	Fair value 2017 £	Cost 2017 £	Fair value 2016 £	Cost 2016 £
Total investments				
- Bonds	17,263,403	17,272,913	9,648,853	9,562,991
- Equities	-	-	2,847,047	2,792,996
- Collective investment undertakings	-	-	2,072,447	1,783,095
	17,263,403	17,272,913	14,568,347	14,139,052

At 31 December 2017, financial investments are stated at bid price.

14. Financial investments (continued)

Company	Shares in group undertakings £
Cost	
At 1 January 2017	6,357,073
Additions	40,000
At 31 December 2017	6,397,073
Impairment	
At 1 January 2017	427,750
Impairment charge in year	42,860
At 31 December 2017	470,610
Net book value	
At 31 December 2017	5,926,463
At 31 December 2016	5,929,323

Estimates and assumptions

The annual impairment test is performed by determining the value in use and comparing this to the carrying value. Where the carrying value exceeds the value in use an impairment is recognised. The following key assumptions have been applied by management to the value in use calculations tailored to appropriately reflect the nature and risk profile of related future cash flows:

- Forecasts: a 5 year outlook based on existing renewal and retention rates overlaid with expected new business, using existing cost base and margins adjusted for inflation assumed at 2% per annum;
- Growth of 2% reflecting the business and market movements; and
- Discount factor: 10%

The nature of each of these assumptions reflect expectations and forecasts. An impairment review is performed in addition to the annual review if there is an indication of trigger. The only entity to which this was applicable was Kinnell Corporate Limited.

14. Financial investments (continued)

Set out below are the company's subsidiaries as at 31 December 2017, with details of the percentages of nominal value and voting rights held by the Company and the Group:

Subsidiary undertakings	Nature of business	Class of shares held	Percentage of nominal value and voting rights held by the Company	Percentage of nominal value and voting rights held by the Group
Warranty Services Limited	Administration of insurance backed guarantees	Ordinary	0.00	100.00
Kinnell Corporate Limited	Insurance broker	Ordinary	80.50	100.00
Guarantee Protection Insurance Limited	Authorised insurer	Ordinary	100.00	100.00
The Remedial Company Limited	Repair work	Ordinary	100.00	100.00
Confederation Holdings Limited	Trade association	Ordinary	100.00	100.00

All subsidiaries are included in the consolidation and are incorporated within Great Britain.

During the year under review the company acquired 40 preference shares (2016: 45 preference shares) of £1,000 each in Kinnell Corporate Limited, a subsidiary company.

Preference shares are cumulative, redeemable and have a coupon of 8%.

15. Financial instruments

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

Group	2017	2016
	£	£
Financial assets		
Measured at fair value through profit and loss		
- Bonds	17,263,403	9,648,853
- Equities	-	2,847,047
- Collective investment undertakings	-	1,996,389
- Investment property	220,000	450,000
Measured at amortised cost		
- Other debtors	1,278,848	1,110,478
Measured at cost		
- Cash and cash equivalents	3,713,476	6,687,984
Total financial assets	22,475,727	22,740,751
Financial liabilities		
Measured at amortised cost		
- Other creditors	1,926,254	1,963,530
Total financial liabilities	1,926,254	1,963,530

Company	2017	2016
	£	£
Financial assets		
Measured at cost after impairment/amortised cost		
- Investments in subsidiaries	5,926,463	5,929,323
- Other debtors	3,314	854
Measured at cost		
- Cash and cash equivalents	1,211	5,552
Total financial assets	5,930,988	5,935,729
Financial liabilities		
Measured at amortised cost		
- Other creditors	623,241	814,224
Total financial liabilities	623,241	814,224

16. Debtors arising from direct insurance operations

Group	2017 £	2016 £
Due from intermediaries	265,044	257,180

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

17. Debtors

	Group		Company	
	2017 £	2016 £	2017 £	2016 £
Due from reinsurance	34,769	5,138	-	-
	34,769	5,138	-	-
Other debtors and prepayments				
Trade debtors	422,456	249,716	3,264	804
Sundry debtors	556,579	584,014	50	50
VAT	-	119	-	-
Tax	-	14,311	-	-
Deferred tax asset	439,608	440,046	217	251
Group balances	-	-	-	2,005
Prepayments and accrued income	1,082,853	91,384	2,643	2,729
	2,501,496	1,379,590	6,174	5,839
Prepayments and accrued income				
Due within one year	221,369	91,384	2,643	2,729
Due greater than one year	861,484	-	-	-
	1,082,853	91,384	2,643	2,729

All other amounts shown under other debtors and prepayments are due within one year.

18. Tangible assets

Group	Improvements to property £	Plant & machinery £	Fixtures & fittings £	Office equipment £	Computer equipment £	Total £
Cost						
At 1 January 2017	42,245	4,140	53,607	13,579	89,517	203,088
Additions	-	183	1,204	356	12,653	14,396
Disposals	-	-	-	-	(8,676)	(8,676)
At 31 December 2017	42,245	4,323	54,811	13,935	93,494	208,808
Accumulated depreciation						
At 1 January 2017	5,632	4,140	29,233	7,787	67,750	114,542
Charge for the year	4,225	37	6,874	2,955	17,227	31,318
On disposal	-	-	-	-	(8,676)	(8,676)
At 31 December 2017	9,857	4,177	36,107	10,742	76,301	137,184
Net book value						
At 31 December 2017	32,388	146	18,704	3,193	17,193	71,624
At 31 December 2016	36,613	-	24,374	5,792	21,767	88,546

Company	Fixtures & fittings £	Total £
Cost		
At 1 January 2017	3,450	3,450
Additions	-	-
Disposals	-	-
At 31 December 2017	3,450	3,450
Accumulated depreciation		
At 1 January 2017	3,450	3,450
Charge for the year	-	-
On disposal	-	-
At 31 December 2017	3,450	3,450
Net book value		
At 31 December 2017	-	-
At 31 December 2016	-	-

19. Called up share capital

Authorised	2017 Number	2016 Number	2017 £	2016 £
Ordinary shares of £0.01 each	20,000	20,000	200	200
	20,000	20,000	200	200

Allotted, called up and fully paid	2017 Number	2016 Number	2017 £	2016 £
Ordinary shares of £0.01 each	10,753	10,753	108	108
	10,753	10,753	108	108

20. Reserves

Group	Profit and loss account £	Capital redemption reserve £
At 1 January 2017	1,071,237	74,179
Profit for the financial year	768,019	-
At 31 December 2017	1,839,256	74,179

Company	Profit and loss account £
At 1 January 2017	2,688,797
Profit for the financial year	159,644
At 31 December 2017	2,848,441

20. Reserves (continued)

Group	Profit and loss account £	Capital redemption reserve £
At 1 January 2016	(189,657)	74,179
Profit for the financial year	1,260,894	-
At 31 December 2016	1,071,237	74,179

Company	Profit and loss account £
At 1 January 2016	2,607,138
Profit for the financial year	81,659
At 31 December 2016	2,688,797

21. Movement in shareholders' funds

Group 2017	Share capital £	Profit and loss account £	Capital redemption reserve £	Total £
At 1 January 2017	108	1,071,237	74,179	1,145,524
Profit for the financial year	-	768,019	-	768,019
At 31 December 2017	108	1,839,256	74,179	1,913,543

Group 2016	Share capital £	Profit and loss account £	Capital redemption reserve £	Total £
At 1 January 2016	108	(189,657)	74,179	(115,370)
Profit for the financial year	-	1,260,894	-	1,260,894
At 31 December 2016	108	1,071,237	74,179	1,145,524

Company 2017	Share capital £	Profit and loss account £	Total £
At 1 January 2017	108	2,688,797	2,688,905
Profit for the financial year	-	159,644	159,644
At 31 December 2017	108	2,848,441	2,848,549

Company 2016	Share capital £	Profit and loss account £	Total £
At 1 January 2016	108	2,607,138	2,607,246
Profit for the financial year	-	81,659	81,659
At 31 December 2016	108	2,688,797	2,688,905

22. Technical provisions

Group 2017	Provision for unearned premium £	Claims outstanding £	Total £
Gross amount			
At 1 January 2017	19,646,756	757,077	20,403,833
Movement in provision	(513,174)	(36,656)	(549,830)
At 31 December 2017	19,133,582	720,421	19,854,003
Reinsurance amount			
At 1 January 2017	-	-	-
At 31 December 2017	-	-	-
Net technical provision			
At 31 December 2017	19,133,582	720,421	19,854,003
At 31 December 2016	19,646,756	757,077	20,403,833

23. Provisions for deferred tax

Group - asset	2017 £	2016 £
At 1 January 2017	440,046	753,571
Charge to profit and loss account	(438)	(313,525)
At 31 December 2017	439,608	440,046

Deferred tax breakdown:	2017 £	2016 £
Losses	439,845	440,627
Accelerated capital allowances	(341)	(929)
Short-term timing differences	104	348
	439,608	440,046

The Directors anticipated in 2016 that a material proportion of the deferred tax provision would be utilised in 2017, however this was not the case. Additional unbudgeted costs in relation to the exceptional item as referred to in Note 30 of £546,939 reduced the taxable profit available to be utilised against the provision for deferred tax and it did not unwind as expected. The exceptional item is not expected to reoccur in the future, and the projected future year profits are expected to fully utilise the provision and extinguish the deferred tax asset.

Group - liability	2017 £	2016 £
At 1 January 2017	8,363	14,869
Charge to profit and loss account	(1,672)	(6,506)
At 31 December 2017	6,691	8,363

Deferred tax breakdown:	2017 £	2016 £
Accelerated capital allowances	7,396	9,132
Short-term timing differences	(705)	(769)
	6,691	8,363

23. Provisions for deferred tax (continued)

Company - asset	2017 £	2016 £
At 1 January 2017	251	-
Charge to profit and loss account	(34)	251
At 31 December 2017	217	251

Deferred tax breakdown:	2017 £	2016 £
Accelerated capital allowances	206	251
Short-term timing differences	11	-
	217	251

24. Creditors arising out of insurance operations

Group	2017 £	2016 £
Due to intermediaries	143,060	273,229

25. Other creditors including taxation and social security

	Group		Company	
Due within one year	2017 £	2016 £	2017 £	2016 £
Trade creditors	355,878	155,148	1,871	5,994
Corporation tax	187,579	124,380	40,479	22,261
Social security and other taxes	250,792	247,485	633	643
Other creditors	529,516	546,893	245,271	278,204
Directors' current accounts	333,581	501,581	333,581	501,581
VAT	28,893	25,320	1,406	5,541
Deferred revenue	96,955	89,494	-	-
	1,783,194	1,690,301	623,241	814,224

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

	Group		Company	
	2017	2016	2017	2016
Due after more than one year	£	£	£	£
Amounts owed to group undertakings	-	-	2,462,058	2,437,585
Deferred revenue	438,327	450,600	-	-
	438,327	450,600	2,462,058	2,437,585

The Company and in turn Group has an outstanding directors loan balance owed to Mr P Dawson of £333,581 (2016: £501,581). The loan is interest free and has no fixed repayment date.

The balance in respect of deferred revenue represents the 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

	2017	2016
	£	£
Profit on ordinary activities before tax	1,005,701	1,851,587
Exceptional item	546,939	-
Profit on ordinary activities before tax and exceptional item	1,552,640	1,851,587
Fair value (gains)/losses on investment property	-	(13,545)
Fair value (gains)/losses on financial investments	515,417	-
Interest paid	55,700	54,931
Depreciation	31,318	34,441
Amortisation of goodwill	608,112	608,111
Gain on disposal of investment property	(10,000)	-
Outward reinsurance premium paid	(1,200,000)	-
Cash outflow in respect of exceptional item	(546,939)	-
Interest received	(70,725)	(26,646)
Increase/(decrease) in technical provisions	(549,830)	203,420
Operating cash flows before movements in working capital	385,693	2,712,299
Decrease/(increase) in receivables excluding outward reinsurance premium paid and prepaid	269,872	(47,085)
Increase/(decrease) in payables	(504,056)	28,931
Cash generated by operations	151,509	2,694,145
Corporation tax (paid)/received	(157,821)	(496,618)
Interest paid	(55,700)	(54,931)
Net cash from operating activities	(62,012)	2,142,596

27. 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; and
- to comply with quantitative requirements of Pillar 1 of the Solvency II Directive.

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 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.

The capital base was rebalanced in 2017 in order to maximise its efficient use. A significant project was undertaken with the Group's Investment Managers alongside input from the Chief Actuary to divest from less efficient assets such as equities into corporate bonds and gilts, these were timed to match the expected liability curve of technical provisions. There were no changes made to the objectives, policies and processes for managing capital in the financial year.

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.

27. Capital management (continued)

The ORSA is integrated into the business and strategic planning processes. It is recognised that the ORSA is an ongoing 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. Should there not be any events that trigger an out of cycle re-run, then dry run scenarios are completed in order to aid an effective response when an actual trigger occurs.

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 ORSA was submitted in June 2017. Quantitative reporting templates ("QRTs") have been submitted to the PRA for all quarters in 2017. All submissions were made before the last submission dates.

The Group is compliant with PRA and Solvency II requirements.

28. 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.

2017

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Bonds	17,251	-	-	17,251
Equities	-	-	-	-
Collective investment schemes	-	-	-	-

2016

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

28. 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.

The Group's market risk exposure was reduced in the year, as it rebalanced it's portfolio into less volatile products such as corporate bonds and gilts, instead of equities. There was no change to the objectives, policies and processes for manging 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. A small Euro balance is maintained to service Euro claim payments.

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

	2017 £'000	2016 £'000
10% increase to € rate on held balance at year end	(0.2)	(2)
10% increase to € rate on held balance at year end	0.2	2

A 10% increase on the € rate converted balance held at year end creates a decrease on the profit for the financial year and decrease in equity of the same amount as indicated above. A 10% decrease on the € rate converted balance held at year end creates an increase on the profit for the financial year and increase in equity of the same amount as indicated above. No other currency types were held.

28. 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 held by Vestra.

2017

	USD	EUR	CHF
	$'000	€'000	CHF'000
Equities	-	-	-
Collective investment schemes	-	-	-

2016

	USD	EUR	CHF
	$'000	€'000	CHF'000
Equities	603	47	46
Collective investment schemes	224	-	-

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 the Group invests in mixed term debt at fixed interest rates as detailed in table below. When interest rates rise, it is usual for the fixed rate securities to decline in value. A decline in interest rates will in general have the opposite effect. There is also an impact on the P&L in respect of the income received from debt securities.

The Group manages this 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.

The Group does not participate in any form of interest rate swap, forward interest rate contracts or hedging activities.

Cash and cash equivalents are variable interest bearing, and the interest income generated from these will rise and fall with interest rates.

28. Financial risk management (continued)

Interest bearing assets

	2017	2016
	£	£
Bonds	17,263,403	9,648,853
Fixed interest debtors	1,481,425	1,668,989
Cash and cash equivalents	3,713,476	6,687,984
	22,458,304	18,005,826

The sensitivity analyses on the profit for the financial year below have been determined based on the exposure to interest rates movement of 0.5% increase or decrease. These parameters are set by management's assessments of the reasonably possible change in interest rates within an annual horizon.

The interest rate change impact on Bonds is calculated using the modified duration of bonds, being the market value cashflows timed to maturity. The fixed interest debtors are not affected by a change in interest rates.

0.5% increase to interest rate on interest bearing assets

	Increase/(decrease) in technical profit and loss account		Increase/(decrease) in total reserves	
	2017	2016	2017	2016
	£'000		£'000	
Bonds	(361)	(202)	(361)	(202)
Cash and cash equivalents	18	33	18	33

A 0.5% decrease to interest rates creates a reverse effect of the above to the technical profit and loss account and reserves balance.

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

28. Financial risk management (continued)

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.

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

0.5% increase

	2017	2016
	£000	£000
Movement in fair value of shares and other collective investment undertakings	-	482
Movement in fair value of debt securities	862	(242)

0.5% decrease

	2017	2016
	£000	£000
Movement in fair value of shares and other collective investment undertakings	-	(482)
Movement in fair value of debt securities	(862)	242

The Group's method for sensitivity to pricing risk management has not changed significantly over the financial year.

28. 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. The exposures are reviewed monthly via Key Risk Indicators.

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. 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.

All bonds and gilts are at a minimum BBB+ credit rating.

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 investment portfolio via our delegated investment managers, and reinsurance programme by monitoring external credit ratings on a monthly basis.

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 carrying value of assets are neither past due nor impaired.

28. 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.

2017

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Greater than 5 years
	£'000	£'000	£'000	£'000	£'000
Debt securities	17,251	-	-	-	-
Reinsurance assets	35	-	-	-	-
Insurance receivables	265	-	-	-	-
Cash and cash equivalents	2,587	-	-	-	-
	20,138	-	-	-	-

2016

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Greater than 5 years
	£'000	£'000	£'000	£'000	£'000
Debt securities	9,649	-	-	-	-
Equities	4,843	-	-	-	-
Reinsurance assets	-	6	-	-	-
Insurance receivables	257	-	-	-	-
Cash and cash equivalents	6,687	-	-	-	-
	21,436	6	-	-	-

29. 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. These products 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;
- 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 firm will not write any (new) business outside the UK/Ireland without Board approval; and
- 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).

29. Insurance risk management (continued)

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 and 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 company (The Remedial Company) 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.

Reserve Risk

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

1. 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;

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

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

The Group carries out a number of stress tests on its reserves, the stress tests carried out provide understanding and output of significant analytical changes due to changes in the key deliverables. As this is heavily assumption based dependent on historical data, or estimations of stressed parameters, further scenario testing is carried out. These strategic scenarios allow a greater level of understanding of the risks surrounding potential alternative futures and how the Group will manage these risks.

29. Insurance risk management (continued)

Sensitivity Analysis

Some high level sensitivity testing are set out below to demonstrate the impact on the Insurance company Technical profit and loss account and Profit reserves in the event of a 10% increase on Net operating expenses and claims costs.

	Increase/(decrease) in technical profit and loss account		Increase/(decrease) in total reserves	
	2017	2016	2017	2016
	£'000		£'000	
10% increase in incurred claims costs	(128.54)	(158.96)	(128.54)	(158.96)
10% increase in net operating expenses	(167.85)	(149.27)	(167.85)	(149.27)

A 10% decrease in both these cost lines creates a reverse effect of the above and increases the technical profit and loss account, and increases reserves balance.

Claims Development

The majority of the Group's insurance products have a required notification period of 30 days (notification out with this period may invalidate the claim) from the discovery of the loss. The subsequent settlement time is around 60 days from notification.

Upon notification of a claim a prudent reserve is set based on the prevailing average, or actual repair cost if available. The Group therefore, within the outstanding claims reserve, ensures that a prudent claims estimate is retained and the liability correctly documented on the balance sheet. For this reason, the development of claims over a period of time is not material to the stated liabilities within the balance sheet and showing them based on accident year will present no credible data to populate the insurance risk.

30. Exceptional item

GPI Ltd, a Group company, negotiated an early settlement payment of £546,939 (€600,000) in relation to an ongoing Belgian court case regarding a disputed policy issued through a local agent. GPI Ltd were found liable under an apparent authority ruling by the local jurisdiction lower court of Charleroi during 2017, and were ordered to pay between £1.4-£1.6 Million, despite the local agent holding no direct authority to GPI Ltd and without any premium being paid to GPI Ltd. This was successfully settled at the significantly lower amount of £546,939.

The amount of £546,939 is material and non-recurring. GPI Ltd have sought recovery of this sum plus costs, a total of circa £1 Million from the broker that acted negligently outside of their authority and through breach of contract, caused the disputed policy to be issued. In November 2017 GPI Ltd were awarded a high court judgement and hold an order for payment in full from Arx Insurance Brokers Ltd. See Note 31 regarding Subsequent Events for further information on the recovery.

31. Subsequent events

GPI Ltd, a Group company, sought recovery of the exceptional item referred to in Note 30 plus costs from the broker that had acted negligently and breached contract resulting in GPI Ltd's loss.

GPI Ltd sought £958,843 from Arx Insurance Brokers Ltd, following a judgement by the High Court on 15th November 2017 that they had acted negligently by acting outside of their authority and were in breach of contract, and were ordered to pay the settlement amount plus costs.

A winding up order was issued to Arx Insurance Brokers Ltd on failure to pay, and this was issued in February 2018.

GPI Ltd are working with the liquidator of Arx Insurance Brokers Ltd to recover any amounts from the assets of the firm, together with the Professional Indemnity Insurer of Arx Insurance Brokers Ltd in order to recoup their loss.

This is a contingent asset and the benefit of such has not been recognised in these financial statements.

32. Outward reinsurance premiums

During the year, the Group entered into a reinsurance contract which resulted in the payment of £1.2m in respect of an outward reinsurance premium. This premium was paid up front and a deferred balance has been recorded to spread the premium over the life of the contract on a straight line basis. The cost which has been deferred is included within prepayments and accrued income.

The contract states that if the level of claims paid reaches £5.17m, the reinsurer will pay claims in excess of this amount and as a result the Group would be required to recognise the amounts due and payable from the reinsurer with respect to any claims incurred. As at 31 December 2017, no asset or liability has been recognised as no events have occurred that would suggest an amount requires recognition.

33. Related party transactions

The company has taken advantage of exemption, under the terms of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland, not to disclose related party transactions with wholly owned subsidiaries within the group.

Included within other creditors including taxation and social security falling due within one year is a balance owing by the Company and in turn Group to Mr P Dawson, a director of Kinnell Holdings Limited, totalling £333,581 (2016: £501,581). Repayments of £168,000 (2016: £168,000) were made to Mr P Dawson in the year, and charges deducted from the outstanding balance in the year of £Nil (2016: £26,325) relating to costs incurred on behalf of Mr P Dawson.

Certass Limited is a company owned by Mr P Dawson, a director of Kinnell Holdings Limited. At 31 December 2017 Certass Limited owed the Group £11,234 (2016: £22,631). During the year Certass Limited made sales to the value of £69,463 (2016: £125,243) to the Group and incurred expenditure totalling £433,349 (2016: £361,244) charged by the Group.

34. Ultimate controlling party

The Group is controlled by Mr P Dawson.