

PINNACLE INSURANCE PLC
Company Registration Number: 1007798

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2010

PINNACLE INSURANCE PLC

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PINNACLE INSURANCE PLC

Directors: G Binet (Chairman)
P E Glen B.Sc. (Hons) F.C.A. (Chief Executive Officer)
N J Atkinson, B.Sc. (Hons) M.Sc F.I.A.
BNP Paribas Assurance
Cardif Assurance Risques Divers
Cardif Assurance Vie
B A Carte TD. F.C.I.B. F.C.T. *
J Castagno A.C.I.I.
A J Golding B.Sc. (Hons) F.C.A.
R J Mee F.C.I.B.S. *
A D Swain B.Ed Cert.Ed

* Independent Non-Executive Directors

Secretary: M J Lorimer LL.B (Hons) Solicitor

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

Head of Actuarial Function: S K Grout B.Sc. F.I.A.

Auditor: Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Principal Bankers: The Royal Bank of Scotland
Corporate Banking Office
PO Box 450
4th Floor, 5-10 Great Tower St
London
EC3P 3HX

Bank of Scotland
Chief Office
38 Threadneedle Street
London
EC2P 2EH

Barclays Bank plc
54 Lombard Street
London
EC3P 3AH

PINNACLE INSURANCE PLC**DIRECTORS' REPORT**

The Directors submit this report and financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITY

Formed in 1971, Pinnacle Insurance plc, the Company, has established itself as a specialist provider of financial services principally in the UK. Trading under the style of Cardif Pinnacle, the Company continues to be one of the leading providers of Creditor, Warranty and Income Replacement cover.

The Company is a subsidiary of BNP Paribas Assurance, a worldwide provider of insurance and savings products, with a Standard and Poor's credit rating of AA-. The Company is part of the global banking group BNP Paribas, a European leader in banking and financial services, with a Standard and Poor's long term rating of AA. The Group has one of the largest international banking networks, a presence in over 80 countries and over 200,000 employees.

RESULTS AND DIVIDEND

The results of the Company for the year are set out on pages 14, 15 and 16. The retained loss after taxation for the year was £2,327,000 (2009: £4,845,000 profit). The Directors do not recommend the payment of a dividend (2009: £nil).

SHARE CAPITAL

There have been no changes to the share capital during 2010 (2009: no changes).

REVIEW OF BUSINESS***2010 Performance***

The Company has been impacted by a combination of the severe economic downturn in the UK and Ireland alongside the continuing uncertainty which exists within the UK Creditor market. Given these conditions the Company has experienced a pre-tax loss of £2.5m (2009: loss of £2.4m). The shareholder funds of the Company, however, remain strong at £175.0m for 31 December 2010 (31 December 2009: £177.3m) and is considered sufficient to meet the growth plans for 2011 and beyond at this stage.

The economic downturn in the UK, and in particular the impact on the banking sector, has resulted in lower lending volumes affecting new business for Creditor insurance. The economic downturn has also given rise to increased claims experience requiring strengthening of reserves in particular for unemployment exposure. In line with 2009 agreed industry practice, the Company has a process of repricing its protection business as appropriate during times of changing claims experience; re-pricing occurred where appropriate throughout 2010.

The UK Creditor insurance market has been undergoing a period of structural change in particular driven by the FSA initiatives and Competition Commission's investigation in relation to the payment protection insurance (PPI) market. The Competition Commission outcomes, which were published in January 2009, were subsequently challenged which resulted in the implementation of remedies being delayed. The challenge has, however, resulted in many potential clients awaiting the final outcomes before committing to what they will do. Acquisition of new clients has, therefore, been slower than expected in the meantime, however, the Company has continued to execute its development of a UK strategy for the "new world" post implementation of the Competition Commission PPI remedies.

PINNACLE INSURANCE PLC**DIRECTORS' REPORT (Continued)****REVIEW OF BUSINESS (Continued)****2010 Performance (Continued)**

In August 2010 the Financial Services Authority (FSA) published Policy Statement (PS) 10/12 in relation to the assessment and redress of PPI complaints. The Company does not consider the outcome will give rise to a material obligation on the part of the Company as the PS predominantly relates to the distribution of PPI products which the Company does not undertake in significant volumes. The PS is subject to a judicial review and the outcome is expected in Q2 2011. A £2.3m provision which has been included within claims outstanding (2009: £0.5m) has, however, been made in relation to related expenses and any potential second order costs.

General business

In an environment of lower volumes of consumer lending, particularly in banking, the Company is pleased to have experienced an increase in the General Insurance business account Gross Written Premium of 22% to £115.0m (2009: £94.6m).

Earned premiums, net of reinsurance, within the General Insurance business account were £149.5m (2009: £153.1m) a year on year reduction of 2%. This decrease continues to reflect the market shift away from single premium business to monthly and annually renewable contracts.

Claims incurred net of reinsurance within the General Insurance business account decreased by 52% to £33.7m (2009: £70.7m). This reflects the reduction in rate of increase in unemployment levels experienced in 2010 compared to 2009. There is, however, still a degree of uncertainty which has required a strengthening of reserves compared to prior years.

Long Term business

The Long Term business includes both long term Protection activities and the Investment operations. As a direct result of the prevailing economic conditions a decision was taken in late 2009 to withdraw from the investment product market for the time being. No plans to recommence this business currently exist due to the lack of adequate credit quality available within the market to back the Investment business, coupled with low interest rates, making it non-commercial to offer competitive investment bond rates at this time.

For these reasons the Long Term business has experienced a year on year reduction in Gross Written Premiums compared to 2009 to £7.6m refunds in 2010 (2009: £44.4m premiums).

2011 outlook

Whilst recognising the structural changes in the UK Creditor insurance market poses key challenges for the Creditor insurance industry, they also create opportunities. The Company continues to execute a strategy that supports and embraces the increased and ongoing regulatory focus in the market and the 'new world' post implementation of the Competition Commission PPI remedies.

PINNACLE INSURANCE PLC**DIRECTORS' REPORT (Continued)****REVIEW OF BUSINESS (Continued)****2011 outlook (Continued)**

As such, the Company (in conjunction with the wider Cardif Pinnacle UK Group of which Pinnacle Insurance Plc is part) continues with the development of a more flexible business model in the UK. With focus, in particular, upon:

- UK product manufacture (MPPI / PPI, Extended Warranty) with a multi-channel delivery capability;
- provision of software that enables corporate clients to adopt a new sales process around selling PPI with a full demands and needs assessment and ensuring full compliance with the post Competition Commission requirements;
- development, within the UK Cardif Pinnacle Group, of telephony capability to assist clients in selling;
- the supply of software that enables annual administration of policies to be conducted;
- offering capability in claims administration; and,
- ensuring TCF is fully embedded into the sales, product administration and the claims life cycles.

The Company remains fully committed to the UK Creditor insurance market and to moving positively in a transition towards the new market dynamics. This transition of the market as a whole is moving more slowly than anticipated due particularly to delays in the implementation of the Competition Commission remedies; this has delayed the revenue growth anticipated from these market changes. The implementation timetable for these remedies has, however, now been clarified.

The Company is pleased to announce the commencement of new business partners in 2011 which will significantly increase the 2011 Gross Written Premium levels.

Through increased revenue opportunities and continued focus upon cost management the Directors anticipate a return to profitability for the Company in 2011.

PINNACLE INSURANCE PLC

DIRECTORS' REPORT (Continued)

DIRECTORS

The Directors who held office during the year were:

G Binet (Chairman) *	
P E Glen (Chief Executive Officer)	
N J Atkinson	appointed 8 March 2010
BNP Paribas Assurance	
Cardif Assurance Risques Divers	
Cardif Assurance Vie	
B A Carte *	
J Castagno	
A J Golding	
R J Mee *	
I R C Shackell	resigned 11 March 2011
A D Swain	

* Non-Executive Directors

DIRECTORS' INTERESTS

With the exception of P E Glen who holds one ordinary share in the Company as a nominee for the parent company there are no directors' interests in shares of the Company.

EMPLOYEE INVOLVEMENT AND DISABLED PERSONS

A fellow subsidiary of Cardif Pinnacle Insurance Holdings Plc, Cardif Pinnacle Insurance Management Services Plc, provides a staff management service and recharges all staff costs to the Company and wider UK Group.

The Group's policy is to give consideration to applications for employment made by disabled persons, having regard to their particular aptitude and abilities.

Disabled employees receive appropriate training to promote their career within the Group. Employees who become disabled are retained in their existing posts where possible or retrained for suitable alternative posts.

Employees are kept well informed about the progress and position of the Group by means of regular departmental meetings, newsletters, and journals, which are regularly published on the Group's intranet.

PAYMENT OF SUPPLIERS

The Company's policy on the payment of creditors is to abide by the settlement terms agreed with its suppliers.

The Company has no external suppliers to pay as all services are provided by Cardif Pinnacle Insurance Management Services Plc.

DONATIONS

In line with payment of suppliers, charitable or political donations are made by Cardif Pinnacle Insurance Management Services Plc on behalf of the wider UK Group. During the year the Company made no charitable or political donations (2009: £nil).

PINNACLE INSURANCE PLC**DIRECTORS' REPORT (Continued)****ACTUARIAL VALUATION**

An actuarial valuation was carried out as at 31 December 2010 in respect of the long-term fund and a report has been prepared by the Head of Actuarial Function advising the board on this valuation.

CORPORATE GOVERNANCE

The Company is not quoted so there was no requirement to comply with the June 2008 UK Combined Code on Corporate Governance (Combined Code). The Directors support the high standards of corporate governance contained in the Combined Code, however, and follow the Combined Code to the extent deemed relevant. Key Corporate Governance arrangements are highlighted below:

The Board

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

Board Committees

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

- Audit Committee (Chairman: R J Mee);
- Corporate Social Responsibility Committee (Chairman: J Chada, Head of Human Resources)
- Investment Committee (Chairman: A J Golding);
- Remuneration Committee (Chairman: R J Mee);
- Risk Based Capital Committee (Chairman: A J Golding).

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

PINNACLE INSURANCE PLC

DIRECTORS' REPORT (Continued)

CORPORATE GOVERNANCE (Continued)

Directors' attendance

The Company requires Directors to attend all meetings of the Board and the Committees on which they serve and to devote sufficient time to the Company in order to perform their duties. The attendance of the Directors at the Board and Committee meetings held in 2010 was as follows:

	Board	Audit Committee	Investment Committee	Remuneration Committee	Risk Based Capital Committee	Corporate Social Responsibility Committee
Number of meetings held	8	5	9	1	15	8
Natalie Atkinson (appointed 8 March 2010)	6/7	*	5/7	*	13/13	*
G Binet	7	*	*	*	*	*
BNP Paribas Assurance	6	4	*	*	15	*
Cardif Assurance Vie	5	*	*	1	*	*
Cardif-Assurances Risques Divers	7	*	*	*	*	*
B A Carte	7	4	*	*	*	*
J Castagno	8	*	8	*	11	8
P E Glen	8	*	6	*	11	*
A J Golding	8	*	9	*	15	*
R J Mee	8	5	*	1	*	*
I R C Shackell	8	*	9	*	14	*
A D Swain	6	*	*	*	1/3	*

* indicates not a member of that Committee

PINNACLE INSURANCE PLC**DIRECTORS' REPORT (Continued)****CORPORATE GOVERNANCE (Continued)*****Internal controls***

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

The systems are designed to:

- safeguard assets;
- maintain proper accounting records;
- provide reliable financial information;
- identify and manage business risks;
- maintain compliance with appropriate legislation and regulation; and
- identify and adopt best practice.

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

Control environment

The Group has an established governance framework, the key features of which include:

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

There is in place an ongoing process for identifying, evaluating and managing the significant risks faced by the Company which has operated throughout 2010 and up to the date of signing this report. The Company's risk management and control framework is designed to support the identification, assessment, monitoring, management and control of risks that are significant to the achievement of its business objectives. The Company has a set of formal policies which govern the management and control of both financial and non-financial risks.

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

PINNACLE INSURANCE PLC

DIRECTORS' REPORT (Continued)

CORPORATE GOVERNANCE (Continued)

Audit Committee

The Audit Committee is chaired by Mr R J Mee who is an independent Non-Executive Director. The other members of the Committee are Mr B A Carte, independent Non-Executive Director, and Mr J-F Bourdeaux the Global Head of Compliance and Control, BNP Paribas Assurance. The Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and the Head of Internal Audit and other representatives from the Company's parent company internal audit and control functions are regular attendees. The Chairman and other members of executive management are also invited to attend from time to time. The outcomes of meetings are reported to the Board.

The Committee's principal duties are to:

- coordinate and have oversight of the Company's financial reporting process;
- monitor compliance;
- have oversight of internal and external audit functions;
- have oversight of the systems of internal controls;
- review matters relating to the legal risk; and
- provide assurance on the effectiveness of the Company's risk management.

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

The Committee meets periodically with internal and external auditors without management present. The partner of the Company's external auditors, who is responsible for the external audit, attends meetings regularly. Each year, the Committee considers the performance of the external auditors.

RISK MANAGEMENT

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

Insurance risk

The Company's business is to accept insurance risk which is appropriate to enable the Company to meet its objectives. Within a Board approved underwriting policy and a delegated authority framework, the Company seeks to balance this insurance risk with reward. Particular attention is paid to actual and forecast loss ratios.

Credit risk

The Company's exposure to credit risk arises from its direct insurance trading activities, reinsurances and those of its investment activities. The Company, through the Board and the Investment Committee, seeks to limit exposure to credit risk as far as is practical, and has established guidelines, procedures and monitoring requirements to manage credit risk. Particular attention has been paid to the quality of investment counterparties.

PINNACLE INSURANCE PLC**DIRECTORS' REPORT (Continued)****RISK MANAGEMENT (Continued)****Liquidity risk**

Liquidity risk is the risk that sufficient financial resources are not available in cash to enable the Company to meet obligations as they fall due. The Company, through the Board and the Investment Committee, seeks to limit exposure to liquidity risk by ensuring liquidity is optimally managed and that all known cash flows can be met out of readily available sources of funding. The Company maintains a strong liquidity position by holding its assets predominantly in investment grade fixed income securities, call accounts and readily tradeable corporate bonds, the proceeds of much of which are readily realisable.

Market risk

Market risk is the risk arising from fluctuations in the values of, or income from assets, interest rates or exchange rates. The Company has a low risk appetite for this type of risk, investing predominantly in short-term bonds or cash to match the short-tail nature of claims. This risk is managed through the Board and the Investment Committee.

Operational risk

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

INTERNAL AUDIT FUNCTION

An independent internal audit function provides assurance to the Audit Committee as to the effectiveness of internal systems and controls, making reports and monitoring progress in relation to recommendations as appropriate.

GOING CONCERN

The Company undertakes an ongoing Individual Capital Adequacy Assessment alongside cash flow analysis. As such, after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

AUDITOR

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of Mazars LLP as auditor to the Company will be proposed at the forthcoming annual general meeting.

By order of the Board



Company Secretary

M J Lorimer

25 March 2011

PINNACLE INSURANCE PLC

**STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2010**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- (i) select suitable accounting policies and then apply them consistently;
- (ii) make judgements and estimates that are reasonable and prudent;
- (iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- (iv) 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 also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

DISCLOSURE OF INFORMATION TO AUDITOR

Under the Companies Act 2006 section 499, we confirm that:

- (a) so far as we are aware, there is no relevant audit information of which the Company's auditor is unaware, and;
- (b) we have taken all the steps that we ought to have taken as Directors in order to make ourselves aware of any relevant information and to establish that the Company's auditor is aware of that information.

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

We have audited the financial statements of Pinnacle Insurance Plc for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Reconciliation of movements in Shareholder's Funds, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at <http://www.frc.org.uk/apb/scope/private.cfm>.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on the other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

PINNACLE INSURANCE PLC

INDEPENDENT AUDITOR'S REPORT (Continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Andrew Heffron (Senior statutory auditor)
For and on behalf of Mazars LLP, Chartered Accountants and Statutory auditors
Tower Bridge House
St Katharine's Way
London
E1W 1DD
25 March 2011

PINNACLE INSURANCE PLC

**PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	<u>2010</u> £000	<u>2009</u> £000
Earned premiums, net of reinsurance			
Gross premiums written	3(b)	115,019	94,611
Outward reinsurance premiums		<u>(5,580)</u>	<u>(4,128)</u>
		109,439	90,483
Change in the gross provision for unearned premiums	17(a)	39,988	64,160
Change in the provision for unearned premiums, reinsurers' share	17(a)	56	(1,571)
		<u>40,044</u>	<u>62,589</u>
Earned premiums, net of reinsurance		<u>149,483</u>	<u>153,072</u>
Allocated investment return transferred from the non-technical account		2,350	2,503
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(54,876)	(60,070)
Reinsurers' share		<u>5,147</u>	<u>5,280</u>
		(49,729)	(54,790)
Change in the provision for claims			
Gross amount	17(a)	16,706	(14,683)
Reinsurers' share	17(a)	<u>(692)</u>	<u>(1,189)</u>
		16,014	(15,872)
Claims incurred, net of reinsurance		<u>(33,715)</u>	<u>(70,662)</u>
Net operating expenses	5	<u>(121,916)</u>	<u>(102,246)</u>
Balance on the technical account-general business		<u><u>(3,798)</u></u>	<u><u>(17,333)</u></u>

PINNACLE INSURANCE PLC

**PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – LONG TERM BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	<u>2010</u> £000	<u>2009</u> £000
Earned premiums, net of reinsurance			
Gross premiums written	3(c)	(7,568)	44,358
Outward reinsurance premiums		<u>(5)</u>	<u>(3,354)</u>
		(7,573)	41,004
Investment income	4	4,444	27,299
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(142,764)	(1,014,089)
Reinsurers' share		<u>2,052</u>	<u>1,845</u>
		(140,712)	(1,012,244)
Change in the provision for claims			
Gross amount	17(b)	(881)	202
Reinsurers' share	17(b)	<u>5</u>	<u>(65)</u>
		(876)	137
Claims incurred, net of reinsurance		(141,588)	(1,012,107)
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
Gross amount	17(b)	127,058	778,553
Reinsurers' share	17(b)	1,540	(872)
Technical provisions for linked liabilities	17(b)	29,988	182,565
		<u>158,586</u>	<u>960,246</u>
Net operating expenses	5	(17,999)	(15,674)
Unrealised gain on investments	4	3,024	10,534
Taxation charge attributable to the long term business	9	310	1,510
Balance on the technical account-long term business		<u>(796)</u>	<u>12,812</u>
Taxation charge attributable to the balance on the long term business technical account	9	(310)	(1,510)
Balance on the technical account-long term business before taxation		<u><u>(1,106)</u></u>	<u><u>11,302</u></u>

PINNACLE INSURANCE PLC

PROFIT AND LOSS ACCOUNT NON TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	<u>2010</u> £000	<u>2009</u> £000
Balance on the technical account-general business		(3,798)	(17,333)
Balance on the technical account-long term business before taxation		(1,106)	11,302
		<u>(4,904)</u>	<u>(6,031)</u>
Investment income	4	4,865	3,981
Unrealised gain on investments	4	213	3,693
		5,078	7,674
Allocated investment return transferred to the general business account		(2,350)	(2,503)
Foreign exchange loss		(338)	(1,499)
		<u>2,390</u>	<u>3,672</u>
Loss on ordinary activities before tax		(2,514)	(2,359)
Taxation on ordinary activities	9	187	7,204
(Loss) / profit for the financial year		<u>(2,327)</u>	<u>4,845</u>

The Company has no recognised gains or losses other than the loss for the year.

All profits / losses relate to continuing operations.

The notes on pages 20 to 33 form part of these accounts.

PINNACLE INSURANCE PLC

RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010	2009
		£000	£000
(Loss) / profit for the financial year	16(a)	(2,327)	4,845
Net (deduction) / addition to shareholder's funds		(2,327)	4,845
Opening shareholder's funds		177,314	172,469
Closing shareholder's funds		174,987	177,314

PINNACLE INSURANCE PLC
Company Registration Number : 1007798

BALANCE SHEET - ASSETS
AT 31 DECEMBER 2010

	Note	<u>2010</u> £000	<u>2009</u> £000
ASSETS			
Investments			
Investments in group undertakings	10(a)	10,000	14,000
Other financial investments	10(b)	298,883	379,964
		<u>308,883</u>	<u>393,964</u>
Assets held to cover linked liabilities	11	2,751	32,739
Reinsurers' share of technical provisions			
Provision for unearned premiums	17(a)	874	818
Long term business provision	17(b)	24,033	22,493
Claims outstanding	17(c)	5,758	6,445
		<u>30,665</u>	<u>29,756</u>
Debtors			
Debtors arising out of direct insurance operations	12	4,637	10,133
Debtors arising out of reinsurance operations	13	2,073	2,430
Other debtors	14	12,243	12,911
		<u>18,953</u>	<u>25,474</u>
Other assets			
Cash at bank and in hand		46,919	94,141
Prepayments and accrued income			
Accrued interest		3,417	7,441
Deferred acquisition costs	17(d)	63,960	109,909
Other prepayments and accrued income		75	76
		<u>67,452</u>	<u>117,426</u>
Total assets		475,623	693,500

PINNACLE INSURANCE PLC
Company Registration Number - 1007798

BALANCE SHEET - LIABILITIES
AT 31 DECEMBER 2010

	Note	2010 £000	2009 £000
LIABILITIES			
Capital and reserves			
Called up share capital	15	97,721	97,721
Share Premium	15	16,979	16,979
Profit and loss account	16(a)	60,287	62,614
		174,987	177,314
Technical provisions			
Provision for unearned premiums	17(a)	70,535	110,523
Long term business provision	17(b)	104,588	231,646
Claims outstanding	17(c)	54,577	70,402
		229,700	412,571
Technical provisions for linked liabilities	17(b)	2,751	32,739
Creditors			
Creditors arising out of direct insurance operations	18	60,195	59,023
Creditors arising out of reinsurance operations	19	1,397	1,575
Amounts owed to credit institutions	20	569	2,474
Accruals and deferred income		818	885
Other creditors including taxation and social security	21	5,206	6,919
		68,185	70,876
Total liabilities		475,623	693,500

These financial statements were approved by the board of Directors on 25 March 2011.

Signed on behalf of the board by:


A J Golding


P E Glen

The notes on pages 20 to 33 form part of these accounts.

PINNACLE INSURANCE PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010****1. Basis of preparation**

The financial statements have been prepared in accordance with the provisions of Schedule 3 of SI 2008 No 410 The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers dated December 2006. The financial statements have also been prepared in accordance with the Companies Act 2006, with applicable United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice), on a going concern basis and under the historical cost accounting rules, modified to include the revaluation of investments.

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the Company's financial statements.

The ultimate parent undertaking publishes consolidated financial statements which include the financial statements of the Company, drawn up in accordance with the provisions of the EC Seventh Directive and which include a consolidated cash flow statement dealing with the cash flows of the Group.

Basis of accounting for general and long term insurance business

General business is accounted for on an annual basis.

The Company uses a modified statutory solvency basis for determining the long term business provision.

Premiums

In respect of general business and long term protection business, premium income included in the profit and loss account is shown gross of commissions paid to intermediaries and is exclusive of Insurance Premium Tax and duties levied on premiums.

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet received or notified taking into account any premium cancellations.

In respect of long term investment business, premiums are accounted for on a receivable basis excluding any taxes or duties levied on premiums. Outwards reinsurance premiums are accounted for on an accruals basis.

Unearned premiums – gross and reinsurance

The general business provision for gross and reinsured unearned premiums represents the proportion of premiums written in the year that relates to the risks of unexpired terms of policies in force at the balance sheet date. This is calculated on a time apportionment basis adjusted to reflect the Company's experience of the incidence of claims incurred over the term of those policies.

Acquisition costs

Acquisition costs, which represent commission and other related expenses, are deferred subject to recoverability and amortised over the period in which the related premiums are earned. The basis of amortisation reflects the experience of the underlying earned premiums.

PINNACLE INSURANCE PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)****Claims – gross and reinsurance**

Claims incurred in respect of general business comprise claims and related expenses paid in the financial period and the movements in provision for outstanding claims and related expenses including provisions for claims incurred but not reported.

For long-term business, death claims are accounted for in the financial year in which the death occurs and surrenders are accounted for when notified to the Company up to the balance sheet date. Maturities and annuities are recognised as they fall due for payment. Claims incurred in respect of long term business include movements in provision for accident and sickness outstanding claims including claims incurred but not reported.

Claims outstanding

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

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

Unexpired risks provision

Provision has been made for any deficiencies arising when unearned premiums net of unexpensed reinsurance premiums, and net of associated acquisition costs are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

Long term business provision

The long term business provision comprises those provisions that have been computed by the Head of Actuarial Function, having due regard to the principles laid down in Council Directive 2002/83/EC adjusted for the related deferred acquisition costs. The provision for credit life business is based on an unearned premium reserve, having regard to the incidence of the risk over the term of the contract. The provision for guaranteed single premium bonds is based on a prospective valuation of the future benefits and expenses. The provision for linked contracts is based on the market value of the related assets.

Expenses

Underwriting acquisition costs, general overheads and other expenses are charged as incurred to the profit and loss technical account, net of the change in deferred acquisition costs.

Investments

All investments, including those classified as assets held to cover linked liabilities are stated at their current value.

Listed investments are stated at bid price on the balance sheet date, or on the last stock exchange trading day before the balance sheet date.

PINNACLE INSURANCE PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)****Investment income**

Investment income is accounted for on a receivable basis, including, where appropriate, the imputed tax credit. Dividends are recognised when the investments to which they relate are declared "ex dividend". Interest income is accrued up to the balance sheet date.

Realised gains or losses represent the difference between sales proceeds and purchase price net of transaction costs.

Unrealised gains and losses on investments

Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have been previously revalued, their valuation at the last balance sheet date plus the reversal of unrealised gains and losses recognised in earlier accounting years in respect of disposals in the current year. Unrealised gains and losses on investments which are attributed to the long-term fund or held to cover linked liabilities are included in the long term business technical account. Unrealised gains and losses on other investments are reported in the non-technical account.

Allocation of investment return

Investment income, realised and unrealised gains and losses, are reported in the non-technical account. Amounts relating to investments supporting general business technical provisions are allocated from the non-technical account to the technical account. Investment income, realised gains and losses, expenses and charges arising on long term business are included in the long term business technical account.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date. The gains or losses arising are included in the non-technical account. Income and expenditure expressed in foreign currencies are translated into sterling at the rate of exchange ruling on the date on which the transaction occurs.

Taxation

The element of the taxation charge / credit that relates to long-term business is based on the result of the application of the rules for the taxation of life assurance companies to the items included in the long-term business technical account for the year. It also takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

The element of the taxation charge / credit that relates to general business and to non-technical account items is based on the general business technical account profit / loss for the year together with income and gains included in the non-technical account. It takes into account taxation deferred because of timing differences between certain items for taxation and accounting purposes.

Deferred tax is provided in full in respect of the tax effect of all timing differences, at the rates of tax expected to apply when the timing differences reverse. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Cash flow statement

The Company has relied on the exemption given in Financial Reporting Standard 1 not to disclose a separate cash flow statement on the grounds that it is a wholly-owned subsidiary of a parent undertaking established under the law of an EC member state.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

3. Segmental analysis

3(a) Analysis by class of business

	2010 £000	2009 £000
Gross premiums written		
General business	115,019	94,611
Long term business	(7,568)	44,358
	<u>107,451</u>	<u>138,969</u>
Loss before taxation:		
Non technical items have been allocated to general business		
General business	(1,408)	(13,661)
Long term business	(1,106)	11,302
	<u>(2,514)</u>	<u>(2,359)</u>
Segmental net assets (see notes 16(a) and 16(b))		
General business (including shareholders' funds)	153,863	138,394
Long term business	21,124	38,920
	<u>174,987</u>	<u>177,314</u>

The business materially relates to one geographical market (United Kingdom) and therefore no geographical analysis is presented.

3(b) Analysis of general business	2010 Gross Premiums Written £000	2010 Gross Premiums Earned £000	2010 Gross Claims Incurred £000	2010 Gross Operating Expenses £000	2010 Reinsurance Balance £000
	Direct Insurance				
Creditor	89,152	117,872	(23,932)	(102,829)	129
Warranty	25,932	34,128	(11,892)	(19,372)	1
	<u>115,084</u>	<u>152,000</u>	<u>(35,824)</u>	<u>(122,201)</u>	<u>130</u>
Reinsurance	(65)	3,007	(2,346)	(914)	-
	<u>115,019</u>	<u>155,007</u>	<u>(38,170)</u>	<u>(123,115)</u>	<u>130</u>
	2009 Gross Premiums Written £000	2009 Gross Premiums Earned £000	2009 Gross Claims Incurred £000	2009 Gross Operating Expenses £000	2009 Reinsurance Balance £000
Direct Insurance					
Creditor	77,209	123,063	(60,812)	(90,846)	789
Warranty	17,356	32,671	(11,053)	(15,329)	-
	<u>94,565</u>	<u>155,734</u>	<u>(71,865)</u>	<u>(106,175)</u>	<u>789</u>
Reinsurance	46	3,037	(2,888)	1,532	-
	<u>94,611</u>	<u>158,771</u>	<u>(74,753)</u>	<u>(104,643)</u>	<u>789</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

3. Segmental analysis (continued)

3(c) Analysis of long term business	2010	2010	2010	2010	2010
	Gross Premiums Written £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance Balance £000
Direct Insurance Investments	2	135,701	(137,854)	(280)	-
Long term protection	(7,570)	13,777	(5,791)	(17,902)	3,775
	<u>(7,568)</u>	<u>149,478</u>	<u>(143,645)</u>	<u>(18,182)</u>	<u>3,775</u>
	2009	2009	2009	2009	2009
	Gross Premiums Written £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance Balance £000
Direct Insurance Investments	48,949	988,149	(1,008,806)	(4,404)	-
Long term protection	(4,591)	17,327	(5,081)	(13,797)	81
	<u>44,358</u>	<u>1,005,476</u>	<u>(1,013,887)</u>	<u>(18,201)</u>	<u>81</u>

4. Investment return	Technical account long term business		Non-technical account	
	2010 £000	2009 £000	2010 £000	2009 £000
Income from Group undertakings	-	-	308	519
Income from other financial investments	4,687	26,951	4,721	2,626
Realised (loss) / gain on investments	(243)	348	(164)	836
Investment Income	<u>4,444</u>	<u>27,299</u>	<u>4,865</u>	<u>3,981</u>
Unrealised gain on investments	3,024	10,534	213	3,693
	<u>7,468</u>	<u>37,833</u>	<u>5,078</u>	<u>7,674</u>

Included within the unrealised gains on investments in the technical account and the non technical account are movements in provisions of £3,730,000 gain (2009: £10,845,000 gain) in relation to the Company's exposure to the UK regulated subsidiary, Kaupthing Singer & Friedlander, of the Icelandic banking group, Kaupthing.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

5. Net operating expenses	General business		Long term business	
	2010 £000	2009 £000	2010 £000	2009 £000
Acquisition costs	85,712	46,687	(466)	(3,201)
Change in gross deferred acquisition costs	29,260	48,782	16,690	19,187
Administrative expenses	8,143	9,174	1,958	2,215
Gross operating expenses	<u>123,115</u>	<u>104,643</u>	<u>18,182</u>	<u>18,201</u>
Reinsurance commissions and profit participation	(1,299)	(1,011)	7	(2,369)
Change in deferred reinsurance commission	100	(1,386)	(190)	(158)
	<u>121,916</u>	<u>102,246</u>	<u>17,999</u>	<u>15,674</u>

6. Loss on ordinary activities before tax is stated after charging:	2010 £000	2009 £000
Auditors' remuneration		
Fees payable to the Company's auditors for the Company's annual accounts	140	116
Fees payable to the Company's auditors for the provision of other services	39	33
	<u>179</u>	<u>149</u>

7. Employees

A fellow subsidiary of Cardif Pinnacle Insurance Holdings Plc, Cardif Pinnacle Insurance Management Services plc, provides a staff management service and recharges all staff costs to the Company and wider UK Group. Average staff numbers and employee costs in respect of services to the Company were as follows:

	2010 Number	2009 Number
Sales	34	38
Administration	373	453
	<u>407</u>	<u>491</u>
Employment costs	2010 £000	2009 £000
Wages and salaries	15,800	17,378
Social security costs	1,664	2,101
Other pension costs	1,550	1,530
	<u>19,014</u>	<u>21,009</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

8. Remuneration of Directors

Directors' emoluments in respect of services to the Company were as follows:

	2010 £000	2009 £000
Emoluments	1,533	978
Pension contributions to a defined contribution scheme	147	74
	<u>1,680</u>	<u>1,052</u>
	2010 £000	2009 £000
Emoluments of highest paid Director	385	281
Pension contributions of highest paid Director	54	20
	<u>439</u>	<u>301</u>

The number of Directors to whom retirement benefits are accruing under a defined contribution scheme are 6 (2009: 5).

9. Taxation on ordinary activities

Analysis of credit in the year	General Business		Long Term Business		Total	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Current tax						
UK Corporation Tax on loss for the year	(394)	(4,229)	(310)	-	(704)	(4,229)
Prior year adjustments	257	(2,724)	-	(5,280)	257	(8,004)
Total current tax credit	<u>(137)</u>	<u>(6,953)</u>	<u>(310)</u>	<u>(5,280)</u>	<u>(447)</u>	<u>(12,233)</u>
Deferred tax						
Reversal of timing differences	260	1,259	-	3,770	260	5,029
Tax on (loss)/ profit on ordinary activities	<u>123</u>	<u>(5,694)</u>	<u>(310)</u>	<u>(1,510)</u>	<u>(187)</u>	<u>(7,204)</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

9. Taxation on ordinary activities (continued)

Factors affecting tax credit for the year	General Business		Long Term Business		Total	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
(Loss)/ profit on ordinary activities before tax	(1,408)	(13,661)	(1,106)	11,302	(2,514)	(2,359)
(Loss)/ profit on ordinary activities by tax rate in the UK of 28% (2009: 28%)	(394)	(3,825)	(310)	3,165	(704)	(660)
Effects of:						
Long term business	-	(364)	-	1,141	-	777
Prior year adjustments	257	(2,724)	-	(5,280)	257	(8,004)
Relief of losses	-	(40)	-	(4,306)	-	(4,346)
Current tax credit	(137)	(6,953)	(310)	(5,280)	(447)	(12,233)
Deferred taxation	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
At 1 January 2010	3,617	4,876	-	3,770	3,617	8,646
Reversal of timing differences	(260)	(1,259)	-	(3,770)	(260)	(5,029)
At 31 December 2010	<u>3,357</u>	<u>3,617</u>	<u>-</u>	<u>-</u>	<u>3,357</u>	<u>3,617</u>

The deferred tax asset arises from losses during prior years and is included within Other debtors (note 14). There is also an unrecognised deferred tax asset of £1,619,000 (2009: £1,173,000) in respect of long term business due to timing differences including unrelieved tax losses.

10. Investments

10(a) Investments in Group undertakings

The Company holds mortgages over properties held by a fellow subsidiary undertaking. In August 2010 a repayment was made to the Company of £4,000,000 by the fellow subsidiary undertaking. After this repayment was made the amounts invested as at 31 December 2010 were £10,000,000 (2009: £14,000,000).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

10. Investments (continued)

10(b) Other financial investments

	Market Value		Cost	
	2010 £000	2009 £000	2010 £000	2009 £000
Listed shares	23	32	129	129
Debt securities and other fixed income securities	125,811	73,182	126,596	71,129
Deposits with credit institutions	173,049	306,750	173,049	306,750
	<u>298,883</u>	<u>379,964</u>	<u>299,774</u>	<u>378,008</u>

11. Assets held to cover linked liabilities

The total market value of assets held to cover linked liabilities was £2,751,000 (2009: £32,739,000) and includes £69,000 (2009: £63,000) relating to fixed interest securities held to back an equity based product linked to the FTSE, S&P, Dow Jones and Nikkei. The purchase price of investments included under assets held to cover linked liabilities was £2,757,000 (2009: £32,800,000).

12. Debtors arising out of direct insurance operations

	2010 £000	2009 £000
Amounts owed by policyholders	<u>4,637</u>	<u>10,133</u>

13. Debtors arising out of reinsurance operations

	2010 £000	2009 £000
Amounts due from reinsurers	<u>2,073</u>	<u>2,430</u>

14. Other debtors

	2010 £000	2009 £000
Amounts owed by group undertakings	8,182	5,065
Corporation tax	704	4,229
Deferred tax	3,357	3,617
	<u>12,243</u>	<u>12,911</u>

15. Share capital

	2010 £000	2009 £000
Authorised 100 million ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Issued, allotted, called up and fully paid Ordinary shares of £1 each	97,721	97,721
Share Premium	16,979	16,979
	<u>114,700</u>	<u>114,700</u>

There were no shares issued during the year (2009: £nil).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

16(a) Shareholder's fund movements

	Share Capital £000	Share Premium £000	Profit & Loss £000	Total £000
At 1 January 2009	97,721	16,979	57,769	172,469
Profit for the financial year	-	-	4,845	4,845
At 31 December 2009	97,721	16,979	62,614	177,314
Loss for the financial year	-	-	(2,327)	(2,327)
At 31 December 2010	97,721	16,979	60,287	174,987

Non-distributable reserves in respect of the surplus on the long term business that must be maintained by the Company as at 31 December 2010 were £21,124,000 (2009: £38,920,000). During the year, there was a transfer of £17,000,000 from the long term fund to the general fund following actuarial valuation and approval.

16(b) Capital statement

	2010 £000	2009 £000
Shareholder's funds held outside the long term fund	153,863	138,394
Shareholder's funds held in the long term fund	21,124	38,920
Total shareholder's funds	174,987	177,314
Other adjustments	(3,725)	(4,113)
Total available capital resources	171,262	173,201

Other adjustments relates to inadmissible assets for FSA Insurance Return purposes.

No restrictions exist on the movement of capital between funds other than the normal requirement that the actuary must approve the release of capital out of the long term fund.

The technical reserves for the guaranteed income and growth bonds are sensitive to the valuation interest rate assumption which varies as market yields change. However, as asset and liabilities are closely matched (the difference in discounted mean term (DMT) is less than 3 months), the impact on surplus capital is not material, as evidenced by a resilience capital requirement of £150,000 (2009: £150,000) on £45,928,000 (2009: £151,938,000) of liabilities.

The technical reserve for the Flexible Asset Bond unit linked product is calculated as unit price x number of units. The regulatory Insurance Expense Risk Capital Component attributed to unit linked products does not have a material impact on the long term fund.

Investment returns are guaranteed for income and growth bonds and unit linked products guarantee a minimum return. However, the assets purchased to back this business match any guarantee given. Therefore no stochastic modelling has been performed to assess the value of the guarantee. For guaranteed income and growth bonds, the guarantee will cause a loss to the Company if the underlying asset defaults. This has been allowed for in the valuation by a deduction to the valuation interest rate, which is dependent on the asset type and rating.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

17. Technical provisions		Provision for Unearned Premiums £000	Claims Outstanding £000	Total £000
17(a) General business				
Gross Amount				
At beginning of year		110,523	69,997	180,520
Movement in the provision		(39,988)	(16,706)	(56,694)
At end of year		<u>70,535</u>	<u>53,291</u>	<u>123,826</u>
Reinsurance amount				
At beginning of year		(818)	(6,435)	(7,253)
Movement in the provision		(56)	692	636
At end of year		<u>(874)</u>	<u>(5,743)</u>	<u>(6,617)</u>
Net technical provisions				
Opening balance		109,705	63,562	173,267
Movement in the provision		(40,044)	(16,014)	(56,058)
At end of year		<u>69,661</u>	<u>47,548</u>	<u>117,209</u>
17(b) Long term business				
	Long Term Business Provision £000	Technical Provisions for Linked Liabilities £000	Claims Outstanding £000	Total £000
Gross amount				
At beginning of year	231,646	32,739	405	264,790
Movement in the provision	(127,058)	(29,988)	881	(156,165)
At end of year	<u>104,588</u>	<u>2,751</u>	<u>1,286</u>	<u>108,625</u>
Reinsurance amount				
At beginning of year	(22,493)	-	(10)	(22,503)
Movement in the provision	(1,540)	-	(5)	(1,545)
At end of year	<u>(24,033)</u>	<u>-</u>	<u>(15)</u>	<u>(24,048)</u>
Net technical provisions				
Opening balance	209,153	32,739	395	242,287
Movement in the provision	(128,598)	(29,988)	876	(157,710)
At end of year	<u>80,555</u>	<u>2,751</u>	<u>1,271</u>	<u>84,577</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

17(b) Long term business (continued)

The principal assumptions underlying the calculation of the long term business provision are:

	2010	2009		
<u>Rates of interest</u>				
Assurance :				
Without profit	2.1%	2.5%		
Guaranteed Growth Bonds				
Outstanding term less than 1 year	3.8%	3.5%		
Outstanding term less than 2 years	3.2%	3.0%		
Outstanding term less than 3 years	2.8%	3.0%		
Outstanding term less than 4 years	3.0%	2.4%		
Outstanding term less than 5 years	-	2.1%		
Guaranteed Income Bonds				
Outstanding term less than 1 year	3.2%	3.0%		
Outstanding term less than 2 years	2.6%	1.9%		
Outstanding term less than 3 years	3.2%	2.1%		
Outstanding term less than 4 years	3.0%	2.7%		
Outstanding term less than 5 years	-	2.1%		
Monthly Income Bonds				
Outstanding term less than 1 year	1.6%	2.4%		
Outstanding term less than 2 years	1.5%	2.5%		
Outstanding term less than 3 years	3.7%	3.2%		
Outstanding term less than 4 years	3.0%	3.7%		
Outstanding term less than 5 years	-	2.6%		
Annuities :				
Without profit - Life	2.1%	2.5%		
Without profit - Pensions	2.1%	2.5%		
<u>Mortality tables</u>				
Assurances	50% of A67/70 ultimate AM80 / AF80 ELT14	50% of A67/70 ultimate AM80 / AF80 ELT14		
Annuities-general	a(90) less five years	a(90) less five years		
Annuities-pension	PA(90) less five years	PA(90) less five years		
	Gross Amount	Reinsurance Amount		
17(c) Claims outstanding	2010	2009	2010	2009
	£000	£000	£000	£000
General business	53,291	69,997	(5,743)	(6,435)
Long term business	1,286	405	(15)	(10)
	<u>54,577</u>	<u>70,402</u>	<u>(5,758)</u>	<u>(6,445)</u>

Included within the general business claims outstanding balance is the unexpired risk provision of £5,294,000 (2009: £12,699,000).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (Continued)

17(d) Deferred acquisition costs	Gross Amount		Reinsurance Amount	
	2010 £000	2009 £000	2010 £000	2009 £000
General business	40,411	69,670	358	258
Long term business	23,549	40,239	56	246
	<u>63,960</u>	<u>109,909</u>	<u>414</u>	<u>504</u>

The reinsured amount of £414,000 (2009: £504,000) is included within Note 19 below.

17(e) Long term fund

At 31 December 2010 the total amount of assets representing the long term fund as required to be shown by Schedule 3 of SI 2008 No 410 The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 was £139,296,000 (2009: £312,490,000).

18. Creditors arising out of direct insurance	2010 £000	2009 £000
Other creditors	<u>60,195</u>	<u>59,023</u>
19. Creditors arising out of reinsurance operations	2010 £000	2009 £000
Other creditors	<u>1,397</u>	<u>1,575</u>
20. Amounts owed to credit institutions	2010 £000	2009 £000
Payable in less than one year	<u>569</u>	<u>2,474</u>
21. Other creditors including taxation and social security	2010 £000	2009 £000
Amounts due to group undertakings	1,209	2,496
Other taxes	3,994	4,322
Other creditor	3	101
	<u>5,206</u>	<u>6,919</u>
22. Commitments		

There were no outstanding capital commitments at 31 December 2010 (2009: £nil).

PINNACLE INSURANCE PLC

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23. Contingent liabilities

In August 2010 the Financial Services Authority (FSA) published Policy Statement (PS) 10/12 in relation to the assessment and redress of PPI complaints. The Company does not at this stage consider the outcome will give rise to a material obligation on the part of the Company as the PS predominantly relates to the distribution of PPI products which the Company does not undertake in significant volumes. A £2,300,000 provision which has been included within claims outstanding (2009: £500,000) has, however, been made in relation to related expenses and any potential second order costs.

24. Related party transactions

The Company has relied on the exemption given in Financial Reporting Standard 8 not to disclose transactions with entities that are wholly owned within the Group and qualify as related parties, on the grounds that its voting rights are wholly controlled within the Group and the parent undertaking publishes consolidated financial statements which include the financial statements of the Company.

At the year end, the Company is owed the following amount by Warranty Direct Limited which does not fall within the above exemption:

	2010 £000	2009 £000
Warranty Direct Limited	<u>1,476</u>	<u>188</u>

25. Ultimate parent undertaking

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

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

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