
PINNACLE INSURANCE PLC
Company Registration Number: 1007798

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2011

PINNACLE INSURANCE PLC

CONTENTS

Company Information	Page 1
Directors' Report	Pages 2 – 10
Statement of Directors' responsibilities	Page 11
Auditor's report	Pages 12 – 13
Profit and Loss Account Technical Account - General Business	Page 14
Profit and Loss Account Technical Account - Long Term Business	Page 15
Profit and Loss Account Non Technical Account	Page 16
Reconciliation of movements in Shareholder's funds	Page 17
Balance Sheet - Assets	Page 18
Balance Sheet - Liabilities	Page 19
Notes to the Financial Statements	Pages 20 – 33

PINNACLE INSURANCE PLC

Directors: G Binet (Chairman)
P E Glen BSc (Hons) FCA (Chief Executive Officer)
N J Atkinson, BSc (Hons) MSc FIA
BNP Paribas Cardif (Formerly BNP Paribas Assurance)
Cardif Assurance Risques Divers
Cardif Assurance Vie
J Castagno ACII
A J Golding BSc (Hons) FCA.
R J Mee FCIBS *

* Independent Non-Executive Director

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

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 2011.

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 Cardif, (formerly BNP Paribas Assurance), a worldwide provider of insurance and savings products. The Company is part of the global banking group BNP Paribas SA, a European leader in banking and financial services, with a Standard and Poor's long term rating of 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 profit after taxation for the year was £2,459,000 (2010: £2,327,000 loss). The Directors recommended and paid a final dividend of £35,180,000 (2010: £nil).

SHARE CAPITAL

On 19 December 2011 the share capital was increased by £35,180,000 through the issue of 28,836,066 Ordinary shares of £1 each, which were issued at £1.22 per share increasing the share premium account from £16,979,000 to £23,323,000.

REVIEW OF BUSINESS

2011 Performance

The Company is very pleased to announce growth of General Insurance business Gross Written Premium of 29% to £148.0m (2010: £115.0m) and a return to profitability with a pre-tax profit of £3.5m (2010 : Loss of £2.5m).

This result is against a backdrop of a continued severe economic downturn in the UK and Ireland alongside the continuing re-engineering of the wider UK Creditor market. The shareholder funds of the Company remain strong at £177.4m for 31 December 2011 (31 December 2010: £175.0m) and are considered sufficient to meet the growth plans for 2012 and beyond at this stage.

The economic downturn in the UK over the past few years, 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 compared to historic norms, requiring strengthening of reserves in particular for unemployment exposure. New business partners, as reported in the 2010 Financial Statements, have resulted in significant growth in the General Insurance business.

Throughout 2010 and 2011 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 OFT (Office of Fair Trading) has now published its remedies; the first of which were implemented in October 2011. The final remedies, including the Point of Sale 7 day prohibition, going live in 2012.

PINNACLE INSURANCE PLC**DIRECTORS' REPORT (Continued)****REVIEW OF BUSINESS (Continued)****2011 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. A £6.1m provision (2010: £2.3m), which has been included within claims outstanding, has, however, been made in relation to potential first order and second order (administrative) costs as a contingency.

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 29% to £148.0m (2010: £115.0m) attributed to new client activities.

Earned premiums, net of reinsurance, within the General Insurance business account were £148.7m (2010: £149.5m) with annual and monthly new business continuing to replace historic single premium business.

Claims incurred net of reinsurance within the General Insurance business account increased by 18% to £39.8m (2010: £33.7m) reflecting the ongoing economic activity in 2011 and a change in business mix.

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 minimal new activity remains within the Long Term business fund.

2012 outlook

The Company continues to execute a strategy that supports and embraces the increased and ongoing regulatory focus in the market and the post implementation of the Competition Commission PPI remedies. The Company has also, from the beginning of 2012, diversified into Household insurance whilst retaining appropriate underwriting governance in this new area of business.

PINNACLE INSURANCE PLC**DIRECTORS' REPORT (Continued)****REVIEW OF BUSINESS (Continued)****2012 outlook (Continued)**

As such, in conjunction with the wider Cardiff Pinnacle UK Group of which Pinnacle Insurance plc is part, the Company has developed a more flexible business model in the UK. Our UK Group combined market offering includes:

- UK product manufacture (MPPI / PPI, Household, 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 demands and needs assessment and ensuring full compliance with the post Competition Commission requirements;
- provision of telephony capability to assist clients in selling;
- the supply of software that enables annual administration of policies to be conducted;
- capability in claims administration; and,
- ensuring Treating Customer Fairly (TCF) is fully embedded into the sales, product administration and the claims life cycles, to meet the needs of our customers.

The Company remains fully committed to the UK Creditor insurance market and to moving positively in a transition towards the new market dynamics.

As part of its growth strategy the Company is also pleased to announce the commencement of further new business partners in 2012 which will compound the growth experienced in 2011, and as such significantly increase the 2012 Gross Written Premium (GWP) levels. The expected growth in GWP will also provide product and capital diversification benefits for the Company.

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	
BNP Paribas Cardif (Formerly BNP Paribas Assurance)	
Cardif Assurance Risques Divers	
Cardif Assurance Vie	
J Castagno	
A J Golding	
R J Mee *	
I R C Shackell	resigned 11 March 2011
A D Swain	resigned (retired) 31 December 2011
B A Carte *	resigned 28 January 2012

* Non-Executive Director

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.

PINNACLE INSURANCE PLC**DIRECTORS' REPORT (Continued)****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 (2010: £nil).

ACTUARIAL VALUATION

An actuarial valuation was carried out as at 31 December 2011 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). However, the Directors support the high standards of corporate governance contained in the Combined Code 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 2011 was as follows:

	Board	Audit Committee	Investment Committee	Remuneration Committee	Risk Based Capital Committee	Corporate Social Responsibility Committee
Number of meetings held	10	5	17	1	10	3
N J Atkinson	10	*	16	*	9	*
G Binet	9	*	*	*	*	*
BNP Paribas Cardif	5	3	*	1	*	*
Cardif Assurance Vie	9	*	*	*	*	*
Cardif-Assurances Risques Divers	9	*	*	*	*	*
B A Carte	9	5	*	*	*	*
J Castagno	10	*	14	*	7	3
P E Glen	10	*	12	*	9	*
A J Golding	10	*	17	*	9	*
R J Mee	8	5	*	1	*	*
I R C Shackell	1/1	*	2/3	*	1/1	*
A D Swain	9	*	*	*	*	*

* 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 2011 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 (resigned 28 January 2012), independent Non-Executive Director, and Mr J-F Bourdeaux the Global Head of Compliance and Control, BNP Paribas Cardif. The Chief Executive Officer, Chief Financial Officer, 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.

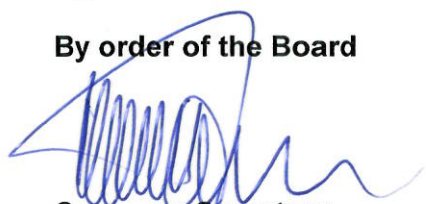
GOING CONCERN

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

Mazars LLP have signified their willingness to continue in office. A resolution regarding their appointment as auditors will be tabled at the Annual General Meeting.

By order of the Board



Company Secretary

M J Lorimer

27 March 2012

PINNACLE INSURANCE PLC**STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2011**

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 2011 which comprise the Profit and Loss Accounts, the Balance Sheet and the Reconciliation of Movements in Shareholder's Funds' 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 auditor

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 member 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 member 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 as a body 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 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 2011 and of its profit 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 Auditor
Tower Bridge House
St Katharine's Way
London E1W 1DD
27 March 2012

PINNACLE INSURANCE PLC

**PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	<u>2011</u> £000	<u>2010</u> £000
Earned premiums, net of reinsurance			
Gross premiums written	3(b)	148,021	115,019
Outward reinsurance premiums		<u>(728)</u>	<u>(5,580)</u>
		147,293	109,439
Change in the gross provision for unearned premiums	17(a)	2,047	39,988
Change in the provision for unearned premiums, reinsurers' share	17(a)	(656)	56
		<u>1,391</u>	<u>40,044</u>
Earned premiums, net of reinsurance		<u>148,684</u>	<u>149,483</u>
Allocated investment return transferred from the non-technical account		2,535	2,350
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(44,354)	(54,876)
Reinsurers' share		<u>2,055</u>	<u>5,147</u>
		<u>(42,299)</u>	<u>(49,729)</u>
Change in the provision for claims			
Gross amount	17(a)	5,367	16,706
Reinsurers' share	17(a)	<u>(2,870)</u>	<u>(692)</u>
		2,497	16,014
Claims incurred, net of reinsurance		<u>(39,802)</u>	<u>(33,715)</u>
Net operating expenses	5	<u>(113,946)</u>	<u>(121,916)</u>
Balance on the technical account-general business		<u><u>(2,529)</u></u>	<u><u>(3,798)</u></u>

PINNACLE INSURANCE PLC

**PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – LONG TERM BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	<u>2011</u> £000	<u>2010</u> £000
Earned premiums, net of reinsurance			
Gross premiums written	3(c)	(1,082)	(7,568)
Outward reinsurance premiums		166	(5)
		(916)	(7,573)
Investment income	4	1,834	4,444
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(31,600)	(142,764)
Reinsurers' share		1,623	2,052
		(29,977)	(140,712)
Change in the provision for claims			
Gross amount	17(b)	250	(881)
Reinsurers' share	17(b)	(5)	5
		245	(876)
Claims incurred, net of reinsurance		(29,732)	(141,588)
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
Gross amount	17(b)	34,171	127,058
Reinsurers' share	17(b)	1,181	1,540
Technical provisions for linked liabilities	17(b)	2,680	29,988
		38,032	158,586
Net operating expenses	5	(8,102)	(17,999)
Unrealised (loss) / gain on investments	4	(522)	3,024
Taxation (charge) / credit attributable to the long term business	9	(8)	310
Balance on the technical account-long term business		586	(796)
Taxation charge / (credit) attributable to the balance on the long term business technical account	9	8	(310)
Balance on the technical account-long term business before taxation		594	(1,106)

PINNACLE INSURANCE PLC
PROFIT AND LOSS ACCOUNT NON TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	<u>2011</u> £000	<u>2010</u> £000
Balance on the technical account-general business		(2,529)	(3,798)
Balance on the technical account-long term business before taxation		594	(1,106)
		<u>(1,935)</u>	<u>(4,904)</u>
Investment income	4	5,696	4,865
Unrealised gain on investments	4	2,953	213
		8,649	5,078
Allocated investment return transferred to the general business account		(2,535)	(2,350)
Foreign exchange loss		(686)	(338)
		5,428	2,390
Profit / (loss) on ordinary activities before tax		3,493	(2,514)
Taxation (charge) / credit on ordinary activities	9	(1,034)	187
Profit / (loss) for the financial year		2,459	(2,327)

The Company has no recognised gains or losses other than the profit 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 2011

	Note	<u>2011</u> £000	<u>2010</u> £000
Proceeds from ordinary share capital Issue	15	35,180	-
Profit / (loss) for the financial year	16(a)	2,459	(2,327)
Final dividend	16(a)	(35,180)	-
		<hr/>	<hr/>
Net addition / (deduction) to shareholder's funds		2,459	(2,327)
Opening shareholder's funds		174,987	177,314
		<hr/>	<hr/>
Closing shareholder's funds		177,446	174,987
		<hr/> <hr/>	<hr/> <hr/>

PINNACLE INSURANCE PLC
Company Registration Number : 1007798

BALANCE SHEET - ASSETS
AT 31 DECEMBER 2011

	Note	2011 £000	2010 £000
ASSETS			
Investments			
Investments in group undertakings	10(a)	10,000	10,000
Other financial investments	10(b)	285,564	298,883
		295,564	308,883
Assets held to cover linked liabilities	11	71	2,751
Reinsurers' share of technical provisions			
Provision for unearned premiums	17(a)	218	874
Long term business provision	17(b)	25,214	24,033
Claims outstanding	17(c)	2,883	5,758
		28,315	30,665
Debtors			
Debtors arising out of direct insurance operations	12	18,131	4,637
Debtors arising out of reinsurance operations	13	515	2,073
Other debtors	14	8,351	12,243
		26,997	18,953
Other assets			
Cash at bank and in hand		20,281	46,919
Prepayments and accrued income			
Accrued interest		3,532	3,417
Deferred acquisition costs	17(d)	53,437	63,960
Other prepayments and accrued income		332	75
		57,301	67,452
Total assets		428,529	475,623


PINNACLE INSURANCE PLC
Company Registration Number - 1007798


BALANCE SHEET - LIABILITIES
AT 31 DECEMBER 2011

	Note	<u>2011</u> £000	<u>2010</u> £000
LIABILITIES			
Capital and reserves			
Called up share capital	15	126,557	97,721
Share premium	15	23,323	16,979
Profit and loss account	16(a)	27,566	60,287
		<hr/>	<hr/>
Equity shareholder's funds	16(a)	177,446	174,987
Technical provisions			
Provision for unearned premiums	17(a)	68,488	70,535
Long term business provision	17(b)	70,417	104,588
Claims outstanding	17(c)	48,960	54,577
		<hr/>	<hr/>
		187,865	229,700
Technical provisions for linked liabilities	17(b)	71	2,751
Creditors			
Creditors arising out of direct insurance operations	18	57,481	60,195
Creditors arising out of reinsurance operations	19	162	1,397
Amounts owed to credit institutions	20	173	569
Accruals and deferred income		887	818
Other creditors including taxation and social security	21	4,444	5,206
		<hr/>	<hr/>
		63,147	68,185
		<hr/>	<hr/>
Total liabilities		428,529	475,623
		<hr/> <hr/>	<hr/> <hr/>

These financial statements were approved by the board of Directors on 27 March 2012.

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 2011****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 2011 (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 2011 (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 2011 (Continued)

3. Segmental analysis

3(a) Analysis by class of business	2011	2010
	£000	£000
Gross premiums written		
General business	148,021	115,019
Long term business	(1,082)	(7,568)
	<u>146,939</u>	<u>107,451</u>
Profit before taxation:		
Non technical items have been allocated to general business		
General business	2,899	(1,408)
Long term business	594	(1,106)
	<u>3,493</u>	<u>(2,514)</u>
Segmental net assets (see notes 16(a) and 16(b))		
General business (including shareholders' funds)	155,736	153,863
Long term business	21,710	21,124
	<u>177,446</u>	<u>174,987</u>

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

3(b) Analysis of general business	2011	2011	2011	2011	2011
	Gross	Gross	Gross	Gross	Reinsurance
	Premiums	Premiums	Claims	Operating	Balance
	Written	Earned	Incurred	Expenses	£000
	£000	£000	£000	£000	£000
Direct Insurance					
Creditor	119,321	114,577	(25,062)	(92,833)	(1,566)
Warranty	28,694	34,728	(13,612)	(21,393)	-
	<u>148,015</u>	<u>149,305</u>	<u>(38,674)</u>	<u>(114,226)</u>	<u>(1,566)</u>
Reinsurance	6	763	(313)	(353)	-
	<u>148,021</u>	<u>150,068</u>	<u>(38,987)</u>	<u>(114,579)</u>	<u>(1,566)</u>
	2010	2010	2010	2010	2010
	Gross	Gross	Gross	Gross	Reinsurance
	Premiums	Premiums	Claims	Operating	Balance
	Written	Earned	Incurred	Expenses	£000
	£000	£000	£000	£000	£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>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

3. Segmental analysis (continued)

3(c) Analysis of long term business	2011 Gross Premiums Written £000	2011 Gross Premiums Earned £000	2011 Gross Claims Incurred £000	2011 Gross Operating Expenses £000	2011 Reinsurance Balance £000
Direct Insurance Investments	-	27,752	28,030	(15)	-
Long term protection	(1,082)	8,017	3,320	(8,018)	2,896
	<u>(1,082)</u>	<u>35,769</u>	<u>31,350</u>	<u>(8,033)</u>	<u>2,896</u>

	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 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>

4. Investment return	Technical account long term business		Non-technical account	
	2011 £000	2010 £000	2011 £000	2010 £000
Income from Group undertakings	-	-	176	308
Income from other financial investments	1,857	4,687	6,357	4,721
Realised (loss) / gain on investments	(23)	(243)	(837)	(164)
Investment Income	<u>1,834</u>	<u>4,444</u>	<u>5,696</u>	<u>4,865</u>
Unrealised (loss)/ gain on investments	(522)	3,024	2,953	213
	<u>1,312</u>	<u>7,468</u>	<u>8,649</u>	<u>5,078</u>

Included within the unrealised gains / (losses) on investments in the technical account and the non technical account are net movements in provisions of £3,171,000 gain (2010: £3,730,000 gain), in relation to the Company's exposure to the UK regulated subsidiary, Kaupthing Singer & Friedlander £1,865,000 gain (2010 : £3,730,000 gain), of the Icelandic banking group, Kaupthing and Landsbanki £1,306,000 gain (2010 : £nil), part of the Icelandic Heritable Banking Group.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

5. Net operating expenses	General business		Long term business	
	2011 £000	2010 £000	2011 £000	2010 £000
Acquisition costs	102,947	85,712	(630)	(466)
Change in gross deferred acquisition costs	2,279	29,260	8,244	16,690
Administrative expenses	9,353	8,143	419	1,958
Gross operating expenses	<u>114,579</u>	<u>123,115</u>	<u>8,033</u>	<u>18,182</u>
Reinsurance commissions and profit participation	(409)	(1,299)	121	7
Change in deferred reinsurance commission	(224)	100	(52)	(190)
	<u>113,946</u>	<u>121,916</u>	<u>8,102</u>	<u>17,999</u>
6. Profit / (loss) on ordinary activities before tax is stated after charging:			2011 £000	2010 £000
Auditor's remuneration				
Fees payable to the Company's auditor for the Company's annual accounts			123	140
Fees payable to the Company's auditor for the provision of other audit services			35	39
			<u>158</u>	<u>179</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:				
			2011 Number	2010 Number
Sales			26	34
Administration			368	373
			<u>394</u>	<u>407</u>
Employment costs			2011 £000	2010 £000
Wages and salaries			16,120	15,800
Social security costs			1,890	1,664
Other pension costs			1,528	1,550
			<u>19,538</u>	<u>19,014</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

8. Remuneration of Directors

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

	2011 £000	2010 £000
Emoluments	1,661	1,533
Pension contributions to a defined contribution scheme	139	147
	<u>1,800</u>	<u>1,680</u>
	2011 £000	2010 £000
Emoluments of highest paid Director	430	385
Pension contributions of highest paid Director	54	54
	<u>484</u>	<u>439</u>

The number of Directors to whom retirement benefits are accruing under a defined contribution scheme are 6 (2010: 6).

9. Taxation charge / (credit) on ordinary activities

Analysis of charge in the year	General Business		Long Term Business		Total	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Current tax						
UK Corporation Tax on profit for the year	-	(394)	-	(310)	-	(704)
Prior year adjustments	-	257	8	-	8	257
Total current tax (credit) / charge	<u>-</u>	<u>(137)</u>	<u>8</u>	<u>(310)</u>	<u>8</u>	<u>(447)</u>
Deferred tax						
Reversal of timing differences	1,026	260	-	-	1,026	260
Tax on profit / (loss) on ordinary activities	<u>1,026</u>	<u>123</u>	<u>8</u>	<u>(310)</u>	<u>1,034</u>	<u>(187)</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

9. Taxation charge / (credit) on ordinary activities

Factors affecting tax charge / (credit) for the year	General Business		Long Term Business		Total	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Profit/ (loss) on ordinary activities before tax	2,899	(1,408)	594	(1,106)	3,493	(2,514)
Profit / (loss) on ordinary activities by tax rate in the UK of 26.5% (2010: 28%)	768	(394)	157	(310)	925	(704)
<u>Effects of:</u>						
Bank levy not allowable for corporation tax	36	-	-	-	36	-
Prior year adjustments	-	257	8	-	8	257
Relief of losses	(804)	-	(157)	-	(961)	-
Current tax (credit) / charge	-	(137)	8	(310)	8	(447)
Deferred taxation	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
At 1 January	3,357	3,617	-	-	3,357	3,617
Charge to profit and loss in respect of current year	(905)	-	-	-	(905)	-
Charge to profit and loss in respect of change in tax rate	(123)	-	-	-	(123)	-
Reversal of timing differences	-	(260)	-	-	-	(260)
Prior year adjustment	2	-	-	-	2	-
At 31 December	2,331	3,357	-	-	2,331	3,357

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 £760,000 (2010: £1,619,000) in respect of long term business due to timing differences including unrelieved tax losses. A deferred tax asset has not been recognised in respect of the long term business as there has been a withdrawal from the investment product market and significant taxable profits are not anticipated.

10. Investments

10(a) Investments in Group undertakings

The Company holds mortgages over properties held by a fellow subsidiary undertaking. As at the 31 December 2011 the amounts invested were £10,000,000 (2010: £10,000,000).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

10. Investments (continued)

10(b) Other financial investments

	Market Value		Cost	
	2011 £000	2010 £000	2011 £000	2010 £000
Listed shares	27	23	129	129
Debt securities and other fixed income securities	110,786	125,811	112,394	126,596
Deposits with credit institutions	174,751	173,049	174,751	173,049
	<u>285,564</u>	<u>298,883</u>	<u>287,274</u>	<u>299,774</u>

11. Assets held to cover linked liabilities

The total market value of assets held to cover linked liabilities was £71,000 (2010: £2,751,000). This amount of £71,000 (2010: £69,000) relates 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 £22,000 (2010: £2,757,000).

12. Debtors arising out of direct insurance operations

	2011 £000	2010 £000
Amounts owed by policyholders	<u>18,131</u>	<u>4,637</u>

13. Debtors arising out of reinsurance operations

	2011 £000	2010 £000
Amounts due from reinsurers	<u>515</u>	<u>2,073</u>

14. Other debtors

	2011 £000	2010 £000
Amounts owed by group undertakings	5,993	8,182
Corporation Tax	-	704
Other Taxes	27	-
Deferred tax	2,331	3,357
	<u>8,351</u>	<u>12,243</u>

15. Share capital

	2011 £000	2010 £000
Authorised 128,836,000 (2010: 100,000,000) ordinary shares of £1 each	<u>128,836</u>	<u>100,000</u>
Issued, allotted, called up and fully paid		
Ordinary shares of £1 each	126,557	97,721
Share Premium	23,323	16,979
	<u>149,880</u>	<u>114,700</u>

On 19 December 2011 the share capital was increased by £35,180,000 through the issue of 28,836,066 fully paid ordinary shares of £1 each, which were issued at £1.22 per share increasing the share premium account by £6,344,000 from £16,979,000 to £23,323,000.

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

16(a) Shareholder's fund movements

	Share Capital £000	Share Premium £000	Profit & Loss £000	Total £000
At 1 January 2010	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
Ordinary share capital issue	28,836	6,344	-	35,180
Profit for the financial year	-	-	2,459	2,459
Final dividend	-	-	(35,180)	(35,180)
At 31 December 2011	126,557	23,323	27,566	177,446

Non-distributable reserves in respect of the surplus on the long term business that must be maintained by the Company as at 31 December 2011 were £21,710,000 (2010: £21,124,000).

16(b) Capital statement

	2011 £000	2010 £000
Shareholder's funds held outside the long term fund	155,736	153,863
Shareholder's funds held in the long term fund	21,710	21,124
Total shareholder's funds	177,446	174,987
Other adjustments	(2,519)	(3,725)
Total available capital resources	174,927	171,262

Other adjustments relate 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 (RCR) of £150,000 (2010: £150,000) on £21,756,000 (2010: £45,928,000) of liabilities.

Investment returns are guaranteed for income and growth bonds. 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 2011 (Continued)

Technical provisions		Provision for Unearned Premiums £000	Claims Outstanding £000	Total £000	
17(a)	General business				
	Gross amount				
	At beginning of year	70,535	53,291	123,826	
	Movement in the provision	<u>(2,047)</u>	<u>(5,367)</u>	<u>(7,414)</u>	
	At end of year	<u>68,488</u>	<u>47,924</u>	<u>116,412</u>	
	Reinsurance amount				
	At beginning of year	(874)	(5,743)	(6,617)	
	Movement in the provision	<u>656</u>	<u>2,870</u>	<u>3,526</u>	
	At end of year	<u>(218)</u>	<u>(2,873)</u>	<u>(3,091)</u>	
	Net technical provisions				
	Opening balance	69,661	47,548	117,209	
	Movement in the provision	<u>(1,391)</u>	<u>(2,497)</u>	<u>(3,888)</u>	
	At end of year	<u>68,270</u>	<u>45,051</u>	<u>113,321</u>	
17(b)	Long term business	Long Term £000	Technical Provisions £000	Claims Outstanding £000	Total £000
	Gross amount				
	At beginning of year	104,588	2,751	1,286	108,625
	Movement in the provision	<u>(34,171)</u>	<u>(2,680)</u>	<u>(250)</u>	<u>(37,101)</u>
	At end of year	<u>70,417</u>	<u>71</u>	<u>1,036</u>	<u>71,524</u>
	Reinsurance amount				
	At beginning of year	(24,033)	-	(15)	(24,048)
	Movement in the provision	<u>(1,181)</u>	<u>-</u>	<u>5</u>	<u>(1,176)</u>
	At end of year	<u>(25,214)</u>	<u>-</u>	<u>(10)</u>	<u>(25,224)</u>
	Net technical provisions				
	Opening balance	80,555	2,751	1,271	84,577
	Movement in the provision	<u>(35,352)</u>	<u>(2,680)</u>	<u>(245)</u>	<u>(38,277)</u>
	At end of year	<u>45,203</u>	<u>71</u>	<u>1,026</u>	<u>46,300</u>

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

17(b) Long term business (continued)

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

	2011	2010
<u>Rates of interest</u>		
Assurance :		
Without profit	3.2%	2.1%
Guaranteed Growth Bonds		
Outstanding term less than 1 year	3.3%	3.8%
Outstanding term less than 2 years	2.6%	3.2%
Outstanding term less than 3 years	1.8%	2.8%
Outstanding term less than 4 years	n/a	3.0%
Guaranteed Income Bonds		
Outstanding term less than 1 year	2.6%	3.2%
Outstanding term less than 2 years	2.4%	2.6%
Outstanding term less than 3 years	1.8%	3.2%
Outstanding term less than 4 years	n/a	3.0%
Monthly Income Bonds		
Outstanding term less than 1 year	2.9%	1.6%
Outstanding term less than 2 years	3.2%	1.5%
Outstanding term less than 3 years	1.2%	3.7%
Outstanding term less than 4 years	n/a	3.0%
Annuities :		
Without profit - Life	3.2%	2.1%
Without profit - Pensions	3.2%	2.1%
<u>Mortality tables</u>		
Assurances	50% of A67/70 ultimate AM80/AF80 ELT14	50% of A67/70 ultimate AM80 / AF80 ELT14
Annuities-general	PMA92&PFA92	a(90) less five years
Annuities-pension	PFA92	PA(90) less five years

17(c) Claims outstanding	Gross Amount		Reinsurance Amount	
	2011 £000	2010 £000	2011 £000	2010 £000
General business	47,924	53,291	(2,873)	(5,743)
Long term business	1,036	1,286	(10)	(15)
	<u>48,960</u>	<u>54,577</u>	<u>(2,883)</u>	<u>(5,758)</u>

Included within the general business claims outstanding balance is the unexpired risk provision of £3,463,000 (2010: £5,294,000).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

17(d) Deferred acquisition costs	Gross Amount		Reinsurance Amount	
	2011 £000	2010 £000	2011 £000	2010 £000
General business	38,132	40,411	134	358
Long term business	15,305	23,549	4	56
	<u>53,437</u>	<u>63,960</u>	<u>138</u>	<u>414</u>

The reinsured amount of £138,000 (2010: £414,000) is included within Note 19 below.

17(e) Long term fund

At 31 December 2011 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 £100,208,000 (2010: £139,296,000).

18. Creditors arising out of direct insurance	2011 £000	2010 £000
Other creditors	<u>57,481</u>	<u>60,195</u>
19. Creditors arising out of reinsurance operations	2011 £000	2010 £000
Other creditors	<u>162</u>	<u>1,397</u>
20. Amounts owed to credit institutions	2011 £000	2010 £000
Payable in less than one year	<u>173</u>	<u>569</u>
21. Other creditors including taxation and social security	2011 £000	2010 £000
Amount due to group undertakings	585	1,209
Other taxes	3,859	3,994
Other creditor	-	3
	<u>4,444</u>	<u>5,206</u>
22. Commitments		

There were no outstanding capital commitments at 31 December 2011 (2010: £nil).

PINNACLE INSURANCE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (Continued)

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 consider the outcome will give rise to a material obligation on the part of the Company. A £6,100,000 provision (2010: £2,300,000), which has been included within claims outstanding, has, however, been made in relation to potential first order and second order (administrative) costs as a contingency.

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:

	2011	2010
	£000	£000
Gross premiums written	11,997	13,127
Commission paid	(7,463)	(8,169)
Claims paid	(5,041)	(3,635)
Amounts owed	1,068	1,476

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.