

Accounts

Directors' Report and Financial Statements
31st December 2002



Pinnacle Insurance Holdings Plc
Company Registration Number: 2713318

Pinnacle House
A1 Barnet Way, Borehamwood, Hertfordshire WD6 2XX

Directors:

P de Villeneuve,
N A Shuker B.A., A.S.A., F.I.A.,
C J Schwick M.B.A.,
P J Bloxham F.C.I.I.,
A W Dreyer B.A.(Hons), F.C.C.A.,
C S Mills LL.B.,
L W Priestley T.D., F.C.I.B., C.B.I.M., F.C.I.M.,*
G B Raingold F.C.A., M.Sc., F.Inst.D.,*
S D Williams,
Cardif S.A.,
Cardif Société-Vie.,
Banque Financiere Cardif.

*Non-Executive Directors

Secretary:

K Cranston LL.B.(Hons)

Registered Office:

Pinnacle House, A1 Barnet Way, Borehamwood,
Hertfordshire, WD6 2XX

Auditors:

Mazars
24 Bevis Marks, London, EC3A 7NR

Bankers:

Bank of Scotland
38 Threadneedle Street, London, EC2P 2EB

Royal Bank of Scotland
Ealing Branch, 14 High Street, Ealing Broadway, Ealing,
London, W5 5EB

DIRECTORS' REPORT

The Directors present their annual report and the financial statements for the year ended 31st December 2002.

Principal Activities

The company's principal activity is the holding of investments in subsidiaries. The group's business is the provision of insurance and related services primarily in respect of creditor, extended warranty, single premium and investment linked bonds. The group achieved record profits in 2002 and will continue to invest in both its core insurance business and other subsidiary undertakings to maintain this growth in the future.

Payment of Suppliers

It is the group's general policy to pay trade creditors when they fall due for payment. The number of creditor days for the financial year was 32.53 (2001: 19.38).

Proposed Dividend

The directors recommend the payment of a dividend of £100,000 (2001: £100,000) in respect of the ordinary shares (9.6p per share) and £18,000 (2001: £18,000) in respect of the preference shares.

After deducting the dividends of £118,000 the profit for the period retained in the group is £13,046,000 (2001: £6,898,000).

27. (d) Creditors: Amounts falling due after more than one year – continued

Creditors for amounts falling due after more than one year of £31,074,000 (2001: £30,322,000) include:

Four unsecured rolling loans of £20 million, in total, from the parent company Cardif S.A. The interest on the loans is calculated at 40 basis points above 3-month LIBOR payable on 30th June and 31st December. The four rolling loans from the parent company are repayable at 3 months notice.

Two unsecured rolling South Africa Rand loans totalling £1,444,047 (translated) from Compagnie Financière de Paribas, the immediate parent company of Cardif S.A. The interest on the loans is calculated at 38½ basis points above 3 month LIBOR which is rolled into the capital.

One unsecured rolling South African loan from banque Financière Cardif totalling £1,444,047 (translated). The interest on the loan is calculated at a 3 month LIBOR plus 0.40% which is rolled into the capital.

Two loans of £3 million each from subsidiary undertaking, Pinnacle Insurance Management Services Plc, which have no set term of repayment.

One loan of £2 million from subsidiary undertaking, Pinnacle Insurance Property Services Plc, which has no set term of repayment.

One US Dollar loan of £186,000 (translated) from Banque Financiere Cardif, which has no set term of repayment.

The above loans have been included in creditors due after more than one year as no amounts are expected to be repaid within one year.

28. Related party transactions

The group has relied on the exemption given in Financial Reporting Standard 8 not to disclose transactions with entities that are part of the group and qualify as related parties, on the grounds that its voting rights are more than 90% controlled within the BNP Paribas group.

29. Ultimate Parent Company

At 31st December 2002, the directors regarded BNP Paribas (incorporated in France), as being the company's ultimate parent undertaking. Copies of its consolidated financial statements are available from 3 rue d'Antin, BP 141, 75078 Paris Cedex 02, France.

Consolidated financial statements are also drawn up by the intermediate parent company, Cardif S.A., (incorporated in France). Copies of its consolidated financial statements are available from 5, Avenue Kléber, 75116 Paris, France.

The immediate parent company of the group is CB (UK) Ltd. (incorporated in England).

(Notes Continued)

26. Amounts owed to credit institutions	2002 £000	2001 £000
Payable in less than one year	3,231	1,452

27. Creditors:	2002 £000	Group	2001 £000
27.(a) Other creditors including taxation and social security			
Amounts falling due within one year			
Corporation tax payable	2,187		5,644
Loan - Banque Financiere Cardif	3,000		4,000
Loan - Banque Paribas	2,500		2,500
Other	19,216		15,730
	26,903		27,874
Amounts falling due after more than one year			
Loan - Cardif S.A.	20,000		20,000
Loan - Banque Financiere Cardif	3,630		6,176
Loan - Banque Paribas	1,444		1,146
	25,074		27,322
Total	51,977		55,196

Other creditors includes other taxes and social security costs of £4,448,000 (2001: £2,845,000)

27.(b) Creditors: Amounts falling due within one year	2002 £000	Company	2001 £000
Amounts owed to group undertakings	-		2,097
Accruals and deferred income	2,263		1,296
	2,263		3,393

27.(c) Creditors: Amounts falling due after more than one year	2002 £000	Company	2001 £000
Loans form subsidiary undertakings	8,000		8,000
Loan - Cardif S.A.	20,000		20,000
Loan - Banque Financiere Cardif	1,630		1,176
Loan - Banque Paribas	1,444		1,146
	31,074		30,322

Directors' Report (Continued)

Directors and Directors' Interests

The directors who held office during the year were as follows:-

P de Villeneuve,
N A Shuker B.A., A.S.A., F.I.A.,
C J Schwick M.B.A.,
P J Bloxham F.C.I.I., (appointed 7 August 2002)
A W Dreyer B.A. (Hons), F.C.C.A., (appointed 28 June 2002)
C S Mills LL.B., (appointed 28 June 2002)
L W Priestley T.D. F.C.I.B. C.B.I.M. F.C.I.M.,* (appointed 28 June 2002)
G B Raingold F.C.A. M.Sc F.Inst.D.,* (appointed 28 June 2002)
S D Williams, (appointed 28 June 2002)
Cardif S.A.,
Cardif Société-Vie.,
Banque Financiere Cardif (appointed 28 June 2002)

*Non-Executive Directors

AUDITORS

On 1 September 2002, our auditors, Mazars Neville Russell, changed their name to Mazars. In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of Mazars as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board

K Cranston
Company Secretary

Date:

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 group and the profit or loss of the group for that period. In preparing these financial statements 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;
- (iv) prepare the financial statements based on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2002

25. Technical Provisions (continued) 2002 2001

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

Rates of interest

Assurance:
Without profit 3.5% 3.5%

Guaranteed Growth Bonds

Outstanding term less than 1 year 3.5%
Outstanding term less than 2 years 4.0%
Outstanding term less than 3 years 3.7%
Outstanding term less than 4 years 3.5% 4.4%
Outstanding term less than 5 years 4.2% 4.6%

Guaranteed Income Bonds

Outstanding term less than 1 year 3.7%
Outstanding term less than 2 years 4.0%
Outstanding term less than 3 years 3.7%
Outstanding term between 0 to 2 years 3.7% 4.5%
Outstanding term between 2 to 5 years 4.2% 4.7%

Decreasing Income Bonds

Outstanding term between 2 and 3 years 4.3% 4.6%

Annuities:

Without profit - Life 5.1% 6.0%
Without profit - Pensions 4.8% 5.5%

Mortality tables

Assurances A67/70 A67/70
AM80 AM80
ELT14 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

25.(c) Claims Outstanding	Gross Amount		Reinsurance Amount	
	2002 £000	2001 £000	2002 £000	2001 £000
General business	24,230	16,565	(3,289)	(678)
Long term business	108	108	-	-
	24,338	16,673	(3,289)	(678)

25.(d) Deferred Acquisition Costs	Gross Amount		Reinsurance Amount	
	2002 £000	2001 £000	2002 £000	2001 £000
General business	171,399	153,926	23,640	8,989
Long term business	36,894	42,208	3,460	3,504
	208,293	196,134	27,100	12,493

25.(e) Long Term Fund

At 31 December 2002, the total amount of assets representing the long term fund as defined in the Interim Prudential Sourcebook for Insurers (formerly Insurance Companies Act 1982), valued in accordance with the Companies Act 1985 was £274,328,000 (2001: £232,670,000).

	Provision for Unearned Premiums £000	Claims Outstanding £000	Total £000
25. Technical Provisions			
25.(a) General Business			
Gross Amount			
At 1st January 2002	228,050	16,565	244,615
Foreign adjustment	12	7	19
Movement in the provisions	17,910	7,658	25,568
At 31st December 2002	245,972	24,230	270,202
Reinsurance amount			
At 1st January 2002	(23,914)	(678)	(24,592)
Foreign exchange adjustment	(2)	-	(2)
Movement in the provisions	(14,134)	(2,611)	(16,745)
At 31st December 2002	(38,050)	(3,289)	(41,339)
Net technical provisions			
At 31st December 2002	207,922	20,941	228,863
At 1st January 2002	204,136	15,887	220,023

	Long Term Business Provision £000	Technical Provisions for Linked Liabilities £000	Claims Outstanding £000	Total £000
25.(b) Long Term Business				
Gross amount				
At 1st January 2002	221,101	60,309	108	281,518
Movement in the provisions	47,623	(11,594)	-	36,029
Foreign exchange adjustment	101	-	-	101
At 31st December 2002	268,825	48,715	108	317,648
Reinsurance amount				
At 1st January 2002	(21,050)	-	-	(21,050)
Movement in the provisions	(2,748)	-	-	(2,748)
Foreign exchange adjustment	(16)	-	-	(16)
At 31st December 2002	(23,814)	-	-	(23,814)
Net technical provisions				
At 1st January 2002	200,051	60,309	108	260,468
Movement in the provisions	44,875	(11,594)	-	33,281
Foreign exchange adjustment	85	-	-	85
At 31st December 2002	245,011	48,715	108	293,834

Accounts of Pinnacle Insurance Holdings Plc

Information included in these accounts:

The accounts set out on pages 5 to pages 26 do not constitute the Company's consolidated statutory financial statements for the year ended 31 December 2002.

The Company's consolidated statutory financial statements contain additional information which is not included in these accounts.

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT - GENERAL BUSINESS FOR THE YEAR ENDED 31st DECEMBER 2002**

	Note	2002 £000	2002 £000	2001 £000	2001 £000
Earned premiums, net of reinsurance					
Gross premiums written	4(a)	285,544		201,807	
Outward reinsurance premiums		(41,080)		(21,713)	
			244,464		180,094
Change in the gross provision for unearned premiums	25(a)	(17,910)		558	
Change in the provision for unearned premiums, reinsurers' share	25(a)	14,134		3,670	
			(3,776)		4,228
			240,688		184,322
Allocated investment return transferred from the non-technical account			2,960		3,187
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(53,719)		(39,720)	
Reinsurers' share		6,555		5,757	
			(47,164)		(33,963)
Change in the provision for claims					
Gross amount	25(a)	(7,658)		(1,812)	
Reinsurers' share	25(a)	2,611		(39)	
			(5,047)		(1,851)
			191,437		151,695
Net operating expenses	7		(183,429)		(144,880)
Sub-total (balance on the technical account-general business)			8,008		6,815

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2002**

22. Share Capital	2002	2001
Authorised		
Ordinary shares of £1 each	2,500	2,500
Redeemable floating rate cumulative preference shares of £1 each	2,500	2,500
	5,000	5,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	1,045	1,045
Redeemable floating rate cumulative preference shares of £1 each	250	250
	1,295	1,295

The cumulative preference shares are redeemable at par at any time by the company giving one month's notice. All the preference shares carry a dividend of 1.5% above the Barclays Bank plc Interbank rate on the first business day of each calendar year.

23. Reconciliation of Movements in Shareholders' Funds For the Year Ended 31st December 2002	2002 £000	2001 £000
Profit for the financial year	13,110	6,942
Minority Interest	54	74
Dividends	(118)	(118)
Share capital subscribed	-	106
Foreign exchange adjustment	5	(300)
Net addition to shareholders' funds	13,051	6,704
Opening shareholders' funds	56,351	49,647
Closing shareholders' funds	69,402	56,351

24. Reserves	Group Profit & Loss £000	Revaluation Reserves £000	Company Profit & Loss £000
At 1st January 2002	53,560	50,430	3,130
Retained profit/(loss) for the year	13,046	-	(285)
Foreign exchange adjustment	5	-	-
Revaluation of investments	-	13,336	-
At 31st December 2002	66,611	63,766	2,845

Non distributable reserves in respect of the surplus on the long term business that must be maintained by the company as at 31 December 2002 were £12,814,000 (2001: £11,276,000).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2002**

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
19. Other Debtors				
Trade debtors	282	653	-	-
Amount due from parent undertakings	467	389	2,492	1,366
Tax debtor	-	-	314	490
Sundry debtors	550	1,871	224	493
	1,299	2,913	3,030	2,349

	Goodwill £000
20. Intangible Assets	
Cost at 1st January 2002	1,314
Additions	-
Cost at 31st December 2002	1,314
Amortisation at 1st January 2002	501
Provided during the year	344
Amortisation at 31st December 2002	845
Net Book Value at 31st December 2002	469
Net Book Value at 1st January 2002	813

	Fixtures & Fittings £000	Motor Vehicles £000	Computer Equipment £000	Total £000
21. Tangible Assets				
Cost at 1st January 2002	4,689	1,858	4,307	10,854
Additions	246	485	326	1,057
Disposals	(6)	(547)	(93)	(646)
Cost at 31st December 2002	4,929	1,796	4,540	11,265
Depreciation at 1st January 2002	3,226	828	3,314	7,368
Disposals	(3)	(385)	(90)	(478)
Charge for the year	525	425	670	1,620
Depreciation at 31st December 2002	3,748	868	3,894	8,510
Net Book Value at 31st December 2002	1,181	928	646	2,755
Net Book Value at 1st January 2002	1,463	1,030	993	3,486

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT - LONG TERM BUSINESS FOR THE YEAR ENDED 31st DECEMBER 2002**

	Note	2002 £000	2002 £000	2001 £000	2001 £000
Earned premiums, net of reinsurance					
Gross premiums written	4(b)	157,690		122,585	
Outward reinsurance premiums		(8,124)		(11,048)	
			149,566		111,537
Investment income	6	14,164		16,177	
Unrealised losses on investments		(10,539)		(3,315)	
Realised losses on investments		(386)	3,239	(420)	12,442
			152,805		123,979
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(74,225)		(82,964)	
Reinsurers' share		547		250	
			(73,678)		(82,714)
			79,127		41,265
Change in other technical provisions, net of reinsurance					
Long term business provision, net of reinsurance					
Gross amount	25(b)	(47,263)		(18,833)	
Reinsurers' share	25(b)	2,748		4,459	
Technical provisions for linked liabilities	25(b)	11,594		831	
			(33,281)		(13,543)
Net operating expenses	7		(41,926)		(24,824)
Sub-total (balance on the technical account-long term business)			3,920		2,898

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT FOR THE YEAR ENDED 31st DECEMBER 2002**

		2002	2002	2001	2001
	Note	£000	£000	£000	£000
Balance on the general business technical account			8,008		6,815
Balance on the long term business technical account			3,920		2,898
			11,928		9,713
Investment income	6	4,973		5,245	
Unrealised gains/(losses) on investments		4,873		(657)	
Realised gains		63		80	
Investment expenses and charges		(2,315)		(1,880)	
		7,594		2,788	
Allocated investment return transferred to the general business account		(2,960)		(3,187)	
			4,634		(399)
Other Income	8		84,135		62,029
Other charges	8		(82,750)		(59,886)
Operating profit from continuing activities and profit on ordinary activities before tax	9		17,947		11,457
Tax on profit on ordinary activities	11		(4,837)		(4,515)
Profit for the financial year			13,110		6,942
Minority Interest			54		74
Dividends proposed Equity and Non-equity	12		(118)		(118)
Retained profit for the financial year			13,046		6,898

The group has no recognised gains or losses other than the profit for the year. The result for the year arises from continuing operations.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2002**

14. Land and Buildings	Freehold Property
	£000
Group	
Cost/valuation at 1st January 2002	11,121
Additions	5,129
Revaluations	3,240
Cost/valuation at 31st December 2002	19,490
Depreciation at 1st January 2002	599
Charge for the year	264
Eliminated on Revaluation	(863)
Depreciation at 31st December 2002	-
Net Book Value at 31st December 2002	19,490
Net Book Value at 1st January 2002	10,522

The properties are largely occupied by the group for its activities.

15. Other Financial Investments	Market Value		Cost	
	2002	2001	2002	2001
	£000	£000	£000	£000
Listed shares	624	645	905	983
Debt securities and other fixed income securities	150,471	117,834	148,039	115,512
Deposits with credit institutions	205,297	177,426	205,297	177,426
	356,392	295,905	354,241	239,921

16. Assets held to cover linked liabilities

The total market value of assets held to cover linked liabilities is £48,715,000 (2001: £60,309,000) and includes £47,993,000 (2001: £59,780,000) relating to a combination of medium term notes and derivatives held to back an equity based product linked to the FTSE 100 or Nasdaq 100. The purchase price of investments included under assets held to cover liabilities was £63,396,000 (2001: £64,454,000).

17. Debtors arising out of direct insurance operations	2002	2001
	£000	£000
		As restated
Amounts owed by policyholders	48,305	41,447
Amounts owed by parent undertakings	-	2,448
	48,305	43,895
18. Debtors arising out of reinsurance operations	2002	2001
	£000	£000
Amounts due from reinsurers	540	486

13. Investments - Shares in Subsidiaries - continued

The closing balance comprises the following subsidiary undertakings:

Subsidiary Company	Country of Incorporation	Principal Activity		Class and Percentage of Shares Held	
				2002	2001
Pinnacle Insurance Management Services plc	Great Britain	Management Services	Ordinary Preference	100% 100%	100% 100%
Pinnacle Insurance plc	Great Britain	General and Life Insurance	Ordinary Preference	100% 100%	100% 100%
Financial Telemarketing Services Limited	Great Britain	Telemarketing	Ordinary	100%	100%
European Reinsurance (Guernsey) Ltd	Guernsey	Reinsurance	Ordinary	100%	100%
Pinnacle Insurance Property Services plc	Great Britain	Property	Ordinary	100%	100%
Pinnacle Insurance (Proprietary) Ltd	South Africa	Holding	Ordinary	100%	100%
Pinnacle South Africa Non-Life	South Africa	General Insurance	Ordinary	100%	100%
Pinnacle South Africa Life	South Africa	Life Insurance	Ordinary	100%	100%
Guaranteed Underwriting Agency Ltd	Great Britain	Insurance Broker	Ordinary Preference	95% 100%	75% 85%
Pinnacle Pet Healthcare plc	Great Britain	Insurance Broker	Ordinary	95%	95%
Pinnacle Europe plc	Great Britain	Holding	Ordinary	100%	100%
USP Strategies plc	Great Britain	Other Services	Ordinary	74.9%	74.9%
Extended ServicePlan Limited	Channel Isles	Warranty Sales	Ordinary	74.9%	74.9%
Service Plan Limited	Isle of Man	Warranty Sales	Ordinary	74.9%	74.9%
First Home Services Limited	Isle of Man	Warranty Sales	Ordinary	74.9%	74.9%
Service Plus Limited	Isle of Man	Warranty Sales	Ordinary	74.9%	74.9%
Pinnacle ServicePlan Limited	Isle of Man	Management	Ordinary	74.9%	74.9%
Pinnacle Service Solutions Limited (formerly called Pinnacle ServicePlan plc)	Great Britain	Warranty Sales	Ordinary	74.9%	74.9%
Avida Solutions plc	Great Britain	Other Services	Ordinary	75%	75%
Pinnacle Forsakring AB	Sweden	Insurance Broker	Ordinary	100%	100%
Pinnacle Pension Trust Company Limited	Great Britain	Trust Business	Ordinary	100%	100%
Pinnacle Net Limited	Great Britain	Other Services	Ordinary	100%	100%

Pinnacle Forsakring AB, Pinnacle Net Limited and Pinnacle Pension Trust Company Limited are not consolidated on the basis that they are immaterial to the group.

CONSOLIDATED BALANCE SHEET
AT 31st DECEMBER 2002

		2002	2002	2001	2001
	Note	£000	£000	£000	As restated £000
ASSETS					
Investments					
Land and buildings	14	19,490		10,522	
Other financial investments	15	356,392		295,905	
			375,882		306,427
Assets held to cover linked liabilities	16		48,715		60,309
Reinsurers' share of technical provisions					
Provision for unearned premiums	25(a)	38,050		23,914	
Long term business provision	25(b)	23,814		21,050	
Claims outstanding	25(c)	3,289		678	
			65,153		45,642
Debtors					
Debtors arising out of direct insurance operations	17	48,305		43,895	
Debtors arising out of direct reinsurance operations	18	540		486	
Other debtors	19	1,299		2,913	
			50,144		47,294
Other Assets					
Intangible assets	20	469		813	
Tangible assets	21	2,755		3,486	
Cash at bank and in hand		44,879		33,341	
			48,103		37,640
Prepayments and accrued income					
Accrued interest		5,195		7,489	
Deferred acquisition costs	25(d)	208,293		196,134	
Other prepayments and accrued income		76,362		57,695	
			289,850		261,318
Total assets			877,847		758,630

CONSOLIDATED BALANCE SHEET (continued)
AT 31st DECEMBER 2002

		2002	2002	2001	2001
	<i>Note</i>	£000	£000	£000	As restated £000
LIABILITIES					
Capital and reserves					
Called up share capital	22		1,295		1,295
Share premium			1,496		1,496
Profit and loss account	24		66,611		53,560
Shareholders' funds attributable to equity interests			69,152		56,101
Non equity shareholders' funds	22		250		250
Total shareholders' funds			69,402		56,531
Minority interest			345		497
Technical provisions					
Provision for unearned premiums	25(a)	245,972		228,050	
Long term business provision	25(b)	268,825		221,101	
Claims outstanding	25(c)	24,338		16,673	
			539,135		465,824
Technical provisions for linked liabilities	25(b)		48,715		60,309
Creditors					
Creditors arising out of direct insurance operations		76,462		50,178	
Creditors arising out of direct reinsurance operations		29,378		14,867	
Amounts owed to credit institutions	26	3,231		1,452	
Other creditors including taxation and social security	27(a)	51,977		55,196	
			161,048		121,693
Accruals and deferred income			59,202		53,956
Total liabilities			877,847		758,630

These financial statements were approved by the Board of directors on _____, and signed on its behalf by:

N A Shuker

C J Schwick

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2002

	2002	2001
	£000	£000
12. Dividends		
Ordinary dividend proposed (2001: paid)	100	100
Preference dividend proposed (2001: paid)	18	18
	118	118
Subsidiary Undertakings		
13. Investments - Shares in Subsidiaries	2002	
	£000	
Cost or Valuation		
Opening balance 1st January 2002	90,329	
Additions	784	
Revaluations	12,999	
Closing balance 31st December 2002	104,112	
Provision for diminution in value		
Opening balance 1st January 2002 (as restated)	3,245	
Charge for the year	1,172	
Closing balance 31st December 2002	4,417	
Net Book Value		
At 31st December 2002	99,695	
At 31st January 2002	87,084	

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2002**

8. Other Income/(charges)	2002 £000	2001 £000
Turnover	84,135	62,029
Cost of sales	(80,160)	(57,498)
Distribution costs	(350)	(221)
Administrative expenses	(2,240)	(2,167)
	(82,750)	(59,886)
	1,385	2,143

9. Profit on ordinary activities before tax is stated after charging:	2002 £000	2001 £000
Auditors' remuneration		
Audit - Group	108	92
Audit - Company	13	13
Other services	44	26
Administration of goodwill	344	344
Depreciation of buildings and other tangible assets	1,884	2,078

10. Staff numbers and costs	2002	2001
The average number of employees (including directors) during the year was:		
Sales	83	78
Administration	451	432
	534	510

Employment Costs	2002	2001
Wages and salaries	12,880	12,276
Social Security costs	1,289	1,054
Other pension costs	1,231	1,126
	15,400	14,456

11. Taxation	2002 £000	2001 £000
U.K. Corporation Tax at 30%	4,837	4,515

**PARENT COMPANY BALANCE SHEET
AT 31st DECEMBER 2002**

	2002 £000	2002 £000	2001 £000	2001 £000
	Note			
Fixed Assets				
Investments in group undertakings	13	99,695		87,084
Current Assets				
Debtors	19	3,030		2,349
Cash at bank in hand		14		633
			3,044	2,982
Creditors: Amounts falling due within one year	27(b)	(2,263)		(3,393)
Net current assets/(liabilities)			781	(411)
Total assets less current liabilities			100,476	86,673
Creditors: Amounts falling due after more than one year	27(c)		(31,074)	(30,322)
Net Assets			69,402	56,351
Capital and reserves				
Equity shareholders' funds				
Called up ordinary share capital	22		1,295	1,295
Share premium			1,496	1,496
Revaluation reserve	24		63,766	50,430
Profit and loss account	24		2,845	3,130
Total equity shareholders' funds			69,152	56,101
Non-equity shareholders' funds				
Called up preference share capital	22		250	250
Total shareholders' funds			69,402	56,351

These financial statements were approved by the Board of directors on _____, and signed on its behalf by:

N A Shuker

C J Schwick

1. Basis Of Preparation

The group financial statements consolidate the financial statements of Pinnacle Insurance Holdings Plc and its subsidiary undertakings, all of which are drawn up at 31st December 2002.

The group financial statements have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A to the Companies Act 1985 and with Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers dated December 1998. The balance sheet of the parent company is prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985. As permitted by Section 230 of the Companies Act 1985, no profit and loss account of the parent company is presented.

The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost accounting convention, modified to include the revaluation of investments.

The group has relied on the exemption given in Financial Reporting Standard 1 not to disclose a consolidated cash flow statement on the grounds that its voting rights are more than 90% controlled within the BNP Paribas group, and the consolidated financial statements of this group are publicly available.

2. Accounting Policies

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

The policy in respect of "pipeline" premiums and allowances for cancellations has been changed during the year to more correctly reflect amounts receivable and payable. The effect of this change in policy is disclosed within the accounting policy on premiums.

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.

Fixed Assets and Depreciation

Tangible fixed assets are stated at historical cost. Depreciation is provided by the group to write off the cost, less the estimated residual value of tangible fixed assets by equal installments over their estimated useful economic lives as follows :

Fixtures and fittings	20% per annum
Motor vehicles	25% per annum
Computer equipment	33% per annum

Land and Buildings

Land and buildings are revalued triennially and the depreciation on buildings is provided at 2% per annum on a straight-line basis.

	2002 £000	2001 £000
4. (b) Analysis of long term business premiums		
Single premiums	154,370	122,059
Periodic premiums	3,320	526
	157,690	122,585

Included in single premiums, are premiums of £nil (2001: £3,689,200) in respect of linked business.

	2002 £000	2001 £000
4. (c) Reinsurance balance - Long term business		
Reinsurance balance - Long term business	(2,287)	(3,227)

5. Prior years' claims provisions for general business

The change in general business claims provisions from those at the beginning of the year compared to payments and provisions at the end of the year in respect of previous years' claims were:

	2002 £000	2001 £000
Change before associated expenses	(4,470)	(2,392)
Less associated expenses	3,293	1,943
	(1,177)	(449)

	Technical Account-Long Term Business		Non-technical account	
	2002 £000	2001 £000	2002 £000	2001 £000
6. Investment Income				
Income from other investments	14,164	16,177	4,973	5,245

	General Business		Long Term Business	
	2002 £000	2001 £000	2002 £000	2001 £000
7. Net operating expenses				
Acquisition costs	185,748	127,041	37,856	26,992
Change in gross deferred acquisition costs	(17,473)	(1,897)	5,314	(353)
Administrative expenses	5,403	5,304	1,298	1,297
Gross operating expenses`	173,678	130,448	44,468	27,936
Reinsurance commissions and profit participation	(4,900)	11,325	(2,498)	(4,206)
Change in deferred reinsurance commission	14,651	3,107	(44)	1,094
	183,429	144,880	41,926	24,824

3. Segmental analysis by class of business	2002 £000	2001 £000
Gross premiums written		
General business	285,544	201,807
Long term business	157,690	122,585
Other income		
Non-insurance business	84,135	62,029
	527,369	386,421
Profit before taxation		
General business	8,008	6,815
Long term business	3,920	2,898
Non-insurance business	6,019	1,744
	17,947	11,457
Segmental net assets		
General business	54,779	43,707
Long term business	13,210	11,276
Non insurance business	1,413	1,368
	69,402	56,351

The business has been treated as one geographical market, being the UK, the Channel Islands and the Isle of Man, as any business outside this market is immaterial.

4. Analysis of gross premiums	2002 Gross Premiums Written £000	2002 Gross Premiums Earned £000	2002 Gross Claims Incurred £000	2002 Gross Operating Expenses £000	2002 Reinsurance Balance £000
4.(a) Analysis of general business					
Direct Insurance					
Creditor	196,235	173,554	(38,452)	(121,192)	(26,423)
Warranty	73,624	65,533	(18,179)	(46,302)	(1,106)
	269,859	239,087	(56,631)	(167,494)	(27,529)
Reinsurance	15,685	28,547	(4,746)	(6,184)	-
	285,544	267,634	(61,377)	(173,678)	(27,529)
2001					
Direct Insurance					
Creditor	125,640	147,980	(30,964)	(89,676)	(26,757)
Warranty	36,757	24,515	(5,316)	(24,318)	-
	162,397	172,495	(36,280)	(113,994)	(26,757)
Reinsurance	39,410	29,870	(5,252)	(16,454)	-
	201,807	202,365	(41,532)	(130,448)	(26,757)

Premiums

In respect of general business, written premiums are stated gross of commission payable to intermediaries and comprise the premiums due on contracts entered into during a financial year, regardless of whether such amounts may relate in whole or in part to a later financial year, exclusive of taxes and duties levied on premiums.

Premiums written include estimates for "pipeline" premiums and allowances for cancellations. In the previous year, accruals for cancellations were netted against pipeline premiums. These are now shown gross. The comparatives for debtors and creditors arising out of direct insurance operations have therefore been grossed up by £26,204,000. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance.

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

Unearned Premiums

The general business provision for unearned premiums represents that part of gross premiums written which is estimated to be earned in the following or subsequent financial years. This is computed on a basis which reflects the company's experience of the incidence of claims incurred over the term of those policies.

Acquisition Costs

Acquisition costs comprise all direct and attributable indirect costs arising from the conclusion of insurance contracts.

For general business, deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written and unearned at the balance sheet date. For long term business, deferred acquisition costs are amortised over a period no longer than that in which they are expected to be recoverable out of margins in revenues from related policies.

A provision in respect of potential profit share commission payable to clients is also included within creditors. Anticipated reinsurance recoveries are disclosed separately as an asset.

Claims

For long term business, death claims 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 general business include all claims and claims settlement expense payments made in respect of the financial period and the movements in provision for outstanding claims and settlement expenses, and includes claims incurred but not reported.

Claims Outstanding

Outstanding claims comprise provisions for the estimated cost of settling all claims incurred up to but not paid at the balance sheet date whether reported or not, together with related claims settlement expenses.

Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provisions are reflected in the financial statements for those subsequent periods.

Long Term Business Provision

The long term business provision comprises those provisions that have been computed by the appointed actuary, having due regard to the principles laid down in Council Directive 92/96/EEC adjusted for the related deferred acquisition costs. The provision for credit life business is based on an unearned net 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.

Investments

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

Listed investments are stated at mid-market value on the balance sheet date, or on the last stock exchange trading day before the balance sheet date.

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 net sales proceeds and purchase price.

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 the earlier 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, and expenses and charges relating to shareholders' funds, 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 and unrealised gains and losses, and 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, other than on long term business, are included in the non-technical account.

Taxation

The charge for taxation for 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 profit and loss 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 charge for taxation on general business is based on the profit for the year, and takes into account taxation deferred because of timing differences between certain items for taxation and accounting purposes.

Full provision is made for deferred tax in accordance with FRS 19 'Deferred Tax'. The effect of implementing FRS 19 in these financial statements is not material.

Deferred tax, including UK corporation tax and foreign tax, is provided at amounts expected to be recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Investments in Subsidiaries

Investments in subsidiary undertakings are valued at net asset value of the underlying subsidiaries plus the carrying value of any related goodwill, less any provision for impairments in values.

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is recorded as an intangible asset and amortised over five years, the directors' estimate of its useful economic life. The carrying value of goodwill is reviewed regularly for impairment.

Pension Costs

The group operates defined contribution pension schemes. The assets of schemes are held separately from those of the group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the year.