

PINNACLE INSURANCE PLC
Company Registration Number: 1007798

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2006

PINNACLE INSURANCE PLC

Directors:

P de Villeneuve (Chairman) *
N A Shuker B.A. A.S.A. F.I.A. *
C J Schwick M.B.A.
Cardif S.A.
Cardif Assurance Vie
Cardif-Assurances Risques Divers
P E Glen ACA B.Sc
A W Dreyer B.A.(Hons) F.C.C.A.
C S Mills LL.B. (Hons) Solicitor
P J Bloxham F.C.I.I.
A D Swain B.Ed Cert.Ed
R J Mee F.C.I.B.S *
G B Raingold F.C.A. M.Sc. F.Inst.D. *

* Non-Executive Directors

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

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

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

Auditors: Mazars LLP
24 Bevis Marks
London
EC3A 7NR

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

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

Barclays Bank plc
54 Lombard Street
London
EC3P 3AH

PINNACLE INSURANCE PLC**DIRECTORS' REPORT**

The Directors submit this report and financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITY

Pinnacle, a composite insurance Company formed in 1971, specialises in the niche market of creditor and warranty insurance. Our core, creditor products which are marketed primarily via the consumer credit industry, protect customers' loan repayments against death, accident, sickness and specified unemployment risks. The Company has also been involved in selling investment bonds. In October 2006, the company began selling unit linked investment bonds.

RESULTS AND DIVIDEND

The results for the year are set out in the annexed profit and loss account. The Directors recommended no dividend (2005: £nil) on the preference shares, and no dividend (2005: £3,185,000 (4.55p per share) on the ordinary shares.

REVIEW OF BUSINESS

Throughout 2006, the business has been operating in a climate of considerable uncertainty with regard to Creditor as a result of the FSA's Thematic reviews of class, coupled with the OFT's involvement and more recent referral of creditor insurance to the Competition Commission. As a result of this uncertainty, there is less business available for tender in the marketplace as distributors of the product stay with current carriers as they await the outcome of these various reviews.

However, in the circumstances the business has delivered a very creditable result which saw a fall in creditor and warranty premiums of only £14 million from £334 million to £320 million (-4%).

On 29 September 2006, the company issued 4,195,804 of ordinary shares at £2.86 per share. Total capital received was £12,000,000, however as the shares were issued at a premium a share premium account of £7,804,196 has been created in the capital and reserves.

On behalf of the Board of Directors we thank all of our much valued clients for their support and our staff for their professional attitude and their enthusiasm for Pinnacle Insurance plc.

PAYMENT OF SUPPLIERS

The Company's main suppliers are Group undertakings. It is the Company's general policy to pay trade creditors when they fall due for payment.

ACTUARIAL VALUATION

An actuarial valuation was carried out as at 31 December 2006 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.

PINNACLE INSURANCE PLC

DIRECTORS' REPORT (Continued)

DIRECTORS

The Directors who held office during the year were :-

P de Villeneuve (Chairman) *
 N A Shuker B.A. A.S.A. F.I.A. *
 C J Schwick M.B.A.
 Cardif S.A.
 Cardif Assurance Vie
 Cardif Assurance Risques Divers (appointed 31 March 2006)
 Banque Financiere Cardif (resigned 31 March 2006)
 P E Glen ACA B.Sc (appointed 1 August 2006)
 A W Dreyer B.A. F.C.C.A.
 C S Mills LL.B. (Hons) Solicitor
 S D Williams F.I.M.I (resigned 17 March 2006)
 P J Bloxham F.C.I.I
 A D Swain (appointed 30 June 2006)
 R J Mee F.C.I.B.S *
 G B Raingold F.C.A. M.Sc. F.Inst.D. *

* Non-Executive Directors

COMPANY SECRETARY

On 30 June 2006, Cardif Pinnacle Secretaries Limited resigned from the position of Company Secretary and M J Lorimer was appointed.

DIRECTORS INTERESTS

The Director's interests in ordinary shares and options to subscribe for ordinary shares in the immediate parent Company, Cardif Pinnacle Insurance Holdings plc, are disclosed in the Directors' report of that Company.

Some Directors have interests in ordinary shares of BNP Paribas SA which are disclosed in the statutory accounts of the immediate holding Company, Cardif Pinnacle Insurance Holdings plc.

FINANCIAL INSTRUMENTS

Treasury operations and financial instruments

The Company operates a centralised treasury function which is responsible for managing the liquidity risks associated with the Company's activities.

The Company has various financial assets and liabilities such as trade receivables and trade payables arising directly from its operations. Derivative contracts which the Company enters into are Equity bond options. In accordance with the Company's treasury policy, derivative instruments are not entered into for speculative purposes.

PINNACLE INSURANCE PLC

DIRECTORS' REPORT (Continued)

FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

The Company manages its cash and borrowing requirements centrally to maximise interest income and minimise interest expense, whilst ensuring that the Company has sufficient liquid resources to meet the operating needs of its business.

Foreign currency risk

The Company's principal foreign currency exposures arise from trading operations with overseas companies. Company policy permits but does not demand that these exposures may be hedged in order to fix the cost in sterling.

Credit risk

Investments of cash surpluses, borrowings and derivative instruments are made through banks and companies which must fulfil credit rating criteria approved by the Board.

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of Mazars LLP as auditors to the Company will be proposed at the forthcoming annual general meeting.

By order of the Board



Company Secretary
M J Lorimer

Date: 30 March 2007

PINNACLE INSURANCE PLC

**STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2006**

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 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITORS

Under the Companies House 1985 section 243A, we confirm that: -

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PINNACLE INSURANCE PLC

We have audited the financial statements of Pinnacle Insurance plc for the year ended 31 December 2006, which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (United Kingdom and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether the financial statements are properly prepared in accordance with the Companies Act 1985, and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company as at 31 December 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Mazars LLP

Mazars LLP
Chartered Accountants
Registered Auditors
24 Bevis Marks
London
EC3A 7NR

Date: *30 March 2007*

PINNACLE INSURANCE PLC

PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT - GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2006

		2006		2005	
	Note	£000	£000	£000	£000
Earned premiums, net of reinsurance					
Gross premiums written	4(a)	291,830		334,332	
Outward reinsurance premiums		(16,392)		(24,799)	
			275,438		309,533
Change in the gross provision for unearned premiums	19(a)	(28,699)		(29,480)	
Change in the provision for unearned premium, reinsurers' share	19(a)	(4,492)		(7,638)	
			(33,191)		(37,118)
			242,247		272,415
Allocated investment return transferred from the non-technical account			6,374		5,794
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(66,200)		(68,852)	
Reinsurers' share		13,206		12,721	
			(52,994)		(56,131)
Change in the provision for claims					
Gross amount	19(a)	15,218		(13,135)	
Reinsurers' share	19(a)	(5,095)		2,643	
			10,123		(10,492)
			205,750		211,586
Net operating expenses	7		(199,900)		(218,946)
Sub-total (balance on the technical account-general business)			5,850		(7,360)

PINNACLE INSURANCE PLC

**PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT - LONG TERM BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Note	2006		2005	
		£000	£000	£000	£000
Earned premiums, net of reinsurance					
Gross premiums written	4(b)	537,675		383,899	
Outward reinsurance premiums		(10,850)		(13,632)	
			526,825		370,267
Investment income	6	34,092		29,756	
Realised gains on investments		179		81	
			34,271		29,836
			561,096		400,103
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(263,270)		(255,340)	
Reinsurers' share		3,567		3,428	
			(259,703)		(251,912)
			301,393		148,191
Change in the provision for claims					
Gross amount	19(b)		574		(1,910)
Reinsurers share			(373)		1,299
			301,594		147,580
Change in other technical provisions, net of reinsurance					
Long term business provision, net of reinsurance					
Gross amount	19(b)	(231,890)		(106,340)	
Reinsurers' share	19(b)	(2,411)		8,578	
Technical provisions for linked liabilities	19(b)	(18,364)		3,061	
			(252,665)		(94,701)
Net operating expenses	7		(41,428)		(45,864)
Unrealised losses on investments			(678)		(1)
Sub-total (balance on the technical account-long term business)			6,823		7,015

PINNACLE INSURANCE PLC

**PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006**

		<u>2006</u>		<u>2005</u>	
	<u>Note</u>	£000	£000	£000	£000
Balance on the general business technical account			5,850		(7,360)
Balance on the long term business technical account			6,823		7,015
			<u>12,673</u>		<u>(345)</u>
Investment income	6	12,833		10,915	
Unrealised gains on investments		-		1,518	
Unrealised losses on investments		(1,139)		-	
Realised losses on investments		77		103	
		<u>11,771</u>		<u>12,536</u>	
Allocated investment return transferred to the general business account		<u>(6,374)</u>		<u>(5,794)</u>	
			<u>5,397</u>		<u>6,742</u>
Operating profit from continuing activities and profit on ordinary activities before tax			18,070		6,397
Tax on profit on ordinary activities	11(a)		<u>(4,921)</u>		<u>(1,919)</u>
Profit for the financial year			<u><u>13,149</u></u>		<u><u>4,478</u></u>

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

The profit for the year arises from continuing operations.

PINNACLE INSURANCE PLC

**Reconciliation of Movements In Shareholders' Funds
FOR THE YEAR ENDED 31 DECEMBER 2006**

		<u>2006</u>	<u>2005</u>
	<u>Note</u>	£000	£000
Proceeds from share issue		12,000	-
Profit for the financial year		13,149	4,478
Dividends	12	-	(3,185)
Net addition to shareholders' funds		<u>25,149</u>	<u>1,293</u>
Opening shareholders' funds		130,183	128,890
Closing shareholders' funds		<u><u>155,332</u></u>	<u><u>130,183</u></u>

PINNACLE INSURANCE PLC

BALANCE SHEET - ASSETS
AT 31 December 2006

		2006		2005	
	Note	£000	£000	£000	£000
ASSETS					
Investments					
Investments in group undertakings	13(a)		14,000		14,000
Other financial investments	13(b)		1,082,809		853,206
Assets held to cover linked liabilities	14		24,190		5,826
Reinsurers' share of technical provisions					
Provision for unearned premiums	19(a)	11,560		16,052	
Long term business provision	19(b)	28,746		31,157	
Claims outstanding	19(c)	9,568		15,036	
			49,874		62,245
Debtors					
Debtors arising out of direct insurance operations	15	29,289		35,870	
Debtors arising out of reinsurance operations	16	5,302		4,363	
			34,591		40,233
Other assets					
Cash at bank and in hand			66,190		36,169
Prepayments and accrued income					
Accrued interest		29,177		23,940	
Deferred acquisition costs	19(d)	390,378		340,542	
Other prepayments and accrued income		4,460		27,493	
			424,015		391,975
Total assets			1,695,669		1,403,654

PINNACLE INSURANCE PLC
BALANCE SHEET - LIABILITIES
AT 31 December 2006

		2006		2005	
	Note	£000	£000	£000	£000
LIABILITIES					
Capital and reserves					
Called up share capital	17		74,196		70,000
Share Premium			7,804		-
Profit and loss account	18		73,332		60,183
Shareholders' funds attributable to equity interests			155,332		130,183
Non equity shareholders' funds			-		-
Total shareholders' funds			155,332		130,183
Technical provisions					
Provision for unearned premiums	19(a)	399,827		371,128	
Long term business provision	19(b)	941,638		709,748	
Claims outstanding	19(c)	40,305		56,097	
			1,381,770		1,136,973
Technical provisions for linked liabilities			24,190		5,826
Creditors					
Creditors arising out of direct insurance operations	20	112,631		102,984	
Creditors arising out of reinsurance operations	21	10,925		12,939	
Amounts owed to credit institutions	22	7		5,495	
Other creditors including taxation and social security	23	10,815		9,254	
			134,378		130,672
Total liabilities			1,695,669		1,403,654

These financial statements were approved by the Board of Directors on 30 March 2007

Signed on behalf of the Board by:



A W Dreyer



P E Glen

PINNACLE INSURANCE PLC**NOTES FOR THE YEAR ENDING 31 DECEMBER 2006****1. Basis of preparation**

The financial statements have been prepared in accordance with the provisions of Section 255 of, Schedule 9A to the Companies Act 1985 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 applicable accounting standards 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 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.

The 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, 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. 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.

PINNACLE INSURANCE PLC (Notes continued)**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.

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 long term business includes movements in provision for accident and sickness outstanding claims, and includes claims incurred but not reported.

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

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 the period in which the adjustments are made.

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 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.

Liability adequacy

At each reporting date the Company reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims over unearned premiums, using the current estimates of future cashflows under its contracts. If these estimates show that the carrying amount of its insurance liabilities is insufficient in light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up a provision in the balance sheet.

PINNACLE INSURANCE PLC (Notes continued)**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 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, 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 gains and losses, expenses and charges arising on long term business are included in the long term business technical account.

Foreign currencies

Monetary assets 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.

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 transfer from the long term business technical account to the non-technical account is grossed up at the rate of tax applicable for the period.

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'.

PINNACLE INSURANCE PLC (Notes continued)

Derivatives

Certain derivatives are taken out to back investments bonds. The derivatives are marked to market, with changes in the fair value being taken to the profit and loss account.

3. Segmental analysis by class of business

	2006 £000	2005 £000
Gross premiums written		
General business	291,830	334,332
Long term business	537,675	383,899
	<u>829,505</u>	<u>718,231</u>
Profit before taxation:		
Non technical items have been allocated to general business		
General business	11,247	(618)
Long term business	6,823	7,015
	<u>18,070</u>	<u>6,397</u>
Segmental net assets		
General business (including shareholders' funds)	126,485	108,159
Long term business	28,847	22,024
	<u>155,332</u>	<u>130,183</u>

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

4. Segmental analysis

	2006 Gross Premiums Written £000	2006 Gross Premiums Earned £000	2006 Gross Claims Incurred £000	2006 Gross Operating Expenses £000	2006 Reinsurance Balance £000
4(a) Analysis of general business					
Direct Insurance					
Creditor	221,022	194,536	(34,095)	(168,086)	(3,395)
Warranty	63,072	63,395	(16,298)	(40,018)	537
	<u>284,094</u>	<u>257,931</u>	<u>(50,393)</u>	<u>(208,104)</u>	<u>(2,858)</u>
Reinsurance	7,736	5,200	(589)	(1,711)	-
	<u>291,830</u>	<u>263,131</u>	<u>(50,982)</u>	<u>(209,815)</u>	<u>(2,858)</u>
	2005 Gross Premiums Written £000	2005 Gross Premiums Earned £000	2005 Gross Claims Incurred £000	2005 Gross Operating Expenses £000	2005 Reinsurance Balance £000
Direct Insurance					
Creditor	235,824	214,623	(46,999)	(187,797)	1,274
Warranty	73,553	68,433	(26,199)	(42,046)	(211)
	<u>309,377</u>	<u>283,056</u>	<u>(73,198)</u>	<u>(229,843)</u>	<u>1,063</u>
Reinsurance	24,955	21,796	(8,789)	(7,239)	-
	<u>334,332</u>	<u>304,852</u>	<u>(81,987)</u>	<u>(237,082)</u>	<u>1,063</u>

PINNACLE INSURANCE PLC (Notes continued)

4(b) Analysis of long term business premiums

	2006 £000	2005 £000
Single Premiums	528,227	375,191
Periodic Premiums	9,448	8,708
	<u>537,675</u>	<u>383,899</u>

The linked business premiums for 2006 was £22,622,000 (2005: £nil).

4(c) Reinsurance balance – Long term business

	2006 £000	2005 £000
Reinsurance balance – long term business	<u>(4,090)</u>	<u>(6,613)</u>

5. Prior years' claims provisions for general business

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

	2006 £000	2005 £000
Change before associated expenses	(14,006)	(6,742)
Unexpired risks	10,074	3,800
Less associated expenses	632	(785)
	<u>(3,300)</u>	<u>(3,727)</u>

The 2005 claims provision for general business has been reanalysed as shown above.

6. Investment income	Technical account long term business		Non-technical account	
	2006 £000	2005 £000	2006 £000	2005 £000
Income from Group undertakings	-	-	788	823
Income from other financial investments	34,092	29,756	12,045	10,092
	<u>34,092</u>	<u>29,756</u>	<u>12,833</u>	<u>10,915</u>

7. Net operating expenses	General business		Long term business	
	2006 £000	2005 £000	2006 £000	2005 £000
Acquisition costs	234,696	250,805	57,677	57,050
Change in gross deferred acquisition costs	(34,765)	(21,538)	(15,070)	(9,419)
Administrative expenses	9,884	7,815	2,015	1,825
Gross operating expenses	<u>209,815</u>	<u>237,082</u>	<u>44,622</u>	<u>49,456</u>
Reinsurance commissions and profit participation	(6,945)	(11,603)	(5,192)	(2,469)
Change in deferred reinsurance commission	(2,970)	(6,533)	1,998	(1,123)
	<u>199,900</u>	<u>218,946</u>	<u>41,428</u>	<u>45,864</u>

PINNACLE INSURANCE PLC (Notes continued)

	2006 £000	2005 £000
8. Profit on ordinary activities before tax is stated after charging:		
Auditors' remuneration		
Audit	101	131
Other	<u>14</u>	<u>13</u>

9. Remuneration of Directors

Directors' emoluments in respect of services to Pinnacle Insurance plc were as follows:

	2006 £000	2005 £000
Emoluments	571	586
Pension contributions to a defined contribution scheme	<u>112</u>	<u>120</u>
	<u>683</u>	<u>706</u>

	2006 £000	2005 £000
Emoluments of highest paid Director	156	141
Pension contributions of highest paid Director	<u>36</u>	<u>34</u>
	<u>192</u>	<u>175</u>

The number of Directors to whom retirement benefits are accruing under a defined contribution scheme are 7 (2005: 6 restated).

10. Staff numbers and costs

Cardif Pinnacle Insurance Management Services plc provides a staff management service and recharges all staff costs to Pinnacle Insurance plc. Total staff numbers, remuneration and pension contributions are disclosed in the accounts of that Company.

	2006 £000	2005 £000
11. Tax on profit on ordinary activities		
(a) Analysis of charge in the year		
UK corporation tax on profits for the year	<u>4,921</u>	<u>1,919</u>
Tax on profit on ordinary activity	<u>4,921</u>	<u>1,919</u>

PINNACLE INSURANCE PLC (Notes continued)

(b)	Analysis of charge in the year	2006 £000	2005 £000
	Profit on ordinary activities before tax	<u>18,070</u>	<u>6,397</u>
	Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 % (2005: 30%)	5,421	1,919
	Other differences	<u>(500)</u>	<u>-</u>
	Current tax charge for the year (note 11 (a))	<u>4,921</u>	<u>1,919</u>
12.	Reserves and dividends	2006 £000	2005 £000
(a)	Amounts transferred to reserves	13,149	1,293
(b)	Ordinary dividends paid	-	3,185
13.	Investments		
(a)	Investments in Group undertakings		
	The Company holds mortgages over properties held by a fellow subsidiary undertaking. As at 31 December 2006 the amounts invested were £14,000,000 (2005: £14,000,000).		
(b)	Other financial investments	Market Value 2006 £000	Cost 2005 £000
	Listed shares	2,162	1,748
	Debt securities and other fixed income securities	52,931	82,417
	Deposits with credit institutions	<u>1,027,716</u>	<u>769,156</u>
		<u>1,082,809</u>	<u>853,321</u>

14. Assets held to cover linked liabilities

The total market value of assets held to cover linked liabilities is £24,190,375 (2005: £5,825,918) and includes £1,335,806 (2005: £5,691,193) 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 linked liabilities was £24,902,026 (2005: £5,106,155).

PINNACLE INSURANCE PLC (Notes continued)

15. Debtors arising out of direct insurance operations	2006 £000	2005 £000
Amounts owed by policyholders	<u>29,289</u>	<u>35,870</u>
16. Debtors arising out of reinsurance operations	2006 £000	2005 £000
Amounts due from reinsurers	<u>5,302</u>	<u>4,363</u>
17. Share capital	2006 £000	2005 £000
Authorised 100 million ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
	2006 £000	2005 £000
Allotted, called up and fully paid Ordinary shares of £1 each	74,196	70,000
Share Premium	<u>7,804</u>	<u>-</u>
	<u>82,000</u>	<u>70,000</u>

During the year the share capital was increased by £12,000,000 through the issue of 4,195,804 Ordinary share of £1 each, which were issued at £2.86 per share creating a share premium of £7,804,196.

18(a) Reserves	2006 £000	2005 £000
At beginning of year	60,183	58,890
Profit for financial year	13,149	4,478
Dividends	-	(3,185)
At end of year	<u>73,332</u>	<u>60,183</u>

Non-distributable reserves in respect of the surplus on the long term business that must be maintained by the Company as at 31 December 2006 were £28,847,000 (2005: £22,024,000).

PINNACLE INSURANCE PLC (Notes continued)

18 (b) Capital statement

Available capital resources	Total Life Business	
	2006	2005
	£000	£000
Shareholder's funds held outside the fund	126,485	108,159
Shareholder's funds held in the fund	28,847	22,024
Total shareholder's funds	155,332	130,183
Other adjustments	(5,046)	(613)
Total available capital resources	150,286	129,570

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 life fund.

The technical reserves for the guaranteed income and growth bonds are sensitive to the valuation interest rate assumption which varies as market yields change. However, as asset and liabilities are closely matched (the difference in discounted mean term (DMT) is less than 3 months), the impact on surplus capital is not material, as evidenced by a resilience capital requirement of £470,000 on £797,182,000 of liabilities.

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

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

Risk Assurance Management business has premium rates guaranteed for 2 years. The last new business was accepted in March 2005. This business does not have a material impact on the life fund and so no stochastic modelling has been performed.

There are no options attached to the life products which could result in a financial loss to the Company.

PINNACLE INSURANCE PLC (Notes continued)

19.	Technical provisions	Provision for Unearned Premiums £000	Claims Outstanding £000	Total £000	
19(a)	General business				
	Gross Amount				
	At beginning of year	371,128	53,908	425,036	
	Movement in the provision	28,699	(15,218)	13,481	
	At end of year	399,827	38,690	438,517	
	Reinsurance amount				
	At beginning of year	(16,052)	(13,737)	(29,789)	
	Movement in the provision	4,492	5,095	9,587	
	At end of year	(11,560)	(8,642)	(20,202)	
	Net technical provisions				
	At end of year	388,267	30,048	418,315	
	At beginning of year	355,076	40,171	395,247	
19(b)	Long term business	Long Term Business Provision £000	Technical Provisions for Linked Liabilities £000	Claims Outstanding £000	Total £000
	At beginning of year	709,748	5,826	2,189	717,763
	Movement from the long term business technical account	231,890	18,364	(574)	249,680
	At end of year	941,638	24,190	1,615	967,443
	Reinsurance amount				
	At beginning of year	(31,157)	-	(1,299)	(32,456)
	Movement from the long term business technical account	2,411	-	373	2,784
	At end of year	(28,746)	-	(926)	(29,672)
	Net technical provisions				
	At beginning of year	678,591	5,826	890	685,307
	Movement from the long term business technical account	234,301	18,364	(201)	252,464
	At end of year	912,892	24,190	689	937,771

PINNACLE INSURANCE PLC (Notes continued)

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

	2006	2005
<u>Rates of interest</u>		
Assurance :		
Without profit	3.5%	3.5%
Guaranteed Growth Bonds		
Outstanding term less than 1 year	4.7%	4.6%
Outstanding term less than 2 years	4.8%	4.6%
Outstanding term less than 3 years	4.6%	4.2%
Outstanding term less than 4 years	4.3%	4.3%
Outstanding term less than 5 years	5.0%	4.1%
Guaranteed Income Bonds		
Outstanding term less than 1 year	4.7%	4.5%
Outstanding term less than 2 years	4.8%	4.3%
Outstanding term less than 3 years	4.5%	4.2%
Outstanding term less than 4 years	4.1%	4.5%
Outstanding term less than 5 years	4.5%	4.0%
Decreasing Income Bonds		
Outstanding term between 2 and 3 years	-	-
Monthly Income Bonds		
Outstanding term less than 1 year	4.7%	4.4%
Outstanding term less than 2 years	4.8%	4.3%
Outstanding term less than 3 years	4.4%	4.4%
Outstanding term less than 4 years	4.4%	4.4%
Outstanding term less than 5 years	4.3%	4.2%
Annuities :		
Without profit - Life	4.3%	4.3%
Without profit - Pensions	4.4%	4.4%
<u>Mortality tables</u>		
Assurances	50% of A67/70 ultimate AM80 / AF80 ELT14	50% of A67/70 ultimate AM80 / AF80 ELT14
Annuities-general	a(90) less five years	a(90) less five years
Annuities-pension	PA(90) less five years	PA(90) less five years

19 (c) Claims outstanding	Gross Amount		Reinsurance Amount	
	2006 £000	2005 £000	2006 £000	2005 £000
General business	38,690	53,908	(8,642)	(13,737)
Long term business	1,615	2,189	(926)	(1,299)
	<u>40,305</u>	<u>56,097</u>	<u>(9,568)</u>	<u>(15,036)</u>

PINNACLE INSURANCE PLC (Notes continued)

19 (d) Deferred acquisition costs	Gross Amount		Reinsurance Amount	
	2006 £000	2005 £000	2006 £000	2005 £000
General business	299,831	265,066	5,781	8,750
Long term business	90,547	75,476	3,873	1,875
	<u>390,378</u>	<u>340,542</u>	<u>9,654</u>	<u>10,625</u>

The reinsured amount of £9,654,000 is included within Note 21 below.

19(e) Long term fund

At 31 December 2006 the total amount of assets representing the long term fund as required to be shown by paragraph 10(2) of schedule 9A to the Companies Act 1985 was £1,037,300,636.

20. Creditors arising out of direct insurance	2006 £000	2005 £000
Other creditors	<u>112,631</u>	<u>102,984</u>
21. Creditors arising out of reinsurance operations	2006 £000	2005 £000
Other creditors	<u>10,925</u>	<u>12,939</u>
22. Amounts owed to credit institutions	2006 £000	2005 £000
Payable in less than one year	<u>7</u>	<u>5,495</u>
23. Other creditors including taxation and social security	2006 £000	2005 £000
Corporation tax payable	2,566	505
Other taxes	5,893	7,295
Amounts owed to Group undertakings	1,303	77
Other creditor	<u>1,053</u>	<u>1,377</u>
	<u>10,815</u>	<u>9,254</u>
24. Commitments		

There were no outstanding capital commitments at 31 December 2006 (2005 £nil).

PINNACLE INSURANCE PLC (Notes continued)**25. Related party transactions**

The Company 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 Group and the parent undertaking publishes consolidated financial statements which include the financial statements of the Company.

26. 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 3 rue d'Antin, BP 141, 75078 Paris Cedex 02, 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.