

# Accounts

# Accounts

Director's Report and Financial Statements  
31st December 2001



# Company Details

**Directors:**

Christopher J Schwick M.B.A.,  
Norman A Shuker B.A., A.S.A., F.I.A.,  
Pierre de Villeneuve (Chairman),  
Cardif S.A.,  
Cardif Société-Vie.

**Secretary:**

Christopher S Mills LL.B., Solicitor

**Registered Office:**

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

**Auditors:**

Mazars Neville Russell  
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

## DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31st December 2001.

### Principal Activities, Review of Business and Future Developments

The company's principal activity is the holding of investments in subsidiaries. The group's businesses include the provision of insurance and related services in respect of creditor, extended warranty, single premium and investment linked bonds. The group recorded record profits in 2001 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 19.38 (2000: 16.59).

### Proposed Dividend

The directors recommend the payment of a dividend of £100,000 (2000: £100,000) in respect of the ordinary shares (9.6p per share) and £18,273 (2000: £18,273) in respect of the preference shares.

After deducting the dividends of £118,273 the profit for the year retained in the group is £6,898,000 (2000: £6,152,000).

### **Directors and Directors' Interests**

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

Christopher J Schwick M.B.A.,  
Norman A Shuker B.A., A.S.A., F.I.A.,  
Pierre de Villeneuve (Chairman),  
Cardif S.A.,  
Cardif Société-Vie.

### **AUDITORS**

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

By order of the board

C S Mills  
Company Secretary

Date:

# Directors' Responsibilities

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these 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

## Accounts of Pinnacle Insurance Holdings Plc

### Information included in these accounts:

The accounts set out on pages 5 to 26 do not constitute the Company's consolidated statutory financial statements for the year ended 31 December 2001.

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

# General Business

## CONSOLIDATED PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT - GENERAL BUSINESS FOR THE YEAR ENDED 31ST DECEMBER 2001

	Note	2001 £000	£000	2000 £000	£000
Earned premiums, net of reinsurance					
Gross premiums written	4(a)	201,807		190,933	
Outward reinsurance premiums		<u>(21,713)</u>		<u>(19,412)</u>	
			180,094		171,521
Change in the gross provision for unearned premiums	26(a)	558		(54,488)	
Change in the gross provision for unearned premiums, reinsurers' share	26(a)	<u>3,670</u>		<u>6,626</u>	
			4,228		(47,862)
			<u>184,322</u>		<u>123,659</u>
Allocated investment return transferred from the non-technical account			3,187		4,246
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(39,720)		(30,418)	
Reinsurers' share		<u>5,757</u>		<u>5,389</u>	
			(33,963)		(26,029)
Change in the provision for claims					
Gross amount	26(a)	(1,812)		(423)	
Reinsurers' share	26(a)	<u>(39)</u>		<u>(118)</u>	
			(1,851)		(541)
			<u>151,695</u>		<u>101,335</u>
Net operating expenses	7		(144,880)		(96,108)
Sub-total (balance on the technical account-general business)			<u>6,815</u>		<u>5,227</u>



# Long Term Business

## CONSOLIDATED PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT - LONG TERM BUSINESS FOR THE YEAR ENDED 31ST DECEMBER 2001

	Note	2001 £000	£000	2000 £000	£000
Earned premiums, net of reinsurance					
Gross premiums written	4(b)	122,585		160,414	
Outward reinsurance premiums		<u>(11,048)</u>		<u>(15,201)</u>	
			111,537		145,213
Investment income	6	16,177		9,958	
Unrealised (losses) / gains on investments		(3,315)		1,059	
Realised losses on investments		<u>(420)</u>		<u>-</u>	
			<u>12,442</u>		<u>11,017</u>
			123,979		156,230
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(82,964)		(20,800)	
Reinsurers' share		<u>250</u>		<u>780</u>	
			<u>(82,714)</u>		<u>(20,020)</u>
			41,265		136,210
Change in other technical provisions, net of reinsurance					
Long term business provision, net of reinsurance					
Gross amount	24(b)	(18,833)		(89,107)	
Reinsurers' share	24(b)	4,459		7,753	
Technical provisions for linked liabilities	24(b)	<u>831</u>		<u>(25,092)</u>	
			(13,543)		(106,446)
Net operating expenses	7		(24,824)		(26,751)
Sub-total (balance on the technical account-long term business)			<u>2,898</u>		<u>3,013</u>

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
NON-TECHNICAL ACCOUNT  
FOR THE YEAR ENDED 31ST DECEMBER 2001**

		<b>2001</b>		<b>2000</b>	
	<u>Note</u>	£000	£000	£000	£000
Balance on the general business technical account			6,815		5,227
Balance on the long term business technical account			<u>2,898</u>		<u>3,013</u>
			9,713		8,240
Investment income	6	5,245		7,705	
Unrealised (losses)/gains on investments		(657)		(471)	
Realised Gains		80		(6)	
Investment expenses and charges		<u>(1,880)</u>		<u>(1,279)</u>	
		2,788		5,949	
Allocated investment return transferred to the general business account		<u>(3,219)</u>		<u>(4,246)</u>	
			(399)		1,703
Other Income	8		62,029		32,723
Other charges	8		<u>(59,886)</u>		<u>(31,487)</u>
Operating profit from continuing activities and profit on ordinary activities before tax	9		11,457		11,179
Tax on profit on ordinary activities	11		<u>(4,515)</u>		<u>(4,752)</u>
Profit for the financial year			6,942		6,427
Minority Interest			74		(157)
Dividends proposed Equity and non-equity	12		(118)		(118)
Retained profit for the financial year			<u>6,898</u>		<u>6,152</u>

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

**CONSOLIDATED BALANCE SHEET  
AT 31ST DECEMBER 2001**

		<b>2001</b>		<b>2000</b>	
	<u>Note</u>	£000	£000	£000	£000
<b>ASSETS</b>					
<b>Investments</b>					
Land and buildings	14	10,522		10,329	
Other financial investments	15	<u>295,905</u>		<u>260,095</u>	
			306,427		270,424
<b>Assets held to cover linked liabilities</b>	16		60,309		61,140
<b>Resinsurers' share of technical provisions</b>					
Provision for unearned premiums	24(a)	23,914		20,248	
Long term business provision	24(b)	21,050		16,717	
Claims outstanding	24(c)	<u>678</u>		<u>717</u>	
			45,642		37,682
<b>Debtors</b>					
Debtors arising out of direct insurance operations	17	17,691		21,826	
Debtors arising out of direct reinsurance operations	18	486		832	
Other debtors	19	<u>2,913</u>		<u>1,943</u>	
			21,090		24,601
<b>Other Assets</b>					
Intangible assets		813		394	
Tangible assets	20	3,486		4,111	
Cash at bank and in hand		<u>33,341</u>		<u>40,371</u>	
			37,640		44,876
<b>Prepayments and accrued income</b>					
Accrued interest		7,489		8,738	
Deferred acquisition costs	24(d)	196,134		193,905	
Other prepayments and accrued income		<u>57,695</u>		<u>42,496</u>	
			261,318		245,139
<b>Total assets</b>			<u><u>732,426</u></u>		<u><u>683,862</u></u>

**CONSOLIDATED BALANCE SHEET  
AT 31ST DECEMBER 2001 (continued)**

		<b>2001</b>		<b>2000</b>	
	<u>Note</u>	£000	£000	£000	£000
<b>LIABILITIES</b>					
<b>Capital and reserves</b>					
Called up share capital	21	1,045		1,043	
Share premium		1,496		1,392	
Profit and loss account	23	<u>53,560</u>		<u>46,962</u>	
Shareholders' funds attributable to equity interests			56,101		49,397
Non equity shareholders' funds	21		<u>250</u>		<u>250</u>
Total shareholders' funds			56,351		49,647
<b>Minority interest</b>			497		369
<b>Technical provisions</b>					
Provision for unearned premiums	24(a)	228,050		228,631	
Long term business provision	24(b)	221,101		202,561	
Claims outstanding	24(c)	<u>16,673</u>		<u>14,876</u>	
			465,824		446,068
<b>Technical provisions for linked liabilities</b>	24(b)		60,309		61,140
<b>Creditors</b>					
Creditors arising out of direct insurance operations		23,974		27,913	
Creditors arising out of direct reinsurance operations		14,867		9,620	
Amounts owed to credit institutions	25	1,452		2,723	
Other creditors including taxation and social security	26	<u>55,196</u>		<u>51,055</u>	
			95,489		91,311
<b>Accruals and deferred income</b>			53,956		35,327
<b>Total liabilities</b>			<u><u>732,426</u></u>		<u><u>683,862</u></u>

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

**N A Shuker**

**C J Schwick**

**PARENT COMPANY BALANCE SHEET  
AT 31ST DECEMBER 2001**

		<b>2001</b>		<b>2000 (as restated)</b>	
	<u>Note</u>	£000	£000	£000	£000
<b>Fixed assets</b>					
Investments in subsidiary undertakings	13		87,084		79,538
<b>Current assets</b>					
Debtors	19	2,349		2,228	
Cash at bank in hand		633		234	
		<u>2,982</u>		<u>2,462</u>	
<b>Creditors:</b> Amounts falling due within one year	26(a)	<u>(3,393)</u>		<u>(1,667)</u>	
<b>Net current (liabilities) / assets</b>			<u>(411)</u>		<u>795</u>
<b>Total assets less current liabilities</b>			88,127		80,333
<b>Creditors :</b> Amounts falling due after more than one year	26(b)		<u>(30,322)</u>		<u>(29,818)</u>
<b>Net assets</b>			<u><u>56,351</u></u>		<u><u>50,515</u></u>
<b>Capital and reserves</b>					
Equity shareholders' funds					
Called up ordinary share capital	21		1,045		1,043
Share Premium			1,496		1,392
Revaluation reserve	23		50,430		42,105
Profit and loss account	23		3,130		5,725
Total equity shareholders' funds			<u>56,101</u>		<u>50,265</u>
Non-equity shareholders' funds					
Called up preference share capital	21		250		250
Total shareholders' funds			<u><u>56,351</u></u>		<u><u>50,515</u></u>

These financial statements were approved by the Board of directors on behalf by:

,and signed on its

**N A Shuker**

**C J Schwick**



**CONSOLIDATED CASH FLOW STATEMENT (EXCLUDING LONG TERM BUSINESS)  
FOR THE YEAR ENDED 31ST DECEMBER 2001**

	2001 £000	£000	2000 £000	£000
<b>Profit on ordinary activities before tax</b>				
Operating profit before taxation after interest		11,457		11,179
Depreciation of tangible fixed assets and intangible assets	2,422		1,830	
(Decrease) / Increase in general insurance technical provisions	(2,450)		48,403	
Profits relating to long-term business	(2,898)		(3,013)	
Unrealised losses on investments	657		990	
(Loss) / Profit on sale of fixed assets	36		(10)	
Cash received from / (paid to) long term fund	5,713		(8,584)	
Decrease / (Increase) in debtors	3,511		(3,791)	
Increase in prepayments and accrued income	(16,179)		(69,353)	
Increase in creditors, accruals and deferred income	3,679		40,922	
		<u>(5,509)</u>		<u>7,394</u>
<b>Net cash inflow from operating activities</b>		<u>5,948</u>		<u>18,573</u>
<hr/>				
<b>CASH FLOW STATEMENT</b>				
Net cash inflow from general business	235		27,157	
Shareholders' net cash outflow from long-term business	5,713		(8,584)	
<b>Net cash inflow from operating activities</b>		5,948		18,573
Returns on investments and servicing of finance		(1,896)		(531)
- interest paid				
Taxation		(1,608)		(2,361)
Capital expenditure		(1,347)		(2,088)
Equity dividends		(100)		(100)
Financing - new loans	10,176		10,000	
- issue of ordinary share capital	106		1,435	
		<u>10,282</u>		<u>11,435</u>
		<u>11,279</u>		<u>24,928</u>
<hr/>				
<b>CASH FLOWS WERE INVESTED AS FOLLOWS:</b>				
Decrease in cash holdings		(5,759)		(4,593)
Net portfolio investment (not including long term business)				
Listed Investments	81		96	
Fixed income securities	16,957		29,425	
		<u>17,038</u>		<u>29,521</u>
<b>Net investment of cashflows</b>		<u>11,279</u>		<u>24,928</u>
<hr/>				
<b><u>Movement in opening and closing portfolio investments net of financing (note 29)</u></b>				
<b>Net cash outflow for the period</b>	(5,759)		(4,593)	
<b>Cashflow</b>				
Portfolio investments	17,460		29,521	
Increase in loans	(10,176)		(10,000)	
Movement arising from cashflows		1,525		14,928
Movement in long term business		17,019		74,893
Changes in market values and other non-cash movements		2,196		1,182
Total movement in portfolio investments net of financing		<u>20,740</u>		<u>91,003</u>
<b>Total portfolio investments net of financing at 1.1.01</b>		283,754		192,751
<b>Total portfolio investments net of financing at 31.12.01</b>		<u>304,494</u>		<u>283,754</u>



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2001**

**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 2001.

The group financial statements have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A to the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. 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 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 group's financial statements.

**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 is provided at 2% per annum on a straight-line basis.

**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. 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 indirect costs arising from the conclusion of insurance contracts.

For general business and long term 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.

## **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. A provision in respect of potential profit share commission payable to cedants is also included within claims outstanding. 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 appointed actuary, having due regard to the principles laid down in Council Directive 92/96/EEC together with a provision 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, Expenses and Charges**

Investment income is accounted for on a receivable basis, including, where appropriate, the imputed tax credit. Dividends are recognised on the date on which they are received. Interest income is accrued up to the balance sheet date.

Realised gains or losses represent the difference between net sales proceeds and purchase price or, if previously revalued, the valuation at the last balance sheet date.

## **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. 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 and 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.

Provision is made for deferred tax only to the extent that it is probable that an actual liability or asset will crystallise in the foreseeable future.

## **Investments in Subsidiaries**

Investments in subsidiary undertakings are revalued each year to the attributable net asset value of the underlying subsidiaries.

## **Goodwill**

Goodwill arising on an acquisition is recorded as an intangible asset and amortised over five years, the directors' estimate of its useful 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.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2001**

<b>3. Segmental analysis by class of business</b>	<b>2001</b> £000	<b>2000</b> £000
Gross premiums written		
General business	201,807	190,933
Long term business	122,585	160,414
Other income		
Non-insurance business	<u>62,029</u>	<u>32,723</u>
	<u>386,421</u>	<u>384,070</u>
Profit before taxation		
General business	6,815	5,227
Long term business	2,898	3,013
Non-insurance business	<u>1,744</u>	<u>2,009</u>
	<u>11,457</u>	<u>10,249</u>
Segmental net assets		
General business	43,707	40,722
Long term business	11,276	7,769
Non insurance business	<u>1,368</u>	<u>1,156</u>
	<u>56,351</u>	<u>49,647</u>

The business has been treated as one geographical market as any business outside this market is immaterial

**4. Analysis of gross premiums**

<b>4. (a) Analysis of general business</b>	<b>2001</b> Gross Premiums Written £000	<b>2001</b> Gross Premiums Earned £000	<b>2001</b> Gross Claims Incurred £000	<b>2001</b> Gross Operating Expenses £000	<b>2001</b> Reinsurance Balance £000
Direct Insurance					
Creditor	125,640	147,980	(30,964)	(89,676)	(26,757)
Warranty	<u>36,757</u>	<u>24,515</u>	<u>(5,316)</u>	<u>(24,318)</u>	<u>-</u>
	162,397	172,495	(36,280)	(113,994)	(26,757)
Reinsurance	<u>39,410</u>	<u>29,870</u>	<u>(5,252)</u>	<u>(16,454)</u>	<u>-</u>
	<u>201,807</u>	<u>202,365</u>	<u>(41,532)</u>	<u>(130,448)</u>	<u>(26,757)</u>
	<b>2000</b>	<b>2000</b>	<b>2000</b>	<b>2000</b>	<b>2000</b>
	Gross Premiums Written £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance Balance £000
Direct Insurance					
Creditor	116,161	94,858	(20,365)	(77,789)	(4,771)
Warranty	<u>39,182</u>	<u>22,967</u>	<u>(5,536)</u>	<u>(10,376)</u>	<u>82</u>
	155,343	117,825	(25,901)	(88,165)	(4,689)
Reinsurance	<u>35,590</u>	<u>18,620</u>	<u>(4,940)</u>	<u>(11,769)</u>	<u>-</u>
	<u>190,933</u>	<u>136,445</u>	<u>(30,841)</u>	<u>(99,934)</u>	<u>(4,689)</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2001**

	<b>2001</b>	<b>2000</b>
<b>4. (b) Analysis of long term business premiums</b>	£000	£000
Single premiums	122,059	160,225
Periodic premiums	<u>526</u>	<u>189</u>
	<u>122,585</u>	<u>160,414</u>

Included in single premiums, are premiums of £3,689,200 (2000 : £25,362,619) in respect of linked business

	<b>2001</b>	<b>2000</b>
<b>4. (c) Reinsurance balance - Long term business</b>	£000	£000
Reinsurance balance - Long term business	<u>(3,227)</u>	<u>(3,097)</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 previous years' claims were:

	<b>2001</b>	<b>2000</b>
	£000	£000
Change before associated expenses	(2,392)	(1,651)
Less associated expenses	<u>1,943</u>	<u>302</u>
	<u>(449)</u>	<u>(1,349)</u>

<b>6. Investment Income</b>	<b>Technical Account-Long Term Business</b>		<b>Non-technical account</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	£000	£000	£000	£000
Income from other investments	16,177	9,958	5,245	7,705
	<u>16,177</u>	<u>9,958</u>	<u>5,245</u>	<u>7,705</u>

<b>7. Net operating expenses</b>	<b>General Business</b>		<b>Long Term Business</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	£000	£000	£000	£000
Acquisition costs	127,041	130,622	26,992	36,739
Change in gross differed acquisition costs	(1,897)	(35,899)	(353)	(6,723)
Administrative expenses	5,304	5,211	1,297	1,306
Gross operating expenses`	<u>130,448</u>	<u>99,934</u>	<u>27,936</u>	<u>30,322</u>
Reinsurance commissions and profit Participation	11,325	(5,644)	(4,206)	(3,421)
Change in deferred reinsurance commission	3,107	1,818	1,094	(150)
	<u>144,880</u>	<u>96,108</u>	<u>24,824</u>	<u>26,751</u>



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2001**

**8. Other Income**

	<b>2001</b> £000	<b>2000</b> £000
Turnover	<u>62,029</u>	<u>32,723</u>
Cost of sales	(57,498)	(29,048)
Distribution costs	(221)	(120)
Administrative expenses	(2,167)	(2,319)
	<u>(59,886)</u>	<u>(31,487)</u>
	<u>2,143</u>	<u>1,236</u>
	<b>2001</b> £000	<b>200</b> £000

**9. Profit on ordinary activities before tax is stated  
After charging:**

Auditors' remuneration		
Audit - Group	92	84
Audit - Company	13	13
Other services	26	20
Amortisation of good will	344	110
Depreciation	<u>2,078</u>	<u>1,720</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2001**

**10. Staff numbers and costs**

The average number of employees (including directors) during the year was:

	2001	2000
Sales	78	57
Administration	432	374
	<u>510</u>	<u>431</u>

<b>Employment Costs</b>	2001 £000	2000 £000
-------------------------	--------------	--------------

Wages and salaries	12,276	9,475
Social Security costs	1,054	920
Other pension costs	1,126	903
	<u>14,456</u>	<u>11,298</u>

<b>11. Taxation</b>	2001 £000	2000 £000
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U.K. Corporation tax at 30%	<u>4,515</u>	<u>4,752</u>
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<b>12. Dividends</b>	2001 £000	2000 £000
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Ordinary dividend proposed (2000: paid)	100	100
Preference dividend proposed (2000: paid)	18	18
	<u>118</u>	<u>118</u>

**13. Investments - Shares in Subsidiaries**

	<b>Subsidiary Undertakings</b>
	2001 £000
<b>Cost or Valuation</b>	
Opening balance at 1st January 2001 (as restated)	81,983
Additions	2,466
Revaluations	5,880
Closing balance 31st December 2001	<u>90,329</u>
<b>Provision for diminution in value</b>	
Opening balance at 1st January 2001 (as restated)	2,445
Charge for the year	800
Closing balance 31st December 2001	<u>3,245</u>
<b>Net Book Value</b>	
As 31st December 2001	<u>87,084</u>
At 1st January 2001	<u>79,538</u>

Unprovided deferred tax in relation to revaluation of shares in subsidiaries amounted to £12.1m (2000: £10.8m).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2001**

**13. Investments - in subsidiary undertakings - continued**

The closing balance comprises the following subsidiary undertakings:

Subsidiary Company	Country of Incorporation	Principal Activity		Class and Percentage of Shares Held	
				2001	2000
Pinnacle Insurance Management Services plc	Great Britain	Management Services	Ordinary Preference	100% 100%	100% 100%
Pinnacle Insurance plc	Great Britain	Creditor 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	75% 85%	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%	50.1%
Avida Solutions	Great Britain	Other Services	Ordinary	75%	-
Pinnacle Forsakring AB	Sweden	Insurance Broker	Ordinary	100%	-

**14. Land and Buildings**

	<b>Freehold Property £000</b>
Cost/valuation at 1st January 2001	10,699
Additions	422
Cost/valuation at 31st December 2001	<u>11,121</u>
Depreciation at 1st January 2001	370
Charge for the year	229
Depreciation at 31st December 2001	<u>599</u>
Net Book Value at 31st December 2001	<u>10,522</u>
Net Book Value at 1st January 2001	<u>10,329</u>

The property is largely occupied by the group for its own activities.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2001**

**15. Other Financial Investments**

	Market Share		Cost	
	2001 £000	2000 £000	2001 £000	2000 £000
Listed shares	645	2,183	983	902
Debt securities and other fixed income securities	117,834	113,541	115,512	113,031
Deposits with credit institutions	177,426	144,371	177,426	144,336
	<u>295,905</u>	<u>260,095</u>	<u>293,921</u>	<u>258,269</u>

**16. Assets held to cover linked liabilities**

The purchase price of investments included under assets held to cover linked liabilities was £60,309,000, (2000:£61,140,000). Of this total, assets of £59,780,000 (2000 £60,993,922) relate to a combination of medium term notes and derivatives held to back an equity based product linked to the FTSE100 or Nasdaq 100.

**17. Debtors arising out of direct insurance operations**

	2001 £000	2000 £000
Amounts owed by policyholders	17,691	21,826
	<u>17,691</u>	<u>21,826</u>

**18. Debtors arising out of reinsurance operations**

	2001 £000	2000 £000
Amounts due from reinsurers	486	832
	<u>486</u>	<u>832</u>

**19. Other Debtors**

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Trade Debtors	653	325	-	-
Amount due from group undertakings	389	-	1,366	1,625
Others tax and social security	-	950	490	227
Sundry debtors	1,871	668	493	376
	<u>2,913</u>	<u>1,943</u>	<u>2,349</u>	<u>2,228</u>

**20. Tangible Assets**

	Fixtures & Fittings	Motor Vehicles	Computer Equipment	Total
	£000	£000	£000	£000
Cost at 1st January 2001	4,337	1,870	3,722	9,929
Additions	411	490	590	1,491
Disposals	(59)	(502)	(5)	(566)
Cost at 31st December 2001	<u>4,689</u>	<u>1,858</u>	<u>4,307</u>	<u>10,854</u>
Depreciation at 1st January 2001	2,482	695	2,641	5,818
Disposals	-	(297)	(2)	(299)
Charge for the year	744	430	675	1,849
Depreciation at 31st December 2001	<u>3,226</u>	<u>828</u>	<u>3,314</u>	<u>7,368</u>

## 20. Tangible Assets continued

Net Book Value at 31st December 2001	<u>1,463</u>	<u>1,030</u>	<u>993</u>	<u>3,486</u>
Net Book Value at 1st January 2001	<u>1,855</u>	<u>1,175</u>	<u>1,081</u>	<u>4,111</u>

## 21. Share Capital

	<b>2001</b>		<b>2000</b>
	£000		£000
<b>Authorised</b>			
Ordinary shares of £1 each	2,500		2,500
Redeemable floating rate cumulative preference shares of £1 each	2,500		2,500
	<u>5,000</u>		<u>5,000</u>
<b>Allotted, called up and fully paid</b>			
Ordinary shares of £1 each	1,045		1,043
Redeemable floating rate cumulative preference shares of £1 each	250		250
	<u>1,295</u>		<u>1,293</u>

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.

## 22. Reconciliation of Movements in Shareholders' Funds For the Year Ended 31st December 2001

	<b>2001</b>	<b>2000</b>
	£000	£000
Profit for the financial year	6,942	6,427
Minority Interest	74	(157)
Dividends	(118)	(118)
Share capital subscribed	106	1,435
Foreign exchange adjustment	(300)	-
Net addition to shareholders' funds	<u>6,704</u>	<u>7,587</u>
Opening shareholders' funds	49,647	42,060
Closing shareholders' funds	<u>56,351</u>	<u>49,647</u>

## 23. Reserves

	<b>Group</b>		<b>Company</b>
	<b>Profit &amp; Loss</b>	<b>Revaluation Reserves</b>	<b>Profit &amp; Loss</b>
	£000	£000	£000
At 1st January 2001	46,962	42,105	5,725
Retained profit for the year	6,898	-	(150)
Foreign exchange adjustment	(300)	-	-
Revaluation of investments	-	5,880	-
At 31st December 2001	<u>53,560</u>	<u>50,430</u>	<u>3,130</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 2001 were £11,276,000 (2000: £7,769,000).



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER 2001**

<b>24. Technical Provisions</b>	<b>Provision for Unearned Premiums</b>	<b>Claims Outstanding</b>	<b>Total</b>
	£000	£000	£000
<b>24.(a) General Business</b>			
Gross Amount			
At 1st January 2001	228,631	14,768	243,399
Foreign adjustment	(23)	(15)	(38)
Movement in the provisions	(558)	1,812	1,254
At 31st December 2001	<u>228,050</u>	<u>16,565</u>	<u>244,615</u>
Reinsurance amount			
At 1st January 2001	(20,248)	(717)	(20,965)
Foreign adjustment	4	-	4
Movement in the provisions	(3,670)	39	(3,631)
At 31st December 2001	<u>(23,914)</u>	<u>(678)</u>	<u>(24,592)</u>
Net technical provisions			
At 31st December 2001	<u>204,136</u>	<u>15,887</u>	<u>220,023</u>
At 1st January 2001	<u>208,383</u>	<u>14,051</u>	<u>222,434</u>

<b>24.(b) Long Term Business</b>	<b>Long Term Business Provision</b>	<b>Technical Provisions for Linked Liabilities</b>	<b>Claims Outstanding</b>	<b>Total</b>
	£000	£000	£000	£000
Gross amount				
At 1st January 2001	202,561	61,140	108	263,809
Movement in the provisions	18,833	(831)	-	18,002
Foreign exchange adjustment	(293)			(293)
At 31st December 2001	<u>221,101</u>	<u>60,309</u>	<u>108</u>	<u>281,518</u>
Reinsurance amount				
At 1st January 2001	(16,717)	-	-	(16,717)
Movement in the provisions	(4,459)	-	-	(4,459)
Foreign exchange adjustment	126			126
At 31st December 2001	<u>(21,050)</u>	<u>-</u>	<u>-</u>	<u>(21,050)</u>
Net technical provisions				
At 1st January 2001	185,844	61,140	108	247,092
Movement in the provisions	14,374	(831)	-	13,543
Foreign exchange adjustment	(167)			(167)
At 31st December 2001	<u>200,051</u>	<u>60,309</u>	<u>108</u>	<u>260,468</u>



# Notes

## 24. Technical Provisions (continued)

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

	2001		2000	
<u>Rates of interest</u>				
Assurance:				
Without profit	3.5%		3.5%	
Guaranteed Growth Bonds				
Outstanding term less than 1 year			5.7%	
Outstanding term between 2 to 3 years			5.1%	
Outstanding term between 4 to 5 years			4.9%	
Outstanding term between 0 to 2 years	4.4%			
Outstanding term between 2 to 5 years	4.6%			
Guaranteed Income Bonds				
Outstanding term less than 1 year			5.8%	
Outstanding term between 2 to 3 years			5.2%	
Outstanding term between 4 to 5 years			5.1%	
Outstanding term between 0 to 2 years	4.5%			
Outstanding term between 2 to 5 years	4.7%			
Decreasing Income Bonds				
Outstanding term between 2 and 3 years	4.6%			
Annuities:				
Without profit – Life	6.0%		5.7%	
Without profit – Pensions	5.5%		4.9%	
<u>Mortality tables</u>				
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	
<b>24.(c) Claims Outstanding</b>				
	<b>Gross Amount</b>		<b>Reinsurance Amount</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	£000	£000	£000	£000
General business	16,565	14,768	(678)	(835)
Long term business	108	108	-	118
	<u>16,673</u>	<u>14,876</u>	<u>(678)</u>	<u>(717)</u>
<b>24.(d) Deferred Acquisition Costs</b>				
	<b>Gross Amount</b>		<b>Reinsurance Amount</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	£000	£000	£000	£000
General business	153,926	152,022	8,989	5,882
Long term business	42,208	41,883	3,504	2,370
	<u>196,134</u>	<u>193,905</u>	<u>12,493</u>	<u>8,252</u>
<b>24.(e) Long Term Fund</b>				

At 31 December 2001, the total amount of assets representing the long term fund as defined in the Insurance Companies Act 1982, valued in accordance with Schedule 1 to the Companies Act 1985 (Insurance Companies Accounts) Regulation 1993 was £232,670,000 (2000: £214,996,000).

<b>25.</b>	<b>Amounts owed to credit institutions</b>	<b>2001</b>	<b>2000</b>
		£000	£000
	Payable in less than one year	<u>1,452</u>	<u>2,723</u>
		1,452	2,723
<b>26.</b>	<b>Group:</b>	<b>2001</b>	<b>2000</b>
	<b>Other creditors including taxation and social security</b>	£000	£000
	Corporation tax payable	5,644	4,363
	Long term loan - Cardif S.A.	20,000	20,000
	Loan - Banque Financière Cardif	10,176	-
	Loan - Banque Paribas	3,646	4,318
	Other	<u>15,730</u>	<u>22,374</u>
		<u>55,196</u>	<u>51,055</u>
<b>26.(a)</b>	<b>Parent Company:</b>		
	<b>Creditors: Amounts falling due within one year</b>	<b>2001</b>	<b>2000</b>
		£000	£000
	Amounts owed to group undertakings	2,097	-
	Accruals and deferred income	<u>1,607</u>	<u>1,667</u>
		<u>3,164</u>	<u>1,667</u>
<b>26. (b)</b>	<b>Parent Company:</b>		
	<b>Creditors: Amounts falling due after more than one year</b>		

Creditors for amounts falling due after more than one year of £30,322,000 (2000: £29,818,182) include:

Four unsecured rolling loans of £20m, in total from the parent company Cardif S.A. The interest on the loans is calculated at 40 basis points above 3-month LIBOR rates 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 African Rand loans totalling £1,146,000 (translated) from Compagnie Financière de Paribas, the immediate parent company of Cardif S.A. The interest on the loans is calculated at 38 1/2 basis points above 3 month LIBOR payable on 30th June and 31st December. The loans can be requested for repayment with 3 months notice.

One unsecured rolling South African loan from Banque Financière Cardif totalling £1,176,000 (translated). The interest on the loan is calculated at 38 1/2 basis points above 3 month LIBOR payable on 30th June and 31st December. The loan can be requested for repayment with 3 months notice.

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

One loan of £2M from subsidiary undertaking, Pinnacle Insurance Property Services Plc, 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.

## 27. Movement in cash, portfolio investments and financing

	At 1 Jan 2001	Cash Flow	Changes in long term business	Changes to market value and other non- cash movements	At 31st December 2001
	£000	£000	£000	£000	£000
Cash at bank and in hand	40,371	(7,030)	-	-	33,341
Bank overdrafts	(2,723)	1,271	-	-	(1,452)
Land and Buildings	10,329	422	-	(229)	10,522
Other Financial Investments	260,095	17,038	17,019	1,753	295,905
Loans due within 1 year	(24,318)	(10,176)	-	672	(33,822)
	<u>283,754</u>	<u>1,525</u>	<u>17,019</u>	<u>2,196</u>	<u>304,494</u>

## 28. Commitments

There were no outstanding capital commitments at 31st December 2001.

## 29. Related party transactions

Related Party	Description of relationship	Description of transactions	Amount of transactions during the year £000	Balance outstanding at 31st Dec. 2001 £000
a) Cardif S.A.	Subsidiary of BNP Paribas	i) Loans to PIH	Nil	20,000
		ii) Investment expenses and charges payable by PIH	1,896	528
b) Compagnie Financière de Paribas	Subsidiary of BNP Paribas	i) Loan to PIMS	Nil	2,500
		ii) Investment expenses and charges payable by PIMS	Nil	196
		iii) Loan to PIH	Nil	1,146
		iv) Investment expenses and charges payable by PIH	Nil	673
c) Banque Financière Cardif	Subsidiary of BNP Paribas	i) Loan to PIH	1,176	1,176
		ii) Loans to PIMS	9,000	9,000
d) Cybèle Reinsurance	Common control as a subsidiary of Cardif S.A.	i) Net reinsurance premiums ceded by PIP	Nil	763
		ii) Claims recovered by PIP	329	Nil

## 30. Ultimate Parent Company

At 31st December 2001, the directors regarded BNP Paribas (incorporated in France) as being the company's ultimate parent undertaking and ultimate controlling party. 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).









**Pinnacle Insurance Holdings Plc**  
Company Registration Number: 2713318

**Pinnacle House**  
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