

Accounts

Directors' Report and Financial Statements
31st December 2003

Company Details

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.
R J Mee F.C.I.B.S*
C S Mills LL.B.(Hons)
G B Raingold F.C.A., M.Sc., F.Inst.D.*
S D Williams F.I.M.I.
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
Chief Office
38 Threadneedle Street, London, EC2P 2EH

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

Directors' Report

DIRECTORS' REPORT

The Directors present their annual report and the financial statements for the year ended 31st December 2003.

Principal Activities, Review of Business and Future Developments

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, motor, extended warranty, single premium and investment linked bonds. The group achieved record operating profits in 2003 and will continue to invest in its insurance and other businesses to maintain this growth in the future.

Investment in Associates

During the year the company increased its investment in Cardif Holdings Inc.

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 outstanding at the year-end was 24.42 (2002:32.53).

Proposed Dividend

The directors recommend the payment of a dividend of £104,000 (2002: £100,000) in respect of the ordinary shares (10.0p per share) and £14,000 (2002: £18,000) in respect of the preference shares.

After deducting the dividends of £118,000 (2002: £118,000) the profit for the period retained in the group is £12,643,000 (2002: £13,046,000).

Employee Involvement and Disabled Persons

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

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

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

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.
A W Dreyer B.A. (Hons), F.C.C.A.
R J Mee F.C.I.B.S* (appointed 26 September 2003)
C S Mills LL.B.(Hons).
L W Priestley T.D. F.C.I.B. C.B.I.M. F.C.I.M.* (resigned 31 December 2003)
G B Raingold F.C.A. M.Sc F.Inst.D.*
S D Williams F.I.M.I.
Cardif S.A.
Cardif Société-Vie.
Banque Financiere Cardif

*Non-Executive Directors

AUDITORS

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: 28th June 2004

Directors' Responsibilities

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 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.

Accounts of Pinnacle Insurance Holdings Plc

Information included in these accounts:

The accounts set out on page 5 to page 27 do not constitute the Company's consolidated statutory financial statements for the year ended 31st December 2003.

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 2003

	Note	2003 £000	2003 £000	2002 £000	2002 £000
Earned premiums, net of reinsurance					
Gross premiums written	4(a)	316,634		285,544	
Outward reinsurance premiums		(28,380)		(41,080)	
			288,254		244,464
Change in the gross provision for unearned premiums	27(a)	(18,590)		(17,910)	
Change in the provision for unearned premiums, reinsurers' share	27(a)	(11,391)		14,134	
			(29,981)		(3,776)
			258,273		240,688
Allocated investment return transferred from the non-technical account			4,126		2,960
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(62,827)		(53,719)	
Reinsurers' share		10,425		6,555	
			(52,402)		(47,164)
Change in the provision for claims					
Gross amount	27(a)	(4,935)		(7,658)	
Reinsurers' share	27(a)	(1,562)		2,611	
			(6,497)		(5,047)
			203,500		191,437
Net operating expenses	7		(190,987)		(183,429)
Sub-total (balance on the technical account-general business)			12,513		8,008

CONSOLIDATED PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT - LONG TERM BUSINESS FOR THE YEAR ENDED 31st DECEMBER 2003

	Note	2003 £000	2003 £000	2002 £000	2002 £000
Earned premiums, net of reinsurance					
Gross premiums written	4(b)	193,656		157,690	
Outward reinsurance premiums		(12,360)		(8,124)	
			181,296		149,566
Investment income	6	17,114		14,164	
Unrealised gains/(losses) on investments		1,723		(10,539)	
Realised (losses) on investments		(936)		(386)	
			17,901		3,239
			199,197		152,805
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(142,657)		(74,225)	
Reinsurers' share		4,038		547	
			(138,619)		(73,678)
Change in the provision for claims					
Gross amount	27(b)	116		-	
Reinsurers' share		(76)		-	
			40		-
			60,618		79,127
Change in other technical provisions, net of reinsurance					
Long term business provision					
Gross amount	27(b)	(34,476)		(47,623)	
Reinsurers' share	27(b)	(2,061)		2,748	
Technical provisions for linked liabilities	27(b)	23,604		11,594	
			(12,933)		(33,281)
Net operating expenses	7		(45,569)		(41,926)
Sub-total (balance on the technical account-long term business)			2,116		3,920

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT FOR THE YEAR ENDED 31st DECEMBER 2003**

		2003	2003	2002	2002
	Note	£000	£000	£000	£000
Balance on the general business technical account			12,513		8,008
Balance on the long term business technical account			2,116		3,920
			14,629		11,928
Investment income	6	5,953		4,973	
Unrealised gains on investments		1,373		4,873	
Realised gains on investments		132		63	
Investment expenses and charges		(2,213)		(2,315)	
		5,245		7,594	
Allocated investment return transferred to the general business account		(4,126)		(2,960)	
			1,119		4,634
Other Income	8		66,092		84,135
Other charges	8		(63,758)		(82,750)
Operating profit from continuing activities and profit on ordinary activities before tax	9		18,082		17,947
Tax on profit on ordinary activities	11		(5,330)		(4,837)
Profit for the financial year			12,752		13,110
Minority Interest			9		54
Dividends proposed Equity and non-equity	13		(118)		(118)
Retained profit for the financial year			12,643		13,046

The profit for the year arises from continuing operations.

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31st DECEMBER 2003**

	2003	2002
Retained profit for the financial year	12,643	13,046
Foreign translation adjustment	42	5
Total recognised gains for the financial year	12,685	13,051

**CONSOLIDATED BALANCE SHEET
AT 31st DECEMBER 2003**

		2003	2003	2002	2002
	Note	£000	£000	£000	£000
ASSETS					
Investments					
Land and buildings	16	19,065		19,490	
Other financial investments	17	409,073		356,392	
			428,138		375,882
Assets held to cover linked liabilities	18		25,111		48,715
Investments in associates	15		4,038		-
Reinsurers' share of technical provisions					
Provision for unearned premiums	27(a)	26,659		38,050	
Long term business provision	27(b)	21,811		23,814	
Claims outstanding	27(c)	1,803		3,289	
			50,273		65,153
Debtors					
Debtors arising out of direct insurance operations	19	55,502		48,305	
Debtors arising out of direct reinsurance operations	20	5,623		540	
Other debtors	21	48,361		1,299	
			109,486		50,144
Other Assets					
Intangible assets	22	239		469	
Tangible assets	23	3,468		2,755	
Cash at bank and in hand		56,337		44,879	
			60,044		48,103
Prepayments and accrued income					
Accrued interest		7,908		5,195	
Deferred acquisition costs	27(d)	234,943		208,293	
Other prepayments and accrued income		20,267		76,362	
			263,118		289,850
Total assets			940,208		877,847

CONSOLIDATED BALANCE SHEET (continued)
AT 31st DECEMBER 2003

		2003	2003	2002	2002
	Note	£000	£000	£000	£000
LIABILITIES					
Capital and reserves					
Called up share capital	24		1,296		1,295
Share premium			1,617		1,496
Profit and loss account	26		79,296		66,611
Shareholders' funds attributable to equity interests			81,959		69,152
Shareholders' funds attributable to non equity interests	24		250		250
Total shareholders' funds			82,209		69,402
Minority interest			311		345
Technical provisions					
Provision for unearned premiums	27(a)	264,626		245,972	
Long term business provision	27(b)	303,552		268,825	
Claims outstanding	27(c)	29,405		24,338	
			597,583		539,135
Technical provisions for linked liabilities	27(b)		25,111		48,715
Creditors					
Creditors arising out of direct insurance operations		80,996		76,462	
Creditors arising out of direct reinsurance operations		26,840		29,378	
Amounts owed to credit institutions	28	9,747		3,231	
Other creditors including taxation and social security	29(a)	67,915		51,977	
			185,498		161,048
Accruals and deferred income			49,496		59,202
Total liabilities			940,208		877,847

These financial statements were approved by the Board of directors on 28th June 2004, and signed on its behalf by:

**PARENT COMPANY BALANCE SHEET
AT 31st DECEMBER 2003**

		2003	2003	2002	2002
	Note	£000	£000	£000	£000
Fixed Assets					
Investments in group undertakings	14		126,565		99,695
Current Assets					
Debtors	21	1,762		3,030	
Cash at bank in hand		-		14	
		1,762		3,044	
Creditors: Amounts falling due within one year	29(b)	(3,658)		(2,263)	
Net current (liabilities)/assets			(1,896)		781
Total assets less current liabilities			124,669		100,476
Creditors : Amounts falling due after more than one year	29(c)		(42,370)		(31,074)
Net assets			82,299		69,402
Capital and reserves					
Equity shareholders' funds					
Called up share capital	24		1,296		1,295
Share premium			1,617		1,496
Revaluation Reserves	26		74,381		63,766
Profit and loss account	26		5,005		2,845
Total equity shareholders' funds			82,049		69,152
Total non-equity shareholders' funds	24		250		250
Total shareholders' funds			82,299		69,402

These financial statements were approved by the Board of directors on 28th June 2004, and signed on its behalf by:

N A Shuker

C J Schwick

1. Basis of Preparation of Financial Statements

Basis of Preparation

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

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 21st November 2003. 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 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.

Basis of Consolidation

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 2003. In the group accounts, associates are accounted for using the equity method.

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.

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 instalments 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.

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 that 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.

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 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 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 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

Amounts relating to investments supporting general business technical provisions are allocated from the non-technical account to the technical account.

Foreign Currencies

Monetary assets denominated in foreign currencies are translated into sterling using the rates of exchange ruling at the balance sheet date. The gains or losses arising are included in the non-technical account. Differences arising from retranslation of opening net investments at the year-end exchange rate are taken directly to reserves. In the consolidated accounts, where the investment in a foreign subsidiary has been financed by a long-term loan in the local currency, the exchange differences have been offset and taken to reserves.

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 the treatment of certain items for taxation and accounting purposes.

Full provision is made for deferred tax in accordance with FRS 19 'Deferred Tax'.

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.

Derivatives

Certain derivatives are taken out for hedging purposes. To the extent that the hedge subsequently becomes ineffective, the derivatives are marked to market, with changes in the fair value being taken to the profit and loss account.

Investments in Subsidiaries

Investments in subsidiary undertakings are valued at the net asset value of the underlying subsidiaries plus the carrying value of any related goodwill, less any provision for impairments in values. Revaluation gains are credited to the Revaluation Reserve. Revaluation losses are charged to the Revaluation Reserve until the carrying amount of the investment reaches its historical cost and thereafter in the profit and loss account. No provision is made for subsidiaries showing negative net assets where it is considered that the financial position is likely to recover.

Investments in Associates

In the consolidated accounts, investments in associates are valued at the net asset value plus the carrying value of any related goodwill, less any provision for impairment. In the parent company, they are stated at cost.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings is recorded as an intangible asset. Goodwill arising on the acquisition of associate undertakings is recorded in the carrying value of investment in associates. The amortisation of goodwill for each investment is determined in accordance with the directors' estimate of each investment's 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2003

3. Segmental analysis by class of business	2003 £000	2002 £000
Gross premiums written		
General business	316,634	285,544
Long term business	193,656	157,690
Other income		
Non-insurance business	66,092	84,135
	576,382	527,369
Profit before taxation		
General business	12,513	8,008
Long term business	2,116	3,920
Non-insurance business	3,453	6,019
	18,082	17,947
Segmental net assets		
General business	64,247	54,779
Long term business	16,429	13,210
Non-insurance business	1,533	1,413
	82,209	69,402

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	2003 Gross Premiums Written £000	2003 Gross Premiums Earned £000	2003 Gross Claims Incurred £000	2003 Gross Operating Expenses £000	2003 Reinsurance Balance £000
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4.(a) Analysis of general business

Direct Insurance					
Creditor	246,596	219,869	(49,587)	(133,714)	(33,597)
Warranty	73,403	66,304	(15,350)	(43,331)	(3,671)
	319,999	286,173	(64,937)	(177,045)	(37,268)
Reinsurance	(3,365)	11,870	(2,825)	(7,582)	-
	316,634	298,043	(67,762)	(184,627)	(37,268)

	2002 Gross Premiums Written £000	2002 Gross Premiums Earned £000	2002 Gross Claims Incurred £000	2002 Gross Operating Expenses £000	2002 Reinsurance Balance £000
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)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2003**

	2003 £000	2002 £000
4. (b) Analysis of long term business premiums		
Single premiums	185,697	154,370
Periodic premiums	7,959	3,320
	193,656	157,690

Included in single premiums, are premiums of £1,136,379 (2002: £nil) in respect of linked business.

	2003 £000	2002 £000
4. (c) Reinsurance balance - Long term business		
Reinsurance balance - Long term business	(6,080)	(2,287)

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:

	2003 £000	2002 £000
Change before associated expenses	(5,107)	(4,470)
Less associated expenses	2,933	3,293
	(2,174)	(1,177)

	Technical Account-Long Term Business		Non-technical account	
	2003 £000	2002 £000	2003 £000	2002 £000
6. Investment Income				
Income from other investments	17,114	14,164	5,953	4,973

	General Business		Long Term Business	
	2003 £000	2002 £000	2003 £000	2002 £000
7. Net operating expenses				
Acquisition costs	199,260	185,748	53,054	37,856
Change in gross deferred acquisition costs	(21,566)	(17,473)	(4,334)	5,314
Administrative expenses	6,933	5,403	1,228	1,298
Gross operating expenses	184,627	173,678	49,948	44,468
Reinsurance commissions and profit participation	11,191	(4,900)	(2,505)	(2,498)
Change in deferred reinsurance commission	(4,831)	14,651	(1,874)	(44)
	190,987	183,429	45,569	41,926

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2003**

8. Other Income/(charges)	2003	2002
	£000	£000
Turnover	66,092	84,135
Cost of sales	(63,396)	(80,160)
Distribution costs	(348)	(350)
Administrative expenses	(14)	(2,240)
	(63,758)	(82,750)
	2,334	1,385

The turnover mainly relates to sale of extended warranty service contracts.

9. Profit on ordinary activities before tax is stated after charging:	2003	2002
	£000	£000
Auditors' remuneration		
Audit - Group	115	108
Audit - Company	13	13
Other services	42	44
Amortisation of goodwill	320	344
Depreciation of buildings and other tangible assets	2,067	1,884

10. Staff numbers and costs	2003	2002
The average number of employees (including directors) during the year was:		
Sales	76	83
Administration	478	451
	554	534

Employment Costs	2003	2002
Wages and salaries	14,411	12,880
Social Security costs	1,496	1,289
Other pension costs	1,326	1,231
	17,233	15,400

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2003**

11. Taxation on profits on ordinary activities

Analysis of charge for the period	2003	2002
	£000	£000
Tax on the company's profit:		
Corporation tax (30%)	5,221	4,846
Adjustment in respect of prior years	7	(18)
Total current tax (factors below)	5,228	4,828
Deferred taxation	102	9
Tax on profits on ordinary activities	5,330	4,837

Factors affecting the tax charge for the period	2003	2002
	£000	£000
Profit on ordinary activities	18,082	17,947
Assessment at standard rate of UK corporation tax (30%)	5,425	5,382
Effects of:		
Expenses/(Income) not liable for tax purposes	233	(360)
Capital Allowances in excess of depreciation	58	87
Sales proceeds of leased assets	(41)	(26)
Adjustment in respect of prior years	7	(18)
(Lower)/Higher tax rate on overseas earnings	(91)	111
Other Differences	(363)	(348)
Current tax charge (analysis above)	5,228	4,828

12. Deferred Taxation	2003	2002
Included in Other prepayments and accrued income	£000	£000
Deferred tax asset at 1st January 2003	217	209
(Charge)/Credit for accelerated capital allowances	(103)	4
Adjustment to prior years	-	(13)
Deferred tax asset at 31st December 2003	114	200

Unprovided deferred tax in relation to revaluation of shares in subsidiaries amounted to £17.5m (2002:£14.8).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2003**

13. Dividends	2003	2002
	£000	£000
Ordinary dividend proposed (2002: paid)	104	100
Preference dividend proposed (2002: paid)	14	18
	118	118

14. Investments in Group Undertakings	Company
	2003
	£000
Cost or Valuation	
Opening balance 1st January 2003	104,112
Additions	16,855
Revaluations	10,615
Reversal of previously recognised impairment	1,094
	132,676

Provision for diminution in value	
Opening balance 1st January 2003	4,417
Net write off for the year	1,694
	6,111

Net Book Value	
At 31st December 2003	126,565
At 31st January 2003	99,695

The additions relate to further investments in share capital in group undertakings. The revaluations relate to the movement in net asset values of the group undertakings.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2003**

14. Investments in Group Undertakings - continued

The closing balance comprises the investments in the following subsidiary undertakings:

Subsidiary Company	Country of Incorporation	Principal Activity		Class and Percentage of Shares Held	
				2003	2002
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) Limited	Guernsey	Reinsurance	Ordinary	100%	100%
Pinnacle Insurance Property Services plc	Great Britain	Property	Ordinary	100%	100%
Pinnacle Insurance (Proprietary) Limited	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 Limited	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%
ServicePlan 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%
ServicePlus 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	100%	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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2003**

15. Investments in Associates

During the year the company increased its investment from £193,000 to £4,229,000 in Cardif Holdings Inc through the purchase of 736 shares, maintaining its 30% interest in the company. The investment was written down to £4,038,000 at 31st December 2003 after amortisation of goodwill arising on acquisition. Cardif Holdings Inc is an intermediary holding company set up to hold all of Cardif S.A.'s investments in the United States of America. Cardif Holdings Inc draws up its accounts to 31st December each year.

	Group		Company	
	2003	2002	2003	2002
Share of associates assets on acquisition	2,230	-	2,230	-
Goodwill arising on acquisition	1,898	-	1,898	-
Amortisation of goodwill	(90)	-	-	-
	4,038	-	4,128	-

The results of the associate for the periods presented were not significant. The directors have determined that the useful economic life of the goodwill of Cardif Holdings Inc. is five years.

	Freehold Property £000
16. Land and Buildings	
Group	
Valuation at 1st January 2003	19,490
Additions	-
Revaluations	-
Valuation at 31st December 2003	19,490
Depreciation at 1st January 2003	-
Charge for the year	425
Eliminated on Revaluation	-
Depreciation at 31st December 2003	425
Net Book Value at 31st December 2003	19,065
Net Book Value at 1st January 2003	19,490

The historical costs of the properties are £14,551,127. Accumulated depreciation and the net book value of the properties if they had been valued at historical cost would have been £1,025,898 and £13,525,229 respectively.

The group's freehold properties were valued by Stimpsons, Chartered Surveyors on 31st December 2002. In their opinion, the open market value for the existing use at that time was £19,490,000.

No provision has been made for additional United Kingdom taxation of £1,044,603 (2002: £1,123,897), which would arise if the properties were disposed of at their revalued amount.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2003**

	Market Value		Cost	
	2003 £000	2002 £000	2003 £000	2002 £000
17. Other Financial Investments - Group				
Listed shares	1,497	624	1,670	905
Debt securities and other fixed income securities	129,647	150,471	130,668	148,039
Deposits with credit institutions	277,929	205,297	277,629	205,297
	409,073	356,392	409,697	354,241

18. Assets held to cover linked liabilities - Group

The total market value of assets held to cover linked liabilities is £25,111,000 (2002: £48,715,000) and includes £24,533,000 (2002: £47,993,000) 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 £26,836,000 (2002: £63,396,000).

	2003 £000	2002 £000
19. Debtors arising out of direct insurance operations - Group		
Amounts owed by intermediaries	55,502	48,305

	2003 £000	2002 £000
20. Debtors arising out of reinsurance operations - Group		
Amounts due from reinsurers	5,623	540

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
21. Other Debtors				
Trade debtors	256	282	-	-
Amount due from parent undertakings	-	467	-	-
Amount due from group undertakings	-	-	1,762	2,492
Tax debtor	-	-	-	314
Sundry debtors	48,105	550	-	224
	48,361	1,299	1,762	3,030

	Goodwill £000
22. Intangible Assets	
Cost at 1st January 2003	1,314
Additions	-
Cost at 31st December 2003	1,314
Amortisation at 1st January 2003	845
Provided during the year	230
Amortisation at 31st December 2003	1,075
Net Book Value at 31st December 2003	239
Net Book Value at 1st January 2003	469

The directors have determined that the useful economic life of the goodwill for the USP group is five years.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2003

23. Tangible Assets	Fixtures & Fittings £000	Motor Vehicles £000	Computer Equipment £000	Total £000
Cost at 1st January 2003	4,929	1,796	4,540	11,265
Additions	1,015	791	808	2,614
Disposals	(62)	(698)	(3)	(763)
Cost at 31st December 2003	5,882	1,889	5,345	13,116
Depreciation at 1st January 2003	3,748	868	3,894	8,510
Disposals	(20)	(483)	(2)	(505)
Charge for the year	668	442	533	1,643
Depreciation at 31st December 2003	4,396	827	4,425	9,648
Net Book Value at 31st December 2003	1,486	1,062	920	3,468
Net Book Value at 1st January 2003	1,181	928	646	2,755

24. Share Capital	2003	2002
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	1,046	1,045
Redeemable floating rate cumulative preference shares of £1 each	250	250
	1,296	1,295

Ordinary share capital increased by £1,000 as share options were exercised.

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.

25. Reconciliation of Movements in Shareholders' Funds For the Year Ended 31st December 2003 - Group	2003 £000	2002 £000
Profit for the financial year	12,752	13,110
Minority Interest	9	54
Dividends	(118)	(118)
Share capital subscribed	122	-
Foreign translation adjustment	42	5
Net addition to shareholders' funds	12,807	13,051
Opening shareholders' funds	69,402	56,351
Closing shareholders' funds	82,209	69,402

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2003

26. Reserves

Group	Share Premium £000	Profit & Loss £000	Total £000
At 1st January 2003	1,496	66,611	68,107
Retained profit for the year	-	12,643	12,643
Foreign translation adjustment	-	42	42
Premium arising on share issue	121	-	121
At 31st December 2003	1,617	79,296	80,913

Company	Share Premium £000	Revaluation Reserves £000	Profit & Loss £000	Total £000
At 1st January 2003	1,496	63,766	2,845	68,107
Retained profit for the year	-	-	2,160	2,160
Premium arising on share issue	121	-	-	121
Revaluation of net investments	-	10,615	-	10,615
At 31st December 2003	1,617	74,381	5,005	81,003

Non distributable reserves in respect of the surplus on the long term business that must be maintained by the company as at 31st December 2003 were £14,864,000 (2002: £12,814,000).

27. Technical Provisions	Provision for Unearned Premiums £000	Claims Outstanding £000	Total £000
27.(a) General Business			
Gross Amount			
At 1st January 2003	245,972	24,230	270,202
Foreign translation adjustment	64	16	80
Movement in the provisions	18,590	4,935	23,525
At 31st December 2003	264,626	29,181	293,807
Reinsurance amount			
At 1st January 2003	(38,050)	(3,289)	(41,339)
Foreign translation adjustment	-	-	-
Movement in the provisions	11,391	1,562	12,953
At 31st December 2003	(26,659)	(1,727)	(28,386)
Net technical provisions			
At 31st December 2003	237,967	27,454	265,421
At 1st January 2003	207,922	20,941	228,863

27.(b) Long Term Business	Long Term Business Provision £000	Technical Provisions for Linked Liabilities £000	Claims Outstanding £000	Total £000
Gross amount				
At 1st January 2003	268,825	48,715	108	317,648
Movement in the provisions	34,476	(23,604)	116	10,988
Foreign translation adjustment	251	-	-	251
At 31st December 2003	303,552	25,111	224	328,887
Reinsurance amount				
At 1st January 2003	(23,814)	-	-	(23,814)
Movement in the provisions	2,061	-	(76)	1,985
Foreign translation adjustment	(58)	-	-	(58)
At 31st December 2003	(21,811)	-	(76)	(21,887)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2003

	Long Term Business Provision	Technical Provisions for Linked Liabilities	Claims Outstanding	Total
27.(b) Long Term Business - continued	£000	£000	£000	£000
Net technical provisions				
At 1st January 2003	245,011	48,715	108	293,834
Movement in the provisions	36,536	(23,604)	40	12,972
Foreign translation adjustment	194	-	-	194
At 31st December 2003	281,741	25,111	148	307,000

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

Rates of interest	2003	2002
Assurance:		
Without profit	3.5%	3.5%
Guaranteed Growth Bonds		
Outstanding term less than 1 year	3.8%	3.5%
Outstanding term less than 2 years	3.9%	4.0%
Outstanding term less than 3 years	3.8%	3.7%
Outstanding term less than 4 years	3.9%	3.5%
Outstanding term less than 5 years	4.0%	4.2%
Guaranteed Income Bonds		
Outstanding term less than 1 year	3.8%	3.7%
Outstanding term less than 2 years	4.0%	4.0%
Outstanding term less than 3 years	3.8%	3.7%
Outstanding term between 0 to 2 years	4.2%	3.7%
Outstanding term between 2 to 5 years	3.8%	4.2%
Decreasing Income Bonds		
Outstanding term between 2 and 3 years	4.2%	4.3%
Annuities:		
Without profit - Life	4.3%	5.1%
Without profit - Pensions	4.4%	4.8%
<u>Mortality tables</u>		
Assurances	A67/70 AM80 ELT14	A67/70 AM80 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

27.(c) Claims Outstanding	Gross Amount		Reinsurance Amount	
	2003 £000	2002 £000	2003 £000	2002 £000
General business	29,181	24,230	(1,727)	(3,289)
Long term business	224	108	(76)	-
	29,405	24,338	(1,803)	(3,289)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2003

27.(d) Deferred Acquisition Costs	Gross Amount		Reinsurance Amount	
	2003 £000	2002 £000	2003 £000	2002 £000
General business	193,556	171,399	18,575	23,640
Long term business	41,387	36,894	1,626	3,460
	234,943	208,293	20,201	27,100

27.(e) Long Term Fund

At 31st December 2003, 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 £281,234,000 (2002: £274,328,000).

28. Amounts owed to credit institutions	2003 £000	2002 £000
Payable in less than one year	9,747	3,231

29. Creditors:	Group	
	2003 £000	2002 £000
29.(a) Other creditors including taxation and social security		
Amounts falling due within one year		
Corporation tax payable	2,962	2,187
Loan - Banque Financiere Cardif	2,000	3,000
Loan - Banque Paribas	-	2,500
Loan - Cardif	3,131	-
Other	25,452	19,216
	33,545	26,903
Amounts falling due after more than one year		
Loan - Cardif S.A.	20,000	20,000
Loan - Banque Financiere Cardif	12,673	3,630
Loan - Banque Paribas	1,697	1,444
	34,370	25,074
Total	67,915	51,977

Other creditors includes other taxes and social security costs of £5,548,000 (2002: £4,448,000)

29.(b) Creditors: Amounts falling due within one year	Company	
	2003 £000	2002 £000
Amounts owed to group undertakings	699	-
Accruals and deferred income	2,959	2,263
	3,658	2,263

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2003**

	2003 £000	Company	2002 £000
29.(c) Creditors: Amounts falling due after more than one year			
Loans form subsidiary undertakings	8,000		8,000
Loan - Cardif S.A.	20,000		20,000
Loan - Banque Financiere Cardif	12,673		1,630
Loan - Banque Paribas	1,697		1,444
	42,370		31,074

Creditors for amounts falling due after more than one year of £42,370,000 (2002: £31,074,000) include:

Four unsecured rolling loans totalling £20 million, 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.

One unsecured rolling South Africa Rand loans totalling £1,696,599 (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 JIBOR that is rolled into the capital.

Two unsecured rolling South African loans from Banque Financière Cardif totalling £1,696,599 (translated). The interest on these loans are calculated at a 3 month JIBOR plus 0.40% which is rolled into the capital.

One unsecured rolling South African loan from Banque Financiere Cardif totalling £854,314 (translated). The interest on the loan is calculated at a 3-month JIBOR plus 0.40%, which is rolled into the capital.

One loan of £6 million from Banque Financiere Cardif, which has no set term of repayment.

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.

Six US dollar loans of £4,128,512 (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.

30. 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.

31. Ultimate Parent Company

At 31st December 2003, the directors regarded BNP Paribas SA (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, 751 16 Paris, France.

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

Pinnacle Insurance Holdings Plc
Company Registration Number: 2713318

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