

PINNACLE INSURANCE PLC
Company Registration Number: 1007798

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2007

PINNACLE INSURANCE PLC

Directors: G Binet (Chairman) *
P J Bloxham F.C.I.I.
BNP Paribas Assurance (formerly Cardif S.A.)
Cardif Assurance Risques Divers
Cardif Assurance Vie
J Castagno A.C.I.I.
A W Dreyer B.A.(Hons) F.C.C.A.
A J Golding B.Sc. (Hons) F.C.A.
P E Glen A.C.A. B.Sc
R J Mee F.C.I.B.S. *
G B Raingold F.C.A. M.Sc. F.Inst.D. *
A D Swain B.Ed Cert.Ed

* 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.

Auditor: Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Principal Banker: 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 2007.

PRINCIPAL ACTIVITY

Formed in 1971 as Pinnacle Insurance Company Ltd, the Company, is a part of the global banking group BNP Paribas, one of the largest banks in the world with a Standard and Poor's credit rating of AA+. Pinnacle Insurance plc has a Standard and Poors' stand alone credit rating of A-. Cardiff Pinnacle is a trading style of Pinnacle Insurance plc.

The Company has established itself as a specialist provider of financial services and investment products. The Company continues to be one of the leading providers of creditor, warranty and protection insurance including medical cash plans, sports injury, pet healthcare, accidental death, personal accident and income replacement cover. The Company also provides competitive, tax efficient investment products via Independent Financial Advisors ("IFAs") and direct to the public.

REVIEW OF BUSINESS***Protection business***

Throughout 2007, the Company has continued to operate within a climate of considerable uncertainty with regard to creditor insurance as a result of the Financial Service Authority's (FSA) thematic review, coupled with the Office of Fair Trading's involvement and referral of creditor insurance to the Competition Commission. As a result of this uncertainty there remains less business available for tender in the marketplace as distributors of the products stay with current carriers as they await the outcome of the various reviews.

The Company has worked closely with the Competition Commission requirements through its review of the creditor market, helping to ensure the Company is prepared to react positively to the outcomes of the review.

The liquidity crisis experienced in the global markets during 2007 has also impacted the availability of new funding to customers with an associated reduction in the distribution of creditor business.

In July 2007 John Castagno joined the Company as New Product Development & Marketing Director to support the Company's work in relation to product diversification and distribution strategies and was appointed to the board as a Director in November 2007. We anticipate accelerated growth in Gross Written Premium and profitability as the new strategies we are implementing start bearing fruit into 2008 and thereafter.

Investment business

Following the successful launch by Cardiff Pinnacle Investments of the Flexible Asset Bond ("FAB") in October 2006, 2007 has benefited from a full year's sales of this new product. Coupled with the existing Guaranteed Income Bond business, the Company wrote in excess of £1 billion Gross Written Premium in 2007.

In October 2007, Cardiff Pinnacle's Flexible Asset Bond (FAB) was awarded "Highly Commended" in the Innovation Award category at the prestigious Moneyfacts Awards held in London.

PINNACLE INSURANCE PLC**DIRECTORS' REPORT (Continued)****REVIEW OF BUSINESS (Continued)*****2007 performance and future outlook***

The performance of the Company has been affected by the tough market conditions noted, resulting in a decline in the Protection business Gross Written Premium of 42% to £210m (2006 £365m). The protection business is split between the general business and long term business technical fund profit and loss accounts. The investment business of the Company, however, has experienced significant growth with Gross Written Premiums of £1,044m in 2007 (2006 £464m), an increase of 125%. This business is reflected in the long term business profit and loss account.

Given the market conditions and the exceptional investments trading, the profit before tax was a respectable £12,410k (2006 £18,070k). This leaves the Company's balance sheet in a strong position in terms of regulatory capital and also to develop future opportunities in 2008 and beyond.

The Company has embarked on a number of initiatives during the year, with a significant focus on developing and embedding the Treating Customers Fairly (TCF) principles across the business to ensure that TCF is at the heart of our operations.

On 31 December 2007, the company transferred certain of the insurance assets and liabilities of its Swedish business to two of its fellow BNP Paribas Assurance Group subsidiary undertakings, Cardif Livförsäkring AB and Cardif Försäkring, pursuant to an order of the High Court made under Part VII Financial Services and Markets Act 2000.

2008 is set to be a challenging yet exciting year for the Company, with anticipated growth opportunities across all classes of business.

RESULTS AND DIVIDEND

The results of the Company for the year are set out on pages 9, 10 and 11. The retained profit after taxation for the year was £8,687k (2006: £13,149k). The Directors do not recommend the payment of a dividend (2006: £nil).

PAYMENT OF SUPPLIERS

The Company's policy on the payment of creditors is to abide by the settlement terms agreed with our suppliers.

ACTUARIAL VALUATION

An actuarial valuation was carried out as at 31 December 2007 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 J Bloxham	
Cardif Assurance Risques Divers	
Cardif Assurance Vie	
BNP Paribas Assurance (formerly Cardif S.A.)	change of name 4 July 2007
A W Dreyer	
P E Glen	
R J Mee *	
G B Raingold *	
A D Swain	
C S Mills	resigned 31 March 2007
C J Schwick	resigned 26 June 2007
N A Shuker *	resigned 26 June 2007
G Binet (Chairman) *	appointed 29 November 2007
J Castagno	appointed 29 November 2007
A J Golding	appointed 29 November 2007
P de Villeneuve (Chairman) *	resigned 29 November 2007

* Non-Executive Directors

RISK MANAGEMENT

The Company's activities expose the business to a number of key risks which have the potential to affect the Company's ability to achieve its business objectives. The board is responsible for ensuring that an appropriate structure for managing these risks is maintained. The key risks and risk mitigation framework are highlighted below:

Insurance risk

The Company's business is to accept insurance risk which is appropriate to enable the company to meet its objectives. Within a board approved underwriting policy and a delegated authority framework, the Company seeks to balance this insurance risk with reward.

Credit risk

The Company's exposure to credit risk arises from its direct insurance trading activities, reinsurances and those of its investment activities. The Company, through the board and the Investment Committee, seeks to limit exposure to credit risk as far as is practical, and has established guidelines, procedures and monitoring requirements to manage credit risk.

Liquidity risk

Liquidity risk is risk that sufficient financial resources are not available in cash to enable the Company to meet obligations as they fall due. The Company, through the board and the Investment Committee, seeks to limit exposure to liquidity risk by ensuring liquidity is optimally managed and that all known cash flows can be met out of readily available sources of funding. The Company maintains a strong liquidity position by holding its assets predominantly in investment grade fixed income securities, and call accounts, the proceeds of which are readily realisable.

PINNACLE INSURANCE PLC**DIRECTORS' REPORT (Continued)****RISK MANAGEMENT (Continued)****Market risk**

Market risk is the risk arising from fluctuations in the values of, or income from assets, interest rates or exchange rates. The Company has a low risk appetite for this risk, investing predominantly in short-term bonds or cash to match the short-tail nature of claims. This risk is managed through the board and the Investment Committee.

Operational risk

Operational risk is the risk of loss resulting from inadequate internal processes, people or systems, or from external events. The Company seeks to mitigate this risk exposure through continual enhancement of the systems and controls, and ensuring appropriately experienced personnel are in place throughout the organisation. Incident reporting and investigation procedures are well established.

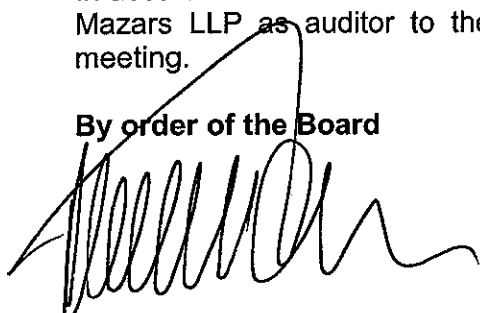
INTERNAL AUDIT COMMITTEE AND INTERNAL AUDIT FUNCTION

In line with appropriate Corporate Governance, an Internal Audit Committee, chaired by a non-executive Director, exists to ensure an appropriate control framework is in place to mitigate key risks. An independent internal audit function provides assurance to the internal audit committee as to the effectiveness of internal systems and controls making and monitoring progress in relation to recommendations as appropriate.

AUDITOR

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

By order of the Board



Company Secretary

M J Lorimer

Date: 27 March 2008

PINNACLE INSURANCE PLC

**STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2007**

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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITOR

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

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

PINNACLE INSURANCE PLC**INDEPENDENT AUDITOR REPORT
TO THE MEMBERS OF PINNACLE INSURANCE PLC**

We have audited the financial statements of Pinnacle Insurance plc for the year ended 31 December 2007, which comprise the Profit and Loss Account, the reconciliation of movement in shareholders' funds, 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 Auditors' 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.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement.

Basis of 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.

PINNACLE INSURANCE PLC

INDEPENDENT AUDITORS' REPORT (Continued)

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 2007 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 Auditor
Tower Bridge House
St Katharine's Way
London
E1W 1DD
Date: 27 March 2008

PINNACLE INSURANCE PLC

**PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Note	<u>2007</u>	<u>2006</u>
		£000	£000
Earned premiums, net of reinsurance			
Gross premiums written	4(a)	161,728	291,830
Outward reinsurance premiums		(11,126)	(16,392)
		<hr/>	<hr/>
		150,602	275,438
Change in the gross provision for unearned premiums	18(a)	109,746	(28,699)
Change in the provision for unearned premiums, reinsurers' share	18(a)	(3,881)	(4,492)
		<hr/>	<hr/>
		105,865	(33,191)
		<hr/>	<hr/>
Earned premiums, net of reinsurance		256,467	242,247
		<hr/>	<hr/>
Allocated investment return transferred from the non-technical account		5,819	6,374
		<hr/>	<hr/>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(47,624)	(66,200)
Reinsurers' share		9,827	13,206
		<hr/>	<hr/>
		(37,797)	(52,994)
Change in the provision for claims			
Gross amount	18(a)	(9,650)	15,218
Reinsurers' share	18(a)	2,321	(5,095)
		<hr/>	<hr/>
		(7,329)	10,123
		<hr/>	<hr/>
Claims incurred, net of reinsurance		(45,126)	(42,871)
		<hr/>	<hr/>
Net operating expenses	7	(226,548)	(199,900)
		<hr/>	<hr/>
Balance on the technical account-general business		<u>(9,388)</u>	<u>5,850</u>

PINNACLE INSURANCE PLC

**PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – LONG TERM BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Note	<u>2007</u> £000	<u>2006</u> £000
Earned premiums, net of reinsurance			
Gross premiums written	4(b)	1,092,228	537,675
Outward reinsurance premiums		(3,139)	(10,850)
		<hr/> 1,089,089	<hr/> 526,825
Investment income	6	67,709	34,092
Realised gains/(losses) on investments		(842)	179
		<hr/> 66,867	<hr/> 34,271
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(503,901)	(263,270)
Reinsurers' share		4,637	3,567
		<hr/> (499,264)	<hr/> (259,703)
Change in the provision for claims			
Gross amount	18(b)	999	574
Reinsurers' share	18(b)	(685)	(373)
		<hr/> 314	<hr/> 201
Claims incurred, net of reinsurance		<hr/> (498,950)	<hr/> (259,502)
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
Gross amount	18(b)	(347,916)	(231,890)
Reinsurers' share	18(b)	(3,367)	(2,411)
Technical provisions for linked liabilities	18(b)	(249,096)	(18,364)
		<hr/> (600,379)	<hr/> (252,665)
Net operating expenses	7	(43,245)	(41,428)
Unrealised gains/(losses) on investments		782	(678)
Balance on the technical account-long term business		<hr/> <u>14,164</u>	<hr/> <u>6,823</u>

PINNACLE INSURANCE PLC
PROFIT AND LOSS ACCOUNT NON TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	<u>2007</u> £000	<u>2006</u> £000
Balance on the technical account-general business		(9,388)	5,850
Balance on the technical account-long term business		14,164	6,823
		<u>4,776</u>	<u>12,673</u>
Investment income	6	13,574	12,833
Unrealised gains/(losses) on investments		67	(1,139)
Realised gains/(losses) on investments		(188)	77
		<u>13,453</u>	<u>11,771</u>
Allocated investment return transferred to the general business account		(5,819)	(6,374)
		<u>7,634</u>	<u>5,397</u>
Operating profit from continuing activities and profit on ordinary activities before tax		12,410	18,070
Tax on profit on ordinary activities	11(a)	(3,723)	(4,921)
Profit for the financial year		<u><u>8,687</u></u>	<u><u>13,149</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 2007

	Note	<u>2007</u> £000	<u>2006</u> £000
Proceeds from share issue		-	12,000
Profit for the financial year		8,687	13,149
Net addition to shareholders' funds		<u>8,687</u>	<u>25,149</u>
Opening shareholders' funds		155,332	130,183
Closing shareholders' funds		<u>164,019</u>	<u>155,332</u>

PINNACLE INSURANCE PLC

BALANCE SHEET - ASSETS
AT 31 DECEMBER 2007


	Note	<u>2007</u>	<u>2006</u>
		£000	£000
ASSETS			
Investments			
Investments in group undertakings	12(a)	14,000	14,000
Other financial investments	12(b)	1,373,042	1,082,809
		<u>1,387,042</u>	<u>1,096,809</u>
Assets held to cover linked liabilities	13	273,286	24,190
Reinsurers' share of technical provisions			
Provision for unearned premiums	18(a)	7,679	11,560
Long term business provision	18(b)	25,379	28,746
Claims outstanding	18(c)	11,204	9,568
		<u>44,262</u>	<u>49,874</u>
Debtors			
Debtors arising out of direct insurance operations	14	17,889	29,289
Debtors arising out of reinsurance operations	15	5,969	5,302
Amounts owed by group undertakings		9,508	-
		<u>33,366</u>	<u>34,591</u>
Other assets			
Cash at bank and in hand		114,544	66,190
Prepayments and accrued income			
Accrued interest		43,216	29,177
Deferred acquisition costs	18(d)	299,370	390,378
Other prepayments and accrued income		2,713	4,460
		<u>345,299</u>	<u>424,015</u>
Total assets		<u><u>2,197,799</u></u>	<u><u>1,695,669</u></u>

PINNACLE INSURANCE PLC
BALANCE SHEET - LIABILITIES
AT 31 DECEMBER 2007

	Note	2007 £000	2006 £000
LIABILITIES			
Capital and reserves			
Called up share capital	16	74,196	74,196
Share Premium	16	7,804	7,804
Profit and loss account	17	82,019	73,332
		164,019	155,332
Technical provisions			
Provision for unearned premiums	18(a)	290,081	399,827
Long term business provision	18(b)	1,289,554	941,638
Claims outstanding	18(c)	48,956	40,305
		1,628,591	1,381,770
Technical provisions for linked liabilities	18(b)	273,286	24,190
Creditors			
Creditors arising out of direct insurance operations	19	100,041	112,631
Creditors arising out of reinsurance operations	20	7,854	10,925
Amounts owed to credit institutions	21	779	7
Other creditors including taxation and social security	22	17,366	9,512
Amounts due to Group undertakings		5,863	1,303
		131,903	134,378
Total liabilities		2,197,799	1,695,669

These financial statements were approved by the board of Directors on 27 March 2008

Signed on behalf of the board by:



A W Dreyer



P E Glen

PINNACLE INSURANCE PLC**NOTES FOR THE YEAR ENDING 31 DECEMBER 2007****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, premium income included in the profit and loss account is shown gross of commissions paid to intermediaries and is exclusive of Insurance Premium Tax and duties levied on premiums.

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet received or notified, less an allowance for cancellations.

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 an accruals basis.

Unearned premiums – gross and reinsurance

The general business provision for gross and reinsured unearned premiums represents the proportion of premiums written in the year that relates to the unexpired terms of policies in force at the balance sheet date. This is calculated on a time apportionment basis adjusted to reflect the Company's experience of the incidence of claims incurred over the term of those policies.

PINNACLE INSURANCE PLC (Notes continued)**Acquisition costs**

Acquisition costs, which represent commission and other related expenses, are deferred subject to recoverability and amortised over the period in which the related premiums are earned. The basis of amortisation reflects the experience of the underlying earned premiums.

Claims – gross and reinsurance

Claims incurred in respect of general business comprise claims and related expenses paid in the financial period and the movements in provision for outstanding claims and related expenses including provisions for claims incurred but not reported.

For long-term business, death claims 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 including claims incurred but not reported.

Claims outstanding

Outstanding claims comprise provisions for the estimated cost of claims incurred but not settled at the balance sheet date whether reported or not, together with related expenses.

The Company's actuaries produce a best estimate of reserves which are then assessed by management. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The ultimate liability arising from claims made under insurance contracts is a critical accounting estimate. As provisions for claims outstanding are based on information which is currently available, the eventual outcome may vary from the original assessment depending on the nature of information received or developments in future periods. Differences between the estimated cost and subsequent re-estimation or settlement of claims are reflected in the technical account in the year in which these claims are re-estimated or settled.

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 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 and a provision is established in the balance sheet.

Expenses

Underwriting acquisition costs, general overheads and other expenses are charged as incurred to the profit and loss technical account, net of the change in deferred acquisition costs. Investment expenses are charged to the profit and loss non-technical account

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, 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 and non-monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date. The gains or losses arising are included in the non-technical account. Income and expenditure expressed in foreign currencies are translated into sterling at the rate of exchange ruling on the date on which the transaction occurs.

Taxation

The charge for taxation on general business is based on the profit for the year, and takes into account taxation deferred because of timing differences between certain items for taxation and accounting purposes. Full provision is made for deferred tax in accordance with FRS 19 'Deferred Tax'.

The 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.

PINNACLE INSURANCE PLC (Notes continued)

Derivatives

The Company has acquired two equity bond derivatives to back policyholder investments bonds. The derivatives are linked to the FTSE 100 index on the London stock exchange and are held at cost and included in other financial investments in the balance sheet.

3. Segmental analysis by class of business	2007 £000	2006 £000
Gross premiums written		
General business	161,728	291,830
Long term business	1,092,228	537,675
	<u>1,253,956</u>	<u>829,505</u>
Profit before taxation:		
Non technical items have been allocated to general business		
General business	(1,754)	11,247
Long term business	14,164	6,823
	<u>12,410</u>	<u>18,070</u>
Segmental net assets		
General business (including shareholders' funds)	121,008	126,485
Long term business	43,011	28,847
	<u>164,019</u>	<u>155,332</u>

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

4. Segmental analysis	2007 Gross Premiums Written £000	2007 Gross Premiums Earned £000	2007 Gross Claims Incurred £000	2007 Gross Operating Expenses £000	2007 Reinsurance Balance £000
4(a) Analysis of general business					
Direct Insurance					
Creditor	121,400	216,326	(43,029)	(180,880)	969
Warranty	34,706	50,147	(14,044)	(47,166)	(109)
	<u>156,106</u>	<u>266,473</u>	<u>(57,073)</u>	<u>(228,046)</u>	<u>860</u>
Reinsurance	5,622	5,001	(201)	(2,222)	-
	<u>161,728</u>	<u>271,474</u>	<u>(57,274)</u>	<u>(230,268)</u>	<u>860</u>
	2006 Gross Premiums Written £000	2006 Gross Premiums Earned £000	2006 Gross Claims Incurred £000	2006 Gross Operating Expenses £000	2006 Reinsurance Balance £000
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>

PINNACLE INSURANCE PLC (Notes continued)

4(b) Analysis of long term business premiums	2007 £000	2006 £000
Single Premiums	1,079,418	528,227
Periodic Premiums	12,810	9,448
	<u>1,092,228</u>	<u>537,675</u>

The linked business premiums for 2007 was £337,899,000 (2006: £22,622,000).

4(c) Reinsurance balance – Long term business	2007 £000	2006 £000
Reinsurance balance – long term business	<u>1,412</u>	<u>(4,090)</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:

	2007 £000	2006 £000
Change before associated expenses	(6,372)	(14,006)
Unexpired risks	(325)	10,074
Less associated expenses	1,381	632
	<u>(5,316)</u>	<u>(3,300)</u>

6. Investment income	Technical account long term business		Non-technical account	
	2007 £000	2006 £000	2007 £000	2006 £000
Income from Group undertakings	-	-	885	788
Income from other financial investments	67,709	34,092	12,689	12,045
	<u>67,709</u>	<u>34,092</u>	<u>13,574</u>	<u>12,833</u>

7. Net operating expenses	General business		Long term business	
	2007 £000	2006 £000	2007 £000	2006 £000
Acquisition costs	134,336	234,696	39,935	57,677
Change in gross deferred acquisition costs	87,394	(34,765)	3,614	(15,070)
Administrative expenses	8,538	9,884	2,347	2,015
Gross operating expenses	<u>230,268</u>	<u>209,815</u>	<u>45,896</u>	<u>44,622</u>
Reinsurance commissions and profit participation	(1,113)	(6,945)	(632)	(5,192)
Change in deferred reinsurance commission	(2,607)	(2,970)	(2,019)	1,998
	<u>226,548</u>	<u>199,900</u>	<u>43,245</u>	<u>41,428</u>

PINNACLE INSURANCE PLC (Notes continued)

8. Profit on ordinary activities before tax is stated after charging:	2007 £000	2006 £000
Auditors' remuneration		
Audit	103	101
Other	16	14
	<u>119</u>	<u>115</u>

9. Remuneration of Directors

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

	2007 £000	2006 £000
Emoluments	704	571
Pension contributions to a defined contribution scheme	112	112
	<u>816</u>	<u>683</u>

	2007 £000	2006 £000
Emoluments of highest paid Director	190	156
Pension contributions of highest paid Director	28	36
	<u>218</u>	<u>192</u>

The number of Directors to whom retirement benefits are accruing under a defined contribution scheme are 6 (2006: 7).

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.

11. Tax on profit on ordinary activities	2007 £000	2006 £000
(a) Analysis of charge in the year		
UK corporation tax on profits for the year	3,723	4,921
Tax on profit on ordinary activities	<u>3,723</u>	<u>4,921</u>

PINNACLE INSURANCE PLC (Notes continued)

(b) Analysis of charge in the year	2007 £000	2006 £000
Profit on ordinary activities before tax	<u>12,410</u>	<u>18,070</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 % (2006: 30%)	3,723	5,421
Adjustment in respect of prior years	(67)	-
Other differences	67	(500)
Current tax charge for the year (note 11 (a))	<u>3,723</u>	<u>4,921</u>

12. Investments

(a) Investments in Group undertakings

The Company holds mortgages over properties held by a fellow subsidiary undertaking. As at 31 December 2007 the amounts invested were £14,000,000 (2006: £14,000,000).

(b) Other financial investments	Market Value		Cost	
	2007 £000	2006 £000	2007 £000	2006 £000
Listed shares	1,969	2,162	2,206	2,206
Debt securities and other fixed income securities	66,182	52,931	63,876	52,135
Deposits with credit institutions	<u>1,304,891</u>	<u>1,027,716</u>	<u>1,304,891</u>	<u>1,027,716</u>
	<u>1,373,042</u>	<u>1,082,809</u>	<u>1,370,973</u>	<u>1,082,057</u>

13. Assets held to cover linked liabilities

The total market value of assets held to cover linked liabilities was £273,286,000 (2006: £24,190,000) and includes £1,566,000 (2006: £1,336,000) 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 linked liabilities was £272,940,000 (2006: £24,902,000).

PINNACLE INSURANCE PLC (Notes continued)

14. Debtors arising out of direct insurance operations	2007	2006
	£000	£000
Amounts owed by policyholders	<u>17,889</u>	<u>29,289</u>
15. Debtors arising out of reinsurance operations	2007	2006
	£000	£000
Amounts due from reinsurers	<u>5,969</u>	<u>5,302</u>
16. Share capital	2007	2006
	£000	£000
Authorised 100 million ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
	2007	2006
	£000	£000
Allotted, called up and fully paid		
Ordinary shares of £1 each	74,196	74,196
Share Premium	<u>7,804</u>	<u>7,804</u>
	<u>82,000</u>	<u>82,000</u>
In 2006 the share capital was increased by £12,000,000 through the issue of 4,195,804 Ordinary shares of £1 each, which were issued at £2.86 per share creating a share premium of £7,804,000.		
17(a) Reserves	2007	2006
	£000	£000
At beginning of year	73,332	60,183
Profit for financial year	<u>8,687</u>	<u>13,149</u>
At end of year	<u>82,019</u>	<u>73,332</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 2007 were £43,011,000 (2006: £28,847,000).

PINNACLE INSURANCE PLC (Notes continued)

17 (b) Capital statement

Available capital resources	Total Life Business	
	2007	2006
	£000	£000
Shareholders' funds held outside the fund	121,008	126,485
Shareholders' funds held in the fund	43,011	28,847
Total shareholders' funds	164,019	155,332
Other adjustments	(3,514)	(5,046)
Total available capital resources	160,505	150,286

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 £760,000 on £1,152,415,000 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 scheme ceased in January 2007. 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)

18. Technical provisions		Provision for Unearned Premiums £000	Claims Outstanding £000	Total £000
18(a) General business				
Gross Amount				
At beginning of year		399,827	38,690	438,517
Movement in the provision		<u>(109,746)</u>	<u>9,650</u>	<u>(100,096)</u>
At end of year		<u>290,081</u>	<u>48,340</u>	<u>338,421</u>
Reinsurance amount				
At beginning of year		(11,560)	(8,642)	(20,202)
Movement in the provision		<u>3,881</u>	<u>(2,321)</u>	<u>1,560</u>
At end of year		<u>(7,679)</u>	<u>(10,963)</u>	<u>(18,642)</u>
Net technical provisions				
At end of year		<u>282,402</u>	<u>37,377</u>	<u>319,779</u>
At beginning of year		<u>388,267</u>	<u>30,048</u>	<u>418,315</u>
18(b) Long term business				
	Long Term Business Provision	Technical Provisions for Linked Liabilities	Claims Outstanding	Total
	£000	£000	£000	£000
At beginning of year	941,638	24,190	1,615	967,443
Movement from the long term business technical account	<u>347,916</u>	<u>249,096</u>	<u>(999)</u>	<u>596,013</u>
At end of year	<u>1,289,554</u>	<u>273,286</u>	<u>616</u>	<u>1,563,456</u>
Reinsurance amount				
At beginning of year	(28,746)	-	(926)	(29,672)
Movement from the long term business technical account	<u>3,367</u>	<u>-</u>	<u>685</u>	<u>4,052</u>
At end of year	<u>(25,379)</u>	<u>-</u>	<u>(241)</u>	<u>(25,620)</u>
Net technical provisions				
At beginning of year	912,892	24,190	689	937,771
Movement from the long term business technical account	<u>351,283</u>	<u>249,096</u>	<u>(314)</u>	<u>600,065</u>
At end of year	<u>1,264,175</u>	<u>273,286</u>	<u>375</u>	<u>1,537,836</u>

PINNACLE INSURANCE PLC (Notes continued)

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

	2007	2006		
<u>Rates of interest</u>				
Assurance :				
Without profit	5.0%	3.5%		
Guaranteed Growth Bonds				
Outstanding term less than 1 year	5.7%	4.7%		
Outstanding term less than 2 years	5.3%	4.8%		
Outstanding term less than 3 years	4.9%	4.6%		
Outstanding term less than 4 years	5.1%	4.3%		
Outstanding term less than 5 years	5.9%	5.0%		
Guaranteed Income Bonds				
Outstanding term less than 1 year	5.8%	4.7%		
Outstanding term less than 2 years	5.2%	4.8%		
Outstanding term less than 3 years	5.0%	4.5%		
Outstanding term less than 4 years	5.0%	4.1%		
Outstanding term less than 5 years	5.0%	4.5%		
Monthly Income Bonds				
Outstanding term less than 1 year	5.5%	4.7%		
Outstanding term less than 2 years	5.7%	4.8%		
Outstanding term less than 3 years	5.1%	4.4%		
Outstanding term less than 4 years	4.7%	4.4%		
Outstanding term less than 5 years	5.3%	4.3%		
Annuities :				
Without profit - Life	4.75%	4.3%		
Without profit - Pensions	4.75%	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		
18(c) Claims outstanding	Gross Amount		Reinsurance Amount	
	2007	2006	2007	2006
	£000	£000	£000	£000
General business	48,340	38,690	(10,963)	(8,642)
Long term business	616	1,615	(241)	(926)
	<u>48,956</u>	<u>40,305</u>	<u>(11,204)</u>	<u>(9,568)</u>

PINNACLE INSURANCE PLC (Notes continued)

18(d) Deferred acquisition costs	Gross Amount		Reinsurance Amount	
	2007 £000	2006 £000	2007 £000	2006 £000
General business	212,438	299,831	3,174	5,781
Long term business	86,932	90,547	1,832	3,873
	<u>299,370</u>	<u>390,378</u>	<u>5,006</u>	<u>9,654</u>

The reinsured amount of £5,006,000 (2006: £9,654,000) is included within Note 20 below.

18(e) Long term fund

At 31 December 2007 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 £ 1,626,782,000 (2006: £1,037,301,000).

19. Creditors arising out of direct insurance	2007 £000	2006 £000
Other creditors	<u>100,041</u>	<u>112,631</u>
20. Creditors arising out of reinsurance operations	2007 £000	2006 £000
Other creditors	<u>7,854</u>	<u>10,925</u>
21. Amounts owed to credit institutions	2007 £000	2006 £000
Payable in less than one year	<u>779</u>	<u>7</u>
22. Other creditors including taxation and social security	2007 £000	2006 £000
Corporation tax payable	4,173	2,566
Other taxes	5,932	5,893
Payment on account	5,370	-
Other creditor	1,891	1,053
	<u>17,366</u>	<u>9,512</u>
23. Commitments		

There were no outstanding capital commitments at 31 December 2007 (2006 £nil).

PINNACLE INSURANCE PLC (Notes continued)**24 Related party transactions**

The Company has relied on the exemption given in Financial Reporting Standard 8 not to disclose transactions with entities that are 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.

25 Transfer of Swedish business

On 19 December 2007 the High Court approved a Part VII transfer under the Financial Services and Markets Act 2000 (FSMA) of certain insurance assets and liabilities of its Swedish business to a fellow BNP Paribas Assurance Group subsidiary undertakings, Cardif Livförsäkring AB and Cardif Försäkring AB.

This transfer was effected on 31 December 2007 with the transfer of £2,366,000 of net technical provisions for cash consideration.

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.