

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Company Registration Number: 2713318

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2007

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COMPANIES HOUSE

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Directors

G Binet *

C J Schwick M B A

R J Mee F C I B S *

G B Raingold F C A M Sc F Inst D *

A D Swain B Ed

BNP Paribas Assurance (formerly Cardif S A)

Cardif Assurance Vie

Cardif-Assurance Risques Divers

P E Glen ACA B Sc

A J Golding FCA B Sc

J Castagno A C I I

* Non-Executive Directors

Secretary

Matthew Lorimer LL B (Hons) Solicitor

Registered Office

Pinnacle House

A1 Barnet Way

Borehamwood

Hertfordshire

WD6 2XX

Auditor

Mazars LLP

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Principal Bankers

Bank of Scotland plc

Chief Office

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London

EC2P 2EH

Royal Bank of Scotland plc

Corporate Banking Office

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London

EC3P 3HX

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54 Lombard Street

London

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CARDIF PINNACLE INSURANCE HOLDINGS PLC**DIRECTORS' REPORT**

The Directors present their annual report and the audited financial statements for the year ended 31 December 2007

Principal activities, review of business and future developments

The Company's principal activity is the holding of investments in subsidiaries. The Group's main business is the provision of insurance and related services primarily in respect of Creditor Insurance, Extended Warranty, single premium and Investment-Linked Bonds in the United Kingdom and to a lesser extent in South Africa and the Republic of Ireland. Two other main subsidiaries in the Group provide management services and property services to the group via management and rental agreements.

Protection business

Throughout 2007, the Group 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 Group has worked closely with the Competition Commission requirements through its review of the creditor market, helping to ensure the Group 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 Group as New Product Development & Marketing Director to support the Group'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 Pinnacle Insurance plc (a subsidiary of the Company) in the Investment of the Flexible Asset Bond ("FAB") product 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 Pinnacle Insurance plc wrote in excess of £1 billion Gross Written Premium in 2007.

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

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

The performance of the Group has been affected by the tough market conditions noted, resulting in a decline in the Protection business Gross Written Premium of 42% to £216,000k (2006 £365,000k). 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 £1,044,000k in 2007 (2006 £464,000k), 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 £15,880k (2006 £20,243k). This leaves the Group's balance sheet in a good position in terms of net assets and also to develop future opportunities in 2008 and beyond.

The Group 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.

The Company has provided letters of support to two of its subsidiaries Financial Telemarketing Services Limited and Cardif Pinnacle Europe Limited, and has committed to provide financial assistance to these subsidiaries if required.

On 28 March 2007 the Company sold its investment in Cardif Pinnacle Forsakring AB. The investment was sold for £882,000 which represents a profit on disposal of £872,000.

On 14 November 2007 the Company sold its investment in Cardif Holdings inc for £5,703,000 with the amortisation of the remaining goodwill and foreign exchange loss excluded the company realised a loss in disposal of £352,000.

On 31 December 2007, Pinnacle Insurance plc a subsidiary of 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 Livforsakring AB and Cardif Forsakring, 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 Group, with anticipated growth opportunities across all classes of business.

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 26.25 (2006 28.26).

Results and dividends

The Directors recommend the payment of a dividend of £105,000 (2006 £105,000) in respect of the ordinary shares (10 Op per share) and £17,000 (2006 £16,000) in respect of the preference shares.

The net profit for the financial year for the group is £12,116k (2006 £14,079k).

CARDIF PINNACLE INSURANCE HOLDINGS PLC

DIRECTORS' REPORT (Continued)

Post balance sheet event

On 19 March 2008 the Company acquired 100% share capital of Direct Life and Pension Service Limited for purchase price of £19,000,000 but is subject to the agreement of completion accounts

On 4 April 2008 the Company acquired 88 33% share capital of Warranty Direct Limited for purchase price of £13,189,557 but is subject to the agreement of completion accounts

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

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

The Directors who held office during the year were as follows -

| | |
|--|----------------------------|
| BNP Paribas Assurance (formerly Cardif S A) | change of name 4 July 2007 |
| Cardif Assurance Vie | |
| Cardif Assurance Risques Divers | |
| P E Glen | |
| R J Mee* | |
| G B Raingold* | |
| C J Schwick | |
| A D Swain | |
| G Binet (Chairman) * | appointed 29 November 2007 |
| J Castagno | appointed 29 November 2007 |
| A Golding | appointed 29 November 2007 |
| C S Mills LL B | resigned 30 March 2007 |
| N A Shuker* | resigned 26 June 2007 |
| P de Villeneuve (Chairman)* | resigned 29 November 2007 |
| P J Bloxham | resigned 31 March 2008 |
| A W Dreyer | resigned 30 June 2008 |

* Non-Executive Directors

CARDIF PINNACLE INSURANCE HOLDINGS PLC**DIRECTORS' REPORT (Continued)****FINANCIAL INSTRUMENTS****Treasury operations and financial instruments**

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

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

RISK MANAGEMENT

The Group's activities expose the business to a number of key risks which have the potential to affect the Group'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 Group'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 Group seeks to balance this insurance risk with reward.

Credit risk

The Group's exposure to credit risk arises from its direct insurance trading activities, reinsurances and those of its investment activities. The Group, 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 Group to meet obligations as they fall due. The Group, 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 Group 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.

Market risk

Market risk is the risk arising from fluctuations in the values of, or income from assets, interest rates or exchange rates. The Group 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.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

DIRECTORS' REPORT (Continued)

Operational risk

Operational risk is the risk of loss resulting from inadequate internal processes, people or systems, or from external events. The Group 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.

Foreign currency risk

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

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 489(4) of the Companies Act 2006, a resolution for the re-appointment of Mazars LLP as auditors to the Company will be proposed at the forthcoming annual general meeting.

By order of the Board



Director

Date: 31 JUL 2008

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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 of 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 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.

Disclosure of information to auditors

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

CARDIF PINNACLE INSURANCE HOLDINGS PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CARDIF PINNACLE INSURANCE HOLDINGS PLC

We have audited the group and parent company financial statements (the "financial statements") of Cardif Pinnacle Insurance Holdings plc for the year ended 31 December 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, Consolidated Statement of recognised gains and losses and related notes. These financial statements have been prepared under accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of 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 (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 (UK 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 group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent Company's affairs as at 31 December 2007 and of the Group's 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
and Registered Auditor
Tower Bridge House
St Katharine's Way
London

31 July 2008

CARDIF PINNACLE INSURANCE HOLDINGS PLC

CONSOLIDATED PROFIT AND LOSS TECHNICAL ACCOUNT - GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2007

| | | <u>2007</u> | <u>2006</u> |
|---|-------------|----------------|---------------|
| | <u>Note</u> | £000 | £000 |
| Earned premiums, net of reinsurance | | | |
| Gross premiums written | 4(a) | 167,385 | 299,916 |
| Outward reinsurance premiums | | (5,784) | (10,435) |
| | | <hr/> | <hr/> |
| | | 161,601 | 289,481 |
| Change in the gross provision for unearned premiums | 28(a) | 111,077 | (30,436) |
| Change in the provision for unearned premiums, reinsurers' share | 28(a) | (3,811) | (8,075) |
| | | <hr/> | <hr/> |
| | | 107,266 | (38,511) |
| | | <hr/> | <hr/> |
| | | 268,867 | 250,970 |
| | | <hr/> | <hr/> |
| Allocated investment return transferred | | 5,818 | 6,374 |
| Claims incurred, net of reinsurance | | | |
| Claims paid | | | |
| Gross amount | | (48,065) | (66,725) |
| Reinsurers' share | | 6,036 | 9,717 |
| | | <hr/> | <hr/> |
| | | (42,029) | (57,008) |
| Change in the provision for claims | | | |
| Gross amount | 28(a) | (10,168) | 15,455 |
| Reinsurers' share | 28(a) | 2,714 | (4,961) |
| | | <hr/> | <hr/> |
| | | (7,454) | 10,494 |
| | | <hr/> | <hr/> |
| | | (49,483) | (46,514) |
| | | <hr/> | <hr/> |
| Net operating expenses | 7 | (227,291) | (199,649) |
| | | <hr/> | <hr/> |
| Sub-total (balance on the technical account -general business) | | <u>(2,089)</u> | <u>11,181</u> |

CARDIF PINNACLE INSURANCE HOLDINGS PLC

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

| | | <u>2007</u> | <u>2006</u> |
|---|-------------|---------------------|--------------------|
| | <u>Note</u> | £000 | £000 |
| Earned premiums, net of reinsurance | | | |
| Gross premiums written | 4(b) | 1,092,648 | 538,754 |
| Outward reinsurance premiums | | (3,296) | (9,293) |
| | | <hr/> 1,089,352 | <hr/> 529,461 |
| Investment income | 6 | 67,709 | 34,092 |
| Realised gains/(losses) on investments | | (842) | 180 |
| | | <hr/> 66,867 | <hr/> 34,272 |
| | | <hr/> 1,156,219 | <hr/> 563,733 |
| Claims incurred, net of reinsurance | | | |
| Claims paid | | | |
| Gross amount | | (504,078) | (263,506) |
| Reinsurers' share | | 4,558 | 3,533 |
| | | <hr/> (499,520) | <hr/> (259,973) |
| Change in the provision for claims | | | |
| Gross amount | 28(b) | 1,045 | 586 |
| Reinsurers' share | 28(b) | (682) | (756) |
| | | <hr/> 363 | <hr/> (170) |
| | | <hr/> (499,157) | <hr/> (260,143) |
| Change in other technical provisions | | | |
| Long term business provision | | | |
| Gross amount | 28(b) | (346,872) | (231,195) |
| Reinsurers' share | 28(b) | (1,919) | (2,411) |
| Technical provisions for linked liabilities | 28(b) | (249,096) | (18,364) |
| | | <hr/> (597,887) | <hr/> (251,970) |
| Net operating expenses | 7 | (44,410) | (42,328) |
| Unrealised gains/(losses) on investments | | 782 | (678) |
| Sub-total (balance on the technical account -long term business) | | <hr/> <u>15,547</u> | <hr/> <u>8,614</u> |

CARDIF PINNACLE INSURANCE HOLDINGS PLC

**CONSOLIDATED PROFIT AND LOSS NON-TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007**

| | Note | <u>2007</u> £000 | <u>2006</u> £000 |
|--|------|---------------------|---------------------|
| Balance on the general business technical account | | (2,089) | 11,181 |
| Balance on the long term business technical account | | 15,547 | 8,614 |
| | | <hr/> | <hr/> |
| | | 13,458 | 19,795 |
| Investment income | 6 | 16,204 | 14,480 |
| Unrealised gains/(losses) on investments | | 27 | (1,701) |
| Realised gains/(losses) on investments | | (188) | 77 |
| Investment expenses and charges | | (4,680) | (3,602) |
| | | <hr/> | <hr/> |
| | | 11,363 | 9,254 |
| Allocated investment return transferred to the general business account | | (5,818) | (6,374) |
| Other income | 8 | 15,082 | 25,267 |
| Other charges | 8 | (18,409) | (26,796) |
| | | <hr/> | <hr/> |
| | | 2,218 | 1,351 |
| Operating profit from continuing activities | | <hr/> | <hr/> |
| | | 15,676 | 21,146 |
| Profit on sale of subsidiaries from discontinued activities | 9 | 520 | - |
| Share of associated operating loss from discontinuing activities | | (316) | (903) |
| | | <hr/> | <hr/> |
| Profit on ordinary activities before tax | 10 | 15,880 | 20,243 |
| Tax on profit on ordinary activities | 13 | (3,764) | (6,164) |
| | | <hr/> | <hr/> |
| Net profit for the financial year | | 12,116 | 14,079 |
| | | <hr/> | <hr/> |

CARDIF PINNACLE INSURANCE HOLDINGS PLC

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2007

| | <u>2007</u> | <u>2006</u> |
|---|---------------|---------------|
| | £000 | £000 |
| Net profit for the financial year | 12,116 | 14,079 |
| Revaluation reserves | - | 5,401 |
| Foreign exchange translated adjustment | 206 | (202) |
| Total recognised gains for the financial year | <u>12,322</u> | <u>19,278</u> |

CARDIF PINNACLE INSURANCE HOLDINGS PLC

**CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2007**

| | | <u>2007</u> | <u>2006</u> |
|--|-------|-------------|-------------|
| | Note | £000 | £000 |
| ASSETS | | | |
| Investments | | | |
| Land and buildings | 18 | 21,799 | 23,191 |
| Other financial investments | 19 | 1,396,994 | 1,107,749 |
| | | <hr/> | <hr/> |
| | | 1,418,793 | 1,130,940 |
| Investments in participating interests | 17 | - | 6,426 |
| Assets held to cover linked liabilities | 20 | 273,286 | 24,190 |
| Reinsurers' share of technical provisions | | | |
| Provision for unearned premiums | 28(a) | 6,214 | 8,817 |
| Long term business provision | 28(b) | 26,827 | 28,819 |
| Claims outstanding | 28(c) | 10,174 | 8,422 |
| | | <hr/> | <hr/> |
| | | 43,215 | 46,058 |
| Debtors | | | |
| Debtors arising out of direct insurance operations | 21 | 21,078 | 34,005 |
| Debtors arising out of direct reinsurance operations | 22 | 5,969 | 5,303 |
| Other debtors | 23 | 7,253 | 2,255 |
| | | <hr/> | <hr/> |
| | | 34,300 | 41,563 |
| Other assets | | | |
| Tangible assets | 24 | 3,134 | 4,213 |
| Cash at bank and in hand | | 141,541 | 85,038 |
| | | <hr/> | <hr/> |
| | | 144,675 | 89,251 |
| Prepayments and accrued income | | | |
| Accrued interest | | 43,216 | 29,176 |
| Deferred acquisition costs | 28(d) | 300,568 | 393,106 |
| Other prepayments and accrued income | | 6,251 | 22,027 |
| | | <hr/> | <hr/> |
| | | 350,035 | 444,309 |
| | | <hr/> | <hr/> |
| Total assets | | 2,264,304 | 1,782,737 |
| | | <hr/> <hr/> | <hr/> <hr/> |

CARDIF PINNACLE INSURANCE HOLDINGS PLC

CONSOLIDATED BALANCE SHEET (continued)
AT 31 DECEMBER 2007

| | | <u>2007</u> | <u>2006</u> |
|--|-------|-------------|-------------|
| | Note | £000 | £000 |
| LIABILITIES | | | |
| Capital and reserves | | | |
| Called up share capital | 25 | 1,304 | 1,299 |
| Share premium | 27(a) | 3,141 | 2,060 |
| Profit and loss account | 27(a) | 117,404 | 105,187 |
| Revaluation Reserves | 27(a) | 11,462 | 11,462 |
| | | <hr/> | <hr/> |
| Total shareholder funds | | 133,311 | 120,008 |
| Technical provisions | | | |
| Provision for unearned premiums | 28(a) | 296,100 | 409,845 |
| Long term business provision | 28(b) | 1,293,675 | 945,725 |
| Claims outstanding | 28(c) | 51,414 | 42,472 |
| | | <hr/> | <hr/> |
| | | 1,641,189 | 1,398,042 |
| Technical provisions for linked liabilities | 28(b) | 273,286 | 24,190 |
| Creditors | | | |
| Creditors arising out of direct insurance operations | | 100,796 | 114,517 |
| Creditors arising out of direct reinsurance operations | | 8,005 | 11,236 |
| Amounts owed to credit institutions | 29 | 779 | 7 |
| Other creditors including taxation and social security | 30(a) | 93,940 | 94,839 |
| Amounts due to Group undertakings | | 4,816 | - |
| | | <hr/> | <hr/> |
| | | 208,336 | 220,599 |
| Accruals and deferred income | | <hr/> | <hr/> |
| | | 8,182 | 19,898 |
| Total liabilities | | <hr/> | <hr/> |
| | | 2,264,304 | 1,782,737 |
| | | <hr/> | <hr/> |

CARDIF PINNACLE INSURANCE HOLDINGS PLC

PARENT COMPANY BALANCE SHEET
AT 31 DECEMBER 2007

| | | 2007 | 2006 |
|--|-------|-----------------|-----------------|
| | Note | £000 | £000 |
| Fixed assets | | | |
| Investments | 16 | 203,038 | 197,337 |
| Other financial investments | | <u>1,000</u> | <u>-</u> |
| | | 204,038 | 197,337 |
| Current assets | | | |
| Debtors | 23 | 4,819 | 2,431 |
| Cash at bank and in hand | | <u>755</u> | <u>2,709</u> |
| | | 5,574 | 5,140 |
| Creditors : | | | |
| Amount falling due within one year | 30(b) | <u>(2,235)</u> | <u>(1,705)</u> |
| Net current assets | | <u>3,339</u> | <u>3,435</u> |
| Total assets less current liabilities | | 207,377 | 200,772 |
| Creditors : | | | |
| Amount falling due after more than one year | 30(c) | <u>(74,066)</u> | <u>(80,764)</u> |
| Net assets | | <u>133,311</u> | <u>120,008</u> |
| Capital and reserves | | | |
| Equity shareholders' funds | | | |
| Called up share capital | 25 | 1,304 | 1,299 |
| Share premium | 27(a) | 3,141 | 2,060 |
| Revaluation Reserves | 27(a) | 116,118 | 105,768 |
| Profit and loss account | 27(a) | <u>12,748</u> | <u>10,881</u> |
| Total shareholders' funds | | <u>133,311</u> | <u>120,008</u> |

These financial statements were approved by the Board of Directors on 31 JUL 2008

Signed on behalf of the Board by:



A J Golding



P E Glen

CARDIF PINNACLE INSURANCE HOLDINGS PLC**Notes to the Consolidated Financial Statements
For the year ended 31 December 2007****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 the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers dated December 2006. 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 Cardiff Pinnacle Insurance Holdings plc and its subsidiary undertakings, all of which are drawn up at 31 December 2007. In the Group financial statements, 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 and Company 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

Fixtures, fittings and equipment 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 |

CARDIF PINNACLE INSURANCE HOLDINGS PLC**Notes to the Consolidated Financial Statements (continued)****Land and buildings**

Land and buildings are revalued every five years with an interim valuation every third. Any increase or decrease in value is transferred to the revaluation reserve. Depreciation on buildings is provided at 2% per annum on a straight-line basis.

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 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.

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.

CARDIF PINNACLE INSURANCE HOLDINGS PLC**Notes to the Consolidated Financial Statements (continued)****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 creditor 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.

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.

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.

CARDIF PINNACLE INSURANCE HOLDINGS PLC**Notes to the Consolidated Financial Statements (continued)****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

Transactions in currencies other than Sterling are translated at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to Sterling at the rates of exchange ruling at the end of the financial year. Foreign exchange differences are reported in the profit and loss account in the period in which they arise.

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.

CARDIF PINNACLE INSURANCE HOLDINGS PLC**Notes to the Consolidated Financial Statements (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.

Investments in subsidiaries and participating interests

Investments in subsidiary undertakings and participating interests are valued as the Group share of the net asset value of the underlying investment 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.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings is recorded as an intangible asset. Goodwill arising on the acquisition of participating interests is recorded in the carrying value of the investment. 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 these 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.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

| 3. Segmental analysis by class of business | 2007 £000 | 2006 £000 |
|--|------------------|----------------|
| Gross premiums written | | |
| General business | 167,385 | 299,916 |
| Long term business | 1,092,648 | 538,754 |
| Non-insurance business | 15,082 | 25,267 |
| | <u>1,275,115</u> | <u>863,937</u> |
| Profit before taxation | | |
| General business | (2,089) | 11,181 |
| Long term business | 15,547 | 8,614 |
| Non-insurance business | 2,422 | 448 |
| | <u>15,880</u> | <u>20,243</u> |
| Segmental net assets | | |
| General business | 86,886 | 95,469 |
| Long term business | 46,586 | 25,037 |
| Non-insurance business | (161) | (498) |
| | <u>133,311</u> | <u>120,008</u> |

The business has been treated as one geographical market, being the UK and the Republic of Ireland, as any business outside this market is considered immaterial

4. Business Analysis

| 4(a) General business | 2007 Gross Premiums Written £000 | 2007 Gross Premiums Earned £000 | 2007 Gross Claims Incurred £000 | 2007 Gross Operating Expenses £000 | 2007 Reinsurance Balance £000 |
|-----------------------|--|---|---|--|--|
| Direct Insurance | | | | | |
| Creditor | 123,004 | 216,325 | (43,329) | (181,623) | 2,655 |
| Warranty | 34,706 | 50,147 | (14,044) | (47,166) | (109) |
| | <u>157,710</u> | <u>266,472</u> | <u>(57,373)</u> | <u>(228,789)</u> | <u>2,546</u> |
| Reinsurance | 9,675 | 11,991 | (305) | (2,222) | - |
| | <u>167,385</u> | <u>278,463</u> | <u>(57,678)</u> | <u>(231,011)</u> | <u>2,546</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 | 225,750 | 196,963 | (34,331) | (167,836) | (4,375) |
| Warranty | 63,072 | 63,395 | (16,298) | (40,018) | 537 |
| | <u>288,822</u> | <u>260,358</u> | <u>(50,629)</u> | <u>(207,854)</u> | <u>(3,838)</u> |
| Reinsurance | 11,094 | 9,121 | (634) | (1,711) | - |
| | <u>299,916</u> | <u>269,479</u> | <u>(51,263)</u> | <u>(209,565)</u> | <u>(3,838)</u> |

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

| 4(b) Long term business premiums | 2007 £000 | 2006 £000 |
|----------------------------------|------------------|----------------|
| Single premiums | 1,079,838 | 529,306 |
| Periodic premiums | 12,810 | 9,448 |
| | <u>1,092,648</u> | <u>538,754</u> |

The linked business premium 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>1,086</u> | <u>(6,261)</u> |

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

| | 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> |

| | Technical Account Long Term Business | | Non-technical account | |
|-------------------------------|---|---------------|-----------------------|---------------|
| 6. Investment Income | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Income from other investments | <u>67,709</u> | <u>34,092</u> | <u>16,204</u> | <u>14,480</u> |

| | General Business | | Long Term Business | |
|--|------------------|----------------|--------------------|---------------|
| 7. Net operating expenses | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Acquisition costs | 135,023 | 235,930 | 41,164 | 59,354 |
| Change in gross deferred acquisition costs | 87,450 | (36,249) | 3,550 | (16,374) |
| Administrative expenses | 8,538 | 9,884 | 2,347 | 2,014 |
| Gross operating expenses | <u>231,011</u> | <u>209,565</u> | <u>47,061</u> | <u>44,994</u> |
| Reinsurance commissions and profit participation | (1,113) | (6,946) | (632) | (4,664) |
| Change in deferred reinsurance commission | (2,607) | (2,970) | (2,019) | 1,998 |
| | <u>227,291</u> | <u>199,649</u> | <u>44,410</u> | <u>42,328</u> |

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

| 8. Other (charges)/income | 2007 | 2006 |
|----------------------------------|-----------------|-----------------|
| | £000 | £000 |
| Turnover | <u>15,082</u> | <u>25,267</u> |
| Cost of sales | (15,514) | (24,450) |
| Distribution costs | (587) | (554) |
| Administrative expenses | <u>(2,308)</u> | <u>(1,792)</u> |
| | <u>(18,409)</u> | <u>(26,796)</u> |
| | <u>(3,327)</u> | <u>(1,529)</u> |

The turnover mainly relates to sale of extended warranty service contracts

| 9. Profit/(loss) on sale of subsidiaries from discontinued activities | 2007 | 2006 |
|--|--------------|-------------|
| | £000 | £000 |
| Gain on disposal of net assets in Cardif Pinnacle Forsakring AB | 872 | - |
| Loss on disposal of net assets in Cardif Holdings inc | <u>(352)</u> | <u>-</u> |
| | <u>520</u> | <u>-</u> |

On 28 March 2007 the Company sold its investment in Cardif Pinnacle Forsakring AB. The investment was sold for £882,000 which represents a profit on disposal of £872,000.

On 14 November 2007 the Company sold its investment in Cardif Holdings inc for £5,703,000 with the amortisation of the remaining goodwill and foreign exchange loss excluded the company realised a loss in disposal of £352,000.

| 10. Profit on ordinary activities before tax is stated after charging: | 2007 | 2006 |
|---|--------------|--------------|
| | £000 | £000 |
| Auditors' remuneration | | |
| Audit – Group | 393 | 243 |
| Audit – Company | 10 | 8 |
| Other services | 35 | 25 |
| Amortisation of goodwill | 316 | 380 |
| Depreciation of buildings and other tangible assets | <u>2,639</u> | <u>717</u> |
| | <u>3,393</u> | <u>1,373</u> |

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

11. Remuneration of Directors

The Directors received the following emoluments paid in respect of their services as Directors of this Company

| | 2007 £000 | 2006 £000 |
|--|--------------|--------------|
| Emoluments | 737 | 613 |
| Pension contributions | 155 | 205 |
| | <u>892</u> | <u>818</u> |
| | 2007 £000 | 2006 £000 |
| Emoluments of highest paid Director | 419 | 257 |
| Pension contributions of highest paid Director | 61 | 91 |
| | <u>480</u> | <u>348</u> |

The numbers of Directors to whom retirement benefits are accruing under a defined contribution scheme are 2 (2006 2)

12. Staff numbers and costs

| | 2007 Number | 2006 Number |
|---|----------------|----------------|
| The average number of employees (including Directors) during the year was | | |
| Sales | 188 | 206 |
| Administration | 526 | 529 |
| | <u>714</u> | <u>735</u> |
| | 2007 £000 | 2006 £000 |
| Employment costs | | |
| Wages and salaries | 19,603 | 18,920 |
| Social Security costs | 2,123 | 1,823 |
| Other pension costs | 1,617 | 1,597 |
| | <u>23,343</u> | <u>22,340</u> |

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

13. Taxation on profits on ordinary activities

Analysis of charge for the period

| | 2007 £000 | 2006 £000 |
|---------------------------------------|--------------|--------------|
| Tax on the Group's profit | | |
| Corporation tax | 4,949 | 6,253 |
| Adjustment in respect of prior years | (1,089) | - |
| Total current tax (factors below) | <u>3,860</u> | <u>6,253</u> |
| Deferred taxation | <u>(96)</u> | <u>(89)</u> |
| Tax on profits on ordinary activities | <u>3,764</u> | <u>6,164</u> |

| | 2007 £000 | 2006 £000 |
|---|---------------|---------------|
| Profit on ordinary activities | <u>15,880</u> | <u>20,243</u> |
| Assessment at standard rate of UK corporation tax (30%) | 4,764 | 6,073 |
| Effects of | | |
| Expenses not liable for tax purposes | 334 | 984 |
| Capital Allowances versus depreciation | 99 | 196 |
| Profit on disposal subsidiaries | (156) | - |
| Adjustment in respect of prior years | (1,089) | - |
| Lower tax rate on overseas earnings | (407) | (409) |
| Other differences | 315 | (591) |
| Current tax charge (analysis above) | <u>3,860</u> | <u>6,253</u> |

| 14. Deferred taxation | 2007 £000 | 2006 £000 |
|--|--------------|--------------|
| Included in other prepayments and accrued income | | |
| Deferred tax asset at 1 January 2007 | 97 | 8 |
| Charge for accelerated capital allowances | 99 | 86 |
| Adjustment in respect of prior years | (3) | 3 |
| Deferred tax asset at 31 December 2007 | <u>193</u> | <u>97</u> |

There are no immediate plans for Cardif Pinnacle Holdings plc to dispose of its investments in Group undertakings, however, should such a disposal occur, it is anticipated that there would be a negligible capital gains liability as the substantial shareholding exemption would be used against any chargeable gains.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

| 15. Reserves and dividends (Company) | 2007 | 2006 |
|--|-------------|-------------|
| | £000 | £000 |
| (a) Amounts transferred to reserves (including proposed amounts) | 1,347 | 964 |
| (b) Ordinary share dividends paid | 105 | 105 |
| (c) Preference share dividends paid | 17 | 16 |

Dividends paid in respect of preference share capital have been included in "investment expenses and charges" in the non technical profit and loss account

16. Investments held as fixed assets-Company

| | 2007 |
|--|----------------|
| | £000 |
| Cost or valuation | |
| Opening balance 1 January 2007 | 203,507 |
| Additions | 1,000 |
| Disposal | (7,635) |
| Revaluations | 10,350 |
| Closing balance 31 December 2007 | <u>207,222</u> |
| Provision for diminution in value | |
| Opening balance 1 January 2007 | 6,170 |
| Net write off for the year | <u>(1,986)</u> |
| Closing balance 31 December 2007 | <u>4,184</u> |
| Net Book Value | |
| At 31 December 2007 | <u>203,038</u> |
| At 1 January 2007 | <u>197,337</u> |

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

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

16. Investments in Group Undertakings - continued

The closing balance comprises the investments in the following subsidiary undertakings

| Subsidiary Company | Country of Incorporation | Principal Activity | Class of shares held | Holding 2007 | Holding 2006 |
|--|--------------------------|----------------------------|------------------------|--------------|--------------|
| Cardif 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 | 100% | 100% |
| Financial Telemarketing Services Limited | Great Britain | Telemarketing | Ordinary | 100% | 100% |
| Avida Solutions Limited ¹ | Great Britain | Other Services | Ordinary | 100% | 100% |
| European Reinsurance Limited | Guernsey | Reinsurance | Ordinary | 100% | 100% |
| Cardif Pinnacle Insurance Property Services plc | Great Britain | Property | Ordinary | 100% | 100% |
| Pinnacle Insurance Holdings (Proprietary) Limited | South Africa | Holding | Ordinary | 100% | 100% |
| Pinnafrica Insurance Limited ² | South Africa | General Insurance | Ordinary | 100% | 100% |
| Pinnafrica Life Limited ² | South Africa | Life Insurance | Ordinary | 100% | 100% |
| Guaranteed Underwriting Agency Limited | Great Britain | Insurance Broker | Ordinary Preference | 100% 100% | 100% 100% |
| Pinnacle Pet Healthcare Limited | Great Britain | Insurance Broker | Ordinary | 100% | 100% |
| Cardif Pinnacle Europe Limited | Great Britain | Holding | Ordinary | 100% | 100% |
| USP Strategies Limited ³ | Great Britain | Other Services | Ordinary | 100% | 100% |
| Extended ServicePlan Limited ⁴ | Guernsey | Warranty Sales | Ordinary | 100% | 100% |
| ServicePlan Limited ⁴ | Isle of Man | Warranty Sales | Ordinary | 100% | 100% |
| First Home Services Limited ⁴ | Isle of Man | Warranty Sales | Ordinary | 100% | 100% |
| ServicePlus Limited ⁴ | Isle of Man | Warranty Sales | Ordinary | 100% | 100% |
| Warranty ServicePlan Limited ⁴ | Isle of Man | Management | Ordinary | 100% | 100% |
| Warranty Service Solutions Limited ⁴ | Great Britain | Warranty Sales | Ordinary | 100% | 100% |
| St George's Insurance Service Limited ² | Great Britain | Service Business | Ordinary | 100% | 100% |

Dormant companies are excluded from this list

¹ Shares held by Financial Telemarketing Services Limited

² Shares held by Pinnacle Insurance Holdings (Proprietary) Limited

³ Shares held by Cardif Pinnacle Europe Limited

⁴ Shares held by USP Strategies Limited

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

17. Investments in participating interests

Cardif Holdings Inc is an intermediate holding Company set up to hold all of BNP Paribas Assurance's investments in the United States of America. On 14 November 2007 the Company sold its investment for £5,704,000 with the amortisation of the remaining goodwill and foreign exchange loss excluded the company realised a loss in disposal of £354,000

Cardif Holding Inc

**Group and
Company
2007**

£000

| | |
|--|--------------|
| Sale Proceeds | 5,704 |
| Less: | |
| Net asset of year at the date of disposal | (5,757) |
| Goodwill not yet charged through the profit and loss account | (351) |
| Loss on disposal | (404) |
| Excluded foreign exchange loss | 53 |
| Less the loan early redemption charge | (3) |
| Loss on disposal | (354) |

18 Land and buildings-Group

**Freehold
Property
£000**

Group

| | |
|---|---------------|
| Valuation at 1 January 2007 | 23,381 |
| Disposal | (1,051) |
| Valuation at 31 December 2007 | 22,330 |
| Depreciation at 1 January 2007 | 190 |
| Charge for the year | 544 |
| Disposals | (203) |
| Depreciation at 31 December 2007 | 531 |
| Net Book Value at 31 December 2007 | 21,799 |
| Net Book Value at 1 January 2007 | 23,191 |

The historical costs of the properties are £14,551,000. Accumulated depreciation and the net book value of the properties if they had been valued at historical cost would have been £2,472,000 and £12,078,000 respectively.

The Company's freehold properties (except for 152 and 154 Great North Road) were valued by Stimpsons, Chartered Surveyors, on 31 December 2006. These valuations have been incorporated in the financial statements and the resulting revaluation adjustments for the year end 31 December 2006 of £5,401,000 has been transferred to the revaluation reserve.

The Company's freehold properties 152 and 154 Great North Road were sold during the year. Property 152 sold on 8 November 2007 for price of £640,000 and made a profit of £126,000. Property 154 Great North Road sold on 18 May 2007 for price of £550,000 and made a profit of £215,000. The total profit on disposal of £341,000 has been recognised in the profit and loss account.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

18. Land and building-Group (continued)

No provision has been made for additional United Kingdom taxation of £1,323,000 which would arise if the properties were disposed of at their revalued amount
Properties are secured by a legal mortgage held by a fellow subsidiary undertaking

| 19. Other financial investments - Group | Market Value | | Cost | |
|---|------------------|------------------|------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| | £000 | £000 | £000 | £000 |
| Shares and other variable-yield securities and units in unit trusts | 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 | 1,328,843 | 1,052,656 | 1,328,843 | 1,052,656 |
| | <u>1,396,994</u> | <u>1,107,749</u> | <u>1,394,925</u> | <u>1,106,997</u> |

20. Assets held to cover linked liabilities - Group

The total market value of assets held to cover linked liabilities is £273,286,000 (2006 £24,190,000) and includes £1,566,000 (2006 £1,336,000) relating to derivatives held to back equity based products linked to the FTSE 100 or Nasdaq 100

The purchase price of investments included under assets held to cover liabilities was £272,940,000 (2006 £24,902,000)

| 21. Debtors arising out of direct insurance operations - Group | 2007 | 2006 |
|--|---------------|---------------|
| | £000 | £000 |
| Amounts owed by intermediaries | <u>21,078</u> | <u>34,005</u> |

| 22. Debtors arising out of direct reinsurance operations - Group | 2007 | 2006 |
|--|--------------|--------------|
| | £000 | £000 |
| Amounts due from reinsurers | <u>5,969</u> | <u>5,303</u> |

| 23. Other Debtors | Group | | Company | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| | £000 | £000 | £000 | £000 |
| Trade debtors | 3,073 | 1,034 | - | - |
| Amounts due from group undertakings | - | - | 3,290 | 1,521 |
| Tax debtor | 412 | 209 | - | - |
| Sundry debtors | 3,768 | 1,012 | 1,529 | 910 |
| | <u>7,253</u> | <u>2,255</u> | <u>4,819</u> | <u>2,431</u> |

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

| 24. Tangible assets – Group | Fixtures & Fittings £000 | Motor Vehicles £000 | Computer Equipment £000 | Total £000 |
|---|-----------------------------|------------------------|----------------------------|---------------|
| Cost at 1 January 2007 | 8,501 | 2,067 | 8,159 | 18,727 |
| Additions | 189 | 525 | 523 | 1,237 |
| Disposals | (20) | (663) | (169) | (852) |
| Cost at 31 December 2007 | 8,670 | 1,929 | 8,513 | 19,112 |
| Depreciation at 1 January 2007 | 6,537 | 1,007 | 6,970 | 14,514 |
| Disposals | (3) | (503) | (126) | (632) |
| Charge for the year | 779 | 465 | 852 | 2,096 |
| Depreciation at 31 December 2007 | 7,313 | 969 | 7,696 | 15,978 |
| Net Book Value at 31 December 2007 | 1,357 | 960 | 817 | 3,134 |
| Net Book Value at 1 January 2007 | 1,964 | 1,060 | 1,189 | 4,213 |

| 25. Share capital | 2007 £000 | 2006 £000 |
|---|--------------|--------------|
| Authorised | | |
| Ordinary shares of £1 each | 2,500 | 2,500 |
| Redeemable floating rate cumulative preference shares of £1 each | 2,500 | 2,500 |
| | <u>5,000</u> | <u>5,000</u> |
| Allotted, called up and fully paid | | |
| Ordinary shares of £1 each | 1,054 | 1,049 |
| Redeemable floating rate cumulative preference shares of £1 each* | 250 | 250 |
| | <u>1,304</u> | <u>1,299</u> |

* The cumulative preference shares are redeemable at par at any time by the company giving one month's notice. All the preference shares carry a dividend of 1.5% above the 3 month London Interbank Offered Rate (LIBOR) on the first business day of each calendar year.

During the year 2007 some directors exercised 4,802 share options in the Company.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

26. Reconciliation of movements in shareholders' funds

For the year ended 31 December – Group

| | 2007 £000 | 2006 £000 |
|--|--------------|--------------|
| Profit on ordinary activities after taxation | 12,116 | 14,079 |
| Dividends | (105) | (105) |
| Share capital subscribed | 5 | - |
| Share premium change | 1,081 | 27 |
| Revaluation of fixed assets | - | 5,401 |
| Foreign translation | 206 | (202) |
| Net addition to shareholders' funds | 13,303 | 19,200 |
| Opening shareholders' funds | 120,008 | 100,808 |
| Closing shareholders' funds | 133,311 | 120,008 |

27(a) Share Premium and Reserves
Group

| | Share Premium £000 | Revaluation Reserves £000 | Profit & Loss £000 | Total £000 |
|--------------------------------|--------------------------|---------------------------------|--------------------------|---------------|
| At 1 January 2007 | 2,060 | 11,462 | 105,187 | 118,709 |
| Retained profit for the year | - | - | 12,116 | 12,116 |
| Premium arising on share issue | 1,081 | - | - | 1,081 |
| Other | - | - | 101 | 101 |
| At 31 December 2007 | 3,141 | 11,462 | 117,404 | 132,007 |

Non distributable reserves in respect of the surplus on the long term business that must be maintained by the Group as at 31 December 2007 were £43,011,000 (2006 28,847,000)

27(a) Share Premium and Reserves
(continued)

| Company | Share Premium £000 | Revaluation Reserves £000 | Profit & Loss £000 | Total £000 |
|--------------------------------|--------------------------|---------------------------------|--------------------------|---------------|
| At 1 January 2007 | 2,060 | 105,768 | 10,881 | 118,709 |
| Retained profit for the year | - | - | 1,972 | 1,972 |
| Premium arising on share issue | 1,081 | - | - | 1,081 |
| Revaluation of net investments | - | 10,350 | - | 10,350 |
| Dividend-Ordinary Share | - | - | (105) | (105) |
| At 31 December 2007 | 3,141 | 116,118 | 12,748 | 132,007 |

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

27(b) Capital statement

| Available Capital Resources | UK and Republic of Ireland £000 | South Africa £000 | Total £000 |
|---|--|-------------------------|----------------|
| Shareholders' funds held outside the fund | 83,905 | 2,820 | 86,725 |
| Shareholders' funds held in the fund | 43,011 | 3,575 | 46,586 |
| Total shareholders' funds | 126,916 | 6,395 | 133,311 |
| Other adjustments | (3,514) | - | (3,514) |
| Total available capital resources | 123,402 | 6,395 | 129,797 |

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 assets 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 multiplied by 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.

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

| 28(a) Technical provisions - general business | | Provision for Unearned Premiums £000 | Claims Outstanding £000 | Total £000 |
|---|--|--|-------------------------------|------------------|
| Gross Amount | | | | |
| At 1 January 2007 | | 409,845 | 40,958 | 450,803 |
| Foreign translation adjustment | | 128 | 12 | 140 |
| Transfer from insurance creditors/debtors | | (2,796) | (408) | (3,204) |
| Movement in the provisions | | (111,077) | 10,168 | (100,909) |
| At 31 December 2007 | | <u>296,100</u> | <u>50,730</u> | <u>346,830</u> |
| Reinsurance amount | | | | |
| At 1 January 2007 | | (8,817) | (7,928) | (16,745) |
| Foreign translation adjustment | | (153) | 11 | (142) |
| Transfer from insurance creditors/debtors | | (1,055) | 1,893 | 838 |
| Movement in the provisions | | 3,811 | (2,714) | 1,097 |
| At 31 December 2007 | | <u>(6,214)</u> | <u>(8,738)</u> | <u>(14,952)</u> |
| Net technical provisions | | | | |
| At 31 December 2007 | | <u>289,886</u> | <u>41,992</u> | <u>331,878</u> |
| At 1 January 2007 | | <u>401,028</u> | <u>33,030</u> | <u>434,058</u> |
| | | | | |
| 28(b) Technical provisions - long term business | Long Term Business Provision £000 | Technical Provisions for Linked Liabilities £000 | Claims Outstanding £000 | Total £000 |
| Gross amount | | | | |
| At 1 January 2007 | 945,725 | 24,190 | 1,514 | 971,429 |
| Movement in the provisions | 346,872 | 249,096 | (1,045) | 594,923 |
| Foreign translation adjustment | 65 | - | - | 65 |
| Transfer from insurance creditors/debtors | 1,013 | - | 214 | 1,227 |
| At 31 December 2007 | <u>1,293,675</u> | <u>273,286</u> | <u>683</u> | <u>1,567,644</u> |
| Reinsurance amount | | | | |
| At 1 January 2007 | (28,819) | - | (494) | (29,313) |
| Movement in the provisions | 1,919 | - | 682 | 2,601 |
| Foreign translation adjustment | - | - | - | - |
| Transfer from insurance creditors/debtors | 73 | - | (1,624) | (1,551) |
| At 31 December 2007 | <u>(26,827)</u> | <u>-</u> | <u>(1,436)</u> | <u>(28,263)</u> |
| Net technical provisions | | | | |
| At 31 December 2007 | <u>1,266,848</u> | <u>273,286</u> | <u>(753)</u> | <u>1,539,381</u> |
| At 1 January 2007 | <u>916,906</u> | <u>24,190</u> | <u>1,020</u> | <u>942,116</u> |

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

28 (b) Long term business - 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% |
| Decreasing Income Bonds | | |
| Outstanding term between 2 and 3 years - | - | - |
| 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 |

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

| 28(c) Claims outstanding | Gross Amount | | Reinsurance Amount | |
|--------------------------|---------------|---------------|--------------------|----------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| General business | 50,751 | 42,037 | (8,738) | (7,928) |
| Long term business | 663 | 435 | (1,436) | (494) |
| | <u>51,414</u> | <u>42,472</u> | <u>(10,174)</u> | <u>(8,422)</u> |

| 28(d) Deferred acquisition costs | Gross Amount | | Reinsurance Amount | |
|----------------------------------|----------------|----------------|--------------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| General business | 213,636 | 302,560 | 3,174 | 5,780 |
| Long term business | 86,932 | 90,546 | 1,832 | 3,873 |
| | <u>300,568</u> | <u>393,106</u> | <u>5,006</u> | <u>9,653</u> |

The movement in deferred acquisition costs have been included in net operating expenses.

28(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 £1,629,711,000

| 29. Amounts owed to credit institutions | 2007 £000 | 2006 £000 |
|---|--------------|--------------|
| Payable in less than one year | <u>779</u> | <u>7</u> |

| 30. Creditors | Group | |
|---|---------------|---------------|
| 30 (a) Other creditors including taxation and social security | 2007 £000 | 2006 £000 |
| Amounts falling due within one year | | |
| Corporation tax payable | 4,173 | 4,234 |
| Other | <u>23,701</u> | <u>17,841</u> |
| | <u>27,874</u> | <u>22,075</u> |
| Amounts falling due after more than one year | | |
| Loan - BNP Paribas London | <u>66,066</u> | <u>72,764</u> |
| Total | <u>93,940</u> | <u>94,839</u> |

Other creditors include other taxes and social security costs of £8,008,000 (2006 £6,925,000)

CARDIF PINNACLE INSURANCE HOLDINGS PLC

Notes to the Consolidated Financial Statements (continued)

| 30 (b) Creditors - Amounts falling due within one year | Company | |
|--|--------------|--------------|
| | 2007 £000 | 2006 £000 |
| Amounts owed to group undertakings | 991 | 287 |
| Accruals and deferred income | <u>1,244</u> | <u>1,418</u> |
| | <u>2,235</u> | <u>1,705</u> |

| 30 (c) Creditors - Amounts falling due after more than one year | Company | |
|---|---------------|---------------|
| | 2007 £000 | 2006 £000 |
| Loans from subsidiary undertakings | 8,000 | 8,000 |
| Loans - BNP Paribas S A (London branch) | <u>66,066</u> | <u>72,764</u> |
| | <u>74,066</u> | <u>80,764</u> |

Creditors for amounts falling due after more than one year of £74,066,000 (2006 £80,764,000) include

Three unsecured rolling South African Rand loans totalling £6,066,000 (translated) from BNP Paribas S A The interest on the loans is calculated at a 3 month LIBOR rate plus 0.07%, which is rolled into the capital

Four loans totalling £60,000,000 from BNP Paribas S A The interest on the loan is calculated at a 3 month LIBOR rate plus 0.07% payable quarterly

Two loans totalling £6,000,000 from subsidiary undertaking, The interest on the loan is calculated at a first day of year 3 month LIBOR rate plus 1% payable quarterly Cardif Pinnacle Insurance Management Services plc, which have no set term of repayment

One loan of £2,000,000 from subsidiary undertaking, The interest on the loan is calculated at a first day of year 3 month LIBOR rate plus 1% payable quarterly Cardif Pinnacle Insurance Property Services plc, which has no set term of repayment

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

CARDIF PINNACLE INSURANCE HOLDINGS PLC**Notes to the Consolidated Financial Statements (continued)****31. 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

32. Post balance sheet event

On 19 March 2008 the Company acquired 100% share capital of Direct Life and Pension Service Limited for purchase price of £19,000,000 but is subject to the agreement of completion accounts

On 4 April 2008 the Company acquired 88.33% share capital of Warranty Direct Limited for purchase price of £13,189,557 but is subject to the agreement of completion accounts

33. Commitments

The Company has provided letters of support to two of its subsidiaries Financial Telemarketing Services Limited and Cardif Pinnacle Europe Limited, and has committed to provide financial assistance to these subsidiaries if required

34. Ultimate Parent Company

The Directors regarded BNP Paribas S A (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, BNP Paribas Assurance (incorporated in France). Copies of its consolidated financial statements are available from 1 Boulevard Haussmann, 75009 Paris, France

The immediate parent Company of the Group is CB (UK) Limited (incorporated in England)