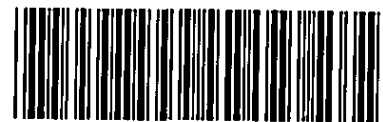


BINOMIAL GROUP LIMITED
REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2006

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Company Registration Number 3675407

BINOMIAL GROUP LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

CONTENTS	PAGES
Officers and professional advisers	1
Directors' report	2 to 4
Independent Auditors' report to the shareholders	5 to 6
Consolidated Profit and Loss Financial Statement Technical Financial Statement	7
Consolidated Profit and Loss Financial Statement Non-Technical Financial Statement	8
Consolidated Balance Sheet	9 to 10
Company Balance Sheet	11
Consolidated Cash Flow Statement	12 to 14
Notes to the Consolidated Financial Statements	15 to 29

BINOMIAL GROUP LIMITED
OFFICERS AND PROFESSIONAL ADVISERS

YEAR ENDED 31 DECEMBER 2006

DIRECTORS

Mr A Ball
Mr K Morris

COMPANY SECRETARY

Mr K Morris

REGISTERED OFFICE

Sabre House
150 South Street
Dorking
Surrey
RH4 2YY

AUDITORS

Smith & Williamson Solomon Hare Audit LLP
Registered Auditors
Chartered Accountants
Oakfield House
Oakfield Grove
Clifton
Bristol BS8 2BN

SOLICITORS

DLA
3 Noble Street
London
EC2V 7EE

BINOMIAL GROUP LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2006

The directors present their report and the consolidated financial statements for the year ended 31 December 2006

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Principal Activities

The principal activity of the company during the year was that of a holding company. Its wholly owned subsidiary, Sabre Insurance Company Limited, provides motor underwriting capacity and has particular skills in underwriting risks that are normally difficult to insure.

Business Review

2006 was another excellent year for the group with Sabre returning a pre-tax profit of £19.652 million on Gross Written Premium of £67.277 million. With a combined ratio of 77%, we expect to have comfortably outperformed most insurers in our sector. Sabre recorded both record income and profit and ended the year with our highest ever level of net assets. This was against the background of a difficult market with rates still not keeping pace with inflation for much of the year, albeit with the final quarter showing some welcome signs of improvement.

Although it is by no means certain that we have turned the corner, the rate increases announced by both Norwich Union and by RBSI may indicate that we have passed the bottom of the insurance cycle in private motor. However, this could yet prove to be a false dawn and we will not be confident that we are operating in a more rational rating environment until we have seen further premium rises in the first half of 2007.

The main risks to the group are irrational competitor activity, volatility in claims, adverse developments in claims reserves, a fall in asset values and credit risk in relation to reinsurers and other counterparties.

We mitigate the risk of competitor activity through our rigorous attitude towards controlling our pricing. The main Key Performance Indicator we use in our business tracks the strength of our current pricing and predicts the loss ratio outcome of business written. Additionally our underwriting department carefully vets incoming business to ensure that it adheres to our underwriting guidelines.

Volatility in claims is controlled through the purchase of reinsurance. Significant contribution is made by our claims department, the focus of which is on rapid settlement of valid claims and active vigilance against fraud.

The risk of adverse developments in claims reserves are minimised by the long term stability of our claims management philosophy and regular actuarial reviews of claims development.

The composition of our investment portfolio has been designed to minimise risks of adverse movements in asset values. Only 4.2% of total cash and investments were in equities at the balance sheet date, most of the remaining investments were cash or short term government bonds. As a result of the portfolio composition we also consider liquidity risk to be negligible.

To minimise credit risk we monitor the financial strength of our reinsurers and other material counterparties to whom we are exposed.

Additionally we have developed an internal capital model that satisfies the FSA requirements and assists us in business planning and risk control.

BINOMIAL GROUP LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2006

CREDITOR PAYMENT POLICY

It is the group's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions. The amounts due to trade creditors at 31 December 2006 represented approximately 1 day of average daily purchases through the year (2005 - 0 days).

RISK MANAGEMENT

Financial Instruments

The financial risk management objectives of the company and the group in relation to financial instruments are set by the board of directors with a view to maintaining low volatility in investment performance. The majority of the financial instruments held by the group are short term UK government bonds which are not considered subject to material credit risk, liquidity risk or cash flow risk. The composition of the investment portfolio by class of investment is designed to minimise price risk. Derivative instruments have been used in the year to mitigate risks and enhance returns, subject to strict control of exposures. Call option contracts, covered by shares within the investment portfolio, with a value of £185,192 (2005 - £nil) were sold in the year. Put options with a value of £40,400 (2005 - £nil) were sold in the year on shares which filled the normal investment criteria and the option strike price. There were no derivatives held by the company at the year end.

RESULTS AND DIVIDENDS

The trading results for the year, and the group's financial position at the end of the year are shown in the attached financial statements.

The company has paid the following dividends during the year

	2006	2005
	£000	£000
Dividends paid on ordinary shares	3,000	6,519
	<hr/>	<hr/>

DIRECTORS AND THEIR INTERESTS IN SHARES OF THE COMPANY

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows

	Class of share	At 31 December 2006	At 31 December 2005
Mr A Ball	Ordinary	81,003	81,003
Mr K Morris	Ordinary	81,003	81,003
		<hr/>	<hr/>

BINOMIAL GROUP LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2006

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 at the end of the year and of the profit or loss for the year then ended. In preparing those financial statements, the directors are required to

- select suitable accounting policies, as described on pages 15 to 17, and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- 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 responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors 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.

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing this report, of which the auditor is unaware. Having made enquiries of fellow directors each director has taken all the steps that he/she is obliged to take as a director in order to have made himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITORS

From 2 April 2007 Solomon Hare Audit LLP changed its name to Smith & Williamson Solomon Hare Audit LLP.

In accordance with the provisions of Section 386 of the Companies Act 1985 the company has dispensed with the obligation to appoint auditors annually. Smith & Williamson Solomon Hare Audit LLP have expressed their willingness to continue in office.

Signed by order of the board



Mr K Morris
Company Secretary

Date

9/7/07

BINOMIAL GROUP LIMITED
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
YEAR ENDED 31 DECEMBER 2006

We have audited group and parent company Financial Statements ('the Financial Statements') of Binomial Group Limited for the year ended 31 December 2006, which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, and the related notes 1 to 28. 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

The directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 report to you whether in our opinion 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 the 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 misstatements within it.

Basis of audit 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 company's and group'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.

BINOMIAL GROUP LIMITED

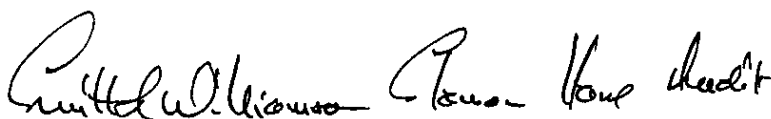
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS *(continued)*

YEAR ENDED 31 DECEMBER 2006

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 2006 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



SMITH & WILLIAMSON SOLOMON HARE AUDIT LLP

Chartered Accountants

Registered Auditors

Bristol

Date

2/7/07

BINOMIAL GROUP LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT
YEAR ENDED 31 DECEMBER 2006

		Year ended 31 December 2006	Year ended 31 December 2005
	Note	£000	£000
Gross premiums written	2	67,277	55,490
Outwards reinsurance premiums		(5,782)	(6,532)
		<u>61,495</u>	<u>48,958</u>
Change in the gross and net provision for unearned premiums		(8,806)	6,480
Earned premiums, net of reinsurance		<u>52,689</u>	<u>55,438</u>
Claims paid			
- Gross amount		(35,462)	(41,677)
- Reinsurer's share		2,856	2,501
		<u>(32,606)</u>	<u>(39,176)</u>
Change in the provision for claims			
- Gross amount		13,927	1,170
- Reinsurer's share		(9,189)	(185)
		<u>4,738</u>	<u>985</u>
Claims incurred, net of reinsurance	7	(27,868)	(38,191)
Net operating expenses	3	(12,704)	(12,880)
Total technical charges		(40,572)	(51,071)
Balance on technical account		<u>12,117</u>	<u>4,367</u>

All the activities of the group with regard to the technical account are classed as continuing

Notes 1 to 28 form part of these financial statements.

BINOMIAL GROUP LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT *(continued)*

NON-TECHNICAL ACCOUNT

YEAR ENDED 31 DECEMBER 2006

	Note	Year ended 31 December 2006			Year ended 31 December 2005		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
		£000	£000	£000	£000	£000	£000
Balance on technical account		<u>12,117</u>	<u>-</u>	<u>12,117</u>	<u>4,367</u>	<u>-</u>	<u>4,367</u>
Investment income	4	9,056	-	9,056	11,370	-	11,370
Unrealised (losses)/gains on investments	4	(1,469)	-	(1,469)	10,737	-	10,737
Realised (losses) on investments	4	(32)	-	(32)	(11,414)	-	(11,414)
Investment expenses and charges	4	(322)	-	(322)	(1,372)	-	(1,372)
		<u>7,233</u>	<u>-</u>	<u>7,233</u>	<u>9,321</u>	<u>-</u>	<u>9,321</u>
Other income	8	8	-	8	-	9,522	9,522
Other charges	9	(12,376)	-	(12,376)	(2,251)	(8,186)	(10,437)
Exceptional item	10	-	-	-	-	18,234	18,234
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	11	6,982	-	6,982	11,437	19,570	31,007
Tax on profit on ordinary activities	12	(2,547)	-	(2,547)	(3,658)	(426)	(4,084)
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
RETAINED PROFIT		<u>4,435</u>	<u>-</u>	<u>4,435</u>	<u>7,779</u>	<u>19,144</u>	<u>26,923</u>

The company has no recognised gains or losses other than the results for the year as set out above

Notes 1 to 28 form part of these financial statements

BINOMIAL GROUP LIMITED
CONSOLIDATED BALANCE SHEET

31 DECEMBER 2006

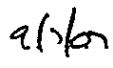
	Note	2006	2005
		£000	£000
ASSETS			
Investments:	14		
Land and buildings		11,275	11,275
Other financial investments		<u>130,426</u>	<u>125,177</u>
		141,701	136,452
Reinsurers' share of technical provisions:			
Claims outstanding		14,403	23,592
Debtors:			
Debtors arising out of direct insurance operations – intermediaries		5,293	4,142
Debtors arising out of outwards reinsurance operations		-	257
Other debtors	17	<u>224</u>	<u>470</u>
		5,517	4,869
Other assets			
Tangible fixed assets	18	263	302
Cash at bank and in hand		<u>10,202</u>	<u>7,518</u>
		10,465	7,820
Prepayments & accrued income:			
Accrued interest and rent		1,431	694
Deferred acquisition costs		5,974	4,940
Other prepayments and accrued income		<u>94</u>	<u>93</u>
		7,499	5,727
TOTAL ASSETS		<u>179,585</u>	<u>178,460</u>

Notes 1 to 28 form part of these financial statements.

BINOMIAL GROUP LIMITED
CONSOLIDATED BALANCE SHEET *(continued)*

31 DECEMBER 2006

	Note	2006 £000	2005 £000
LIABILITIES			
Share capital and reserves			
Called up share capital	19	195	198
Profit and loss account	20	23,776	22,956
Capital redemption reserve	20	220	217
Equity Shareholders' funds	21	24,191	23,371
Technical provisions			
Provision for unearned premiums		36,240	27,434
Claims outstanding		94,018	107,945
		130,258	135,379
Provisions for other risks and charges			
Deferred tax	22	186	165
Creditors: amounts falling due within one year			
Creditors arising out of direct insurance operations		32	32
Creditors arising out of reinsurance operations		8,463	6,949
Other creditors including taxation and social security	23	3,313	1,985
		11,808	8,966
Creditors: amounts falling due after more than one year			
Other creditors	24	5,878	7,348
Accruals and deferred income	25	7,264	3,231
TOTAL LIABILITIES		179,585	178,460

These financial statements were approved by the directors on  and are signed on their behalf by

Mr A Ball
Director



Mr K Morris
Director



Notes 1 to 28 form part of these financial statements.

BINOMIAL GROUP LIMITED
BALANCE SHEET

31 DECEMBER 2006

	Note	2006	2005
		£000	£000
FIXED ASSETS			
Investments	15	13,669	13,669
CURRENT ASSETS			
Debtors	17	1,012	973
Cash at bank and in hand		8	47
		<u>1,020</u>	<u>1,020</u>
CREDITORS: Amounts falling due within one year	23	<u>(5,813)</u>	<u>(758)</u>
NET CURRENT ASSETS/ (LIABILITIES)		<u>(4,793)</u>	<u>262</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>8,876</u>	<u>13,931</u>
CREDITORS: Amounts falling due after more than one year	24	5,878	7,348
CAPITAL AND RESERVES			
Called-up share capital	19	195	198
Profit and loss account	20	2,583	6,168
Capital redemption reserve	20	220	217
SHAREHOLDERS' FUNDS	21	<u>2,998</u>	<u>6,583</u>
		<u>8,876</u>	<u>13,931</u>

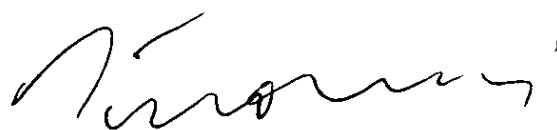
These financial statements were approved by the directors on their behalf by

9/7/07 and are signed on

Mr A Ball
 Director



Mr K Morris
 Director



Notes 1 to 28 form part of these financial statements.

BINOMIAL GROUP LIMITED
CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2006

	2006 £000	2005 £000	2005 £000
Net cash inflow from operating activities		16,202	7,805
Returns on investments and servicing of finance			
Interest paid	(312)	(1,159)	
Interest receivable	10	-	
Finance raising costs	-	(18)	
Net cash outflow from returns on investments and servicing of finance		(302)	(1,177)
Taxation			
Corporation tax paid	(2,765)	(4,740)	
Taxation paid		(2,765)	(4,740)
Capital expenditure			
Purchase of tangible fixed assets	(87)	(480)	
Sale of tangible fixed assets	-	78	
Net cash outflow from capital expenditure		(87)	(402)
Acquisition and disposals			
Bank and cash (sold)/acquired with subsidiaries	-	(8,742)	
Part acquisition of subsidiary	-	(122)	
Disposal of subsidiaries	-	25,420	
Net cash inflow/(outflow) from acquisitions and disposals		-	16,556
Net cash inflow before financing		13,048	18,042
Equity dividends		(3,000)	(6,519)
Financing			
Capital element of HP payments	-	(3)	
Repurchase of equity shares	(615)	(16,088)	
Net cash (outflow)/inflow of bank loans	-	(9,500)	
Net cash outflow from financing		(615)	(25,591)
Increase/(decrease) in cash in the year		9,433	(14,068)

Notes 1 to 28 form part of these financial statements.

BINOMIAL GROUP LIMITED (FORMERLY BDML GROUP LIMITED)
NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

YEAR ENDED 31 DECEMBER 2006

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2006 £000	2005 £000
Operating profit before tax	6,982	31,007
Depreciation	126	242
Amortisation of positive goodwill	-	237
(Profit)/loss on disposal of subsidiary	-	(18,234)
Realised and unrealised loss on other investments	1,501	2,977
Unrealised gain on investment properties	-	(2,300)
Interest payable	312	1,368
Interest receivable	(10)	-
Decrease in debtors	(1,691)	3,081
Increase in non recourse financing	-	(2,342)
Decrease/(increase) in prepayments	(738)	995
Decrease in technical provisions	(5,121)	(7,650)
Decrease in reinsurer's share of technical provisions	9,198	185
(Decrease)/increase in creditors	1,610	(578)
(Decrease)/increase in accruals	4,033	(1,183)
Net cash inflow from operating activities	<u>16,202</u>	<u>7,805</u>

CASH FLOWS WERE INVESTED AS FOLLOWS:

	2006 £000	2006 £000	2005 £000	2005 £000
Increase/(decrease) in cash holdings		2,684		(15,940)
Net portfolio investment:				
Fixed income securities	10,250		1,947	
Equities	<u>(3,501)</u>		<u>(75)</u>	
		6,749		1,872
Net investment/(decrease) in cash flows		<u>9,433</u>		<u>(14,068)</u>

Notes 1 to 28 form part of these financial statements.

BINOMIAL GROUP LIMITED**NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** *(continued)***YEAR ENDED 31 DECEMBER 2006****MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS NET OF FINANCING**

	2006 £000	2006 £000	2005 £000	2005 £000
Net cash flow for the year	2,684		(15,940)	
Cash flow				
Portfolio investments	6,749		1,872	
Cash outflow from decreases in debt	-		9,500	
Cash outflow from decreases in hire purchase agreements	-		3	
		9,433		(4,565)
Changes in market value		(1,500)		(678)
		7,933		(5,243)
Hire purchase agreement sold with subsidiary		-		17
Finance raising costs		-		(191)
Portfolio investments net of financing at 1 January 2006		136,622		142,039
Portfolio investments net of financing at 31 December 2006		144,555		136,622

MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	At 1 January 2006 £000	Cashflow £000	Non cash movement £000	Changes to market values £000	At 31 December 2006 £000
Cash at bank and in hand	7,518	2,684	-	-	10,202
Fixed income securities	117,233	10,250	-	(3,432)	124,051
Equities	7,944	(3,501)	-	1,932	6,375
Investment properties	11,275	-	-	-	11,275
Loans due within one year	-	-	(1,470)	-	(1,470)
Loans due after one year	(7,348)	-	1,470	-	(5,878)
	136,622	9,433	-	(1,500)	144,555

Notes 1 to 28 form part of these financial statements

BINOMIAL GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

1. ACCOUNTING POLICIES

Basis of accounting

The group financial statements, which consolidate the financial statements of the company and its subsidiary undertaking, have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985. 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. The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of certain assets, and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers (the ABI SORP 2006). The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 2006, as considered appropriate for an insurance group.

Consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiary for the year ended 31 December 2006 and exclude all intra-group transactions. No profit and loss account is presented by the parent company as permitted by Section 230 of the Companies Act 1985.

Goodwill

Goodwill arising on the acquisition of the company's subsidiary undertakings has been capitalised as an intangible fixed asset and fully amortised through the profit and loss account. In estimating the useful economic life of goodwill arising, account has been taken of the nature of the business acquired, the stability of the industry and the expected future impact of competition.

Investments

Investments are shown in the balance sheet as follows:

- (i) Listed securities and equities at mid market value less accrued interest where applicable
- (ii) Investment properties at open market value valued by qualified external surveyors
- (iii) Unlisted shares at cost or valuation less any provision for an impairment in value

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of the asset as follows:

IT equipment	-	20% straight line
Fixtures and fittings	-	20% straight line

Premiums

Premiums are accounted for in the year the risk commences. An adjustment has been made for the overall effect of new business premiums, mid term adjustments and lapses of renewal premiums not processed in the year of risk inception. All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes, duties and levies thereon. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or indirect reinsurance business being reinsured.

BINOMIAL GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

1. ACCOUNTING POLICIES *(continued)*

Claims

Claims incurred include all losses occurring during the year, whether reported or not, related handling costs and any adjustments to claims outstanding from previous years. Significant delays are experienced in the notification and settlement of certain claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the balance sheet date.

Technical provisions

- (i) Unearned premiums are those proportions of the premiums written in a year that relate to the periods of risk subsequent to the balance sheet date. They are computed principally on a daily pro-rata basis.
- (ii) The provision of claims outstanding includes individual case estimates, an IBNR provision and a provision for related claims handling costs. When claims are initially reported, case estimates are set at fixed levels based on previous average claims settlements. As soon as sufficient information becomes available, the case estimate is amended by a claim handler within the Claims Department to reflect the expected ultimate settlement cost of the claim, including external claims handling costs. The case estimate will be amended throughout the life of a claim as further information emerges. Case estimates generally do not allow for possible reductions in our liability due to contributory negligence, favourable court judgements or settlements until these are known to a high probability.

The IBNR provision includes the estimated cost of claims incurred, but not reported, at the balance sheet date ("pure IBNR") and any difference between the case estimates and the estimated ultimate cost of reported claims ("IBNER"). The IBNR is set after considering the results of various statistical methods based on, inter alia, historical claims development trends, average claims costs and expected inflation rates. The provision for claims handling costs is estimated based on the number of outstanding claims at the balance sheet date and the estimated average internal cost of settling claims.

The provision of claims outstanding is based on information available at the balance sheet date. Significant delays are experienced in the notification and settlement of certain claims, accordingly the ultimate cost of such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between provisions and subsequent settlements are dealt with in the technical account - general business of later years.

- (iii) Provision is made for unexpired risks when, after taking account of an element of attributable investment income, it is anticipated that the unearned premiums will be insufficient to cover future claims and expenses on existing contracts. The expected claims are calculated having regard to events which have occurred prior to the balance sheet date. Unexpired risk surpluses and deficits are offset when business classes are managed together and a provision is made if an aggregate deficit arises.

Deferred acquisition costs

Deferred acquisition costs represent a proportion of commission and other acquisition costs that relate to policies that are in force at the year end. Deferred acquisition costs are amortised over the period in which the related premiums are earned.

BINOMIAL GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

1. ACCOUNTING POLICIES (continued)

Investment income, realised and unrealised investment gains and losses

Investment income consists of interest receivable for the year. Income is credited to the profit and loss account at the amount receivable, with no associated tax credit for income from the United Kingdom. Interest receivable is accounted for on an accruals basis.

Net realised gains/losses on investments are calculated as the difference between net sales proceeds and the cost of acquisition.

Unrealised gains and losses on investments represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year. Net movements in the year are taken to the profit and loss account and disclosed as unrealised gains/(losses) on investments.

Investment expenses and charges

Investment expenses and charges consist of the expenses relating to the management of the investment portfolio and interest payable.

Deferred taxation

Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred taxation balance has not been discounted.

Pension costs

The group operates a matched contribution group personal pension scheme where the group contributes an amount matching the contribution made by the staff member. In addition, the group does fund the pension contributions of some of its senior employees. Accordingly, the contributions are charged to the profit and loss account as they are incurred.

2. SEGMENTAL ANALYSIS

(a) Analysis of direct insurance by geographical segment

	2006 £000	2005 £000
Gross premiums written – United Kingdom	<u>67,277</u>	<u>55,490</u>

(b) Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balance by class

	2006 Gross premiums written £000	2006 Gross premiums earned £000	2006 Gross claims incurred £000	2006 Gross operating expenses £000	2006 Re- insurance balance £000
Motor insurance					
Third Party Liability	2,511	2,105	612	457	344
Other	64,766	56,367	20,922	12,247	11,770
	<u>67,277</u>	<u>58,472</u>	<u>21,534</u>	<u>12,704</u>	<u>12,114</u>

BINOMIAL GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

2. SEGMENTAL ANALYSIS (continued)

- (b) Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balance by class (continued)

	2005 Gross premiums written £000	2005 Gross premiums earned £000	2005 Gross incurred claims £000	2005 Gross operating expenses £000	2005 Re- insurance balance £000
Motor insurance					
Third Party Liability	1,880	1,890	678	393	71
Other	53,610	60,080	39,829	12,487	4,145
	<u>55,490</u>	<u>61,970</u>	<u>40,507</u>	<u>12,880</u>	<u>4,216</u>

3. NET OPERATING EXPENSES

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Gross written commission	8,344	7,595
Other acquisition costs	3,377	2,994
Change in deferred acquisition costs	(1,034)	659
Administrative expenses	2,017	1,632
	<u>12,704</u>	<u>12,880</u>

4. INVESTMENT RETURN

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Investment income:		
Income from other investments	9,056	11,370
Unrealised gains/(losses) on investments	(1,469)	10,737
	<u>7,587</u>	<u>22,107</u>
Investment expenses and charges:		
Losses on the realisation of investments	(32)	(11,414)
Bank interest payable	(312)	(1,159)
Amortisation of finance costs	-	(209)
Investment management expenses	(10)	(4)
	<u>(354)</u>	<u>(12,786)</u>
Total investment return	<u>7,233</u>	<u>9,321</u>

BINOMIAL GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

5. PARTICULARS OF EMPLOYEES

The average number of staff employed by the group during the financial year amounted to

	2006	2005
	No.	No.
Operations and management	<u>107</u>	<u>258</u>

The aggregate payroll costs of the above were

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Wages and salaries	13,608	7,135
Social security costs	1,732	764
Other pension costs	472	700
Other staff costs	-	12
	<u>15,812</u>	<u>8,611</u>

6. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Emoluments receivable	10,854	1,296
Pension contributions	215	17
	<u>11,069</u>	<u>1,313</u>

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Emoluments of the highest paid director	5,332	431
Emoluments receivable	215	17
Pension contributions	-	-
	<u>5,547</u>	<u>448</u>

The group makes contributions to money purchase pension schemes relating to 1 director (2005 1)

BINOMIAL GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

7. CLAIMS INCURRED NET OF REINSURANCE

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Claims paid net of reinsurance	32,606	39,176
Change in outstanding claims reserve		
Gross amount		
Opening provision	(107,945)	(109,115)
Closing provision	94,018	107,945
Movement in provision	<u>(13,927)</u>	<u>(1,170)</u>
Reinsurance		
Opening provision	23,592	23,777
Closing provision	(14,403)	(23,592)
Movement in provision	<u>9,189</u>	<u>185</u>
Net claims incurred	<u>27,868</u>	<u>38,191</u>

The claims incurred figure is reduced by £14,721,000 (2005 £8,553,000) due to the favourable difference between the loss provision made at the beginning of the year for outstanding claims incurred in previous years and the loss provision shown at the end of the year in respect of such outstanding claims, less payments made during the year

8. OTHER INCOME

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Insurance intermediary group income	-	9,522
Other income	8	-
	<u>8</u>	<u>9,522</u>

9. OTHER CHARGES

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Insurance intermediary group expenses	-	8,186
Other expenses	12,376	2,251
	<u>12,376</u>	<u>10,437</u>

10. EXCEPTIONAL ITEM

The exceptional item shown for the prior year relates to the profit on disposal in the previous year of the 100% owned subsidiary BDML Connect Limited

BINOMIAL GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

11. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Profit on ordinary activities before tax is stated after charging/(crediting)		
Amortisation of goodwill	-	237
Depreciation of owned assets	126	238
Depreciation of assets held under hire purchase	-	4
Auditors remuneration - audit services	62	99
- non audit services	24	80
(Profit)on disposal of shares in subsidiary undertaking	-	(18,234)

The discontinued activities relate to BDML Connect Limited which was sold in 2005

12. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Analysis of current period tax charge

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Current tax		
In respect of the year		
UK corporation tax based on the results for the year at 30% (2005 – 30%)	2,516	4,039
Adjustments in respect of previous years	10	(85)
Total current tax	2,526	3,954
Deferred tax		
Increase in deferred tax provision (note 22)		
Capital allowances	21	44
Other timing differences	-	86
Tax on profit on ordinary activities	2,547	4,084

BINOMIAL GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

12. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

b) Factors affecting current year tax charge

The UK standard rate of corporation tax is 30% (2005 – 30%), whereas the current tax assessed for the year ended 31 December 2006 as a percentage of profit before tax is 36.1% (2005 – 12.7%). The reasons for this difference are explained below

	2006 %	2005 %
Current tax on profit on ordinary activities calculated at the standard rate of corporation tax in the UK of 30%	30.0	30.0
Depreciation for the year in excess of capital allowances	(0.2)	(0.1)
Income not taxable	(1.6)	(20.6)
Expenses not deductible for tax purposes	0.2	0.1
Timing differences	1.2	0.2
Technical reserve adjustment	6.4	0.8
Consolidation adjustments	-	2.6
UK corporation tax charge for the year	36.0	13.0
Adjustments in respect of previous years	0.1	(0.3)
Current tax charge in the year	<u>36.1</u>	<u>12.7</u>

c) Factors affecting future tax charges

The impact of deferred tax can be seen in note 22

13. DIVIDENDS

The following dividends have been paid in respect of the year

	2006 £000	2005 £000
Dividend paid on ordinary shares	<u>3,000</u>	<u>6,519</u>

BINOMIAL GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

14. INVESTMENTS

LAND AND BUILDINGS

GROUP	Current value		Historical cost	
	2006	2005	2006	2005
	£000	£000	£000	£000
Land and buildings:				
Properties occupied by the group, freehold	2,525	2,525	1,950	1,950
Other investment properties, freehold	8,750	8,750	4,500	4,500
	<u>11,275</u>	<u>11,275</u>	<u>6,450</u>	<u>6,450</u>

OTHER FINANCIAL INVESTMENTS

GROUP

Other financial investments:				
Shares and other variable yield securities and units in unit trusts				
- Listed	6,375	7,944	5,049	6,436
Debt securities and other fixed income securities – Listed				
- At current value	124,051	117,233	126,062	117,957
Total investment	<u>141,701</u>	<u>136,452</u>	<u>137,561</u>	<u>130,843</u>

The investment properties were valued at open market value on 25 November 2005 by Hughes Ellard Limited

15. INVESTMENTS

COMPANY	Unlisted shares in group undertakings £000
Cost	
At 1 January 2006 and 31 December 2006	<u>13,669</u>
Impairment in value	
At 1 January 2006 and 31 December 2006	<u>-</u>
Net Book Value	
At 31 December 2006	<u>13,669</u>
At 31 December 2005	<u>13,669</u>

BINOMIAL GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

15. INVESTMENTS *(continued)*

The company owns the following percentages of the issued share capital of the subsidiary undertaking listed below

Company	Percentage holding	Nature of business
Sabre Insurance Company Limited	100%	Insurance company

The above subsidiary undertaking has been included in the consolidated financial statements from the date of acquisition

16. REINSURANCE

Prior to its acquisition by the company, Sabre Insurance Company Limited effected an unlimited aggregate excess of loss reinsurance policy with Norwich Union Insurance Limited, the effect of which is to limit the exposure of Sabre Insurance Company Limited to any possible deterioration in reserves for claims occurring in 2001 and prior years. This reinsurance policy also protects Sabre Insurance Company Limited against any reinsurance bad debts in respect of these claims.

If the development of the 2001 and prior years is favourable and the aggregate losses fall below the attachment point of the reinsurance contract, there is an obligation in respect of this contract to pay an additional reinsurance premium to Norwich Union Insurance Limited.

Due to favourable development of claims on these years, an additional reinsurance premium of £8,445,823 (2005: 6,949,104) has been accrued (included in "creditors arising out of reinsurance operations"). This premium is not due to be paid until all claims in respect of 2001 and prior years are finally settled.

17. OTHER DEBTORS

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Amounts due from group undertakings	-	-	1,007	961
Other debtors	224	470	5	-
Prepayments and accrued income	-	-	-	12
	<u>224</u>	<u>470</u>	<u>1,012</u>	<u>973</u>

BINOMIAL GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

18. TANGIBLE FIXED ASSETS – GROUP

	IT Equipment £000	Fixtures & Fittings £000	Total £000
COST			
At 1 January 2006	472	347	819
Additions	79	8	87
At 31 December 2006	<u>551</u>	<u>355</u>	<u>906</u>
DEPRECIATION			
At 1 January 2006	301	216	517
Charge for the year	84	42	126
At 31 December 2006	<u>385</u>	<u>258</u>	<u>643</u>
NET BOOK VALUE			
At 31 December 2006	<u>166</u>	<u>97</u>	<u>263</u>
At 31 December 2005	<u>171</u>	<u>131</u>	<u>302</u>

19. SHARE CAPITAL

Authorised, share capital:

	2006 £000	2005 £000
Ordinary shares of £1 each	<u>415</u>	<u>415</u>

Allotted, called up and fully paid:

	2006 £000	2005 £000
At 1 January 2006	198	274
Purchase of own equity shares	(3)	(76)
At 31 December 2006	<u>195</u>	<u>198</u>

During the year the company purchased 2,934 ordinary shares (nominal value of £2,934) for a consideration of £614,767, excluding cost. As a result, the issued share capital decreased from £197,950 to £195,016 (1.5%).

The company is also committed to purchase a further 33,010 ordinary shares from Mr A Dunn, Mr J Kavanaugh & Mr A Lancaster for a consideration based on the level of deferred consideration received in respect of the disposal of BDML Connect Limited. Should no further consideration be received in respect of this disposal the company will only pay the nominal value of the shares repurchased.

BINOMIAL GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

20. OTHER RESERVES

	Capital redemption reserve £000	Profit and loss account £000
Group		
At 1 January 2006	217	22,956
Profit for the year	-	4,435
Purchase of own shares	3	(615)
Dividends paid	-	(3,000)
At 31 December 2006	<u>220</u>	<u>23,776</u>
Company		
At 1 January 2006	217	6,168
Profit for the year	-	30
Purchase of own shares	3	(615)
Dividends paid	-	(3,000)
At 31 December 2006	<u>220</u>	<u>2,583</u>

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Opening shareholders' funds	23,371	19,055	6,583	1,350
Profit for the year	4,435	26,923	30	27,840
Purchase of own shares	(615)	(16,088)	(615)	(16,088)
Dividends paid	(3,000)	(6,519)	(3,000)	(6,519)
Closing shareholders' funds	<u>24,191</u>	<u>23,371</u>	<u>2,998</u>	<u>6,583</u>

BINOMIAL GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

22. DEFERRED TAXATION

The movement on the deferred taxation provision during the year was

	2006 £000	2005 £000
Provision brought forward	165	45
Increase in provision	21	130
Sold with subsidiary	-	(10)
Provision carried forward	<u>186</u>	<u>165</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of

Group	Provided		Unprovided	
	2006 £000	2005 £000	2006 £000	2005 £000
Accelerated capital allowances	216	201	-	-
Other timing differences	(30)	(36)	(258)	(167)
	<u>186</u>	<u>165</u>	<u>(258)</u>	<u>(167)</u>

Company	Provided		Unprovided	
	2006 £000	2005 £000	2006 £000	2005 £000
Other timing differences	<u>-</u>	<u>-</u>	<u>(258)</u>	<u>(167)</u>

BINOMIAL GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

23. OTHER CREDITORS: Amounts falling due within one year

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Bank loans	1,470	-	1,470	-
Other taxation and social security	875	659	-	-
Other creditors	19	136	-	-
Corporation tax	949	1,190	-	-
Accruals and deferred income	-	-	4,343	758
	<u>3,313</u>	<u>1,985</u>	<u>5,813</u>	<u>758</u>

Bank borrowings are secured by fixed and floating charges over the assets of the companies to which they relate

24. OTHER CREDITORS: Amounts falling due after more than one year

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Bank loans	5,878	7,348	5,878	7,348
	<u>5,878</u>	<u>7,348</u>	<u>5,878</u>	<u>7,348</u>

Bank borrowings are secured by fixed and floating charges over the assets of the companies to which they relate

25. ACCRUALS AND DEFERRED INCOME

	2006	2005
GROUP	£000	£000
Accruals falling due within one year	7,264	3,231
Total accruals and deferred income	<u>7,264</u>	<u>3,231</u>

BINOMIAL GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

26. CAPITAL INSTRUMENTS

Loans are repayable as follows

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
In one year or less, or on demand	1,470	-	1,470	-
Between one and two years	1,970	1,500	1,970	1,500
Between two and five years	3,908	5,848	3,908	5,848
	<u>7,348</u>	<u>7,348</u>	<u>7,348</u>	<u>7,348</u>

The above liabilities are in respect of a bank loan, which is secured over the assets of the company. The loan is repayable over a 5 year period to 31 December 2010, and bears interest of 1.5% over LIBOR.

27. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption not to disclose any transactions with entities that are part of Binomial Group Limited group which qualify as related parties, due to the preparation of consolidated financial statements by the company.

28. ULTIMATE CONTROLLING PARTY

In the opinion of the directors there is no one controlling party.