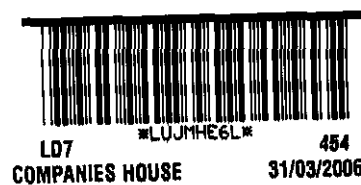


Registered Number 78950

AXA INSURANCE UK PLC

**Directors' Report and Financial Statements
for the year ended 31 December 2005**



Registered Office: 5 Old Broad Street, London EC2N 1AD

DIRECTORS

D. Holt (Chairman)
M. Cliff
A. P. Fairchild
K. G. Gibbs
P. J. Hubbard
P. L. H. Maso y Guell Rivet
L. Matras
F. de Méneval
J. O'Neill
I. D. Richardson
G. Stouls

SECRETARY

J. P. Small

AUDITORS

PricewaterhouseCoopers LLP

AXA INSURANCE UK PLC

DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2005.

REVIEW OF ACTIVITIES

The Company's principal and ongoing activity is the writing of general insurance business. The directors believe the business has traded creditably following a period of refocusing and investment.

Profit before tax increased by £63.7m to £156.2m in 2005 driven by improvements in both underwriting and investment results.

During the year, gross written premiums decreased by £13.9m or 0.8% to £1,684.1m (2004: £1,698.0m) notwithstanding the sale of the direct motor and household business in 2004 (2004 premiums: £74.5m). A strong performance in personal household has been offset by adverse performance in commercial lines, principally from liability, due to difficult market conditions. Motor has also shown a strong performance despite the sale of the direct business.

The underwriting loss before tax for the year was £24.3m (2004: £30.0m). The improvement is driven by improved loss ratios reflecting better claims experience and expense savings, partially offset by the increase in commission as a result of the change in business mix.

The investment return for the year was a profit before tax of £174.9m (2004: £116.7m). The improvement is due primarily to unrealised gains as a result of favourable movements in the markets and the reinvestment of cash to bonds resulting in a higher rate of return on investments.

On 11 October 2004, RAC plc ("RAC") acquired the renewal rights of AXA Direct, the Company's personal lines direct insurance business (see note 8).

CHANGE OF REGISTERED OFFICE

The Registered Office of the Company changed from 107 Cheapside, London EC2V 6DU to 5 Old Broad Street, London EC2N 1AD on 13 January 2006.

AXA INSURANCE UK PLC

DIRECTORS' REPORT (CONTINUED)

DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2005 (2004: £nil).

DIRECTORS

The directors of the Company at the date of this report are shown on page 1.

Mr. K. M. Sinclair resigned as a director on 28 January 2005. Mr. M. Cliff and Mr. A. P. Fairchild were appointed as directors of the Company on 3 May 2005. Mr. G. Stouls was appointed as a director of the Company on 1 January 2006.

DIRECTORS' INTERESTS

As permitted by Statutory Instrument, the register of directors' interests does not include the interests of the following directors in the share capital and debentures of the Company, its ultimate parent company (AXA) or subsidiaries of the ultimate parent company as such interests are disclosed in the directors' reports of the following companies, which are parent companies of the Company.

- | | | |
|-------------------------------|---|-------------------------------|
| • D. Holt |) | |
| • P. J. Hubbard |) | reported by AXA UK plc |
| • P. L. H. Maso y Guell Rivet |) | |
| • I. D. Richardson |) | |
| • M. Cliff |) | |
| • A. P. Fairchild |) | |
| • K. G. Gibbs |) | reported by AXA Insurance plc |
| • L. Matras |) | |
| • F. de Ménéval |) | |
| • J. O'Neill |) | |

Save as stated above, none of the directors at 31 December 2005 had interests in the share capital or debentures of the Company, its ultimate parent company or subsidiaries of the ultimate parent company.

PAYMENT OF CREDITORS

All trade purchases are dealt with through AXA Services Limited, a fellow subsidiary undertaking.

DIRECTORS' REPORT (CONTINUED)

FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Company is exposed to financial risk through the inherent uncertainty in undertaking insurance business affecting its financial assets and liabilities. The most important components of this risk are price, credit, liquidity and cashflow risks.

The Company is part of the AXA UK Group which has established a groupwide financial risk management framework and associated set of policies. These are designed to ensure that financial risks are adequately controlled and monitored through Risk Committees advising the Group Chief Executive and individual business unit Chief Executives. A dedicated Financial Risk Management function supports the individual business units by ensuring that a full understanding and control of financial risks is incorporated into management decision making and procedures.

Financial risks are considered from both a shareholder and a policyholder liability perspective with the adoption of appropriate risk policies to cover different situations, such as insurance contracts, where the principal technique is to match assets to liabilities, and non-investment credit risk. The Company does not use hedge accounting.

Price risk

Price risk can be defined as the risk that movements in market factors (such as pricing of equities or bonds), interest rates and currency rates impact adversely the value of, or income from, the financial assets. Also, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

For an insurance company price risk appetite is required to reflect the aim of retaining prudent margins to avoid insolvency whilst balancing the desire to optimise investment performance. In order to control price risk, assets are chosen where relevant to match a range of underlying liability characteristics such as their mean duration, inflation and currency factors.

The Investment Committee is responsible for strategy for the invested assets of AXA UK group companies by setting investment guidelines. The Committee defines and documents the range of strategic asset allocation by class of asset taking into account the interaction between assets and liabilities. The Committee also defines concentration limits. Together, these controls are monitored monthly for each portfolio to help control the impact of price risks on the portfolio.

Individual Capital Assessment

Given the variability of the many inflows and outflows which are subject to price and other combinations of risk, regular monitoring of liability and asset profiles is undertaken to establish the implications for supporting capital requirements. The Company carries out an Individual Capital Assessment (ICA), taking into account the variability of these risks, to ensure that there are sufficient assets to back the liabilities, under extreme scenarios. The ICA is established at levels of security defined by the AXA Group and the Financial Services Authority to whom regular reports are made.

DIRECTORS' REPORT (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Insurance and reinsurance risk

The Company's insurance risk policy outlines its objectives in carrying out insurance business, its appetite for insurance risk and its policies for identifying, measuring, monitoring and controlling insurance risk. Reinsurance is used to manage insurance risk and is monitored through the Reinsurance Committee. This includes the effectiveness of the reinsurance programme in reducing the gross provisions whilst considering the non-investment credit risks associated with reinsurance balances.

Currency

The Company is exposed to currency risk in respect of portfolios denominated in other currencies, principally the US dollar and euro. Mitigation of this risk is achieved by matching the liabilities with assets in the same currency.

Credit risk

Credit risk can be defined as the risk of capital or income loss resulting from counterparty default or issuer credit downgrades affecting financial assets.

For investment related items credit risk is actively accepted in anticipation of the potential returns to be made but within closely controlled limits set and monitored by the Investment Committee. The exposure to credit risk is controlled by the application of concentration limits to limit the exposure to any one counterparty and by restrictions on investment below certain credit ratings.

Non-investment items which generate credit risk generally arise as a by - product of the Company's insurance operations, such as premium debts from policyholders and intermediaries, reinsurance balances and other operational debts. Exposure is controlled via different processes including the active monitoring of premium debt.

Liquidity and cashflow risk

Liquidity or cashflow risk is defined as the risk that the Company, irrespective of solvency and profitability, may not have sufficient available cash (or near cash assets or funding facilities) to pay obligations when they fall due at reasonable cost.

Liquidity risk could arise from illiquid asset holdings, inappropriate asset/liability matching or inexact forecast operating liquidity requirements resulting in insufficient short-term (including intra-day) and longer-term liquidity. This is controlled via the higher level requirements of AXA UK for annual liquidity reviews including stress testing to ensure that sufficient liquidity exists in the business. In addition, a robust working capital management environment is encouraged by ensuring there are appropriate loan and overdraft facilities, backed up by shorter-term, regular cashflow forecasting.

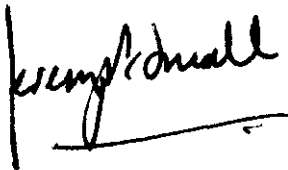
AXA INSURANCE UK PLC

DIRECTORS' REPORT (CONTINUED)

AUDITORS

A resolution to reappoint the auditors, PricewaterhouseCoopers LLP, who have indicated their willingness to continue in office, and to authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

A handwritten signature in black ink, appearing to read 'J. P. Small', written over a horizontal line.

J. P. Small

Secretary

29 March 2006

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the auditors' statement of auditors' responsibilities, is made for the purpose of clarifying the respective responsibilities of the directors and the auditors in the preparation of the financial statements.

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently, with the exception of changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 confirm they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

AXA INSURANCE UK PLC

We have audited the financial statements of AXA Insurance UK plc for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 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 circumstances, consistently applied and adequately disclosed.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

AXA INSURANCE UK PLC (CONTINUED)

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.

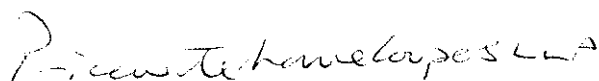
Equalisation provisions

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation provisions in respect of general insurance business. The nature of equalisation provisions, the amount set aside at 31 December 2005, and the effect of the movement in those provisions during the year on the shareholders' funds general business technical result and profit before tax, are disclosed in accounting policies II (h) and Note 23 respectively.

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 Company's affairs at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

29 March 2006

AXA INSURANCE UK PLC

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2005

General business technical account

	Note	2005 £m	2004 £m
Gross written premiums	1b	1,684.1	1,698.0
Outward reinsurance premiums		(104.7)	(97.0)
Net written premiums		1,579.4	1,601.0
Change in provision for unearned premiums			
- gross amount		(51.5)	(39.6)
- reinsurers' share		1.3	1.4
		(50.2)	(38.2)
Earned premiums, net of reinsurance		1,529.2	1,562.8
Other technical income		14.0	18.1
Total technical income		1,543.2	1,580.9
Claims paid			
- gross amount		(846.0)	(845.9)
- reinsurers' share		23.1	39.8
		(822.9)	(806.1)
Change in outstanding claims provision			
- gross amount		(167.3)	(214.7)
- reinsurers' share		20.9	(20.6)
		(146.4)	(235.3)
Claims incurred, net of reinsurance		(969.3)	(1,041.4)
Change in unexpired risk provision		-	7.2
Net operating expenses	1c	(577.2)	(555.3)
Change in the equalisation provision	23	(21.0)	(21.4)
Total technical charges		(1,567.5)	(1,610.9)
Balance on the technical account for general business		(24.3)	(30.0)

Discontinued activities are not material to the company, all other activities are continuing.

The accounting policies and notes on pages 14 to 37 form an integral part of these financial statements.

AXA INSURANCE UK PLC

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2005

Non-technical account

	Note	2005 £m	2004 £m
Balance on the general business technical account		(24.3)	(30.0)
Investment income	3a	131.5	117.1
Unrealised gains on investments		57.7	7.5
Investment expenses and charges	3b	(14.3)	(7.9)
		<u>174.9</u>	<u>116.7</u>
Operating profit		150.6	86.7
Exceptional item: profit on sale of operations	8	5.6	5.8
Profit on ordinary activities before tax		156.2	92.5
Tax on profit on ordinary activities	9a	17.9	(15.7)
Profit for the financial year	20, 21	<u>174.1</u>	<u>76.8</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2005

	Note	2005 £m	2004 £m
Profit for the financial year		174.1	76.8
Change in current value of subsidiary undertakings	12a	45.0	(8.8)
Unrealised gain on property transaction	11	2.6	-
Tax at 30% on the above	9a	(0.7)	-
Unrealised (losses)/gains on property valuations		(0.1)	2.9
Total gains and losses recognised since last annual report	21	<u>220.9</u>	<u>70.9</u>

Discontinued activities are not material to the company, all other activities are continuing.

The accounting policies and notes on pages 14 to 37 form an integral part of these financial statements.

AXA INSURANCE UK PLC

DIRECTORS' REPORT (CONTINUED)

BALANCE SHEET

as at 31 December 2005

	Note	2005 £m	2004 £m
ASSETS			
Intangible assets			
Other intangibles	10	58.1	40.6
Investments			
Land and buildings	11	11.0	3.2
Investment in group undertakings and participating interests:			
Shares in subsidiary undertakings	12a	813.8	768.8
Other financial investments	13	2,581.4	2,349.3
		<u>3,406.2</u>	<u>3,121.3</u>
Reinsurers' share of technical provisions			
Provision for unearned premiums		18.2	16.9
Claims outstanding		147.5	125.3
		<u>165.7</u>	<u>142.2</u>
Debtors			
Direct insurance operations	14	483.1	438.1
Reinsurance operations		38.9	43.7
Deferred tax	15	109.7	86.4
Other debtors	16	505.7	384.1
		<u>1,137.4</u>	<u>952.3</u>
Other assets			
Tangible fixed assets	17	0.6	1.0
Cash at bank and in hand	18	27.9	26.5
		<u>28.5</u>	<u>27.5</u>
Prepayments and accrued income			
Accrued interest and rent		28.0	24.9
Deferred acquisition costs		187.8	157.8
Other prepayments and accrued income		1.1	0.9
		<u>216.9</u>	<u>183.6</u>
Total assets		<u><u>5,012.8</u></u>	<u><u>4,467.5</u></u>

The accounting policies and notes on pages 14 to 37 form an integral part of these financial statements.

AXA INSURANCE UK PLC


BALANCE SHEET

as at 31 December 2005

	Note	2005 £m	2004 £m
LIABILITIES			
Capital and reserves			
Called-up share capital	19,20	122.3	122.3
Share premium account	20	798.7	798.7
Revaluation reserve	20	25.7	(21.1)
Capital contributions	20	228.7	228.7
Profit and loss account	20	52.9	(121.2)
Equity shareholders' funds	20,21	<u>1,228.3</u>	<u>1,007.4</u>
Subordinated liabilities	22	80.0	80.0
Technical provisions			
Provision for unearned premiums		796.9	745.4
Claims outstanding		2,399.5	2,202.7
Equalisation provision	23	87.0	66.0
		<u>3,283.4</u>	<u>3,014.1</u>
Provisions for other risks	24	26.8	24.5
Creditors			
Direct insurance operations		132.1	94.5
Reinsurance operations		21.1	13.2
Amounts owed to credit institutions	25	0.3	-
Other creditors including taxation and social security	26	239.1	232.8
		<u>392.6</u>	<u>340.5</u>
Accruals and deferred income		1.7	1.0
Total liabilities		<u>5,012.8</u>	<u>4,467.5</u>

The accounting policies and notes on pages 14 to 37 form an integral part of these financial statements.

The financial statements on pages 10 to 37 were approved by the Board on 29 March 2006 and were signed on its behalf by:


P. L. H. Maso y Guell Rivet
 Director

NOTES TO THE FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies are set out below.

I Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 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 ("the ABI SORP") dated December 2005.

The financial statements have been prepared in accordance with applicable accounting standards. In 2005, several new Financial Reporting Standards have become effective and require entities to apply the accounting practices set out in the standards for accounting periods beginning on or after 1 January 2005. Of these standards, the principal ones applying to the Company are:

- FRS 17 (Retirement Benefits, amended November 2002) has been adopted in full in these financial statements. However, no changes are seen due to the concession as noted in accounting policy VIII.
- FRS 21 (Events after the balance sheet date) has been adopted, although there is no overall impact on the Company's results in either the current or prior year.
- The presentational requirements of FRS 25 (Financial Instruments: Disclosure and Presentation) have been adopted with no impact on the current or prior year.

The Company is a wholly-owned subsidiary undertaking and its immediate parent undertaking is established under UK law and, therefore, in accordance with section 228 of the Companies Act 1985, it has not prepared consolidated accounts for the year ended 31 December 2005.

II General business

The results are determined on an annual basis whereby the incurred costs of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(a) Premiums

Premiums written relate to business inception 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 receivable or notified to the Company.

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis or having regard to the incidence of risk.

(b) Other technical income

Other technical income relates to interest on instalment premiums on insurance contracts, insurance business administration fees and commissions in respect of insurances offered by the Company in support of its own business but written elsewhere.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

II General business (continued)

(c) Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provision for outstanding claims, including provisions for claims incurred but not reported ("IBNR") and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

(d) Claims provisions and related reinsurance recoveries

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims IBNR to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and for IBNR claims a deduction is made for the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

II General business (continued)*(d) Claims provisions and related reinsurance recoveries (continued)*

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Property, aviation and accident business

Property, aviation and accident business is "short tail", that is there is not generally a significant delay between the occurrence of the claim and the claim being reported to the Company. The costs of claims notified to the Company at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications. Adjustments are made to allow for movements in the variables described above.

Healthcare business

Healthcare business is short tail. The total costs of claims paid by the Company at the balance sheet date is used to project the expected total cost for claims incurred by reference to statistics which show how the total cost of claims paid in previous periods have developed over time.

Motor business

Motor claims are made up of short tail property damage claims and longer tail personal injury claims. For the former type of claim, the total costs of claims incurred and/or paid by the Company at the balance sheet date is used to project the ultimate expected total cost of claims incurred. This is done by reference to statistics that show how the total cost of claims incurred or paid in previous periods has developed over time. In all cases adjustments are made to allow for movements in the variables described above.

The personal injury element of motor claims costs is estimated using the same methods as used for liability claims described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

II General business (continued)

*(d) Claims provisions and related reinsurance recoveries (continued)***Liability and marine claims**

These claims are longer tail than for those of the other classes of business described above and so a larger element of the claims provision relates to IBNR claims. Claims estimates for the Company's marine and liability business are derived using one or more of the following methods:

1. A combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio, based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort.
2. Using the costs of claims notified to the Company at the balance sheet date which are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications. Adjustments are made to allow for movements in the variables described above.
3. By splitting the total case by case cost of notified claims into three band sizes (attritional, large and very large). The ultimate expected cost of claims in each band is then estimated by reference to the projected number of claims (based on statistics showing how the number of notified claims has been developed over time) and the anticipated average final cost of notified and IBNR claims (based on historical levels adjusted to allow for movements in the variables described above).

The liability class of business is also exposed to the potential emergence of new types of latent claims but no allowance is included until evidence of the existence of such claims is received by the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

II General business (continued)

*(d) Claims provisions and related reinsurance recoveries (continued)***Disease-related and pollution claims**

The claims provisions include amounts in respect of potential claims relating to diseases including those associated with exposure to asbestos and environmental pollution. Legislative and judicial actions to date have failed to determine the basis of liability to indemnify losses. These claims are not expected to be settled for many years and there is considerable uncertainty as to the amounts at which they will ultimately be settled. The level of the provision has been set on the basis of the information that is currently available including potential outstanding loss advices, experience of development of similar claims and case law. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability may vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. In particular, the extent of the cost of claims for asbestos related diseases may change as more information becomes publicly available and claims reserves are updated accordingly. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Reinsurance recoveries

Reinsurance recoveries in respect of estimated IBNR claims are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

(e) Salvage and subrogation

Salvage and subrogation is held as an asset in the balance sheet.

(f) Deferred acquisition expenses

Commission and other acquisition expenses relating to unearned premiums are deferred and charged in the accounting periods in which those premiums are earned.

(g) Unexpired risks

Provision is made for unexpired risks when, after taking account of investment income on insurance funds, it is anticipated that unearned premiums will be insufficient to meet the future claims and expenses of business in force at the end of the year. Classes of business which the directors consider are managed together are aggregated for this purpose. The future claims are calculated having regard to events that have occurred prior to the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

II General business (continued)*(h) Claims equalisation provision*

Amounts are set aside as equalisation provisions in accordance with the Integrated Prudential Sourcebook for Insurers for the purpose of mitigating exceptionally high loss ratios in future years. The amounts provided are not liabilities because they are an addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions.

(i) Investment return

As permitted by the ABI SORP, no allocation of investment return is made to the technical account. All the investment returns earned during the year have been included in the non-technical account.

III Other intangible assets

Advance commission payments in respect of future business are deferred and capitalised at cost in other intangible assets. Costs are amortised on a straight line basis over periods of up to 5 years, the estimated period during which the Company is expected to benefit. Carrying values of intangible assets are regularly reviewed for indications of impairment.

IV Investments*(a) Investment income*

Investment income consists of interest, dividends, rents and realised gains. Income from listed equities is recognised when the investments are quoted ex-dividend. Income from government and other fixed interest securities, loans and deposits is dealt with on an accruals basis. Other investment income is recognised when due to be received.

Realised investment gains and losses are calculated by reference to the net sales proceeds and the original purchase cost. For presentational purposes, as required by the ABI SORP, net realised gains are included in investment income and net realised losses in investment expenses and charges.

Interest payable and expenses incurred in the management of investments are accounted for on an accruals basis.

(b) Unrealised investment gains and losses

Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

IV Investments (continued)

(b) Unrealised investment gains and losses (continued)

Unrealised gains and losses on land and buildings are recorded in the statement of recognised gains and losses. Unrealised gains and losses on other financial investments are recorded in the non-technical account. The movements in current value of shares in subsidiary undertakings and participating interests are recognised in the statement of total recognised gains and losses and are taken to the revaluation reserve.

(c) Valuation

Investments are stated at market value for listed securities; open market valuations for properties; bid price for unit trusts; redemption values less provisions for mortgages and loans; and directors' valuations for other investments. Full property valuations are made by independent, professionally qualified valuers annually. Investment properties are not depreciated, as the directors consider that they are held for investment purposes and to depreciate them would not give a true and fair view.

Shares in subsidiary undertakings and participating interests have been stated at net asset value as an approximation to current value.

(d) Group occupied properties

As required by the Companies Act, properties occupied by the group are included as investments. These properties are not depreciated as the directors consider that any depreciation would not be material.

V Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. Exchange gains and losses are treated as part of the investment return in the profit and loss account.

VI Deferred tax

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. Deferred tax balances are not discounted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

VII Tangible fixed assets and depreciation

Major items of equipment, software developments and motor vehicles are capitalised and depreciated over their expected useful lives after taking into account their anticipated residual value. All other items of equipment are written off in the year of purchase. Leasehold improvements relating to refurbishment and fit out of operational properties are capitalised. Amortisation commences once the building is brought into use and is over the period of the lease. The principal depreciation rates used are as follows:

- Computers and major software developments 20% - 33.3%.
- Fixtures, fittings, equipment and motor vehicles 25% - 33.3%.
- Leasehold improvements period of lease to a maximum of 50 years.

VIII Staff pension costs

AXA operates a number of pension schemes around the world to which contributions, determined in accordance with actuarial advice, are made by group undertakings in respect of their employees. The charge for pension costs principally represents the costs of providing pension benefits to staff in respect of their service during the year. The Company is recharged the costs of providing pensions as the contributions become payable in accordance with the rules of the scheme.

The Company has taken advantage of the concession in Financial Reporting Standard 17 (Retirement Benefits) paragraph 9 which allows limited reporting by individual companies who participate in a groupwide pension arrangement that does not enable individual companies within the group to identify their share of the underlying assets and liabilities. In such cases, FRS 17 allows for a defined benefit scheme to be treated by the participating company as if it were a defined contribution arrangement.

IX Operating leases

All leases are operating leases. Rentals payable under operating leases are charged to the profit and loss account as incurred over the lease term.

AXA INSURANCE UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 GENERAL INSURANCE BUSINESS

1a GEOGRAPHICAL ANALYSIS

Substantially all gross written premiums in respect of direct and reinsurance business are written in the United Kingdom.

1b CLASS OF BUSINESS ANALYSIS

	Gross written premiums		Gross earned premiums	
	2005	2004	2005	2004
	£m	£m	£m	£m
Direct and reinsurance accepted				
Motor - third party	18.4	15.9	18.6	17.6
- other	277.3	307.1	279.6	332.0
Accident and health	136.1	134.2	135.6	123.9
Third party liability	328.6	351.6	321.8	352.6
Fire and other damage to property	803.7	781.4	754.1	739.1
Marine, aviation and transport	22.0	33.9	21.7	19.6
Miscellaneous	98.0	73.9	101.2	73.6
	<u>1,684.1</u>	<u>1,698.0</u>	<u>1,632.6</u>	<u>1,658.4</u>
	Gross claims incurred		Gross operating expenses	
	2005	2004	2005	2004
	£m	£m	£m	£m
Direct and reinsurance accepted				
Motor - third party	15.9	24.1	3.9	4.2
- other	238.1	260.8	73.3	90.9
Accident and health	71.5	74.6	60.5	57.8
Third party liability	250.4	322.2	92.4	94.3
Fire and other damage to property	373.3	332.1	290.1	273.8
Marine, aviation and transport	5.3	(1.8)	9.4	10.3
Miscellaneous	58.8	48.6	52.3	29.7
	<u>1,013.3</u>	<u>1,060.6</u>	<u>581.9</u>	<u>561.0</u>

The 2004 comparatives have been changed to reflect the new FSA reporting categories which came into effect from 2005, the major change being creditor business which is now reported under Miscellaneous rather than Accident and Health as previously.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1b CLASS OF BUSINESS ANALYSIS (CONTINUED)

	Reinsurance balance	
	2005	2004
	£m	£m
Direct and reinsurance accepted		
Motor - third party	(0.2)	(0.3)
- other	(2.4)	0.8
Accident and health	(3.3)	(2.7)
Third party liability	(6.1)	1.3
Fire and other damage to property	(38.8)	(67.2)
Marine, aviation and transport	(3.1)	(3.7)
Miscellaneous	(0.8)	1.1
	<u>(54.7)</u>	<u>(70.7)</u>

The reinsurance balance represents the charge to the technical account from the aggregate of all items relating to reinsurance outwards.

1c ANALYSIS OF NET OPERATING EXPENSES

	2005	2004
	£m	£m
Acquisition costs	492.7	426.5
Movement in deferred acquisition costs	(29.8)	(12.5)
Administrative expenses	119.0	147.0
Reinsurance commission and profit participation	(4.7)	(5.7)
	<u>577.2</u>	<u>555.3</u>

Commissions expense on direct insurance business amounted to £404.9m (2004: £350.9m).

2 PRIOR YEARS' GROSS CLAIMS INCURRED

	2005	2004
	£m	£m
Motor	4.8	(21.5)
Accident and health	(1.7)	2.8
Third party liability	(1.2)	37.2
Fire and damage to other property	(1.8)	(23.4)
Marine, aviation and transport	0.2	(6.7)
Miscellaneous	(9.0)	(8.7)
Total decrease in prior years' claims reserves	<u>(8.7)</u>	<u>(20.3)</u>

The release of prior year reserves is driven by the release of creditor reserves for profit share.

AXA INSURANCE UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 INVESTMENT RETURN

3a INVESTMENT INCOME

	2005 £m	2004 £m
Income from other investments	128.7	114.0
Gains on the realisation of investments	2.8	3.1
	<u>131.5</u>	<u>117.1</u>

3b INVESTMENT EXPENSES AND CHARGES

	2005 £m	2004 £m
Investment management expenses	2.5	2.4
Interest payable	5.4	5.3
Net expenses from land and buildings	2.0	0.2
Change in calculation basis of vacant space provision (see note 24)	4.4	-
	<u>14.3</u>	<u>7.9</u>

4 DIRECTORS' EMOLUMENTS

The directors are employed and paid by companies in the AXA group and their directorships are held as part of that employment. No director has received any emoluments or other benefits from the Company or from any other company in the AXA group in respect of services to the Company.

Mr. K. G. Gibbs, Mr. D. Holt, Mr. P. J. Hubbard, Mr. P. L. H. Maso y Guell Rivet, Mr. F. de Méneval, Mr. J. O'Neill and Mr. I. D. Richardson were also directors of the intermediate parent company, AXA UK plc, during the year and their emoluments, which relate to their services to the AXA group as a whole, are disclosed in the financial statements of that company.

Mr. M. Cliff, Mr. A. P. Fairchild, Mr. L. Matras and Mr. K. M. Sinclair were also directors of AXA Insurance plc during the year and their emoluments, which relate to their services to the AXA group as a whole, are disclosed in the financial statements of that company.

5 STAFF COSTS

Staff engaged in the Company's activities are employees of AXA Services Limited, a fellow subsidiary undertaking, and the related costs incurred are recharged to the Company. Pension costs included in the recharge are detailed in note 6.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 STAFF PENSION COSTS

Staff engaged in the Company's activities are members of the AXA UK Pension Scheme which embraces a number of companies in the AXA UK Group. The Scheme has both defined benefit and defined contribution sections but the Company is unable accurately to identify its share of the underlying assets and liabilities of the defined benefit section. Accordingly, the Company has accounted for its contribution to the defined benefit section as if it were a defined contribution arrangement.

An independent actuarial review by Watson Wyatt of the defined benefit scheme revealed a deficit of £561.2m as at 31 December 2005 (£492.2m as at 31 December 2004) before taking account of any tax relief. This represents a snapshot of the present cost of meeting pension obligations that will crystallise over a period of many years. The scheme invests in a wide range of assets, including equities, which over the long term, are expected by the directors to produce higher returns than those underlying the assessment of the deficit as at 31 December 2005.

The total pension cost which has been charged to the profit and loss account of the Company is £18.5m (2004: £15.6m). There were no outstanding contributions as at 31 December 2005 (2004: £nil).

7 PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Profit on ordinary activities before tax is stated after charging:

	2005 £m	2004 £m
Depreciation	-	0.2
Amortisation of intangible asset	13.7	6.4
Auditors' remuneration - audit fees	0.8	0.8
Rentals under operating leases	10.1	14.4

Non-audit fees in 2005 amounted to £nil (2004: £nil).

8 EXCEPTIONAL ITEM: SALE OF OPERATIONS

On 11 October 2004, RAC plc acquired the renewal rights to the Company's personal lines direct insurance business for a consideration of £9.0m. Set against this was a provision of £3.2m for the estimated handling costs of mid term adjustments and cancellations which were to be handled by RAC. The net profit of £5.8m was credited to the non-technical account in 2004. In addition, the agreement covering the sale of the renewal rights included a deferred consideration clause which was treated as a contingent asset in the financial statements and no provision was made. The contingent asset was estimated as a potential £4m - £6m due to the Company.

During 2005, a gain of £5.6m has been recognised and credited to the non-technical account in respect of the actual deferred consideration due and a release of the handling costs provision. The deferred consideration was dependant on renewal retention rates being achieved over a target figure and based on an agreed rate per renewed policy. This amounted to £4.7m. The handling costs provision of £3.2m was based on the estimated number of adjustments to be processed by RAC, at an agreed fee per adjustment, in respect of the then current annual policies, pre renewal to RAC. The actual number of adjustments was lower than expected and there has been a corresponding release of £0.9m in the provision (see note 24).

AXA INSURANCE UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 TAX ON PROFIT ON ORDINARY ACTIVITIES

9a ANALYSIS OF TAX (CREDIT)/CHARGE IN PERIOD

	Profit and loss account		Statement of total recognised gains and losses	
	2005	2004	2005	2004
	£m	£m	£m	£m
<u>Current tax:</u>				
UK corporation tax on profit of the period	21.1	-	0.7	-
Adjustments in respect of previous periods	(15.9)	5.1	-	-
	<u>5.2</u>	<u>5.1</u>	<u>0.7</u>	<u>-</u>
Foreign tax	0.2	0.1	-	-
Total current tax (note 9b)	<u>5.4</u>	<u>5.2</u>	<u>0.7</u>	<u>-</u>
<u>Deferred tax:</u>				
Origination and reversal of timing differences	(5.7)	26.0	-	-
Adjustment to deferred tax assets arising in previous periods	(17.6)	(15.5)	-	-
Total deferred tax (note 15)	<u>(23.3)</u>	<u>10.5</u>	<u>-</u>	<u>-</u>
Tax (credit)/charge	<u>(17.9)</u>	<u>15.7</u>	<u>0.7</u>	<u>-</u>

The previous period adjustments arise from a reduction in the quantum of tax losses surrendered to other group companies.

The taxation on the exceptional item amounts to £0.3m (2004: £1.7m).

AXA INSURANCE UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

9b FACTORS AFFECTING TAX CHARGE FOR THE PERIOD

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Profit and loss account		Statement of total recognised gains and losses	
	2005	2004	2005	2004
	£m	£m	£m	£m
Profit before tax	<u>156.2</u>	<u>92.5</u>	<u>2.6</u>	<u>-</u>
Profit multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	46.8	27.7	0.7	-
<u>Effects of:</u>				
Items not deductible for tax purposes (primarily equity unrealised gains taxed on a six year spread)	2.4	4.1	-	-
Income not taxable (primarily UK equity income)	(3.0)	(1.9)	-	-
Capital allowances for the period in excess of depreciation	(0.2)	(0.4)	-	-
Utilisation of tax losses	(24.9)	(29.5)	-	-
Higher tax rates on overseas earnings	0.2	0.1	-	-
Adjustments to tax charge in respect of previous periods	(15.9)	5.1	-	-
Current tax charge for the period (note 9a)	<u>5.4</u>	<u>5.2</u>	<u>0.7</u>	<u>-</u>

9c FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The Company has a substantial trading loss carried forward as at 31 December 2005. This will significantly reduce tax payable in future accounting periods.

AXA INSURANCE UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 OTHER INTANGIBLE ASSETS

	Total £m
Cost	
At 1 January 2005	50.2
Additions	<u>31.2</u>
At 31 December 2005	<u>81.4</u>
Accumulated amortisation	
At 1 January 2005	9.6
Charge for the year	<u>13.7</u>
At 31 December 2005	<u>23.3</u>
Net book value – 31 December 2005	<u>58.1</u>
Net book value – 31 December 2004	<u>40.6</u>

Other intangible assets comprise advance commission payments in respect of future business.

11 LAND AND BUILDINGS

	2005 £m	2004 £m
Market value: Freehold	<u>11.0</u>	0.9
Market value: Long leasehold	<u>-</u>	<u>2.3</u>
	<u>11.0</u>	<u>3.2</u>
Cost	<u>11.1</u>	<u>3.2</u>

Included in land and buildings at market value is £10.8m (2004: £3.0m) in respect of land and buildings occupied by the Company for its own use.

Land and buildings were valued at 31 December 2005 on an open market existing use basis by Nelson Bakewell, a firm of independent chartered surveyors.

On 23 December 2005, the Company and Ipswich Borough Council entered into a legal agreement to renegotiate the existing long leasehold (£2.3m shown above) on two adjacent properties, Suffolk House and Suffolk House Extension. The Council agreed to sell the Company the freehold of Suffolk House Extension and the consideration was the simultaneous surrender of the existing long lease, the Company taking up a shorter 25 year lease over Suffolk House, and the completion of substantial repair and refurbishment works to that building. The cost of the freehold has been fair valued at £10m and is included above. The Company occupies Suffolk House Extension and intends to occupy Suffolk House once it is refurbished.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 LAND AND BUILDINGS (CONTINUED)

The repairs required to Suffolk House following the lease restructure are estimated at £5.1m and a provision has been created which is expected to be utilised through 2006 (see note 24). Refurbishment costs, in excess of the repair costs considered necessary by the Council, will be capitalised as leasehold improvements (see note 17). The substantial costs associated with the repair of the leased building and the write off of the long leasehold are integral to the transaction and therefore they have been netted against the fair value and the resultant gain of £2.6m has been treated as unrealised in the statement of total recognised gains and losses.

To ensure that the Council would not be disadvantaged if the Company did not complete the repair works to Suffolk House, the Council required the Company to deposit £8.5m into an escrow bank account. A separate escrow agreement ensures that this money can only be used for the purpose of the repairs and refurbishment.

Suffolk House will not be fit for occupation throughout 2006 whilst the repairs and refurbishment works are carried out. The legal agreement stipulates that these works cover the whole building and have to be completed within 5 years of the date of the agreement. It is intended to complete all the repairs and the majority of the refurbishment through 2006 with the remaining refurbishment by 2010 or earlier. As a market rent will still be being paid for the whole building, an onerous lease provision is required. This has been established as £1.6m (undiscounted) and is based on the timing of the works.

12 INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS**12a SHARES IN SUBSIDIARY UNDERTAKINGS**

	2005 £m	2004 £m
Current value at 1 January	768.8	776.9
Liquidation of dormant subsidiary undertakings	-	0.7
Movement in current value	45.0	(8.8)
Current value at 31 December	<u>813.8</u>	<u>768.8</u>
Cost	<u>789.9</u>	<u>789.9</u>

In the opinion of the directors, the value of the investments of the Company in its subsidiary undertakings is not less than the amount at which it is stated in the balance sheet.

AXA INSURANCE UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12b PARTICULARS OF PRINCIPAL SUBSIDIARY UNDERTAKINGS

	Country of incorporation or registration	Holding of ordinary shares
Insurance companies		
AXA General Insurance Limited	England	100%
Investment companies		
Stramongate Investments Limited	England	100%
Venture Preference Limited	England	100%

13 OTHER FINANCIAL INVESTMENTS

	Current value		Cost	
	2005	2004	2005	2004
	£m	£m	£m	£m
Shares and other variable yield securities and units in unit trusts:				
- listed	391.9	335.3	328.7	318.9
- non-listed	4.7	4.9	6.8	7.0
Debt securities and other fixed income securities:				
- listed	1,840.7	1,191.1	1,841.6	1,209.4
Deposits with credit institutions	344.1	818.0	344.1	818.0
	<u>2,581.4</u>	<u>2,349.3</u>	<u>2,521.2</u>	<u>2,353.3</u>

14 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2005	2004
	£m	£m
Due from policyholders	151.1	178.7
Due from intermediaries	332.0	259.4
	<u>483.1</u>	<u>438.1</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 DEFERRED TAX

The deferred tax asset comprises:

	2005	2004
	£m	£m
Accelerated capital allowances	0.6	0.9
Tax losses carried forward	116.8	96.2
Unrealised gains	(7.6)	(11.8)
Other timing differences	(0.1)	1.1
Undiscounted deferred tax asset	109.7	86.4
Asset at start of period	86.4	96.9
Deferred tax credit/(charge) in profit and loss account (note 9a)	23.3	(10.5)
Undiscounted deferred tax asset	109.7	86.4

Recognition of the net deferred tax asset arising from the carried forward tax losses is based upon the profit forecasts of the group for future accounting periods and the ability to obtain relief for the losses against these future profits.

16 OTHER DEBTORS

	2005	2004
	£m	£m
Amounts due from intermediate parent undertaking	125.8	56.9
Amounts due from subsidiary undertakings	231.6	244.9
Amounts due from fellow subsidiary undertakings	48.6	9.9
Amounts due from associated group undertaking	0.5	1.3
Salvage and subrogation recoverable	58.0	38.3
Other debtors	41.2	32.8
	505.7	384.1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 TANGIBLE FIXED ASSETS

	Leasehold improvements £m	Vehicles £m	Fixtures and fittings £m	Total £m
Cost				
At 1 January 2005	1.0	0.1	0.9	2.0
Additions	0.3	-	-	0.3
Disposals	(0.7)	-	-	(0.7)
At 31 December 2005	<u>0.6</u>	<u>0.1</u>	<u>0.9</u>	<u>1.6</u>
Accumulated depreciation				
At 1 January and 31 December 2005	<u>-</u>	<u>0.1</u>	<u>0.9</u>	<u>1.0</u>
Net book value – 31 December 2005	<u>0.6</u>	<u>-</u>	<u>-</u>	<u>0.6</u>
Net book value – 31 December 2004	<u>1.0</u>	<u>-</u>	<u>-</u>	<u>1.0</u>

Leasehold improvements relate to a major refurbishment of an operational property in Ipswich, which is expected to be brought into use in 2006 (see note 11). Depreciation will commence when the property is available for occupation.

18 CASH AT BANK AND IN HAND

Cash at bank and in hand includes £2.3m (2004: £2.1m) pledged to support letters of credit issued by banks on the Company's behalf, in connection with reinsurance acceptances and £8.5m in an encumbered escrow account as disclosed in note 11.

19 CALLED-UP SHARE CAPITAL

	2005		2004	
	Authorised £m	Paid-up £m	Authorised £m	Paid-up £m
Authorised:				
489,056,602 (2004: 489,056,602)				
Ordinary shares of 25p each	122.3	-	122.3	-
Issued:				
489,056,602 (2004: 489,056,602)				
Ordinary shares of 25p each	-	122.3	-	122.3
	<u>122.3</u>	<u>122.3</u>	<u>122.3</u>	<u>122.3</u>

AXA INSURANCE UK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital £m	Share premium account £m	Revaluation reserve £m	Capital contributions £m	Profit and loss account £m	Total £m
At 1 January 2005	122.3	798.7	(21.1)	228.7	(121.2)	1,007.4
Profit for the year	-	-	-	-	174.1	174.1
<i>Movement in STRGL:</i>						
Change in current value of subsidiary undertakings	-	-	45.0	-	-	45.0
Unrealised gain on property transaction	-	-	1.9	-	-	1.9
Revaluation of assets	-	-	(0.1)	-	-	(0.1)
At 31 December 2005	122.3	798.7	25.7	228.7	52.9	1,228.3

The revaluation reserve represents unrealised gains and losses on property and investments in subsidiary undertakings. Previously, the revaluation reserve included unrealised gains and losses on investments and exchange movements on currency denominated balances which should be shown in the profit and loss account. Accordingly, the opening balance has been restated, the effect of which is to reduce the revaluation reserve and increase the profit and loss account by £21.7m.

21 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2005 £m	2004 £m
Profit on ordinary activities after tax	174.1	76.8
Recognised gains/(losses) on change in current value of subsidiaries	45.0	(8.8)
Unrealised gain on property transaction (net of tax)	1.9	-
Unrealised (losses)/gains on property valuations	(0.1)	2.9
Net addition to shareholders' funds	220.9	70.9
Shareholders' funds at 1 January	1,007.4	936.5
Shareholders' funds at 31 December	1,228.3	1,007.4

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 SUBORDINATED LOANS

	2005	2004
	£m	£m
Subordinated loans are payable as follows:		
Between two and five years	-	30.0
After five years	80.0	50.0
	80.0	80.0

On 21 December 2001, the Company was granted a subordinated loan facility of £50m by its immediate parent company, AXA Insurance plc. On the same date, the Company drew down £30m. Under the terms of the loan agreement, interest on each drawdown is payable annually at LIBOR plus 1.7%. Each loan granted under the facility has a maturity of fifteen years from the date of drawdown and is repayable on demand by the lender, provided the lender has given not less than five years notice in writing to the borrower. On 28 March 2002, the Company drew down a further £10m.

On 28 March 2002, the Company was granted a perpetual subordinated loan facility of £50m by its immediate parent company, AXA Insurance plc. On 11 June 2002, the Company drew down £40m. Under the terms of the agreement, interest on each drawdown is payable half-yearly at LIBOR plus 2.2%. Each loan granted under the facility is repayable on demand by the lender, provided the lender has given not less than five years notice in writing to the borrower.

On 19 December 2005, the notice period terms in the agreements were changed to those detailed above with a resultant change to the repayment periods.

23 EQUALISATION PROVISION

Equalisation provisions are established in accordance with accounting policy note II (h). The effect of this provision is to reduce shareholders' funds by £87.0m (2004: £66.0m). The increase in the provision during the year had the effect of reducing the balance on the technical account for general business and the profit before tax by £21.0m (2004: £21.4m).

24 ANALYSIS OF PROVISIONS FOR OTHER RISKS

	MIB	FSCS	Vacant space	Other	Total
	provision	provision	provision	provisions	£m
	£m	£m	£m	£m	£m
At 1 January 2005	10.4	4.8	4.4	4.9	24.5
Charge for the year	9.2	-	6.6	7.5	23.3
Released during the year	(2.0)	(2.7)	-	(0.9)	(5.6)
Utilised during the year	(8.4)	(2.1)	(0.7)	(4.2)	(15.4)
At 31 December 2005	9.2	-	10.3	7.3	26.8

Motor Insurance Bureau (MIB) provision

The MIB provision relates to the levy payable in respect of 2005 premiums. The levy is assessed retrospectively based on prior year motor premiums and following the final assessment of the 2004 provision there was a release of £2.0m.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 ANALYSIS OF PROVISIONS FOR OTHER RISKS (CONTINUED)**Financial Services Compensation Scheme (FSCS) provision**

In a press release on 26 January 2005, the FSCS announced its intention to call a levy on the A3 general insurance contribution group in March 2005 based on 2004 premiums. Using the FSCS forecast levy and similar assumptions to the actual 2004 levy, the Company's share was estimated to be £4.8m, which was included as a provision in the 2004 financial statements.

Subsequently, on 8 April and 26 May the FSCS reduced significantly their expected levy on the A3 group to reflect a reduction in expected compensation payments for general insurance claims and confirmation of a significant recovery from the estate of an insolvent insurer. This resulted in a final invoice of £2.1m which was paid in August. The balance of the overprovision of £2.7m was released.

On 19 January 2006, the FSCS announced its intention to refund a surplus (due to further improvements in recoveries and compensation claims) to the A3 group roughly equivalent to the levy paid in 2005. They also announced that there would be no levy based on 2005 premiums. Accordingly, a credit of £1.9m has been booked to these financial statements; the amount was received on 1 March 2006.

Vacant space provision

The vacant space provision relates to future rent expenses for leasehold property where the property is vacant or where the property is sublet and the rents receivable are lower than rents payable under the terms of the headlease. It is utilised over the remaining period of the leases.

During the year, the basis of calculation of the provision was reviewed as key assumptions had remained unchanged for some time and had drifted out of line with more general market assumptions. The surplus estate had also been managed down resulting in a rump of low grade properties with consequent disposal difficulties. The assumptions for vacant and rent free periods have therefore been increased to 30 months from 12 months and the discount factor has been reduced to 4% from 6.75%. The effect of this change is approximately £4.4m.

Other provisions

Included in other provisions are:

Handling costs provision following sale of Direct book, £nil (see note 8)

A provision of £3.2m was set up to cover anticipated handling costs following the sale of the direct book. The actual amount paid during 2005 was £2.3m and the £0.9m overprovision was released.

Suffolk House provisions, £6.1m (see note 11)

As described in note 11, anticipated repair costs of £5.1m for Suffolk House have been provided for. At the year end, £4.5m of this provision remains and it is expected that this will be utilised fully in 2006. In addition, an onerous lease provision of £1.6m has been created to reflect the fact that the Company will be unable to occupy the building during its repair and refurbishment.

Fire Brigade levy, £1.8m

A provision of £1.8m has been created and includes an annual levy of £0.8m and an additional charge of £1.0m following an industry wide audit by the London Metropolitan Fire Brigade.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 BORROWINGS

	2005	2004
	£m	£m
Bank borrowings are as follows:		
Amounts owed to credit institutions, repayable other than by instalments:		
Within one year or on demand	<u>0.3</u>	<u>-</u>
	<u>0.3</u>	<u>-</u>

26 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2005	2004
	£m	£m
Amounts due to subsidiary undertakings	<u>136.6</u>	<u>137.1</u>
Amounts due to fellow subsidiary undertakings	-	13.3
Amounts due in respect of group relief	<u>56.1</u>	<u>30.5</u>
Other creditors	<u>46.4</u>	<u>51.9</u>
	<u>239.1</u>	<u>232.8</u>

All the above amounts are payable within one year.

27 OBLIGATIONS UNDER NON-CANCELLABLE OPERATING LEASES

	2005	2004
	£m	£m
Annual commitments under non-cancellable operating leases are as follows:		
Expiry date:		
Within one year	<u>0.1</u>	<u>0.2</u>
Between one and five years	<u>1.8</u>	<u>1.5</u>
After five years	<u>2.6</u>	<u>2.9</u>
	<u>4.5</u>	<u>4.6</u>

All operating lease commitments relate to land and buildings.

28 CAPITAL EXPENDITURE COMMITMENTS

The Company had no capital expenditure commitments as at 31 December 2005 (2004: £nil). As disclosed in note 8, the agreement for the repair and refurbishment of Suffolk House has a completion date of December 2010 by which time it is anticipated that capital expenditure of around £6m will have been incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 CONTINGENT ASSETS AND LIABILITIES

- (a) With the approval of the FSA, the Company and certain of its fellow subsidiary undertakings have entered into a mutual guarantee whereby each company guarantees payment of all liabilities incurred by the others in respect of general insurance business.
- (b) The Company has given an irrevocable undertaking to indemnify AXA Properties Limited, AXA Direct Limited, Insurance Management International Limited and Magnet House Properties Limited against any future liabilities following the transfer of these companies' assets and liabilities to the Company during 2003.

30 CASH FLOW STATEMENT

Under Financial Reporting Standard 1 (Cash Flow Statements (revised 1996)) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a subsidiary undertaking of a parent undertaking which produces a consolidated cash flow statement. The cash flow of the Company is consolidated in the AXA financial statements, which can be obtained from 23, avenue Matignon, 75008 Paris, France.

31 RELATED PARTIES

As the Company is a wholly-owned subsidiary it has taken advantage of the exemption granted under Financial Reporting Standard 8 (Related Party Disclosures) where subsidiary undertakings do not have to disclose transactions with group companies qualifying as related parties provided that consolidated financial statements are publicly available.

Other than for transactions arising in respect of the arrangements mentioned below, there were no material transactions by the Company with related parties in 2005:

- (a) the pension scheme referred to in note 6, the costs of administering which, with the exception of investment management expenses, are borne by the Company.

32 ULTIMATE PARENT

In the opinion of the directors, the Company's ultimate parent and controlling undertaking is AXA, a company incorporated in France. The parent undertaking of the largest group which includes the Company and for which group financial statements are prepared is AXA. Copies of the AXA group financial statements can be obtained from 23, avenue Matignon, 75008 Paris, France.

The parent undertaking of the smallest group which includes the Company and for which group financial statements are prepared is Guardian Royal Exchange plc, a company registered in England. Copies of the Guardian Royal Exchange group financial statements can be obtained from 5 Old Broad Street, London EC2N 1AD.