Registered Number 78950

# AXA INSURANCE UK PLC

## Directors' Report and Financial Statements
## for the year ended 31 December 2002



Registered Office: 107 Cheapside, London EC2V 6DU

## DIRECTORS

D. Holt (Chairman)
F-X. Boisseau
P. J. Evans
P. J. Hubbard
P. C. Regan
A. G. P. de Warenghien

## SECRETARY

I. D. Richardson

## 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 2002.

### REVIEW OF ACTIVITIES

The Company's principal activity is the writing of general insurance business.

The underwriting loss before tax for the year was £163.3m (2001:270.5m). The improvement was partially due to an increase in gross written premiums of 15% to £1,196.7m (2001: £1,037.0m) reflecting the strong growth in the Commercial Account and the stabilisation of the Personal Account. The Commercial Property Account has seen the Company gain a number of large property accounts, benefiting from capacity constraints amongst some of its competitors and rate increases up to 25%. The liability portfolio benefited from significant rate increases (between 25% and 45%) with limited exposure growth.

The current accident year loss ratio has improved despite the severe weather related losses experienced during 2002. The positive effect of the current year was partly offset by net prior year reserve strengthening of £109.0m (2001: £55.0m), principally in respect of the increasing cost of large injury losses in the Liability Account.

The return on investments for the year was a loss before tax of £62.1m (2001: profit of £6.5m) due primarily to a deterioration in the equity market and the resultant increase in unrealised losses on investments.

Capital contributions of £192.7m (2001: nil) and subordinated loans of £80.0m (2001: £30.0m) were received from the Company's immediate parent company, AXA Insurance plc, in order to support the regulatory solvency margin.

### DIRECTORS

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

Mr. D. W. W. Torrance resigned as a director on 8 January 2002. Mr. F-X. Boisseau, Mr. P. J. Hubbard and Mr. P. C. Regan were appointed directors on 26 March 2002.

## 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 holding company (AXA) or subsidiaries of the ultimate holding 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. Evans ) reported by AXA UK plc
- P. J. Hubbard )

- F-X. Boisseau )
- P. C. Regan ) reported by AXA Insurance plc
- A. G. P. de Warenghien )

## PAYMENT OF CREDITORS

All trade purchases are dealt with through AXA Services Limited.

## AUDITORS

Following the conversion of the Company's auditors PricewaterhouseCoopers to a Limited Liability Partnership ("LLP") from 1 January 2003, PricewaterhouseCoopers resigned on 10 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. Special Notice has been received that a resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company, and to authorise the Directors to determine their remuneration will be proposed at the annual general meeting

By Order of the Board

**I. D. Richardson**
Secretary
19 March 2003

## AXA INSURANCE UK PLC

## DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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The following statement, which should be read in conjunction with the auditors' statement of auditors' responsibilities set out on page 5 and 6 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 which 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 are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which 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

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We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, and the related notes which have been prepared in accordance with the accounting policies set out in the statement of accounting policies.

**Respective responsibilities of directors and auditors**

The directors` responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

**Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards 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)

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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. The nature of equalisation provisions, the amount set aside at 31 December 2002, and the effect of the movement in those provisions during the year on the general business technical result and loss before tax, are disclosed in notes III (g) and 19 respectively.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors
London
19 March 2003

## PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2002

### General business technical account

| | Note | 2002 £m | 2001 (restated) £m |
|---|---|---|---|
| Gross written premiums | 1b | **1,196.7** | 1,037.0 |
| Outward reinsurance premiums | | **(69.1)** | (46.5) |
| **Net written premiums** | | **1,127.6** | 990.5 |
| Change in provision for unearned premiums | | | |
| - gross amount | | **(64.7)** | (0.1) |
| - reinsurers' share | | **1.0** | (0.1) |
| | | **(63.7)** | (0.2) |
| **Earned premiums, net of reinsurance** | | **1,063.9** | 990.3 |
| **Other technical income** | | **13.6** | 10.8 |
| **Total technical income** | | **1,077.5** | 1,001.1 |
| Claims paid | | | |
| - gross amount | 2 | **(621.6)** | (664.1) |
| - reinsurers' share | | **16.0** | 15.7 |
| | | **(605.6)** | (648.4) |
| Change in outstanding claims provision | | | |
| - gross amount | 2 | **(274.5)** | (254.0) |
| - reinsurers' share | | **45.7** | (5.9) |
| | | **(228.8)** | (259.9) |
| **Claims incurred, net of reinsurance** | | **(834.4)** | (908.3) |
| **Change in unexpired risk provision** | | **3.0** | 1.3 |
| **Net operating expenses** | | | |
| - ongoing costs | | **(396.6)** | (369.3) |
| - reorganisation costs | | **-** | (3.2) |
| | 1c | **(396.6)** | (372.5) |
| **Change in equalisation provision** | 19 | **(12.8)** | 7.9 |
| **Total technical charges** | | **(1,240.8)** | (1,271.6) |
| **Balance on the technical account for general business** | | **(163.3)** | (270.5) |

All amounts relate to continuing activities.

The accounting policies and notes on pages 11 to 32 form an integral part of these financial statements.

## PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2002

### Non-technical account

| | Note | 2002 £m | 2001 (restated) £m |
|---|---|---|---|
| **Balance on the general business technical account** | | **(163.3)** | (270.5) |
| Investment income | 3a | **75.6** | 85.8 |
| Unrealised losses on investments | | **(124.3)** | (75.9) |
| Investment expenses and charges | 3b | **(6.1)** | (3.5) |
| Other charges | | **(7.3)** | 0.1 |
| | | **(62.1)** | 6.5 |
| **Loss on ordinary activities before tax** | | **(225.4)** | (264.0) |
| Tax on loss on ordinary activities | 8a | **67.6** | 95.4 |
| **Loss for the financial year transferred to reserves** | 17 | **(157.8)** | (168.6) |

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2002

| | | 2002 £m | 2001 (restated) £m |
|---|---|---|---|
| **Loss for the financial year** | | **(157.8)** | (168.6) |
| **Total recognised losses relating to the year** | | **(157.8)** | (168.6) |
| Prior year adjustment | 8b | **(11.4)** | |
| **Total gains and losses recognised since last annual report** | | **(169.2)** | |

All amounts relate to continuing activities.

The accounting policies and notes on pages 11 to 32 form an integral part of these financial statements.

## BALANCE SHEET
as at 31 December 2002

| | Note | 2002 £m | 2001 (restated) £m |
|---|---|---|---|
| **ASSETS** | | | |
| **Investments** | | | |
| Land and buildings | 9 | **1.0** | 1.0 |
| Investment in group undertakings and participating interests: | | | |
| Shares in subsidiary undertakings | 10a | **137.2** | 161.2 |
| Other financial investments | 11 | **1,580.6** | 1,194.8 |
| | | **1,718.8** | 1,357.0 |
| **Reinsurers' share of technical provisions** | | | |
| Provision for unearned premiums | | **11.6** | 10.6 |
| Claims outstanding | | **163.3** | 121.2 |
| | | **174.9** | 131.8 |
| **Debtors** | | | |
| Direct insurance operations | 12 | **368.8** | 353.5 |
| Reinsurance operations | | **25.5** | 23.8 |
| Tax recoverable (group relief) | | **-** | 73.1 |
| Deferred tax | 20 | **65.7** | - |
| Other debtors | 13 | **143.3** | 168.8 |
| | | **603.3** | 619.2 |
| **Other assets** | | | |
| Tangible fixed assets | 14 | **2.5** | 19.0 |
| Cash at bank and in hand | 15 | **17.0** | 15.1 |
| | | **19.5** | 34.1 |
| **Prepayments and accrued income** | | | |
| Accrued interest and rent | | **14.9** | 14.9 |
| Deferred acquisition costs | | **119.2** | 120.8 |
| Other prepayments and accrued income | | **0.5** | 0.7 |
| | | **134.6** | 136.4 |
| **Total assets** | | **2,651.1** | 2,278.5 |

The accounting policies and notes on pages 11 to 32 form an integral part of these financial statements.

## BALANCE SHEET
as at 31 December 2002

| | Note | 2002 £m | 2001 (restated) £m |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Called-up share capital | 16 | **37.6** | 37.6 |
| Revaluation reserve | 17 | **(115.9)** | 11.9 |
| Merger reserve | 17 | **26.7** | 26.7 |
| Share premium account | 17 | **267.1** | 267.1 |
| Capital contributions | 17 | **192.7** | - |
| Profit and loss account | 17 | **(160.9)** | (130.9) |
| **Equity shareholders' funds** | | **247.3** | 212.4 |
| **Technical provisions** | | | |
| Provision for unearned premiums | | **575.0** | 510.2 |
| Claims outstanding | | **1,618.6** | 1,361.3 |
| Equalisation provision | 19 | **27.3** | 14.5 |
| Other technical provisions – provision for unexpired risks | | **6.2** | 9.2 |
| | | **2,227.1** | 1,895.2 |
| **Provisions for other risks and charges** | 20 | **13.5** | 32.9 |
| **Creditors** | | | |
| Direct insurance operations | | **52.5** | 16.5 |
| Reinsurance operations | | **5.4** | 15.3 |
| Subordinated loans | 21 | **80.0** | 30.0 |
| Other creditors including taxation and social security | 22 | **24.9** | 75.6 |
| | | **162.8** | 137.4 |
| **Accruals and deferred income** | | **0.4** | 0.6 |
| **Total liabilities** | | **2,651.1** | 2,278.5 |

The accounting policies and notes on pages 11 to 32 form an integral part of these financial statements. The financial statements on pages 7 to 32 were approved by the Board on 19 March 2003 and were signed on its behalf by

P.C. Regan

P. C. Regan.
Director

## 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 1998.

The financial statements have been prepared in accordance with applicable accounting standards.

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 2002.

The combination of the Company with AXA (Cardiff) Limited has been accounted for by using merger accounting in accordance with Financial Reporting Standard 6 "Acquisitions and Mergers".

### II Adoption of new accounting standards

The provisions of Financial Reporting Standard 19 "Deferred Tax" ("FRS 19") have been adopted for the first time in these financial statements. As a consequence, full provision has been made for deferred tax on tax assets and liabilities arising on timing differences. Prior year figures have been restated accordingly and the effect of this change in accounting policy is disclosed in note 20.

The transitional disclosures required by Financial Reporting Standard 17 "Retirement Benefits" ("FRS 17") are applicable for this year end. The Company has taken advantage of the concession in FRS 17 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. The full provisions of the new standard are not required to be implemented until after 1 January 2005.

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

### III General business

The results for motor, accident and health, third-party liability, fire and other damage to property 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 incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet 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.

*(b) 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.

*(c) 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 a deduction 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.

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

### III General business (continued)

*(c) Claims provisions and related reinsurance recoveries (continued)*

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 insurer 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 assume 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
- 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.

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.

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

### III General business (continued)

*(c) Claims provisions and related reinsurance recoveries (continued)*

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.

**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**

The estimated cost of motor claims excluding the cost of personal injury claims is calculated 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 cost per claim, based on historical levels adjusted to allow for movements in the variables described above. The personal injury element of motor claims costs is estimated using the same method as used for liability claims described below. In addition the estimate is assessed in the context of the historical development of paid and incurred claims and the implied loss ratios for each accident year.

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

### III General business (continued)

*(c) 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 from 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. The liability class of business is also subject to the emergence of new types of latent claims but no allowance is included for this as at the balance sheet date.

**Disease-related and pollution claims**

The claims provisions include amounts in respect of potential claims relating to disease 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 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 will 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 increases 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.

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

### III General business (continued)

*(d) Salvage and subrogation*
Estimated recoveries are included within other debtors.

*(e) 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.

*(f) 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.

*(g) Claims equalisation provision*
Amounts are set aside as equalisation provisions in accordance with the Interim 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.

*(h) 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.

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

### 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. Unrealised gains and losses are recorded in the non-technical account.

The movements in net asset value of shares in subsidiary undertakings are taken to the revaluation reserve.

*(c) Valuation*

Investments are stated at market values 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 market value.

*(d) Group occupied properties*

As required by the Companies Act, properties occupied by the Group are included as investments.

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

### 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 current tax rates. 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.

### 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. The principal depreciation rates used are as follows:

- Computers and major software developments 20% - 33.3%.
- Fixtures, fittings, equipment and motor vehicles 25%.

### VIII Staff pension costs

The Group 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.

### IX Leasing commitments

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

# 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 | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **£m** | £m | **£m** | £m |
| **Direct insurance** | | | | |
| Motor | **319.1** | 366.2 | **339.6** | 431.7 |
| Accident and health | **52.7** | 60.4 | **64.7** | 56.6 |
| Third party liability | **270.4** | 193.8 | **230.0** | 168.2 |
| Fire and other damage to property | **491.7** | 359.9 | **427.7** | 330.6 |
| Marine, aviation and transport | **21.4** | 20.0 | **20.8** | 19.5 |
| Mechanical breakdown | **26.1** | 17.3 | **31.2** | 11.7 |
| | **1,181.4** | 1,017.6 | **1,114.0** | 1,018.3 |
| **Reinsurances accepted** | | | | |
| Accident and health | **2.7** | 8.4 | **3.1** | 7.6 |
| Third party liability | **0.2** | - | **0.2** | - |
| Fire and other damage to property | **8.3** | - | **8.3** | - |
| Marine, aviation and transport | **-** | 0.1 | **-** | 0.1 |
| Mechanical breakdown | **4.1** | 10.9 | **6.4** | 10.9 |
| | **15.3** | 19.4 | **18.0** | 18.6 |
| | **1,196.7** | 1,037.0 | **1,132.0** | 1,036.9 |

| | Gross claims incurred | | Gross operating expenses | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **£m** | £m | **£m** | £m |
| **Direct insurance** | | | | |
| Motor | **298.0** | 402.4 | **113.3** | 129.2 |
| Accident and health | **25.9** | 33.2 | **39.5** | 42.6 |
| Third party liability | **316.8** | 209.5 | **59.9** | 52.7 |
| Fire and other damage to property | **214.3** | 237.2 | **164.8** | 123.7 |
| Marine, aviation and transport | **7.1** | 11.1 | **7.7** | 7.5 |
| Mechanical breakdown | **23.0** | 3.4 | **14.0** | 11.9 |
| | **885.1** | 896.8 | **399.2** | 367.6 |
| **Reinsurances accepted** | | | | |
| Accident and health | **2.9** | 2.9 | **0.5** | 0.6 |
| Third party liability | **1.0** | - | **(0.2)** | - |
| Fire and other damage to property | **7.7** | (1.3) | **0.5** | 0.1 |
| Marine, aviation and transport | **0.5** | 12.2 | **0.8** | 0.4 |
| Mechanical breakdown | **(1.1)** | 7.5 | **(0.7)** | 0.6 |
| | **11.0** | 21.3 | **0.9** | 1.7 |
| | **896.1** | 918.1 | **400.1** | 369.3 |

## 1b CLASS OF BUSINESS ANALYSIS (CONTINUED)

The analysis of the gross operating expenses by class of business does not include the cost of reorganisation of the business after the acquisition of Guardian Royal Exchange plc by the AXA group in 1999. The cost of reorganisation has been shown within the analysis of net operating expenses in note 1c below.

| | Reinsurance Balance | |
|---|---|---|
| | **2002** | 2001 |
| | **£m** | £m |
| **Direct insurance** | | |
| Motor | **35.6** | **3.4** |
| Accident and health | **(1.5)** | **0.2** |
| Third party liability | **5.4** | **3.6** |
| Fire and other damage to property | **(41.4)** | **(31.2)** |
| Marine, aviation and transport | **(0.8)** | **(3.2)** |
| Mechanical breakdown | **(0.7)** | **(4.0)** |
| | **(3.4)** | **(31.2)** |
| **Reinsurances accepted** | | |
| Accident and health | - | - |
| Third party liability | **0.2** | **0.1** |
| Fire and other damage to property | **0.1** | **0.1** |
| Marine, aviation and transport | **0.2** | **(4.2)** |
| Mechanical breakdown | - | - |
| | **0.5** | **(4.0)** |
| | **(2.9)** | **(35.2)** |

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

## 1c ANALYSIS OF NET OPERATING EXPENSES

| | **2002** | 2001 |
|---|---|---|
| | **£m** | £m |
| Acquisition costs | **287.0** | 259.0 |
| Increase/(decrease) in deferred acquisition costs | **3.7** | (0.6) |
| Administrative expenses | **109.4** | 112.5 |
| Reinsurance commission and profit participation | **(3.5)** | (1.6) |
| Reorganisation costs | **-** | 3.2 |
| | **396.6** | 372.5 |

Commissions expense on direct insurance business amounted to £223.4m (2001: £185.9m).

The reorganisation costs were incurred in respect of the closure of certain business locations and the reorganisation of the UK management structure after the acquisition of Guardian Royal Exchange plc by the AXA Group in 1999.

## 2 PRIOR YEARS' CLAIMS INCURRED (GROSS)

| | **2002** | 2001 |
|---|---|---|
| | **£m** | £m |
| Motor | **27.2** | 27.5 |
| Accident and health | **(0.5)** | (8.5) |
| Third party liability | **92.9** | 55.3 |
| Fire and other damage to property | **(20.0)** | 10.1 |
| Marine, aviation and transport | **(0.7)** | 14.5 |
| Miscellaneous | **(5.9)** | 4.6 |
| | **93.0** | 103.5 |

The continuing increase in prior year reserves arose from reviews of large loss claims reserves, which resulted in a further strengthening. The deterioration in motor and third party liabilities is due to higher medical care costs, increased life expectancy and greater legal and success fees. The improvement in property comes from better underlying claims experience.

## 3 INVESTMENT RETURN

### 3a INVESTMENT INCOME

| | **2002** | 2001 |
|---|---|---|
| | **£m** | £m |
| Income from land and buildings | **0.1** | - |
| Dividends and interest from subsidiary undertakings | **-** | 0.3 |
| Income from other investments | **68.3** | 63.1 |
| Gains on the realisation of investments | **7.2** | 22.4 |
| | **75.6** | 85.8 |

### 3b INVESTMENT EXPENSES AND CHARGES

| | **2002** | 2001 |
|---|---|---|
| | **£m** | £m |
| Investment management expenses | **1.1** | 1.3 |
| Interest payable | **3.7** | - |
| Losses from land and buildings | **1.3** | 2.2 |
| | **6.1** | 3.5 |

## 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. P. J. Evans, Mr. D. Holt, Mr. P. J. Hubbard and Mr. A. G. P. de Warenghien 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. F-X. Boisseau and Mr. P. C. Regan 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.

Staff costs are set out below:

| | **2002** | 2001 |
|---|---|---|
| | **£m** | £m |
| Wages and salaries | **78.2** | 70.2 |
| Social security costs | **5.9** | 6.0 |
| Other pension costs | **6.2** | 7.3 |
| | **90.3** | 83.5 |

## 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 of the defined benefit section estimated a deficit of £429 million as at 31 December 2002 (surplus of £60 million as at 31 December 2001) before taking account of any tax relief. This represents a snapshot of the present cost of meeting pension obligations that will crystallize over a period of many years.

The next full valuation of the fund will take place on 31 March 2003 and any deficit will be amortised through increased contributions over the average remaining working lives of the fund members, which is estimated to be 15 years.

## 7 LOSS ON ORDINARY ACTIVITIES BEFORE TAX

Loss on ordinary activities before tax is stated after charging:

| | **2002 £m** | 2001 £m |
|---|---|---|
| Depreciation | **2.9** | 3.5 |
| Auditors' remuneration | | |
| Audit fees | **0.4** | 0.3 |
| Non-audit fees - UK | **-** | 0.5 |
| Rentals under operating leases | **9.5** | 9.4 |

Non-audit fees in 2001 represented services in respect of a review of financial controls.

## 8 TAX ON LOSS ON ORDINARY ACTIVITIES

## 8a ANALYSIS OF CREDIT IN PERIOD

| | **2002 £m** | 2001 £m |
|---|---|---|
| Current tax: | | |
| UK corporation tax on losses of the period | **(17.5)** | (57.1) |
| Adjustments in respect of previous periods | **34.5** | (21.9) |
| | **17.0** | (79.0) |
| Foreign tax | **0.2** | 0.4 |
| Total current tax (note 8b) | **17.2** | (78.6) |
| Deferred tax: | | |
| Origination and reversal of timing differences | **(45.8)** | (16.8) |
| Adjustment to deferred tax assets arising in previous periods | **(39.0)** | - |
| Total deferred tax (note 20) | **(84.8)** | (16.8) |
| Tax on loss on ordinary activities | **(67.6)** | (95.4) |

The previous period adjustment to deferred tax assets arises from a reduction in the quantum of tax losses surrendered to other group companies.

Following a change in United Kingdom tax legislation, where an insurance company revalues its investment assets to market value in the profit and loss account, this revaluation will be charged to corporation tax. In previous periods a deferred tax provision was established in respect of the potential liability on the unrealised tax gains (note 20). This liability will reverse in forthcoming accounting periods.

## 8 TAX ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

### 8b FACTORS AFFECTING TAX CREDIT 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:

| | 2002 £m | 2001 £m |
|---|---|---|
| Loss on ordinary activities before tax | **225.4** | **264.0** |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%) | **(67.6)** | (79.2) |
| Effects of: | | |
| Expenses not deductible for tax purposes (primarily equity unrealised losses) | **13.4** | 21.9 |
| Income not taxable (primarily UK equity income) | **(3.0)** | (3.0) |
| Capital allowances for the period in excess of depreciation | **0.2** | (0.8) |
| Other timing differences | **0.2** | (0.5) |
| Surplus tax losses carried forward | **39.3** | 4.5 |
| Higher tax rates on overseas earnings | **0.2** | 0.4 |
| Adjustments to tax charge in respect of previous periods | **34.5** | (21.9) |
| Current tax charge/(credit) for the period (note 8a) | **17.2** | (78.6) |

The Company has adopted the provisions contained within Financial Reporting Standard 19 "Deferred Tax". Prior year figures have been restated accordingly. The effect of this restatement is to increase the tax credit by £nil (2001: £7.1m) and increase the deferred tax liability by £nil (2001: £11.4m).

### 8c FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The Company has a substantial trading loss carried forward as at 31 December 2002. This will significantly reduce tax payable in future accounting periods. This gives rise to a deferred tax asset as referred to in note 20.

## 9 LAND AND BUILDINGS

| | 2002 £m | 2001 £m |
|---|---|---|
| Market value: Freehold | **1.0** | 1.0 |
| Cost | **2.6** | 2.6 |

The market value of land and buildings occupied by the Company was £1.0m (2001: £1.0m).

Land and buildings were valued at 31 December 2002 on an open market existing use basis by Nelson Bakewell, a firm of independent Chartered Surveyors.

## 10 INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

### 10a SHARES IN SUBSIDIARY UNDERTAKINGS

| | 2002 £m | 2001 £m |
|---|---|---|
| Net asset value 1 January | **161.2** | 20.2 |
| Purchases | **-** | 151.3 |
| Sales | **-** | (1.3) |
| Movement in net asset value | **(24.0)** | (9.0) |
| Net asset value 31 December | **137.2** | 161.2 |
| Cost | **172.8** | 172.8 |

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.

### 10b PARTICULARS OF PRINCIPAL SUBSIDIARY UNDERTAKINGS

| **Subsidiaries** | **Country of incorporation or registration** | **Holding of ordinary shares** |
|---|---|---|
| AXA (Cardiff) Limited (non-trading) | England | 100% |
| Stramongate Investments Limited | England | 100% |
| Venture Preference Limited | England | 100% |
| Provincial Training Limited | England | 100% |
| AXA Properties Limited | England | 100% |
| AXA Direct Limited (non trading) | England | 100% |
| Best Legal Protection Limited | England | 100% |
| Insurance Management International Limited | England | 100% |
| Magnet House Properties Limited | England | 100% |

## 10b PARTICULARS OF PRINCIPAL SUBSIDIARY UNDERTAKINGS (CONTINUED)

On 29 March 2001 the Company acquired 100% of the issued share capital of Magnet House Properties Limited, an investment vehicle, from a fellow subsidiary, AXA General Insurance Limited, for consideration of £150,281,000 in equities and bonds.

In addition, at 31 December 2002, the Company had holdings in a number of immaterial subsidiaries not listed above. The Company also held, at the same date, more than 10% of the issued share capital of a number of other companies. These holdings do not materially affect the results or assets stated in these accounts, and are included within investments.

## 11 OTHER FINANCIAL INVESTMENTS

| | Current Value | | Cost | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | **£m** | £m | **£m** | £m |
| Shares and other variable yield securities and units in unit trusts: | | | | |
| - listed | **213.4** | 453.9 | **266.5** | 404.4 |
| - non-listed | **9.2** | 11.2 | **9.3** | 9.5 |
| Debt securities and other fixed income securities: | | | | |
| - listed | **702.2** | 588.8 | **690.8** | 582.1 |
| Deposits with credit institutions | **655.8** | 140.9 | **655.8** | 140.9 |
| | **1,580.6** | 1,194.8 | **1,622.4** | 1,136.9 |

## 12 DEBTS IN RESPECT OF DIRECT INSURANCE OPERATIONS

| | **2002** | 2001 |
|---|---|---|
| | **£m** | £m |
| Due from policyholders | **165.6** | 167.8 |
| Due from intermediaries | **203.2** | 185.7 |
| | **368.8** | 353.5 |

## 13 OTHER DEBTORS

| | **2002** | 2001 |
|---|---|---|
| | **£m** | £m |
| Amounts due from intermediate parent undertaking | **17.6** | 20.0 |
| Amounts due from subsidiary undertakings | **13.4** | 17.3 |
| Amounts due from fellow subsidiary undertakings | **31.4** | 48.7 |
| Amounts due from associated group undertaking | **12.1** | 14.1 |
| Salvage and subrogation recoverable | **39.2** | 46.2 |
| Other debtors | **29.6** | 22.5 |
| | **143.3** | 168.8 |

## 14 TANGIBLE FIXED ASSETS

| | Computer equipment & software development £m | Vehicles £m | Fixtures and fittings £m | Total £m |
|---|---|---|---|---|
| Cost | | | | |
| 1 January 2002 | 23.1 | 4.3 | 7.7 | 35.1 |
| Disposals | (19.4) | (2.2) | (0.2) | (21.8) |
| 31 December 2002 | 3.7 | 2.1 | 7.5 | 13.3 |
| Accumulated Depreciation | | | | |
| 1 January 2002 | 7.1 | 3.1 | 5.9 | 16.1 |
| Charge for the year | 1.6 | 0.6 | 0.7 | 2.9 |
| Disposals | (6.2) | (1.8) | (0.2) | (8.2) |
| 31 December 2002 | 2.5 | 1.9 | 6.4 | 10.8 |
| **Net book value – 31 December 2002** | **1.2** | **0.2** | **1.1** | **2.5** |
| Net book value – 31 December 2001 | 16.0 | 1.2 | 1.8 | 19.0 |

The charge for depreciation for the year ended 31 December 2001 was £3.5m.

## 15 CASH AT BANK AND IN HAND

Cash at bank and in hand includes £0.2m (2001: £0.2m) pledged to support letters of credit issued by banks on the Company's behalf, in connection with reinsurance acceptances.

## 16 CALLED-UP SHARE CAPITAL

| | **2002** | | 2001 | |
|---|---|---|---|---|
| | **Authorised £m** | **Paid-up £m** | Authorised £m | Paid-up £m |
| Authorised: 200,000,000 (2001: 200,000,000) Ordinary shares of 25p each | **50.0** | - | 50.0 | - |
| Issued: 150,456,602 (2001: 150,456,602) Ordinary shares of 25p each | - | **37.6** | - | 37.6 |
| | **50.0** | **37.6** | 50.0 | 37.6 |

On 20 July 2001 the authorised share capital of the Company was increased from £25,000,000 to £50,000,000 by the creation of 100,000,000 Ordinary shares of 25p each.

On 27 July 2001 the Company issued 23,465,704 Ordinary shares of 25p each at a price of £2.77 per share. On 12 September 2001 and 21 September 2001 the Company issued 11,682,243 and 16,140,098 Ordinary shares of 25p each, respectively, at a price of £2.14 per share.

## 17 STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | Share capital £m | Revaluation reserve £m | Merger reserve £m | Share premium account £m | Capital contributions £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|---|---|---|
| 1 January 2002 as previously reported | 37.6 | 11.9 | 26.7 | 267.1 | - | (119.5) | 223.8 |
| Prior year adjustment – FRS 19 (note 8b) | - | - | - | - | - | (11.4) | (11.4) |
| 1 January 2002 as restated | 37.6 | 11.9 | 26.7 | 267.1 | - | (130.9) | 212.4 |
| Loss for the year | - | - | - | - | - | (157.8) | (157.8) |
| *Movement in reserves:* | | | | | | | |
| Revaluation of assets | - | (123.7) | - | - | - | 123.7 | - |
| Deferred tax thereon | - | 3.8 | - | - | - | (3.8) | - |
| Capital contributions | - | - | - | - | 192.7 | - | 192.7 |
| Foreign exchange | - | (7.9) | - | - | - | 7.9 | - |
| **31 December 2002** | **37.6** | **(115.9)** | **26.7** | **267.1** | **192.7** | **(160.9)** | **247.3** |

The Company acquired 100% of the issued capital of AXA (Cardiff) Limited (formerly AXA Insurance Company Limited) from the ultimate parent in the UK, AXA UK plc, (formerly Sun Life and Provincial Holdings plc), on 23 December 1997 for a consideration of £65.6m. This consideration was satisfied by the issue on 7 April 1998 of 12,985,915 ordinary shares with a nominal value of £3.3m and a share premium of £62.4m. As stated in accounting policy note I this transaction was accounted for as a merger. The effective date of the merger was 1 January 1998 and on this date the merger reserve of £26.7m which represented the excess of net asset value over the merged reserves was created.

During the year cash capital contributions totalling £192.7m were made to the Company by its immediate parent, AXA Insurance plc, as follows:

| Date | Amount £m |
|---|---|
| 15 July 2002 | **32.0** |
| 22 July 2002 | **17.0** |
| 23 July 2002 | **17.0** |
| 24 July 2002 | **17.0** |
| 31 October 2002 | **30.0** |
| 20 December 2002 | **20.0** |
| 27 December 2002 | **30.7** |
| 31 December 2002 | **29.0** |
| | **192.7** |

## 18 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | 2002 £m | 2001 (restated) £m |
|---|---|---|
| Loss on ordinary activities after tax transferred to reserves | (157.8) | (168.6) |
| Issue of share capital | - | 124.5 |
| Capital contributions | 192.7 | - |
| Shareholders' funds at 1 January (originally £275.0m before deducting prior year adjustments of £7.1m and £11.4m as referred to in note 8b) | 212.4 | 256.5 |
| Shareholders' funds at 31 December | 247.3 | 212.4 |

## 19 EQUALISATION PROVISION

Equalisation provisions are established in accordance with accounting policy note III (g). The effect of this provision is to reduce shareholders' funds by £27.3m (2001: £14.5m). 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 £12.8m (2001: increase by £7.9m)

## 20 ANALYSIS OF PROVISIONS FOR OTHER RISKS AND CHARGES

| | Deferred tax £m | Reorganisation provision £m | MIB provision £m | Vacant space provision £m | Other provisions £m | Total 2002 £m |
|---|---|---|---|---|---|---|
| At 1 January 2002 | 7.7 | 1.3 | 6.3 | 3.1 | 3.1 | 21.5 |
| Prior year adjustment – FRS 19 (note 8b) | 11.4 | - | - | - | - | 11.4 |
| 1 January 2002 as restated | 19.1 | 1.3 | 6.3 | 3.1 | 3.1 | 32.9 |
| (Credit)/charge for the year | (84.8) | (0.5) | 6.5 | 0.7 | (3.0) | (81.1) |
| Utilised during the year | - | (0.4) | (3.6) | (0.4) | 0.4 | (4.0) |
| At 31 December 2002 | (65.7) | 0.4 | 9.2 | 3.4 | 0.5 | (52.2) |

### Reorganisation provision

The reorganisation provision relates to costs incurred in respect of the closure of certain business locations and the reorganisation of the UK management structure following the acquisition of Guardian Royal Exchange plc in 1999. The provision will be utilised as the reorganisation programme is completed.

## 20. ANALYSIS OF PROVISIONS FOR OTHER RISKS AND CHARGES (CONTINUED)

### Motor Insurance Bureau (MIB) provision

The Motor Insurance Bureau (MIB) provision relates to the levy payable in respect of 2002 premiums. The levy is assessed retrospectively based on prior year motor premiums.

### 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 where the rents receivable are lower than rents payable under the terms of the headlease. The provision was discounted at 6.75% and will be utilised over the remaining period of the lease.

### Deferred tax

The provision for deferred tax comprises:

| | **2002** | 2001 (restated) |
|---|---|---|
| | **£m** | £m |
| Accelerated capital allowances | **0.7** | (0.5) |
| Tax losses carried forward | **82.9** | 4.5 |
| Unrealised losses | **(19.0)** | (22.8) |
| Other timing differences | **1.1** | (0.3) |
| Undiscounted provision for deferred tax | **65.7** | (19.1) |

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.

## 21 SUBORDINATED LOANS

| | **2002** | 2001 |
|---|---|---|
| | **£m** | £m |
| Subordinated loans are payable as follows: | | |
| After five years | **80.0** | 30.0 |
| | **80.0** | 30.0 |

On 21 December 2001, the Company was granted a subordinated loan facility of £50 million by its immediate parent company, AXA Insurance plc. On the same date, the Company drew down £30 million. 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, the notice period of which cannot expire prior to the fifth anniversary of each drawdown. On 28 March 2002, the Company drew down a further £10 million.

## 21. SUBORDINATED LOANS (CONTINUED)

On 28 March 2002, the Company was granted a perpetual subordinated loan facility of £50 million by its immediate parent company, AXA Insurance plc. On 11 June 2002, the Company drew down £40 million. Under the terms of the agreement, interest on each drawdown is payable half-yearly at LIBOR plus 2.2%.

## 22 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

| | **2002** | 2001 |
|---|---|---|
| | **£m** | £m |
| Amounts due to subsidiary undertakings | **5.0** | 1.5 |
| Amounts due to fellow subsidiary undertakings | **2.7** | 46.3 |
| Corporation tax | **0.1** | - |
| Other creditors | **17.1** | 27.8 |
| | **24.9** | 75.6 |

All the above amounts are payable within one year.

## 23 OBLIGATIONS UNDER NON-CANCELLABLE OPERATING LEASES

| | **2002** | 2001 |
|---|---|---|
| | **£m** | £m |
| Annual commitments under non-cancellable operating leases are as follows: | | |
| Expiry date: | | |
| Between two and five years | **0.6** | 0.5 |
| After five years | **1.8** | 1.8 |
| | **2.4** | 2.3 |

All operating lease commitments relate to land and buildings.

## 24 CAPITAL EXPENDITURE COMMITMENTS

The Company had no capital expenditure commitments as at 31 December 2002 (2001: £nil).

## 25 CONTINGENT LIABILITIES

With the approval of the Financial Services Authority, 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.

The Company has agreed to give counter indemnities to Barclays Bank in respect of guarantees issued by Barclays for deferred acquisition payments due by Earlyweigh Limited to brokers acquired by that company and its subsidiaries. At the balance sheet date, guarantees/counter indemnities totalling £0.6m (2001: £3.0m) given by Barclays/the Company were outstanding.

## 26 CASH FLOW STATEMENT

Under Financial Reporting Standard 1 "Cash Flow Statements", 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 group financial statements, which can be obtained from 23, avenue Matignon, 75008 Paris, France.

## 27 RELATED PARTIES

As the Company is a wholly-owned subsidiary undertaking it has taken advantage of the exemption granted under Financial Reporting Standard 8 "Related Party Disclosures" whereby 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 2002:

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

(b) arrangements for the management and, subsequently, the acquisition of the discontinued foreign and miscellaneous and London Branch insurance business portfolios of Irish National Insurance Company Limited, under arrangements which originally included an indemnity in the Company's favour from New Ireland Holdings plc against losses arising from the run-off and a guarantee from AXA UK plc, also in the Company's favour, as to the due performance by New Ireland Holdings plc of its responsibilities under the above indemnity;

(c) the provision through a wholly-owned subsidiary of the Company, Venture Preference Limited, of preference share capital amounting to £8.9m at 31 December 2002 (2001: £8.9m) to Earlyweigh Limited, the holding company of an insurance brokerage group, for the purposes of that group's development;

## 28. 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 smallest group in which the results of the Company are consolidated is that of which Guardian Royal Exchange plc is the parent company, whose consolidated accounts can be obtained from 107 Cheapside, London, EC2V 6DU