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MMA Insurance plc

Annual Report and Financial Statements

31 December 2004

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MMA Insurance plc

Chairman's statement

The Company achieved another year of outstanding results in 2004 with an Operating Profit of £15.1m. Whilst these continued excellent operating profits have been achieved in generally favourable market conditions, the Company has maintained quality performance right across the underwriting cycle. Our Return on Equity has averaged over 20% over the last 10 years.

We maintain our key distribution strategy of dealing exclusively through the intermediary channel. Despite predictions of their demise independent brokers remain a substantial force in the provision of personal insurance and are joined by the growing intermediation provided by banks and other retail groups. Much of our focus is on supporting our business introducers and we thank them for working with us.

During the year we successfully launched Key Account and Key Partner programmes with selected brokers. Individual support staff are assigned to each partner and we provide specialised training, enhanced underwriting and greater flexibility in order to meet their business demands.

The success of our distribution strategy is borne out by the continuing growth of our business

We have reinforced our commitment to sound capital management and have devoted significant effort in the first place to developing our Individual Capital Model. We were among the first companies to file our ICA with the Financial Services Authority and will apply the new techniques across our business this year. As indicated above our consistent history of sound underwriting points to lower risk capital requirements than would generally be the case.

We stand by the expectation that equities over the longer term will deliver greater returns than bonds and as markets show greater resilience we plan at least to maintain current proportions of equities in our investment of cash flow.

The year saw renewed evidence of the strong support we enjoy from our parent MMA France. Recognising the increase in capital requirements being introduced by the FSA, a further £3.255m has been subscribed by issuing new capital and making the unpaid capital fully paid up. Authorised capital has also been increased to £40m to provide future flexibility.

We are confident that in terms of the current solvency measure adopted by the Financial Services Authority the Company's capital position at the end of the year was at a satisfactory level.

Parental support also included the issue of a parental guarantee leading to MMA Insurance being accorded a credit rating of A- from Standard and Poors. The company will move progressively to a fully interactive rating from S&P recognising that our drive into smaller commercial risks will be assisted by a healthy credit rating.

Last year saw significant new regulatory activity and the company was highly proactive in meeting the new demands. In addition to the development of risk capital modelling for ICA purposes, we devoted considerable effort to supporting our brokers in meeting their obligations for authorisation under the FSA Intermediary Regulations. All but a tiny handful have now been authorised and we welcome any measures that will lead to greater customer confidence in the intermediary channel.

Uninsured motoring is a threat to road safety and to the proper compensation of victims of road accidents. It is also estimated to add £30 to the average annual motor premium. We broadly welcomed the Greenaway Report and hope that the Government will accelerate the programme of implementation of the main recommendations.

The company continues to lay important emphasis on Risk Management. Professional staff and an active Board Risk Management Committee help embed good risk management practices at all levels in the company. We are equally keen to see similar activity at our outsourcing partners.

At the business level risk reassessment has led us to conclude that we should reduce our exposure to the more volatile underwriting classes and after 10 years of a successful partnership with Saturn, we have disposed of our interest in the specialty professional indemnity underwriter. The resulting significant gain on sale makes a healthy contribution to the reported profit for the year.

There have been a number of changes in Board Membership during the year. We are pleased to welcome Derek Plummer, our Director of Marketing and Underwriting with extensive senior management experience at Norwich Union, *and from our parent, Jean Dubois and Gilles Mongis. We also thank Olivier Jarry for his contribution to our Board* following his resignation to concentrate on a growing portfolio at MMA France.

I should like to congratulate management and all members of staff on the excellent results and to thank them and my Board colleagues most warmly for their continued commitment to MMA Insurance.

Scott Nelson

28 February 2005

2004 represented a further substantial year of development on all fronts for the company. Our income increased to £209m, (+3.1% over 2003) or more accurately by 15.79% on a like for like basis, and our policyholder base passed the one million mark. We increased our claims reserves, had our S&P financial strength rating reinstated to A- (Good), and delivered a profit of £15.1m at the operating level and £21.6m (£15.9m) overall – comfortably the best in the history of the company.

As an Intermediary only insurer, prospects were viewed as inauspicious by some in view of the impending FSA regulation of General Insurance intermediaries. Surviving the authorisation process was considered the biggest challenge the intermediary channel had ever faced and the potential for casualties was real. In the event, none of these forebodings materialised for MMA. Of our own intermediary network, only a handful had failed to make the cut by the original January 2005 deadline. Regulation is now here to stay and we must continue to ensure that we and our Intermediary Network meets the requirements set by the FSA.

2004 saw the development of our business model for the UK with continued refinement of our business processes and increased use of technology. At the heart of our strategy is a requirement that all principal lines of business achieve an operating ratio below 100% over the cycle. This requirement is fundamental to us and is in the best interests of all our stakeholders. We met this target in 2004.

Private Motor continues to represent the largest proportion of our premium income and grew by a further 6.9% during the year. During the first quarter we completed a restructure of this business, firstly by withdrawing non-comprehensive covers generally when it became clear that premiums were reducing below the level required to meet our target returns, and secondly by expanding the footprint of our comprehensive covers. The combination of these actions, with targeted rate increases, will maintain our profitability despite the fact that the market is likely to register a third consecutive year of motor pricing lagging substantially behind the increases in claims costs.

Our Commercial Motor accounts continued to thrive and to build further on this success we launched E-van – our Commercial Vehicle contract with full electronic distribution. This both plays to the strength of the intermediary market in this sector and responds to the mutual requirement for simplicity of transaction.

Development of our Household business is a key objective for us and we are delighted to see our intermediaries now giving this similar priority. Income increased by 32.3% and importantly profitability matched this achievement. We launched Lifestyle, a mid net worth product that has quickly found a gap in the market.

General disillusionment with increasingly larger commercial risks has resulted in a congested marketplace for SME business. We have a longstanding involvement in this sector. We have responded to the increased competition for our target risks by the introduction of internet distribution linked to our website. This enables brokers to obtain quotations and confirmation of cover on line, in real time. Quite simply, this makes it easy to do business with us and brokers are doing just that in increasing numbers.

Liability business in the UK poses significant and well publicised difficulties. During the year, we rationalised our product range in this area in order to mitigate the potential for volatility in these classes. As a result, our exposure to Employers' Liability is much reduced and that which remains is effectively limited to accidental injuries rather than occupational diseases.

We also disposed of our equity interest in Saturn Professional Risks Ltd and with it our underwriting involvement. We were founder shareholders at the creation of Saturn in 1996 and our involvement with the company has served us well. It had, however, become increasingly evident that the Professional Indemnity market showed little sign of streamlining its procedures for placing risks. Our involvement in this class had become increasingly anomalous when viewed against our business model. We therefore transferred our interest to a new owner who is better positioned to realise the potential of Saturn.

Our entire product range is now capable of electronic transaction. This enables us to provide our partners with simple handling and competitive pricing as we minimise our own costs in maintaining our industry leading expense ratio.

We continue to achieve efficiency by running our business from a single site. The quality of our claims handling continues to improve against both internal and external measures to what is now one of the best in the industry.

This combination of superior service, financial strength and competitive products is a powerful mix. It goes without saying that our confidence in the intermediary climate is undiminished, I would like to thank all MMA employees for the contribution they have made to delivering our service to our intermediaries, and to show our gratitude for the support of all of our partners – something which we never take for granted.

Garry Fearn

28 February 2005

MMA Insurance plc

Report of the Directors
For the Year Ended 31 December 2004

DIRECTORS	Scott Nelson	Chairman
	Sebastien Coste	
	Jean Dubois	Appointed 28 January 2004
	Garry Fearn	
	Barry Hulbert	
	Michel Lapierre	
	Bertrand Lefebvre	
	Bruno Mercier	
	Gilles Mongis	Appointed 10 December 2004
	George Nixon	
	Jean-Michel Pescheux	
	Derek Plummer	Appointed 28 January 2004
	Michel Roux	
	Steven Whittaker	
SECRETARY	Steven Whittaker	

The directors of MMA Insurance plc submit the forty-fifth annual report and financial statements of the Company for the year to 31 December 2004.

PRINCIPAL ACTIVITY

The principal activity of the Company continues to be the transaction of non-life insurance business in the United Kingdom.

RESULTS

The balance on the technical account is £15,094,000, (2003 - £13,746,000).

The profit for the year after tax is £16,838,000, (2003 - £12,179,000).

The directors propose the payment of a dividend for the year amounting to £1,000,000, (2003 - £2,000,000).

The Company has followed the recommendations of the 2003 ABI Statement of Recommended Practice on Accounting for Insurance Business.

FUTURE DEVELOPMENTS

Please refer to the Chairman's and Chief Executive's review on pages 1 and 3.

MMA Insurance plc

Report of the Directors continued
For the Year Ended 31 December 2004

DIRECTORS

The directors named on page 5 served throughout the year except:

Jean Dubois	Appointed 28 January 2004
Gilles Mongis	Appointed 10 December 2004
Derek Plummer	Appointed 28 January 2004

Olivier Jarry also served until his resignation on 27 September 2004

Gilles Mongis retires and, being eligible, offers himself for re-election.

None of the directors had an interest in the share capital of the Company during the year.

EMPLOYEES

Disabled Persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee Involvement

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the in-house intranet, briefing groups and the distribution of the annual report.

CREDITOR PAYMENT POLICY

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2004 the amount outstanding in other creditors did not exceed agreed payment terms, which are most commonly thirty days from date of invoice.

AUDITORS

Ernst & Young LLP have expressed their willingness to continue in office, as auditors and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

By order of the board

S WHITTAKER

Secretary
18 March 2005

Statement of Directors' Responsibilities in Respect of the Financial Statements
For the Year Ended 31 December 2004

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

- select suitable accounting policies and then apply them consistently;
- 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue its business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts 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.

MMA Insurance plc

Independent Auditors' Report to the Members of MMA Insurance plc

We have audited the Company's financial statements for the year ended 31 December 2004, which comprise the Technical Account – General Business, Non-Technical Account, Balance Sheet, Statement of Total Recognised Gains & Losses, Reconciliation of Movement in Shareholders' Funds and the related notes 1 to 26. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

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

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom 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.

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 RESERVES

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2004, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in note 19.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
London – Registered Auditor

18 March 2005

MMA Insurance plc

Profit & Loss Account
For the Year Ended 31 December 2004

TECHNICAL ACCOUNT - GENERAL BUSINESS

Premiums	Notes	2004 £ 000	2004 £ 000	2003 £ 000	2003 £ 000
Gross premiums written	1		209,201		203,011
Outward reinsurance premiums			(63,016)		(31,331)
Net premiums written			146,185		171,680
Change in the gross provisions for unearned premiums		(14,354)		(4,536)	
Change in the provision for unearned premiums, reinsurers' share		10,912		(453)	
Change in the net provision for unearned premiums			(3,442)		(4,989)
Earned premiums, net of reinsurance			142,743		166,691
Allocated investment return transferred from the non-technical account	4		16,874		14,262
			159,617		180,953
Claims paid					
Gross amount		(115,098)		(107,436)	
Reinsurers' share		22,435		20,316	
Net of reinsurance		(92,663)		(87,120)	
Change in the provision for claims					
Gross amount		(27,108)		(35,318)	
Reinsurers' share		15,087		(601)	
Net of reinsurance		(12,021)		(35,919)	
Claims incurred, net of reinsurance			(104,684)		(123,039)
Change in the equalisation provision	19		(1,393)		(1,085)
Net operating expenses	2		(38,446)		(43,083)
Balance on the general business technical account			15,094		13,746

MMA Insurance plc

Profit & Loss Account continued
For the Year Ended 31 December 2004

NON -TECHNICAL ACCOUNT

	Notes	2004		2003	
		£ 000	£ 000	£ 000	£ 000
Balance on the general business technical account			15,094		13,746
Total investment return	3	19,140		16,388	
Allocated investment return transferred to the technical account - general business	4	(16,874)		(14,262)	
			2,266		2,126
Profit on the sale of the shareholding in Saturn Professional Risks Ltd	9		4,233		-
Exchange adjustments			(15)		(20)
Profit on ordinary activities before tax			21,578		15,852
Tax on for the financial year	7		(4,740)		(3,673)
Profit for the financial year			16,838		12,179
Dividend	8		(1,000)		(2,000)
Retained profit for the financial year transferred to reserves	17		15,838		10,179

There are no material discontinued operations.

MMA Insurance plc

Balance Sheet
As at 31 December 2004

	Notes	2004 £ 000	2004 £ 000	2003 £ 000	2003 £ 000
ASSETS					
Investments					
Investments in group undertakings and participating interests	9	82		913	
Other financial investments	10	295,565		268,435	
			295,647		269,348
Reinsurers' share of technical provisions					
Provision for unearned premiums		22,852		11,940	
Claims outstanding	18	64,541		49,465	
			87,393		61,405
Debtors					
Debtors arising out of direct insurance operations	11	38,006		28,496	
Debtors arising out of reinsurance operations		2,902		1,622	
Other debtors	12	6,870		7,503	
			47,778		37,621
Other assets					
Tangible fixed assets	13	1,419		1,098	
Cash at bank and in hand		21,644		9,494	
			23,063		10,592
Prepayments and accrued income					
Accrued interest		3,122		2,709	
Deferred acquisition costs		23,432		19,664	
Other prepayments and accrued income	14	2,782		828	
			29,336		23,201
TOTAL ASSETS			483,217		402,167

MMA Insurance plc

Balance Sheet continued
As at 31 December 2004

	Notes	2004 £ 000	2004 £ 000	2003 £ 000	2003 £ 000
LIABILITIES					
Capital and reserves					
Called up share capital	15	15,000		11,745	
Revaluation reserve	16	66		902	
Profit and loss account	17	62,846		47,008	
Shareholders' funds attributable to equity interests			77,912		59,655
Technical provisions					
Provisions for unearned premiums		109,960		95,607	
Claims outstanding	18	246,376		220,138	
Claims equalisation reserves	19	5,353		3,960	
			361,689		319,705
Deferred taxation	22		1,782		1,430
Creditors					
Creditors arising out of direct insurance operations		87		72	
Creditors arising out of reinsurance operations		13,223		5,712	
Other creditors including taxation and social security	20	14,256		6,556	
			27,566		12,340
Accruals and deferred income	21		14,268		9,037
TOTAL LIABILITIES			483,217		402,167

These financial statements were approved by the board of directors on 18 March 2005 and were signed on its behalf by:

Garry Fearn
Chief Executive

MMA Insurance plc

Statement of Total Recognised Gains and Losses
For the Year Ended 31 December 2004

	2004		2003	
	£ 000	£ 000	£ 000	£ 000
Profit after tax for the financial year		16,838		12,179
Other recognised (losses)				
Reversal on disposal of Saturn Professional Risks Ltd	(836)		-	
(Deficit) on revaluation of investments	-		(26)	
		(836)		(26)
Unrealised exchange (losses) net of deferred tax		-		(3)
		16,002		12,150

STATEMENT OF HISTORICAL COST PROFIT
FOR THE YEAR ENDED 31 DECEMBER 2004

The inclusion of Unrealised Gains and Losses in the profit and loss account to reflect the marking to market of investments in the balance sheet is not deemed to be a departure from the unmodified Historical Cost basis of accounting. Accordingly, a separate note on Historical Cost profit and losses is not given.

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 £ 000	2003 £ 000
Total recognised gains		16,002	12,150
Less proposed dividend		(1,000)	(2,000)
Net addition to shareholders' funds		15,002	10,150
Shareholders' funds at the beginning of the year		59,655	49,505
Capital injection	15	3,255	-
SHAREHOLDERS' FUNDS AT THE END OF THE YEAR		77,912	59,655

The principal accounting policies followed by the Company are set out below.

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 recommendations of the 2003 Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers (the ABI SORP).

In accordance with the ABI SORP fund accounting is no longer permitted. As a consequence during 2004 the Company changed the basis of accounting for its single trip travel insurance business to an annual basis. The change in accounting policy has no material effect on the result of either the current or comparative period.

The financial statements have also been prepared in accordance with applicable accounting standards and under Historical Cost accounting rules, modified to include the revaluation of investments.

CONSOLIDATION

As the Company is ultimately owned by an EU Parent, the Company has not prepared consolidated accounts (see note 25).

BASIS OF ACCOUNTING

The annual basis of accounting has been applied to all classes of business.

PREMIUMS

Written premiums comprise the total premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years.

All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

UNEARNED PREMIUM PROVISION

Written premiums are recognised as earned income over the period of the policy on a time apportionment basis, having regard, where appropriate, to the incidence of risk. The provision for unearned premium is calculated on a daily pro rata basis.

CASH FLOW STATEMENT

In accordance with Financial Reporting Standard 1, the Company has not presented a cash flow statement as the Company's cash flows have been consolidated with those of its ultimate parent company La Mutuelle du Mans Assurances IARD.

CLAIMS

Claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is made on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred, but not reported at the balance sheet date. The number of claims expected and their anticipated final cost are projected from the Company's statistical history. Projections are made separately for each business group, based on information available up to one month after the balance sheet date. It is assumed that the Company's statistical history will provide a suitable base for projection, and that trends included in the data will be maintained. The impacts of case law and legislation are also taken into account. Their impact on the statistical base and current reserves are assessed. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between provisions and subsequent settlements are dealt with in the technical account - general business of later years.

DEFERRED ACQUISITION COSTS

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

UNEXPIRED RISKS

Provision is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date is expected to exceed the provision for unearned premiums, net of deferred acquisition costs. The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available up to one month after the balance sheet date. Investment income is taken into account in calculating the provision.

EQUALISATION PROVISION

Equalisation provisions arise from certain classes of business written in the United Kingdom and are calculated in accordance with the Insurance Companies (Reserves) Regulations 1996. The amounts provided are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date and, in accordance with Schedule 9A to the Companies Act 1985, are included within technical provisions. The movement in the equalisation provision for the period is taken to the technical account - general business.

INVESTMENT INCOME AND EXPENSES

Dividends are included as investment income when the investments to which they relate are declared 'ex-dividend'. Rents and interest income are recognised on an accruals basis, as are investment expenses.

Investment return, comprising investment income and realised and unrealised investment gains and losses, and investment expenses are included initially within the non-technical account.

Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price, or latest carrying value if investments are carried at amortised cost.

Investment return is allocated from the non-technical account to the technical account - general business so as to reflect the longer term investment return on investments attributable to the general insurance business in the technical account - general business. The allocation is based on the longer-term rate of investment return on investments supporting the technical provisions and shareholders' funds.

INVESTMENTS

Investments, consisting of land and buildings, listed investments, units in authorised unit trusts and deposits with credit institutions, are stated at their current values at the end of the year.

Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and their valuation at the last balance sheet date or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current profit and loss account.

Associated and subsidiary companies are included at their current net asset value, or directors' valuation. Differences on valuation are transferred to the revaluation reserve.

TAXATION

The taxation charge in the non-technical account is based on the taxable profits for the year.

DEFERRED TAX

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

TANGIBLE ASSETS

Expenditure on computer equipment, motor vehicles and fixtures, fittings and office equipment is capitalised and depreciated over the estimated useful economic lives of the assets on a straight-line basis. The periods used are as follows:

Computer Equipment	-	3 to 5 years
Motor Vehicles	-	3 to 5 years
Fixtures, Fittings and Office Equipment	-	5 years

Depreciation is charged to the technical account - general business and is included in administrative expenses.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rate ruling at 31 December each year or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. Exchange differences arising from transactions are taken to the profit and loss account. Exchange differences arising from the retranslation of the opening net investment in foreign business operations are taken to reserves.

REVALUATION RESERVE

Exchange differences on translating the net investment in the French branch are taken to this account. Unrealised gains and losses on revaluation of associated and subsidiary companies are also taken to this account. Unrealised losses are only taken to this account to the extent that there were previous gains against which they could be matched. Any net deficiency on individual investments is written off in the profit and loss account.

OPERATING LEASES

Payments, less reverse premiums received, are charged to the profit and loss account over the period to the next rent review date.

PENSION COSTS

The Company operates a defined contribution scheme. Contributions are charged to the profit and loss account as they become due under the rules of the scheme.

The Company also operates a defined benefits pension scheme, which is now closed to new members. Pension costs are charged to the profit and loss account over the average expected service life of current employees. Costs are assessed in accordance with the advice of qualified actuaries. Additional disclosures required by FRS 17 for this scheme are disclosed in note 24.

MMA Insurance plc

Notes to the Financial Statements
For the Year Ended 31 December 2004

1 SEGMENTAL REPORTING

(a) All contracts of insurance were concluded in the United Kingdom (2003 - Same).

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

2004	Direct Motor	Direct fire and other damage to property	Direct liability	Others	TOTAL
	£ 000	£ 000	£ 000	£ 000	£ 000
Gross written premiums	119,042	52,572	25,547	12,040	209,201
Gross earned premiums	110,951	44,954	33,141	5,801	194,847
Gross incurred claims	(94,663)	(19,965)	(24,167)	(3,411)	(142,206)
Gross operating expenses	(25,297)	(14,587)	(9,079)	(3,304)	(52,267)
Gross technical result	(9,009)	10,402	(105)	(914)	374
Reinsurance result	5,181	(5,290)	(847)	195	(761)
Net technical result	(3,828)	5,112	(952)	(719)	(387)
Equalisation provision					(1,393)
Allocated investment return					16,874
Balance on technical account					15,094
Net technical provisions excluding equalisation reserves	137,408	44,216	85,695	1,624	268,943

MMA Insurance plc

Notes to the Financial Statements continued
For the Year Ended 31 December 2004

1 (Cont.) SEGMENTAL INFORMATION

2003	Direct Motor	Direct fire and other damage to property	Direct liability	Others	TOTAL
	£ 000	£ 000	£ 000	£ 000	£ 000
Gross written premiums	112,827	42,819	42,767	4,598	203,011
Gross earned premiums	108,701	40,896	44,356	4,522	198,475
Gross incurred claims	(81,467)	(22,862)	(36,023)	(2,402)	(142,754)
Gross operating expenses	(24,432)	(12,785)	(11,782)	(2,067)	(51,066)
Gross technical result	2,802	5,249	(3,449)	53	4,655
Reinsurance result	(1,341)	(3,259)	570	(56)	(4,086)
Net technical result	1,461	1,990	(2,879)	(3)	569
Equalisation provision					(1,085)
Allocated investment return					14,262
Balance on technical account					13,746
Net technical provisions excluding equalisation reserves	137,766	44,001	70,890	1,683	254,340

MMA Insurance plc

Notes to the Financial Statements continued
For the Year Ended 31 December 2004

2 NET OPERATING EXPENSES

	2004 £ 000	2003 £ 000
Acquisition costs		
Commission in respect of direct insurance	40,807	37,078
Others	3,173	2,917
	43,980	39,995
Change in gross deferred acquisition costs	(5,856)	(2,364)
	38,124	37,631
Administration expenses	10,770	10,930
Motor Insurers Bureau levy	2,436	2,359
Financial Services Compensation Scheme	937	146
Gross operating expenses	52,267	51,066
Reinsurance commissions	(18,636)	(7,724)
Change in deferred reinsurance commission	4,815	(259)
	38,446	43,083

Auditors' remuneration in respect of audit services amounted to £81,000, (2003 - £77,000) and in respect of non-audit services amounted to £33,000, (2003 - £28,000).

Administrative expenses also include:

	2004 £ 000	2003 £ 000
Depreciation of tangible assets	581	446
Operating lease rentals	1,163	1,163

3 INVESTMENT RETURN

	2004 £ 000	2003 £ 000
Investment Income		
Dividend income from participating interest	214	214
Income from other financial investments	17,553	15,065
Unrealised gains on investments	2,475	2,740
Gain on transfer of shares in subsidiary company (Note 9)	-	474
	20,242	18,493
Investment Expenses and Charges		
Losses on disposal of fixed interest securities	887	1,814
Losses on the realisation of equity investments	215	291
	1,102	2,105
Total Investment Return	19,140	16,388

4 ALLOCATED INVESTMENT RETURN

The allocation of investment return is based on the longer-term return on investments.

(a) Assumptions

The longer-term return on equities is estimated with regard to historical real rates of return for the market and current inflation expectation adjusted for consensus economic and investment market forecasts of investment return.

The longer term investment return on fixed interest securities is calculated using the amortised cost basis with realised gains and losses subject to continuing amortisation over the remaining period to the maturity date.

The longer term investment return on index linked securities is calculated using the projected yield to redemption at the date of purchase.

The allocated longer-term returns for other categories of investments are the actual interest income receivable for the year.

The principal assumptions underlying the calculation of the longer-term investment return are as follows:

	2004	2003
	%	%
U.K. Equities	7.0	7.0
U.K. Fixed interest	4.9	5.1
U.K. Index linked	4.7	4.7

The directors are of the opinion that these rates of return are appropriate and have been selected with a view to ensuring that returns credited to operating results are not inconsistent with the actual returns which will be earned over the longer term. In respect of 2004 a change of one percent in the longer-term investment return used for U.K. equities would produce a change of £460,000 in the investment income transferred to the general business technical account.

(b) Comparison of Longer Term Investment Return with Actual Return

The actual return on investments attributable to general business and shareholders in the period from 1 January 2000 to 31 December 2004 is compared below with the aggregate longer term return which would have been recognised in the balance on the technical account - general business over the same period using the longer term rate of return described above:

	2000 - 2004	1999 - 2003
	£ 000	£ 000
Actual investment return attributable to shareholders dealt with in profit on ordinary activities in the non-technical account	46,368	36,036
Longer term investment return attributable to shareholders credited to operating profit and to the technical account - general business	71,225	66,720
(Deficit)	(24,857)	(30,684)
If the longer term rate of return used for equities was changed by one percent, for all of the five years, the change to the above deficit would be	2,354	2,335

5 DIRECTORS' EMOLUMENTS

The aggregate amount of emoluments, including benefits in kind, paid to or receivable by directors during the year was as follows:

	2004 £ 000	2003 £ 000
Emoluments	702	529
Contributions to pension fund in respect of directors	73	65
	775	594
Highest paid director :		
Emoluments	331	278
Pension contributions	49	43
	380	321

Two directors are accruing retirement benefits under the Company's defined benefits pension scheme. The highest paid director's accrued pension at 31 December 2004 was £76,000 (2003- £66,000).

6 STAFF NUMBERS AND COSTS

The average number of persons employed by the Company (including directors) during the year was as follows:

	2004	2003
Non Executive Directors	11	9
Executive Directors/ Senior Management	5	6
Underwriting	118	114
Claims	81	81
Marketing	23	21
Finance	71	69
IS	25	25
	334	325
The aggregate payroll costs in respect of these persons were as follows:	£ 000	£ 000
Wages and salaries	7,515	7,066
Social security costs	652	573
Other pension costs	1,753	2,953
	9,920	10,592

MMA Insurance plc

Notes to the Financial Statements continued
For the Year Ended 31 December 2004

7 TAXATION

			2004		2003
		£ 000	£ 000	£ 000	£ 000
a) Current tax	UK Corporation Tax payable in respect of 2004		4,360		1,047
	Tax under/(over) provided in prior years		28		(93)
	Total current tax		4,388		954
Deferred tax	Carried forward tax losses, utilised in 2003	-		2,569	
	Unrealised (surplus) / deficit	(172)		23	
	Pension contributions	525		-	
	Other timing differences	(1)		127	
	Deferred tax (Note 22)		352		2,719
	Tax charge for year		4,740		3,673

b) Factors affecting current tax charge.

The tax charge in the year is at a lower rate than standard rate *of corporation tax in the UK of 30%.* Differences as below :

	2004	2003
Profit on ordinary activities before tax	21,578	15,852
Profit on ordinary activities at 30%	6,473	4,756
Expenses not deductible for tax purposes	85	18
Income on which no further tax is payable	(1,773)	(641)
Carried forward tax losses, utilised in 2003	-	(2,569)
Unrealised deficit / (surplus)	172	(23)
Pension contributions	(525)	-
Other timing differences	1	(127)
Group relief from Holding company for no payment	(56)	(157)
Group relief from fellow Subsidiary company for no payment	(32)	(218)
Addition charge to tax re.S107 of the Finance Act 2000	15	8
Tax under/(over) provided in prior years	28	(93)
Total current tax (Note 7a)	4,388	954

8 DIVIDEND

	2004 £ 000	2003 £ 000
Proposed dividend	1,000	2,000

9 INVESTMENTS IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

	Current Value	Cost
Shares in group undertakings	£ 000	£ 000
Value at 31.12.03	73	33
Purchase of shares	-	-
Sales of shares (at cost)	-	-
Movement in current accounts	9	9
Value at 31.12.04	82	42
Other participating interests		
Value at 31.12.03	840	4
Sold during year	(840)	(4)
Value at 31.12.04	-	-
Total value at 31.12.04	82	42
Total value at 31.12.03	913	37

Shares in group undertakings represent the Company's investment in its subsidiary undertaking:

Gateway Insurance Agency Limited, registered in England, with a holding of 100% ordinary shares. This company has ceased trading. It previously traded as an insurance intermediary.

Other participating interests represented 45% of the ordinary shares of Saturn Professional Risks Limited, registered in England. This investment was sold during the year.

10 OTHER FINANCIAL INVESTMENTS

	Market value		Cost	
	2004 £ 000	2003 £ 000	2004 £ 000	2003 £ 000
U.K. Equities	47,179	47,202	44,980	49,332
Debt securities and other fixed-income securities	214,447	196,657	221,697	202,054
Deposits with credit institutions	33,939	24,576	33,939	24,576
	295,565	268,435	300,616	275,962
Listed investments included in the above	261,626	243,859	266,677	251,386

11 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2004 £ 000	2003 £ 000
Amounts owed by policyholders	19,100	13,341
Amounts owed by intermediaries	18,906	15,155
	38,006	28,496

12 OTHER DEBTORS

	2004 £ 000	2003 £ 000
Salvage and subrogation recoveries	5,613	6,473
Amounts owed by group undertakings	853	302
Other debtors	404	728
	6,870	7,503

13 TANGIBLE ASSETS

	Computer equipment	Fixtures, fittings and equipment	Motor vehicles	Total
	£ 000	£ 000	£ 000	£ 000
COST				
At beginning of year	2,504	2,075	309	4,888
Additions	433	353	153	939
Disposals	(664)	(2)	(124)	(790)
At the end of year	2,273	2,426	338	5,037
DEPRECIATION				
At beginning of year	1,804	1,854	132	3,790
Charge in year	393	103	85	581
On disposals	(659)	(2)	(92)	(753)
At the end of year	1,538	1,955	125	3,618
NET BOOK VALUE				
At 31 December 2004	735	471	213	1,419
At 31 December 2003	700	221	177	1,098

14 OTHER PREPAYMENTS AND ACCRUED INCOME

	2004	2003
	£ 000	£ 000
Pension scheme prepaid	1,750	-
Other prepaid expenses	1,032	828
	2,782	828

MMA Insurance plc

Notes to the Financial Statements continued
For the Year Ended 31 December 2004

15 CALLED UP SHARE CAPITAL

	2004		2003	
	No.	£ 000	No.	£ 000
Authorised Ordinary Shares of £1 each	40,000,000	40,000	15,000,000	15,000
Issued - fully paid	15,000,000	15,000	10,993,334	10,993
Issued - 25p called and paid	-	-	3,006,666	752
	15,000,000	15,000	14,000,000	11,745

On 2 August 2004 75p per share was paid on each of the 3,006,666 partly paid shares converting them to fully paid shares. On the same date a further 1,000,000 ordinary shares were issued and fully paid.

At an extraordinary general meeting on 10 December 2004 the Company increased the authorised share capital to £40,000,000 by the creation of 25,000,000 ordinary shares of £1 each. These rank equally in all respects with the existing ordinary shares of the Company.

16 REVALUATION RESERVE

	2004	2003
	£ 000	£ 000
Balance brought forward	902	931
Reversal on sale of shares in Saturn Professional Risks Ltd	(836)	-
Differences on exchange	-	(3)
(Deficit) on revaluation of investments	-	(26)
	66	902
Transfers from / (to) deferred taxation (note 22)	-	-
	66	902

17 PROFIT AND LOSS ACCOUNT

	2004	2003
	£ 000	£ 000
Balance brought forward	47,008	36,829
Retained profit for the year	15,838	10,179
Balance carried forward	62,846	47,008

18 CLAIMS OUTSTANDING

2004	Gross £ 000	Reinsurance £ 000	Net £ 000
Notified outstanding claims	171,346	45,873	125,473
Provision for claims incurred but not reported	72,536	18,668	53,868
	243,882	64,541	179,341
Claims handling expenses	2,494	-	2,494
	246,376	64,541	181,835

2003	Gross £ 000	Reinsurance £ 000	Net £ 000
Notified outstanding claims	150,288	34,158	116,130
Provision for claims incurred but not reported	66,811	15,307	51,504
	217,099	49,465	167,634
Claims handling expenses	2,167	-	2,167
	219,266	49,465	169,801
Open year funds for funded business	872	-	872
	220,138	49,465	170,673

19 EQUALISATION PROVISION

These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by rule 7.5 of the integrated prudential sourcebook to be included within technical provisions in the balance sheet, notwithstanding that they do not represent liabilities at the balance sheet date. After tax relief this has had the cumulative effect of reducing shareholders' funds by £3,718,000 (2003 - £2,743,000). The movement in equalisation provisions during the year resulted in a decrease in the general business - technical account result and the profit before taxation of £1,393,000 (2003 – £1,085,000).

20 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2004 £ 000	2003 £ 000
Corporation taxation payable	2,941	954
Investments purchased for subsequent settlements	5,333	64
Other taxes including insurance premium tax and social security costs	3,035	2,097
Dividend proposed for the current financial year	1,000	2,000
Due to group companies	932	849
Other	1,015	592
	14,256	6,556

21 ACCRUALS AND DEFERRED INCOME

	2004 £ 000	2003 £ 000
Deferred reinsurance commissions	8,466	3,651
Motor Insurers Bureau levy	3,066	2,959
Financial Services Compensation Scheme	837	812
Other accruals and deferred income	1,899	1,615
	14,268	9,037

MMA Insurance plc

Notes to the Financial Statements continued
For the Year Ended 31 December 2004

22 DEFERRED TAXATION

Full provision has been made for deferred taxation, at 30% (2003 - 30%) as follows:

	2004		2003	
	£ 000	£ 000	£ 000	£ 000
On revaluation of investments		1,284		1,456
Pension contributions		525		-
Other timing differences		(56)		(55)
Differences on exchange		29		29
		1,782		1,430
Deferred tax liability / (asset) at beginning of year		1,430		(1,289)
Unrealised (surplus) / deficit	(172)		23	
Pension contributions	525		0	
Carry forward losses utilised in 2003	-		2,569	
Other timing differences	(1)		127	
Current taxation (Note 7)		352		2,719
Deferred tax liability at end of year		1,782		1,430

23 COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

Land and buildings	2004	2003
	£ 000	£ 000
Operating leases which expire: Over five years	1,163	1,163

24 PENSION BENEFIT

The company operates two pension schemes. The assets of both schemes are held independently and separately from those of the company in trust administered accounts.

Defined contribution scheme
This scheme is open to employees who became eligible to join on or after 1 January 2001. Benefits are based on contributions made to the scheme by the Company during the employee's membership.

Defined benefits scheme
Benefits are based on final pensionable salary. This scheme closed to new members on 31 December 2000. The disclosures below refer to this scheme.

SSAP 24 disclosures

The amounts contributed to the defined benefit scheme in the year were:

	2004 £ 000	2003 £ 000
Salary based contributions	543	574
Additional contributions	2,750	2,250
	3,293	2,824

The contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the Company.

Contributions are made on the advice of an independent qualified actuary using the projected unit method. The latest actuarial assessment was as at 1 January 2003. The main actuarial assumptions are a rate of investment return of 7.0% per annum for equities, 5.0% per annum for bonds and a rate of salary increase of 4.0% per annum. The next full actuarial assessment is due in 2006, based on the position as at 1 January 2006.

The scheme had assets with a market value of £7,641,000 at 1 January 2003. At that date the actuarial value of the scheme assets represented 53.0% of the liabilities for benefits that had accrued to members, allowing for expected future increases in salaries. The level of contributions was 15.9% of pensionable salaries (2003: 15.9%).

FRS 17 disclosures

A full actuarial valuation was carried out, for the defined benefit scheme, as at 1 January 2003 and updated to 31 December 2004 by a qualified independent actuary. The major assumptions used by the actuary were:

	2004	2003
Discount rate	5.3%	5.5%
Inflation assumption	2.9%	2.9%
Rate of increase in salaries	4.4%	4.4%
Rate of increase in pensions in payment	2.9%	2.9%

MMA Insurance plc

Notes to the Financial Statements continued
For the Year Ended 31 December 2004

24 (Cont) PENSION BENEFIT

The assets in the scheme and the rate of return were:

	Long term rate of return		2004	2003
	2004	2003	£ 000	£ 000
Equities	8.0%	8.0%	10,894	7,415
Bonds	5.3%	5.2%	1,154	1,085
Other	3.0%	3.0%	3,514	2,759
Total market value of assets			15,562	11,259
Present value of scheme liabilities			(21,061)	(18,602)
(Deficit) in the scheme			(5,499)	(7,343)
Related deferred tax asset			1,650	2,203
Pension liability			(3,849)	(5,140)

Note: additional voluntary contributions, which represent a matching asset and liability, have been excluded from the valuation.

	2004	2003
Effect on net assets	£ 000	£ 000
Net asset excluding pension liability	77,912	59,655
Net pension liability	(3,849)	(5,140)
Net assets including pension liability	74,063	54,515
Effect on profit and loss account		
Profit and loss reserve excluding pension liability	62,846	47,008
Pension reserve	(3,849)	(5,140)
Profit and loss reserve including pension liability	58,997	41,868

MMA Insurance plc

Notes to the Financial Statements continued
For the Year Ended 31 December 2004

24 (Cont) PENSION BENEFIT

	2004	2003
	£ 000	£ 000
Movements in deficit during the year		
(Deficit) in scheme at beginning of the year	(7,343)	(6,986)
Movement in year:		
Current service cost	(718)	(722)
Contributions	3,293	2,824
Past service costs	0	0
Other finance income	(209)	(245)
Actuarial (loss)	(522)	(2,214)
(Deficit) in scheme at the end of year	(5,499)	(7,343)

Analysis of amount credited to other finance income

	2004	2003
Expected return on pension scheme assets	827	576
Interest on pension scheme liabilities	(1,036)	(821)
Net return	(209)	(245)

Analysis of amount recognised in statement of total recognised gains and losses

	2004	2003
Actual return less expected return on pension assets	437	706
Experience gains and losses arising on the scheme liabilities	1	(32)
Changes in financial assumptions underlying the scheme liabilities	(960)	(2,888)
Actuarial (loss) recognised in statement of total recognised gains and losses	(522)	(2,214)

MMA Insurance plc

Notes to the Financial Statements continued
For the Year Ended 31 December 2004

24 (Cont) PENSION BENEFIT

History of experience gains and losses

	2004	2003
	£ 000	£ 000
Difference between the expected and actual return on scheme assets	437	706
Percentage of scheme assets	3%	6%
Experience gains and losses on scheme liabilites	1	(32)
Percentage of the present value of the scheme liabilities	0%	0%
Total amount recognised in statement of total recognised gains and losses	(522)	(2,214)
Percentage of the present value of the scheme liabilities	(2%)	(12%)

Summary

In order to mitigate the potential shortfall in the fund the Company has:

- Closed the defined benefit scheme to new members with effect from 31 December 2000.
- Made additional capital payments into the fund of £2,750,000 during 2004.

The Company is committed to making further additional payments to this scheme to rectify the shortfall. The exact timing and amounts are to be agreed and will depend in part on the future performance of the scheme.

MMA Insurance plc

Notes to the Financial Statements continued
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25 ULTIMATE PARENT COMPANY

(a) The ultimate parent company is La Mutuelle du Mans Assurances IARD, a company incorporated in France. Copies of the group accounts prepared by the parent company can be obtained from the registered office, the address of which is shown on page 37.

(b) Group Company Balances

Included in debtors arising out of direct insurance operations:
- Balances due from intermediaries – are the following:

	2004	2003
	£ 000	£ 000
Due from subsidiary companies	-	7
Due from fellow subsidiary companies	6,362	2,883

Included in balances arising out of reinsurance operat ons are the following:

Due to parent company	(251)	(327)
Due to fellow subsidiary companies	(183)	(187)

Other Balances are reflected in notes 12 and 22.

26 RELATED PARTY TRANSACTIONS

Advantage has been taken of the exemption allowed by Financial Reporting Standard 8 – Related Party Disclosures, from disclosing transactions with entities within the group.

There were no other material related party transactions.

MMA Insurance plc

Notes to the Financial Statements continued
For the Year Ended 31 December 2004

REGISTERED AND HEAD OFFICE	Norman Place Reading RG1 8DA Registered in England 613259
WEB ADDRESS	www.mma-insurance.com
BANKERS	HSBC Bank Plc 8 Canada Square London E14 5HQ
AUDITORS	Ernst & Young LLP Registered Auditor 1 More London Place London SE1 2AF