Guardian Royal Exchange plc

2005 Report and Accounts

Registered Office: 5 Old Broad Street, London, EC2N 1AD
Registered Number: 1821312

Contents

Directors' Report

Directors
D. Holt
P.J. Hubbard
P.L.H. Maso y Guell Rivet
I.D. Richardson

Secretary
J.P. Small

Auditors
PricewaterhouseCoopers LLP

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

REVIEW OF ACTIVITIES

The principal activity of the Company during the year was as a holding company for its subsidiaries which carried on general insurance and healthcare business in the United Kingdom and Ireland.

The Group has adopted International Financial Reporting Standards (IFRS) for the first time in these financial statements. The impact on the results of the Group are outlined in Note 1 on Pages 31 and 32.

The pre-tax profit for the year has increased by £22m to £444m driven by improvements in the investment return offset by a fall in the underwriting result. The improvement in investment return is due primarily to the reinvestment of cash into debt securities resulting in a higher rate of return on investments. The reduction in underwriting profit for the year results from the absence in the United Kingdom of prior year reserve releases in Property and Motor, together with falling average premiums and rising Motor accident frequency in Ireland. This is partially offset by a reduced loss on Liability business with lower prior year losses.

As disclosed under Transfer of Business, the Group's subsidiary, PPP lifetime care plc, has commenced the process under a Part VII Scheme to transfer its business to a fellow subsidiary undertaking, AXA Sun Life plc. The Group's existing long term insurance business activities are expected to continue until the date of implementation of the Scheme.

Both the level of new business and the overall financial position at the end of the year were satisfactory in all the circumstances and the directors expect that the present level of activity will continue for the foreseeable future.

TRANSFER OF BUSINESS

During March 2006 Court approval has been received to commence the process under a Part VII Scheme:

a) to transfer all of the policies and associated assets and liabilities in the long term fund of PPP lifetime care plc into AXA Sun Life plc; and

b) to transfer all the assets and liabilities in the shareholders' funds of PPP lifetime care plc into the AXA Sun Life plc shareholders' funds.

The purpose of the Scheme is to simplify the corporate structure of the AXA Sun Life Holdings plc group and to enhance its capital efficiency. The final Court hearing is scheduled for July 2006 and if approval is given the Scheme is expected to be implemented before 1 July 2007.

CHANGE OF REGISTERED OFFICE ADDRESS

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

GOING CONCERN

The financial statements are prepared on a going concern basis as the directors are satisfied that, at the time of approving the financial statements, both the Company and the Group have the resources to continue in business for the foreseeable future.

DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2005 (2004: £100,910,934).

DIRECTORS

The directors who served throughout the year are shown above.

APPOINTMENT OF DIRECTORS

In accordance with Article 90 of the Articles of Association of the Company, Mr. P. L. H. Maso y Guell Rivet and Mr. I. D. Richardson will retire by rotation at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-appointment.

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' Report of the following company, which is a parent company of the Company.

*	**D. Holt**)	
*	**P. J. Hubbard**)	reported by AXA UK plc
*	**P. L. H. Maso y Guell Rivet**)	
*	**I. D. Richardson**)	

Save as stated above, none of the directors at 31 December 2005 have interests in the share capital of the Company, its ultimate holding company (AXA) or subsidiaries of the ultimate holding company.

EMPLOYEES

The AXA UK group, through each of its employing subsidiary companies, is committed to a policy of equal opportunity in recruitment, training, irrespective of gender, marital status, race or ethnic origin. Full and fair consideration is also given to disabled persons including the rehabilitation and retention of staff who become disabled, having regard to their particular aptitudes and abilities.

Great importance is placed on good communications with employees and in seeking to inform and involve staff in the development of their operations and in the achievement of their business goals.

A full range of written, audio, video and regular face-to-face communications, including team briefings, regular appraisals, company newspapers and various bulletins are used.

Regular consultation is maintained with independent and certified trade unions on the complete range of employment and business issues.

Many businesses within the AXA UK group have Investors in People accreditation.

Directors' Report continued

PAYMENT OF CREDITORS

The Company's policy on the payment of creditors is to agree terms of payment when orders for goods and services are placed and to pay in accordance with those terms.

Balances outstanding for the Company at 31 December 2005 represented a credit period of 22 days (2004 - 26 days).

FINANCIAL RISK MANAGEMENT

The Group applies a number of techniques to manage and mitigate its risks. Details are provided on pages 26 to 30.

AUDITORS

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

By Order of the Board

Jeremy P. Small

J. P. Small
Secretary
29 June 2006

Directors' Responsibilities for the Financial Statements

The following statement, which should be read in conjunction with the statement of auditors' responsibilities set out on page 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 and the Group at the end of the financial year and of the profit or loss of the Company and the Group 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 policies 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 a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report continued

Independent Auditors' report to the members of Guardian Royal Exchange plc

We have audited the consolidated financial statements of Guardian Royal Exchange plc for the year ended 31 December 2005 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of Guardian Royal Exchange plc for the year ended 31 December 2005.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the consolidated financial statements, 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated 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.

Independent Auditors' Report continued

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended;

- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
29 June 2006

Consolidated Income Statement

for the year ended 31 December 2005

	Note	2005 £m	2004 £m
Insurance revenue			
Income from insurance contracts		**2,975**	3,031
Revenue ceded to reinsurers		**(132)**	(123)
Net insurance revenue	**3**	**2,843**	2,908
Other income			
Investment income	**4**	**355**	328
Net realised gains on available for sale financial assets	**5**	**59**	49
Net fair value gains on assets at fair value through income	**6**	**16**	10
Other operating income	**7**	**94**	61
Total income		**3,367**	3,356
Policyholder claims and benefits			
Insurance claims and loss adjustment expenses	**9**	**(1,913)**	(1,980)
Insurance claims and loss adjustment expenses recoverable from reinsurers	**9**	**68**	31
Other expenses			
Insurance contract acquisition expenses	**10**	**(745)**	(689)
Marketing and administration expenses	**10**	**(259)**	(272)
Cost of asset management services		**(5)**	(5)
Other operating expenses	**8**	**(55)**	(11)
Operating result		**458**	430
Finance costs	**12**	**(20)**	(20)
Profit on disposal of operations	**41**	**6**	12
Profit before tax		**444**	422
Income tax expense	**13**	**(28)**	(65)
Profit for the year attributable to equity holders of the Company		**416**	357
Earnings per share (pence per share)	**14**	**39.30**	33.70
Diluted earnings per share (pence per share)	**14**	**39.30**	33.70

Consolidated Balance Sheet

as at 31 December 2005

	Note	2005 £m	2004 £m
ASSETS			
Goodwill and intangible assets	**18**	**196**	180
Property, plant & equipment	**16**	**52**	42
Investment property	**17**	**1**	3
Investment in fellow subsidiary undertaking	**21**	**-**	1,674
Associate undertakings	**21**	**10**	10
Investment in financial assets	**22**	**5,276**	4,398
Reinsurers' share of insurance contract liabilities	**23**	**371**	353
Insurance & reinsurance receivables	**24**	**904**	811
Deferred taxation	**35**	**80**	77
Deferred acquisition costs	**19**	**322**	306
Other receivables	**25**	**2,515**	550
Cash & cash equivalents	**26**	**679**	1,146
Total assets		**10,406**	9,550

Consolidated Balance Sheet continued

as at 31 December 2005

	Note	2005 £m	2004 £m
EQUITY			
Share capital	**27**	**56**	56
Share premium	**27**	**523**	523
Other reserves	**28&29**	**488**	432
Retained earnings	**28**	**2,520**	2,132
Capital & reserves attributable to ordinary shareholders	**28**	**3,587**	3,143
LIABILITIES			
Technical provisions - insurance contract liabilities	**30**	**5,754**	5,531
Borrowings	**32**	**300**	302
Insurance and reinsurance liabilities	**31**	**217**	150
Provisions for other liabilities & charges	**33**	**90**	98
Retirement benefit obligations	**36**	**98**	67
Other liabilities	**34**	**318**	223
Current tax		**42**	36
Total liabilities		**6,819**	6,407
Total equity & liabilities		**10,406**	9,550

The financial statements on pages 8 to 64 were approved by the Board of Directors on 29 June 2006 and were signed on its behalf by:

Director
29 June 2006

Cash Flow Statement

for the year ended 31 December 2005

	Note	2005 £m	2004 £m
Cash flows from operating activities			
Cash generated from operations	37	134	304
Income taxes paid		(46)	(33)
Interest paid		(20)	(20)
Interest received		253	224
Dividends received		25	122
Net cash from operating activities		346	597
Cash flows from investing activities			
Proceeds from sale of:			
Investments		2,876	1,396
Participating interest		3	29
Purchase of:			
Investments		(3,633)	(2,209)
Property, plant and equipment		(10)	(10)
Intangible assets		(47)	(41)
Net cash outflow from investing activities		(811)	(835)
Cash flows from financing activities			
Dividends paid to ordinary shareholders		-	(101)
Net decrease in cash and cash equivalents		(465)	(339)
Cash and cash equivalents at 1 January		1,142	1,481
Cash and cash equivalents at 31 December	26	677	1,142

Statement of Recognised Income and Expense

for the year ended 31 December 2005

	Note	2005 £m	2004 £m
Profit for the financial year		**416**	357
Exchange on revaluation of subsidiary net assets		**(9)**	3
Revaluation of available-for-sale financial assets		**90**	(10)
Actuarial losses on defined benefit schemes		**(33)**	(16)
		464	334
Tax effect of items not recognised in income statement	35	**(20)**	8
Total recognised income attributable to equity shareholders		**444**	342

Accounting Policies

The Guardian Royal Exchange Group

Guardian Royal Exchange plc (the Company) and its subsidiaries together form the Guardian Royal Exchange Group (the Group). The principal activity of the Company is to act as a holding company for its subsidiaries which underwrite general insurance and healthcare business in the United Kingdom and Republic of Ireland.

The Company is a limited liability company incorporated and domiciled in England. In the opinion of the directors, the Company's ultimate parent and controlling company is AXA, a company incorporated in France. The parent undertaking of the smallest and largest group which includes the Company and for which group financial statements are prepared is AXA. Copies of the group financial statements of AXA are available from that company at 23, avenue Matignon, 75008 Paris, France.

Significant Accounting Policies

I *Basis of presentation*

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. They are prepared under the historical cost convention, modified by the revaluation of available for sale financial investments and financial instruments at fair value through profit and loss.

The use of IFRS requires management to exercise judgement in the selection and application of accounting policies and in the use of accounting estimates. Those areas which could have a significant impact in the financial statements are set out on pages 15 to 18 and on page 24.

The accounts of the parent company are presented in a separate section of the annual report and accounts.

First time adoption of IFRS

These are the first financial statements prepared in accordance with IFRS. The transition date of the Group is 1 January 2004 and an opening balance sheet has therefore been prepared at that date on an IFRS basis. The 2004 comparative information presented in these financial statements has been restated and an explanation on how the transition to IFRS has affected the Group's performance has been provided.

The IFRS transition rules generally require the Group to determine its accounting policies and apply these retrospectively except where there is an exemption under IFRS 1 "First-time adoption of International Financial Reporting Standards".

The Group has applied the provisions in IFRS 4 "Insurance Contracts", which leaves existing accounting policies for insurance contracts unchanged.

The Group has taken advantage of the following exemptions from full retrospective application:

Business combination exemption

The business combination exemption in IFRS 1 has been applied by the Group with no restatement made to business combinations that took place prior to the 1 January 2004 transition date.

Cumulative translation difference exemption

The Group has elected to apply the exemption from IFRS 1 to set the cumulative translation reserve previously included within other reserves to zero at 1 January 2004.

Designation of financial assets and financial liability exemption

The Group has reclassified various securities as available for sale investments with movements in fair value recognised in equity.

The Group has applied the following mandatory exceptions from retrospective application:

De-recognition of financial assets and financial liabilities exemption

Financial assets and liabilities derecognised before 1 January 2004 are not recognised under IFRS.

Estimates exemption

The estimates made under IFRS at the 1 January 2004 transition date are consistent with those previously made under UKGAAP.

Recently adopted accounting standards adopted early by the Group:

The Group has adopted from the date of transition to IFRS the amendment to International Accounting Standard (IAS) 19 "Employee Benefits" published in December 2004. The amendments to IAS 19 permit the recognition of all actuarial gains and losses to be taken to a separate component of equity through the statement of recognised income and expense.

Recently adopted accounting standards not adopted early by the Group:

IAS 39 amendment, Cash Flow Hedge Accounting of Forecast Intragroup Transactions.
The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements and is effective for accounting periods beginning 1 January 2006. This amendment is not relevant to the Group's operations as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2005 and 2004.

IAS 39 amendment, The Fair Value Option.
The amendment covers concerns over the appropriate use of the fair value option and is effective for accounting periods beginning 1 January 2006.

IAS 39 amendment, Financial Guarantee Contracts.
This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be brought on to the balance sheet and initially recognised at fair value. The amendment is effective for accounting periods beginning 1 January 2006. These amendments are not relevant to the Group's operations as the Group does not issue financial guarantees.

IFRS 7, Financial Instruments: Disclosures and a complementary amendment to IAS 1.
IFRS 7 introduces new disclosure requirements around the Group's exposure to risk arising from financial instruments. It requires the disclosure of qualitative and quantitative information including sensitivity analysis to market risk. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. IFRS 7 and the amendment to IAS 1 are effective for accounting periods beginning 1 January 2007.

IAS 21 amendment, Net Investment in a Foreign Operation.
The amendment clarifies the requirements regarding an entity's investment in foreign operations.

II ***Basis of consolidation***

The consolidated financial statements include the accounts of the Company and its subsidiaries assets, liabilities, revenues, expenses and cash flows. Subsidiaries are all undertakings whose financial and operating policies are controlled by the Group for its benefit. Subsidiaries are fully consolidated from the date on which the Group obtains control and are de-consolidated from the date on which control ends.

The acquisition of subsidiaries is accounted for using the purchase method.

Associates are undertakings in which the Group has significant influence but not control and are accounted for by the equity method of accounting and recognised on the balance sheet at cost plus post-acquisition movements in the net assets of the associate less allowances for impairment losses.

III *Segmental reporting*

Business is reported on by both business and geographical segments. A business segment is a grouping of products or services that are subject to risks and returns that are distinct from those applying to other segments. A geographical segment groups risk and return by geographic area. The Directors consider the business segment to be the primary reporting segment.

IV *Foreign currency translation*

Transactions in a foreign currency are converted to Sterling at the rate of exchange ruling at the date of the transaction and the resulting exchange differences are included in the income statement. Assets and liabilities for each presented balance sheet are translated at the closing rate ruling on the date of that balance sheet. Exchange differences arising from the translation of monetary items are taken to the income statement and exchange differences on non-monetary items taken to a separate component of equity. Where any gain or loss on an asset or liability is included directly in equity, any exchange component of that gain or loss is also included directly in equity. Other exchange translation gains or losses are included in the income statement.

The results and financial position of those entities whose functional currency is not Sterling are translated into Sterling as follows:

a) The assets and liabilities for each presented balance sheet are translated at the closing rate ruling on the date of that balance sheet.

b) Income and expenses for each presented income statement are translated at average rates of exchange for the period in question. This represents a reasonable approximation of the use of exchange rates ruling on transaction dates.

c) Resulting exchange differences are taken to a separate component of equity.

d) Goodwill and fair value adjustments arising from the acquisition of a foreign operation are treated as an integral part of that operation and translated to Sterling at the closing exchange rate.

V *Product classification*

The Group issues contracts that transfer insurance risk. A contract which transfers significant insurance risk is an insurance contract whether or not it also transfers financial risk.

Insurance risk is transferred when an insurer agrees to compensate a policyholder if that policyholder is adversely affected by a specified uncertain future event, other than a change in a financial variable. It is a matter of judgement as to whether the transfer of insurance risk is significant. In making this judgement, the Group considers the scenarios that could give rise to a future loss event; the likely cost that could fall on the Group in all realistic scenarios; the extent to which benefits are payable under the policy in the absence of a future loss event and the premium received by the Group for assuming the risk.

VI *General Insurance contracts - Recognition and measurement*

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

a) Premiums

Premiums written relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Group.

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

b) Claims incurred

Claims incurred comprises claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) and related expenses, together with any 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 IBNR to the Group. The estimated cost of claims includes expenses to be incurred in settling claims and for IBNR claims a deduction is made for the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

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

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

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

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Group 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.

Where possible the Group 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 Group. The costs of claims notified to the Group 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 Group 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.

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 Group'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 exposed to the potential emergence of new types of latent claims but no allowance is included until evidence of the existence of such claims is received by the Group.

Disease-related and pollution claims

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of business. As a result it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims, particularly in periods when theories of law are in flux. Consequently, traditional techniques for estimating claims provisions cannot wholly be relied upon and the Group employs specialised techniques to determine provisions using the extensive knowledge of both internal asbestos and environmental pollution experts and external legal and professional advisors. Factors contributing to this higher degree of uncertainty include:

1. Plaintiffs' expanding theories of liability, compounded by inconsistent court decisions and judicial interpretations.
2. A few large claims, accompanied by a very large number of small claims or claims made with no subsequent payment, often driven by intensive advertising by lawyers seeking claimants.
3. The tendency for speculative, inflated and/or unsupported claims to be made to insurers, with the aim of securing a settlement on advantageous terms.
4. The long delay in reporting claims and exposures, since the onset of illness and disability arising from exposure to harmful conditions may only become apparent many years later (for example, cases of mesothelioma can have a latent period of up to 40 years).
5. Inadequate development patterns.

6. Difficult issues of allocation of responsibility among potentially responsible parties and insurers.
7. Complex technical issues that may give rise to delays in notification arising from unresolved legal issues on policy coverage and the identity of the insured.
8. The tendency for social trends and factors to influence jury verdicts.
9. Developments pertaining to the Group's ability to recover reinsurance for claims of this nature.

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 Group'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.

d) Salvage and subrogation

Estimated recoveries are included within 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.

VII *Long-term Insurance contracts - Recognition and measurement*

Premium income

All premiums, including reinsurance premiums, other than those in respect of unit-linked policies, are accounted for when due. Premiums in respect of unit-linked policies are accounted for in the same period as the policy liabilities, resulting from those premiums, are created.

Claims and surrenders

Claims incurred comprise claims and related expenses charged in the year together with the change in provision for outstanding claims and their related expenses. Death or critical illness claims, other than those in respect of unit linked policies, are accounted for in the period of notification.

Those in respect of unit-linked business are accounted for in the period that the policy ceases to hold units in the fund. Maturity claims are recognised on the date the policy matures and regular healthcare claims from the due date of the relevant payment. Surrenders and medical insurance claims are accounted for when paid.

Provision for claims notified but not yet admitted is held within the long-term business provision.

Long-term business provision

The long-term business provision is computed by a Fellow of the Institute of Actuaries, on the basis of recognised actuarial methods with due regard to the actuarial principles set out in Council Directive 2002/83/EC.

For non-profit business, in general, a discounted cash-flow method is employed using a multiple state model. This involves estimating the number of persons in each state (e.g. healthy, disabled or deceased) using transition rates derived from industry or the Group's experience data.

For unit-linked business the technical provision for linked liabilities is determined from the value of assets held to provide linked benefits to policyholders. Additional technical provisions arising from linked contracts are held within the long-term business provision, and include an allowance for any excess of future costs over policy charges.

Accounting Policies continued

VIII *Intangible assets*

a) *Goodwill*

Goodwill represents the excess of the cost of a business acquisition over the net fair value of the Group's share of identifiable assets and liabilities at the acquisition date and initially capitalised in the balance sheet at cost and is subsequently recognised at cost less accumulated impairment losses. Goodwill is reviewed for impairment annually and, if there is evidence of impairment, the recoverable amount is calculated. An impairment charge is recognised if the recoverable amount is less than the carrying value.

b) *Computer software*

Costs associated with major software developments are capitalised where such expenditure is expected to produce future economic benefits and can be reliably measured. The asset is amortised on the straight line basis over its anticipated useful life, subject to a maximum period of 5 years.

c) *Commission advances*

Commission advanced to intermediaries in anticipation of the introduction of new business is initially recognised at cost and amortised over the period for which it is expected that benefit will be received. It is reviewed for impairment on a regular basis.

IX Property, plant and equipment

a) *Property*

This consists principally of properties occupied by the Group and are stated at cost less accumulated depreciation and an allowance for impairment where appropriate. Buildings are depreciated using the straight line method on the basis of their expected useful lives.

b) *Plant and equipment*

This consists principally of computer hardware, fixtures and fittings. Assets are stated at cost less accumulated depreciation and, where appropriate, an allowance for impairment. These assets are depreciated using the straight line method over periods not exceeding their expected useful lives after taking into account the estimated residual value.

X Investment property

Investment property is freehold property which is held for the primary purpose of rental yield, capital appreciation or both and is not occupied by a Group company. Investment properties are *accounted for on the same basis as Group occupied properties.*

XI Financial assets

Financial assets are classified on initial recognition into the following categories:

Financial assets at fair value through profit and loss
Available for sale financial assets
Financial assets carried at amortised cost
Loans and receivables

The classification depends on the purpose for which the asset was acquired or the manner in which it originated and is reviewed at each reporting date.

a) *Fair value through profit and loss*

Financial assets are classified as fair value through profit and loss in those instances where the fair value of the asset determines the value of liabilities arising under insurance contracts and to do otherwise would result in an accounting mismatch. They are initially measured at cost. On subsequent measurement, assets are stated at fair value with movements taken through the income statement.

b) Available for sale

Available for sale financial assets are non-derivative financial assets which are either specifically designated as available for sale or which are not classified as any of the other categories. They are initially stated at cost including transaction costs directly attributable to their acquisition. On subsequent measurement, assets are stated at fair value with movements taken directly to equity. On disposal or impairment, fair value adjustments accumulated in equity are transferred to the income statement.

c) Amortised cost

Amortised cost financial assets are non-derivative financial assets relating to investments in fellow subsidiary undertakings which are not quoted in an active market and not designated, on initial recognition, as available for sale. They are initially stated at cost including transaction costs directly attributable to their acquisition. On subsequent measurement, assets are stated at amortised cost using the effective interest method with movements taken to the income statement.

d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market and which are not designated, on initial recognition, as available for sale. They are initially stated at cost including transaction costs directly attributable to their acquisition. On subsequent measurement, assets are stated at amortised cost using the effective interest method.

e) General

A financial asset is recognised on the date on which the Group enters into a commitment to buy or sell the asset – the trade date. Investments are de-recognised when the Group ceases to have the right to receive cash flows arising from the investment or it has been transferred together with substantially all risks and rewards of ownership.

Where an investment is traded in an active market, its fair value is based upon quoted market prices. In other cases, the Group uses recognised valuation techniques to determine market value. These include pricing models, use of discounted cash flow data and, where available, evidence of arm's length transactions in similar assets.

XII Impairment of assets

a) Available for sale financial assets

The Group assesses at each balance sheet date whether there is objective evidence that the value of an available for sale financial asset has been impaired. In the case of equity instruments, this includes a review as to whether there has been a significant or prolonged decline in the fair value of the asset below its cost. Where such evidence exists, the cumulative loss is removed from equity and charged to the income statement. The cumulative loss is calculated as the difference between the acquisition cost and the current fair value, less any impairment previously recognised in the income statement. An impairment loss of an equity instrument is not reversed. An impairment loss on a debt instrument is reversed through the income statement if the fair value of the instrument increases in a subsequent period and such increase can objectively be related to an event which occurred after the impairment loss was originally recognised.

b) Financial assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that the value of an asset has been impaired. If it is determined that no objective evidence exists of the impairment of an individual asset then that asset is included in a group of financial assets with similar credit risk characteristics and the group is then assessed collectively for impairment. Where evidence of a loss is found to exist, the loss is calculated as the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. An allowance account is used to adjust the carrying value of the asset and the loss is included in the income statement.

Accounting Policies continued

Impairment losses are adjusted in a subsequent accounting period if any reduction in the loss can objectively be related to an event which occurred after the impairment loss was originally recognised. Any such reduction is reflected by adjusting the allowance account and is included in the income statement.

c) Non-financial assets

Assets which are deemed to have an indefinite useful life are not amortised but are assessed annually for impairment.

XIII Derivative financial instruments

Derivatives are recognised at fair value on the date in which the contract was entered into and are subsequently carried at fair value. If the fair value is positive they are carried as assets, otherwise as liabilities. Movements in fair value are recognised in the income statement.

XIV Cash and cash equivalents

Cash comprises cash in hand, demand deposits with banks and bank overdrafts. Cash equivalents are highly liquid investments with original maturities of three months or less and which are subject to an insignificant risk of a change in value.

XV Share capital

Shares are treated as equity when the instruments incur no obligation on the Company to transfer cash or any other asset to the holder. Incremental costs directly attributable to the issue of equity instruments are deducted from equity. Incremental costs directly attributable to the issue of equity instruments used in whole or part as consideration for the acquisition of a business are included in the acquisition cost of that business.

XVI Borrowings

Borrowings are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method, with movements included in the income statement.

XVII Offsetting

Financial assets and liabilities are only offset when a legally enforceable right to offset exists and where there is either an intention to settle on a net basis or it is intended to realise the asset and settle the liability simultaneously.

XVIII Taxation

Taxation charged or credited in the income statement is based on profits determined in accordance with relevant taxation legislation, adjusted by movements in provisions relating to prior years. UK tax in respect of profits generated by non-UK subsidiaries is recognised in the income statement in the period for which the profits arise except where the Group is able to control the remittance of earnings and it is probable that no such remittance is expected in the foreseeable future, in which case UK tax is provided on dividends received.

Deferred tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and the values at which those assets and liabilities are carried in the Group financial statements. Deferred tax is calculated by reference to tax rates and tax legislation that is in force or has been substantially enacted at the balance sheet date and which is expected to apply when the deferred tax asset or liability crystallises.

Deferred tax assets are recognised only to the extent that it is expected that future taxable profits will become available against which the temporary differences can be utilised.

Accounting Policies continued

XIX Employee benefits

a) Pension obligations

Contributions to defined contribution schemes are charged to the income statement as they become payable under the rules for the particular scheme.

Staff engaged in the Group's activities, excluding staff of AXA Ireland, which has its own pension scheme, are members of the AXA UK Group Pension Scheme which embraces a number of companies in the AXA UK Group. This scheme has both defined benefit and defined contribution sections. However, there is no agreement between the participants in the scheme as to how the net defined benefit costs should be allocated between them. As allowed by IAS 19 the Group therefore treats its contributions to the defined benefit sections as if they were defined contribution arrangements.

For other defined benefit plans the Group recognises a liability being the present value of the defined benefit obligation less the fair value of plan assets at balance sheet date. The defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method. The discount rate used to determine the present value of the defined benefit obligation is referenced to the current yield of high quality corporate bonds of an appropriate currency and term to match the liabilities.

For defined benefit plans, other than the AXA UK Group Pension Scheme, the Group recognises the following charges or credits in the income statement:

- Current service cost
- Past service cost
- Interest cost
- Impact of any curtailments or settlements
- Expected return on scheme assets, where applicable

The current service cost represents the current value of additional benefits accrued to employees during the period. Past service costs can also arise where additional benefits are granted. These costs are recognised in the income statement on a straight line basis over the period remaining until such benefits vest. Past service costs which have already vested are recognised immediately.

The interest cost relates to the increase in the present value of the defined benefit obligation, which arises because the benefits are one period closer to settlement, and is calculated using the discount rate at the beginning of the year.

Where there are curtailments or settlements during the year the changes arising in the present value of defined benefit obligations and fair value of scheme assets are recorded in the income statement.

The expected return on the scheme assets is calculated using the average rate of return, at the beginning of the period, expected on the scheme's assets over the remaining life of the related obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised as a separate component of equity through the statement of income and expense.

b) Other post employment obligations

Post retirement healthcare benefits are provided to retired ex-employees by one Group subsidiary. The liability is valued annually by an independent qualified actuary and accounted for as a defined benefit plan.

c) *Termination benefits*

Termination benefits arise on termination of employment before the normal retirement date. The Group recognises the cost of providing these benefits when it is either contractually committed to their provision or they relate to the termination of employment of current employees in accordance with a formal plan from which the Group cannot realistically withdraw.

d) *Profit sharing and bonuses*

Employees benefit from profit sharing arrangements based on a formula which has regard to both personal performance and profitability of AXA group companies. The Group recognises a liability for the cost of profit sharing and bonuses when contractually obliged to do so.

XX Provisions

The Group recognises a provision when it has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle that obligation and the obligation can be reliably estimated.

XXI Leases

Leases are classified as operating leases where a significant proportion of the risks and rewards of ownership of the asset concerned are retained by the lessor. Payments made under operating leases, less any incentives received from the lessor, are charged to the income statement on a straight line basis over the lease term.

XXII Dividend distributions

Dividend distributions are recognised as a liability when they have been approved by the Company's shareholders. Interim dividends are recognised in the financial statements when paid.

XXIII Revenue recognition

Revenue comprises the fair value received for services rendered and is recognised as follows:

a) Services

The Group receives commission from other insurers where insurance is offered by the Group in support of its own policies but is underwritten elsewhere. Such commission is credited to the Income Statement when it becomes due.

b) Interest income

Interest income on assets not classified as fair value through profit and loss is recognised in the income statement using the effective interest method.

c) Interest charges made to Policyholders

Other operating income includes charges made to policyholders under the Consumer Credit Act where premiums are paid by instalments. The income is recognised in the Income Statement as it is earned.

d) Dividend income

Dividend income on available for sale assets is recognised when the right to receive payment is established.

Critical accounting estimates and judgements in applying accounting policies

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) The ultimate liability arising from claims made under non-life insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainly that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. Details of the measures adopted in measuring these liabilities are provided in accounting policies section VI c. on page 14.

b) Estimate of future cash flows arising from long-term insurance contracts

The Group underwrites lifetime care contracts with the determination of the liabilities under these contracts being dependent on estimates made by the Group. For non-profit business a discounted cash-flow method is employed using a multiple state model. This involves estimating the number of persons in each state (e.g. healthy, disabled or deceased) using transition rates derived from industry or the Company's experience data. For unit-linked business liabilities are determined from the value of assets held to provide linked benefits to policyholders. Additional liabilities from unit-linked contracts reflect an allowance for any excess of future costs over policy charges.

Mortality and Morbidity

For Lifetime Care Plans, the mortality and morbidity assumptions are based on internal tables, derived from the company's own experience. For Immediate Lifetime Care Plans the mortality assumptions are based on the IM80 / IF80 tables, but with adjustments for each individual case. Experience is monitored annually for the major products. Mortality and morbidity assumptions include margins for prudence. There are a number of uncertainties in relation to mortality and morbidity expenses. Mortality assumptions have an impact on liabilities because if actual mortality experienced is lighter than that assumed in determining liabilities, claims will need to be paid for longer than assumed. Therefore uncertainties in relation to future lifestyle changes such as eating, smoking and exercise habits and the degree to which medical care will continue to improve could have significant impacts on the ultimate cost of claims compared to that estimated. Likewise morbidity assumptions have an impact on liabilities as actual claim inception rates or recovery rates could be different from those expected. Similar uncertainties exist around morbidity assumptions as for mortality assumptions.

Expenses

The provision for future expenses in determining the liabilities for all types of business covers servicing fees payable by the Group to AXA Sun Life Services plc under the Management Services Agreement, fees payable to investment managers and further amounts in respect of other expenses. Assumptions are based on recent experience adjusted where necessary to allow for expected changes. Uncertainty arises in relation to future expense provisions as actual expenses could be different from those expected at the liability determination date.

Inflation and discount rates

The assumed inflation rates are determined by considering rates derived from market prices of index-linked securities, with the addition of a prudent margin and an allowance for the excess of future expense inflation over price inflation. Discount rates are determined having regard to the yields of assets backing the liabilities, subject to deductions to allow for credit risk and for prudent margins. Uncertainty exists in relation to these assumptions due to the possibility of changes in market and investment conditions.

Policy Reviews

The terms of certain policies allow for the periodic review of premium rates and levels of benefits. Changes to premium rates that are expected to arise as a result of future reviews are taken into account in

Critical accounting estimates and judgements in applying accounting policies continued

calculating the technical provision. In other cases, it is assumed that policyholders will continue to pay premiums in line with their policy conditions.

Management of risk

Financial risk management objectives and policies

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

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

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

Price and interest rate risk

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

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

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

The Group's non-profit liabilities are split between fixed and index-linked amounts. Investment strategy aims to ensure that even under the extreme investment conditions there are sufficient assets to back the liabilities and the value of assets remains closely aligned to the value of liabilities. This means that the term distribution of fixed interest assets is closely matched with the liabilities. For its unit-linked business the Group matches all the assets on which unit prices and therefore policyholder liabilities are based with assets in the portfolio. As such there is no direct price risk to the shareholder in respect of price fluctuations on these assets. There is a secondary shareholder exposure to price risk arising from the fact that management fees due are related to the market value of assets in the policyholder funds. Policyholder assets are invested according to the investment guidelines of the specific unit linked funds which are invested in.

		2005			2004	
Debt Securities	**1% to 4%**	**> 4%**	**Total**	**1% to 4%**	**> 4%**	**Total**
Debt Securities £m	828	3,517	**4,345**	906	2,518	**3,424**
Interest rate - Average	2.9%	5.0%	**4.8%**	2.8%	5.7%	**5.0%**

Management of risk continued

Equity analysis by industry	2005 £m	2005 %	2004 £m	2004 %
Financial institutions	233	29.5%	199	29.7%
Consumers	120	15.2%	103	15.4%
Energy	31	3.9%	25	3.7%
Manufacturing	120	15.2%	92	13.7%
Utilities	55	7.0%	31	4.6%
Basic Material	4	0.5%	4	0.6%
Technology	21	2.6%	19	2.8%
Others	206	26.1%	198	29.5%
Total	**790**	**100.0%**	**671**	**100.0%**

Debt securities analysis by industry	2005 £m	2005 %	2004 £m	2004 %
Financial institutions	1,417	32.6%	1,043	30.5%
Manufacturing/Pharmaceuticals	479	11.0%	231	6.7%
Utilities	171	4.0%	151	4.4%
Technology	453	10.4%	35	1.0%
Government securities	1,794	41.3%	1,962	57.3%
Others	31	0.7%	2	0.1%
Total	**4,345**	**100.0%**	**3,424**	**100.0%**

Individual Capital Assessment

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

Insurance and reinsurance risk

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

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these

Management of risk continued

categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

For long-term insurance business insurance risk refers to fluctuations in the timing and frequency of insured events relative to the expectations of the firm at the time of underwriting. In respect of lifetime care contracts insurance risk arises from variations in actual mortality and morbidity rates. Improvements in actual mortality rates over that expected would result in lifetime care claims being paid for longer than expected. Such a situation could arise if allowances for future mortality improvements included in current reserving assumptions underestimated the actual improvements arising as a result of lifestyle and medical care changes. Morbidity risk arises if claim inception rates are higher than expected or actual recoveries slower than expected. At present, these risks do not vary significantly in relation to the location of the risk insured by the Group. The Group manages insurance risk on its lifetime care business through its underwriting and reinsurance arrangements. Medical selection is included in the Group's underwriting procedures with premium varied to reflect health condition and family medical history of the applicants. The group reinsures the excess of the insured benefit over £3,000 per annum for regular premium lifetime care policies and over £1,500 for single premium Lifetime care policies.

Uncertainty in the estimation of future long-term benefit payments and premiums receipts arise from the unpredictability of long-term changes in overall levels or mortality and morbidity and the variability in contract holder behaviour. For Lifetime Care Plans, the mortality and morbidity assumptions are based on internal tables, derived from the company's own experience. For Immediate Lifetime Care Plans the mortality assumptions are based on the IM80 / IF80 tables, but with adjustments for each individual case. Experience is monitored annually for the major products. Mortality and morbidity assumptions include margins for prudence and allowances for future mortality improvements.

Currency Risk

The Group is exposed to currency risk in respect of portfolios denominated in other currencies, principally the US dollar. Mitigation of this risk is achieved by matching the liabilities with assets in the same currency. The euro investments shown in the tables below principally relate to financial assets held by the Group's subsidiary undertaking in Ireland.

	2005		2004	
Currency analysis of equity	**£m**	**%**	**£m**	**%**
USD	66	8.4%	55	8.2%
JYP	12	1.5%	8	1.2%
GBP	512	64.8%	449	66.9%
AUD	2	0.3%	2	0.3%
EURO	186	23.5%	149	22.2%
Others	12	1.5%	8	1.2%
Total	**790**	**100.0%**	**671**	**100.0%**

	2005		2004	
Currency analysis of debt securities	**£m**	**%**	**£m**	**%**
USD	163	3.8%	152	4.4%
GBP	3,251	74.8%	2,171	63.4%
EURO	910	20.9%	1,074	31.4%
Others	21	0.5%	27	0.8%
Total	**4,345**	**100.0%**	**3,424**	**100.0%**

Management of risk continued

Liquidity and cash flow risk

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

Liquidity risk could arise from illiquid asset holdings, inappropriate asset/liability matching or inexact forecast operating liquidity requirements resulting in insufficient short-term (including intra-day) and longer-term liquidity. Liquidity requirements are included within the investment guidelines for each portfolio. In addition, a robust working capital management environment is encouraged by ensuring there are appropriate loan and overdraft facilities, backed up by shorter-term, regular cash flow forecasting.

Analysis of maturity periods

2005	Less than 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
Financial assets						
Equities	-	-	-	-	790	**790**
Debt Securities	438	1,685	1,054	1,168	-	**4,345**
Loans	-	2	1	3	-	**6**
Deposit with credit institutions	135	-	-	-	-	**135**
Total financial assets	**573**	**1,687**	**1,055**	**1,171**	**790**	**5,276**

2005	Less than 1 year £m	Over 5 years £m	Total £m
Financial liabilities			
15 year subordinated loan repayable 2016	-	100	**100**
Perpetual subordinated loan	-	50	**50**
Unsecured bank loan	2	-	**2**
Listed unsecured 6 5/8% Company bonds repayable 2023	-	148	**148**
Total borrowings	**2**	**298**	**300**

2004	Less than 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
Financial assets						
Equities	-	-	-	-	671	**671**
Debt Securities	421	1,532	1,106	365	-	**3,424**
Loans	1	2	1	3	-	**7**
Deposit with credit institutions	296	-	-	-	-	**296**
Total financial assets	**718**	**1,534**	**1,107**	**368**	**671**	**4,398**

2004	Less than 1 year £m	Over 5 years £m	Total £m
Financial liabilities			
15 year subordinated loan repayable 2016	-	100	**100**
Perpetual subordinated loan	-	50	**50**
Unsecured bank loan	4	-	**4**
Listed unsecured 6 5/8% Company bonds repayable 2023	-	148	**148**
Total borrowings	**4**	**298**	**302**

Management of risk continued

Credit risk

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

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

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

- The due diligence checks over its choice of partners,
- Controls to ensure timely invoicing and receipt of monies owed,
- Structuring policies and contracts to mitigate risks and
- Ensuring loans and advances receive appropriate authorisation.

The Reinsurance Committee is responsible for consideration and agreement of reinsurance issues for AXA UK group companies. The Committee determines and approves the annual reinsurance strategy, with reference to insurance risk and risk appetite including:

- Reinsurance exposures and balances with external party reinsurers;
- Compliance with the credit policy applied to reinsurers;
- The credit exposure of the portfolio.

Credit profile of debt securities

	2005		2004	
Ratings	**£m**	**%**	**£m**	**%**
AAA	2,715	62.5%	2,326	67.9%
AA	472	10.8%	507	14.8%
A	924	21.3%	535	15.6%
BBB	233	5.4%	56	1.7%
< BBB	1	0.0%	-	0.0%
Total	**4,345**	**100.0%**	**3,424**	**100.0%**

The maximum exposure for the Group to credit risk is shown in the table below. The Group does not consider there to be credit risk with balances due from its ultimate parent company, its intermediate parent company and fellow subsidiary undertakings.

	2005 Maximum credit risk (carrying value) **£m**	**2004 Maximum credit risk** (carrying value) **£m**
Investment in financial assets	**5,276**	4,398
Reinsurers share of insurance contract liabilities	**371**	353
Insurance & reinsurance receivables	**904**	811
Other receivables	**226**	190
Cash & cash equivalents	**679**	1,146
	7,456	6,898

Notes on the Financial Statements

1 First time adoption on International Financial Reporting Standards

Reconciliation between IFRS and UKGAAP

The following tables provide details of the restatements made to the income statement and shareholders' funds on the transition to IFRS:

	£m
Profit for the year ended 31 December 2004 - UKGAAP	326
Adjusted for:	
Goodwill amortisation *(note a)*	14
Depreciation of properties *(note b)*	(1)
Investment return *(note c)*	6
Equalisation provisions *(note d)*	15
Derecognition *(note e)*	(3)
Profit for the year ended 31 December 2004 - IFRS	**357**

	31 Dec 2004 £m	1 Jan 2004 £m
Total equity and reserves - UKGAAP	3,085	2,870
Adjusted for:		
Goodwill write off and amortisation *(note a)*	35	21
Depreciation of properties *(note b)*	(11)	(10)
Investment return *(note c)*	(9)	(10)
Equalisation provisions *(note d)*	46	31
Derecognition *(note e)*	(3)	-
Total equity and reserves - IFRS	**3,143**	**2,902**

Explanations

a) Goodwill

Under UKGAAP goodwill was recorded at cost and amortised through profit and loss account on a straight line basis over a period appropriate to the business acquired. IFRS does not permit amortisation, rather goodwill is tested annually for impairment. The restatement to profit for the year includes £13m in respect of the reversal of the 2004 UKGAAP amortisation charge.

The 2003 UKGAAP balance sheet included a balance of £4m in respect of the present value of acquired business arising on the acquisition of the Group's life subsidiary. The Group considers that on an impaired basis this has no value. The restatement includes the write-off of the £4m in the opening balance sheet and write back of £1m movement in the year from the 2004 income statement.

The final element of the opening balance sheet restatement to equity and reserves relates to the reversal of net negative goodwill of £25m arising from the acquisition of a subsidiary undertaking, in accordance with IFRS 3 – Business combinations, which prohibits recognition of negative goodwill.

b) Depreciation of properties

Under UKGAAP both investment and Group occupied properties were valued at fair value. The Group has elected to adopt the depreciated cost approach for the accounting of properties in accordance with IAS 16 – Accounting for Property, Plant and Equipment and IAS 40 – Investment Property. The equity and reserves restatement relates to the cumulative depreciation charge as at the transition balance sheet and the movement during 2004. The restatement to profit reflects the depreciation for the year.

c) Investment return

Under UKGAAP the profit and loss account included a net investment return which comprised dividends from equities, accrued interest on fixed interest securities, net rental income from properties, accrued interest from cash deposits, and realised and unrealised gains and losses on investments.

Under IFRS the income statement includes investment income which comprises dividends from equities, accrued interest on fixed interest securities, net rental income from properties, accrued interest from cash deposits, and realised gains and losses on investments. The income from bonds is adjusted for amortisation whereby any premium or discount is amortised over the life on the security. The Group has elected to classify certain investments as available for sale with unrealised gains and losses passing through equity. The available for sale securities are tested annually for impairment and any allowances are passed through the income statement. The restatement reflects the reversal of unrealised gains and losses, release of prior year impairment allowances on disposal and amortisation charge on bonds.

d) Equalisation provisions

Under UKGAAP equalisation provisions are established to cover future exceptional levels of claims but do not represent liabilities at the balance sheet date. Under IFRS losses are only provided for when incurred. The restatement relates to the reversal of the provisions included in the UKGAAP balance sheet.

e) Derecognition

Under UKGAAP a £3m liability was derecognised. The stricter definition around recognising liabilities under IFRS compared with UKGAAP means this amount cannot now be de-recognised.

Notes on the Financial Statements continued

2 Segmental information

a) Business segments

The segment results for the year ended 31 December 2005 are as follows:

	Life & savings £m	Healthcare £m	Motor £m	Property £m	Liability £m	Other £m	Group £m
Insurance revenue							
Income from insurance contracts	44	764	599	725	381	462	2,975
Revenue ceded to reinsurers	(9)	(7)	(15)	(77)	(13)	(11)	(132)
Net insurance revenue	**35**	**757**	**584**	**648**	**368**	**451**	**2,843**
Underwriting result	(11)	36	20	61	(53)	(32)	21
Net investment result	28	12	64	34	72	227	437
Operating result	**17**	**48**	**84**	**95**	**19**	**195**	**458**
Finance costs							(20)
Profit on disposal of operations							6
Profit before tax							**444**
Income tax expense							(28)
Profit for the year attributable to equity holders of the Company							**416**

Other segment items included in the Income Statement:

	Life & savings £m	Healthcare £m	Motor £m	Property £m	Liability £m	Other £m	Group £m
Depreciation and amortisation expenses	-	-	2	5	3	10	20

Notes on the Financial Statements continued

The segment results for the year ended 31 December 2004 are as follows:

	Life & savings £m	Healthcare £m	Motor £m	Property £m	Liability £m	Other £m	Group £m
Insurance revenue							
Income from insurance contracts	48	718	702	783	349	431	3,031
Revenue ceded to reinsurers	(8)	(6)	(18)	(70)	(8)	(13)	(123)
Net insurance revenue	**40**	**712**	**684**	**713**	**341**	**418**	**2,908**
Underwriting result	(23)	37	45	90	(99)	(20)	30
Net investment result	22	12	79	29	66	192	400
Operating result	**(1)**	**49**	**124**	**119**	**(33)**	**172**	**430**
Finance costs							(20)
Profit on disposal of operations							12
Profit before tax							**422**
Income tax expense							(65)
Profit for the year attributable to equity holders of the Company							**357**
Other segment items included in the Income Statement:							
Depreciation and amortisation expenses	-	1	3	4	2	4	14

The segment assets and liabilities at 31 December 2005 and capital expenditure for the year then ended are as follows:

	Life & savings £m	Healthcare £m	Motor £m	Property £m	Liability £m	Other £m	Group £m
Reinsurance assets	133	5	62	64	50	57	371
Other assets	334	635	2,236	1,120	1,911	3,799	10,035
Total assets	**467**	**640**	**2,298**	**1,184**	**1,961**	**3,856**	**10,406**
Insurance liabilities	434	432	1,804	806	1,606	672	5,754
Other liabilities	33	117	199	202	11	503	1,065
Total liabilities	**467**	**549**	**2,003**	**1,008**	**1,617**	**1,175**	**6,819**
Capital expenditure	-	-	4	7	4	15	30

Notes on the Financial Statements continued

The segment assets and liabilities at 31 December 2004 and capital expenditure for the year then ended are as follows:

	Life & savings £m	Healthcare £m	Motor £m	Property £m	Liability £m	Other £m	Group £m
Reinsurance assets	122	3	68	32	53	75	353
Other assets	307	504	2,178	954	1,732	3,522	9,197
Total assets	**429**	**507**	**2,246**	**986**	**1,785**	**3,597**	**9,550**
Insurance liabilities	412	396	1,860	734	1,443	686	5,531
Other liabilities	17	28	76	77	34	644	876
Total liabilities	**429**	**424**	**1,936**	**811**	**1,477**	**1,330**	**6,407**
Capital expenditure	**-**	**6**	**4**	**4**	**2**	**8**	**24**

b) Geographical segments

The Group's business segments operate in these main geographical areas, although they are managed on a world-wide basis:

Income from insurance contracts	**2005 £m**	**2004 £m**
UK	**2,499**	2,535
Republic of Ireland	**344**	373
Other	**-**	-
Total income from insurance contracts	**2,843**	2,908

Total assets	**2005 £m**	**2004 £m**
UK	**9,144**	8,139
Republic of Ireland	**1,243**	1,399
Other	**19**	12
Total assets	**10,406**	9,550

Capital expenditure	**2005 £m**	**2004 £m**
UK	**23**	22
Republic of Ireland	**1**	2
Other	**6**	-
Total capital expenditure	**30**	24

Notes on the Financial Statements continued

3 Net premium revenue

	2005 £m	2004 £m
Long-term insurance contracts	**44**	48
Short-term insurance contracts		
- premium receivables	**2,964**	3,002
- change in unearned premium provision	**(33)**	(19)
Premium revenue arising from contracts issued	**2,975**	3,031
Long-term reinsurance contracts	**(9)**	(8)
Short-term reinsurance contracts		
- premium payables	**(125)**	(116)
- change in unearned premium provision	**2**	1
Premium revenue ceded to reinsurers on insurance contracts issued	**(132)**	(123)
Net premium revenue	**2,843**	2,908

4 Investment income

	2005 £m	2004 £m
Available-for-sale:		
- dividend income	**24**	21
- interest income	**177**	137
Dividend income from shares in fellow subsidiaries	**105**	105
Cash and cash equivalents interest income	**37**	54
	343	317
Fair value through income:		
- dividend income	**1**	1
- interest income	**11**	10
	12	11
Total investment income	**355**	328

5 Net realised gains/(losses) on available for sale financial assets

	2005 £m	2004 £m
Realised gains/(losses) on financial assets:		
- debt securities	**15**	(3)
- equities	**23**	9
Impairment of financial assets:		
- release	**26**	55
- allowance	**(5)**	(10)
Other realised losses	**-**	(2)
Total net realised gains on available for sale financial assets	**59**	49

Notes on the Financial Statements continued

6 Net fair value gains on assets at fair value through income

	2005 £m	2004 £m
Net fair value gains on financial assets at fair value through the profit or loss:		
- fair value gains	**16**	10
Total net fair value gains on assets at fair value through income	**16**	10

Total unrealised gains and losses on investments which arose in the period were £14m (2004: £8m).

7 Other operating income

	2005 £m	2004 £m
Other income from non-insurance business	**41**	50
Foreign exchange gains	**3**	11
Recharge of expenses to immediate parent company	**25**	-
Recharge of expenses to fellow subsidiary undertakings	**25**	-
Other operating income	**94**	61

8 Other operating expenses

	2005 £m	2004 £m
Other expenses from non-insurance business	**5**	11
Expenses incurred by Service Company	**50**	-
Other operating expenses	**55**	11

9 Policyholder claims and benefits

	2005 £m	2004 £m
Insurance claims and loss adjustment expenses:		
Gross claims paid	**1,728**	1,771
Gross changes in insurance contract liabilities for claims	**163**	191
Change in long-term insurance contract liabilities	**22**	18
	1,913	1,980
Insurance claims and loss adjustment expenses recoverable:		
Reinsurers share of claims paid	**(48)**	(73)
Reinsurers share of change in insurance contract liabilities for claims	**(9)**	32
Reinsurers share of change in long-term insurance contract liabilities	**(11)**	10
	(68)	(31)
Net policyholder claims and benefits	**1,845**	1,949

Notes on the Financial Statements continued

10 Other expenses by destination

	2005 £m	2004 £m
Amortisation of advanced commission payments *(Note 18)*	**(14)**	(6)
Amortisation of deferred acquisition costs *(Note 19)*	**(22)**	(43)
Costs incurred for the acquisition of insurance contracts expensed in the year	**786**	744
Attributable to reinsurers	**(5)**	(6)
Total expenses for the acquisition of insurance contracts	**745**	689

	2005 £m	2004 £m
Marketing and administrative expenses	**232**	255
Depreciation of property, plant and equipment	**9**	5
Amortisation of software development costs	**11**	9
Costs relating to properties not let	**7**	3
Total marketing and administrative expenses	**259**	272

The operating lease payments recognised as an expense during the year were £14m (2004: £17m).

During the year the Group obtained the following services from the Group's auditor and the costs incurred are as detailed below:

	2005 £000's	2004 £000's
Audit services:		
- Statutory audit	**1,269**	1,228
- Audit-related regulatory reporting	**76**	73
Tax services	**17**	18
Other	**-**	59
	1,362	1,378

11 Employee benefit expense

	2005 £m	2004 £m
Average number of employees in the year were:		
United Kingdom	**6,518**	6,059
Ireland	**906**	818
Asia	**1,844**	1,173
	9,268	8,050

	2005 £m	2004 £m
Wages and salaries	**226**	176
Social security costs	**22**	17
Pension costs - defined contribution plans	**6**	5
Pension costs - defined benefit plans	**35**	23
	289	221

During the year the Group's subsidiary company AXA Services Limited took on the processing and recharge of costs in relation to executive and IT staff and associated charges previously dealt with through AXA UK plc.

12 Finance costs

	2005 £m	2004 £m
Interest expense:		
- non-bank borrowings	**10**	10
- unsecured company bonds	**10**	10
Finance costs	**20**	20

13 Income tax expense

	2005 £m	2004 £m
Current tax	**49**	24
Deferred tax *(Note 35)*	**(21)**	41
Income tax expense	**28**	65

Tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

Notes on the Financial Statements continued

	2005 £m	2004 £m
Profit before tax	**444**	422
Tax at the UK rate of 30% (2004: 30%)	**133**	127
Effects of:		
- different tax rates on overseas earnings	**(22)**	(25)
- income not subject to tax	**(37)**	(34)
- unremitted overseas earnings	**30**	-
- adjustments to tax charge in respect of previous periods	**(49)**	(3)
- additional tax losses for which a deferred tax asset has been recognised	**(27)**	-
Tax charge for the period	**28**	65

As the Group has overseas subsidiaries it is subject to income taxes in different tax jurisdictions. Taxation for these is calculated at the rates prevailing in those jurisdictions.

14 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Profit attributable to the Company's equity holders (£m)	**416**	357
Weighted average number of ordinary shares in issue (thousands)	**1,059,786**	1,059,786
Basic earnings per share (pence per share)	**39.30**	33.70

Diluted

The Company has no dilutive potential ordinary shares and so diluted earnings per share does not differ from the basic earnings per share.

15 Dividends

	2005 £m	2004 £m
Interim paid	-	101
	-	101

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

Notes on the Financial Statements continued

16 Property, plant and equipment

	Land and buildings £m	Motor vehicles £m	Equipment £m	Total £m
Cost				
Balance as at 1 January 2005	49	2	19	70
Additions at cost	6	1	7	14
Disposals	(2)	(1)	(4)	(7)
Balance as at 31 December 2005	**53**	**2**	**22**	**77**
Accumulated depreciation				
Balance as at 1 January 2005	16	1	11	28
Charge for the year	5	-	4	9
Disposals	(8)	-	(4)	(12)
Balance as at 31 December 2005	**13**	**1**	**11**	**25**
Net book value as at 31 December 2005	**40**	**1**	**11**	**52**
Cost				
Balance as at 1 January 2004	49	4	21	74
Additions at cost	6	1	3	10
Disposals	(6)	(3)	(5)	(14)
Balance as at 31 December 2004	**49**	**2**	**19**	**70**
Accumulated depreciation				
Balance as at 1 January 2004	14	1	16	31
Charge for the year	2	-	3	5
Disposals	-	-	(8)	(8)
Balance as at 31 December 2004	**16**	**1**	**11**	**28**
Net book value as at 31 December 2004	**33**	**1**	**8**	**42**

Depreciation expense of £9m (2004: £5m) has been charged in marketing and administration expenses.

The expected useful economic lives of Land and Buildings, Motor Vehicles and Equipment are the period of the lease to a maximum of 50 years, 4 to 5 years and 8 years respectively.

17 Investment properties

	2005 £m	2004 £m
Balance as at 1 January		
Opening net book value	3	8
Disposals	(2)	(5)
Balance as at 31 December	1	3

18 Goodwill and intangible assets

	Goodwill £m	Software development £m	Other £m	Total £m
Balance as at 1 January 2005				
Cost	114	43	50	207
Accumulated amortisation	-	(18)	(9)	(27)
Net book value as at 1 January 2005	**114**	**25**	**41**	**180**
Additions	-	16	31	47
Write off	-	(6)	-	(6)
Amortisation charge	-	(11)	(14)	(25)
Net book value as at 31 December 2005	**114**	**24**	**58**	**196**
Balance as at 31 December 2005				
Cost	114	53	81	248
Accumulated amortisation	-	(29)	(23)	(52)
Net book value as at 31 December 2005	**114**	**24**	**58**	**196**
Balance as at 1 January 2004				
Cost	114	49	23	186
Accumulated amortisation	-	(23)	(3)	(26)
Net book value as at 1 January 2004	**114**	**26**	**20**	**160**
Additions	-	14	27	41
Disposal of joint venture with RAC *(Note 41)*	-	(6)	-	(6)
Amortisation charge	-	(9)	(6)	(15)
Net book value as at 31 December 2004	**114**	**25**	**41**	**180**
Balance as at 31 December 2004				
Cost	114	43	50	207
Accumulated amortisation	-	(18)	(9)	(27)
Net book value as at 31 December 2004	**114**	**25**	**41**	**180**

Goodwill all relates to the acquisition of the PPP healthcare group and, based on future profit forecasts approved by management, the carrying value is fully recoverable and no impairment is necessary.

Software is all internally developed.

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

19 Deferred acquisition costs

	2005 £m	2004 £m
Deferred acquisition costs as at 1 January	**306**	263
Acquisitions costs deferred during the year	**379**	349
Amortisation charged during the year	**(357)**	(306)
Charge to income statement in the year	**22**	43
Exchange and other movements	**(6)**	-
Deferred acquisition costs as at 31 December	322	306

Notes on the Financial Statements continued

20 Investments in subsidiaries

	Country of incorporation	Holdings of ordinary shares	
Insurance Companies			
AXA Insurance plc	England	100%	(Parent)
AXA Insurance UK plc	England	100%	
The Royal Exchange Assurance	England	100%	
AXA General Insurance Limited	England	100%	
AXA PPP healthcare limited	England	100%	
PPP lifetime care plc	England	100%	
AXA Insurance Limited	Ireland	100%	
Other Companies			
Denplan Limited	England	100%	
AXA Services Limited	England	100%	(Parent)
AXA PPP healthcare group plc	England	100%	(Parent)
AXA PPP healthcare Administration Services Limited	England	100%	
AXA Holdings Ireland Limited	Ireland	100%	
AXA Ireland Limited	Ireland	100%	
Guardian Royal Exchange International (Holdings) BV	Netherlands	100%	

Notes:

1 The country of principal operation for each of the above companies is the country of incorporation, with the exception of Guardian Royal Exchange International (Holdings) B.V. where the company transacts UK-based financing and investment activities.

2 All holdings of ordinary shares are held by a subsidiary unless stated parent as above.

3 On 19 December 2005, AXA Insurance plc agreed to transfer its subsidiary undertaking, PPP lifetime care plc, to a fellow subsidiary, AXA Sun Life plc, following the transfer of its business by way of a Court scheme under Part VII of the Financial Services and Markets Act 2000 for £nil consideration. The final Court hearing is scheduled for July 2006 and if approval is given the scheme is expected to be implemented before 1 July 2007. The carrying value of PPP lifetime care plc is £106m and the transfer, if approval for the scheme is given, will result in a loss to the Group of this amount. No impairment has been made to the balance sheet value as the assets are unable to be impaired below fair value.

21 Investments in fellow subsidiary undertaking and associate

	2005 £m	2004 £m
Balance as at 31 December	**10**	10

Investments in associates at 31 December 2005 include goodwill of £10m (2004: £10m).

Notes on the Financial Statements continued

The Group's interest in ordinary shares of its principal associate, which is unlisted, is as follows:

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit/ (loss)	%interest held
		£m	£m	£m	£m	
Layton Blackham Holdings Limited (previously Earlyweigh Limited)	UK	21	21	24	1	39%

The country shown is that of incorporation and principal operation.

Layton Blackham Holdings Limited is the holding company of Layton Blackham Insurance Brokers.

	2005 £m	2004 £m
Investment in fellow subsidiary undertaking	-	1,674

On 23 December 2005, a fellow subsidiary undertaking, AXA-GRE Europe Investments Limited redeemed 995,661,000 6% preference shares held by AXA Insurance plc and 686,188,000 6% preference shares held by Guardian Royal Exchange International (Holdings) B.V. The proceeds were loaned to the immediate parent company, AXA UK plc.

22 Investment in financial assets

The Group's financial assets are summarised by measurement category in the table below:

	2005 £m	2004 £m
Available-for-sale	**4,827**	3,812
Fair value through income	**308**	283
Loans	**6**	7
Deposits with credit institutions	**135**	296
Total financial assets	**5,276**	4,398

Available-for-sale financial assets	2005 £m	2004 £m
Equity securities:		
- listed	**756**	635
- unlisted	**15**	19
Debt securities:		
- listed	**3,969**	3,158
- unlisted	**87**	-
Total available-for-sale financial assets	**4,827**	3,812

Financial assets at fair value through the profit or loss	2005 £m	2004 £m
Equity securities:		
- listed	19	17
Debt securities:		
- listed	289	266
Total financial assets at fair value through income	308	283

23 Reinsurers' share of insurance contract liabilities

	2005 £m	2004 £m
Reinsurers' share of provision for long-term insurance contract liabilities	133	122
Reinsurers' share of provision for claims outstanding and loss adjustment expenses	217	211
	350	333
Reinsurers' share of provision for unearned premiums	21	20
Reinsurers' share of insurance contract liabilities	371	353
Settlement period for reinsurers' share of claims outstanding and long-term insurance contract liabilities		
Less than 12 months	25	21
Greater than 12 months	325	312
	350	333

Reinsurers' share of provision for long-term insurance contract liabilities

	2005 £m	2004 £m
Balance as at 1 January	122	132
Reinsurers' share of claims payments made in year	(5)	(5)
Increase/(decrease) in recoverables	16	(5)
Balance as at 31 December	133	122

Reinsurers' share of provision for claims outstanding and loss adjustment expenses

	2005 £m	2004 £m
Balance as at 1 January	211	245
Reinsurers' share of claims payments made in year	(43)	(68)
Increase in recoverables	52	36
Exchange and other movements	(3)	(2)
Balance as at 31 December	217	211

Notes on the Financial Statements continued

Reinsurers' share of provision for unearned premiums

	2005 £m	2004 £m
Balance as at 1 January	**20**	19
Premiums written in the year	**134**	124
Premiums earned in the year	**(132)**	(123)
Exchange and other movements	**(1)**	-
Balance as at 31 December	**21**	20

24 Insurance and reinsurance receivables

	2005 £m	2004 £m
Direct insurance receivables	**862**	729
Reinsurance receivables	**42**	82
Total insurance and reinsurance receivables	**904**	811

All amounts are due within one year of the balance sheet date.

25 Other receivables

	2005 £m	2004 £m
Accrued interest	**70**	69
Prepayments and accrued income	**21**	8
Amounts due from ultimate parent company	**12**	12
Loans due from intermediate parent company	**2,207**	137
Other amounts due from intermediate parent company	**45**	-
Amounts due from fellow subsidiary undertakings	**25**	211
Other receivables	**135**	113
Total other receivables	**2,515**	550

All amounts are due within one year of the balance sheet date.

26 Cash and cash equivalents

	2005 £m	2004 £m
Cash at bank and in hand	**48**	46
Short-term bank deposits	**631**	1,100
Cash and cash equivalents	**679**	1,146

The effective interest rate on short-term bank deposits, which have an average maturity of 23 days (2004: 24 days), was 4.4% (2004: 4.7%).

Notes on the Financial Statements continued

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	2005 £m	2004 £m
Cash and cash equivalents	679	1,146
Bank overdrafts	(2)	(4)
	677	1,142

27 Share capital

	2005		2004	
	Shares	£m	Shares	£m
Authorised				
Ordinary shares of £5.25p each	**1,142,859,044**	**60**	1,142,859,044	60
Non-cumulative redeemable preference shares of 20.5p each	**931,707,318**	**191**	931,707,318	191
		251		251
Issued & fully paid				
At 31 December	**1,059,785,981**	**56**	1,059,785,981	56

Share premium account

	2005 £m	2004 £m
Balance as at 31 December	**523**	523

28 Reconciliation of movements in equity

2005	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Balance as at 1 January	56	523	432	2,132	3,143
Profit for the year	-	-	-	416	416
Actuarial losses on defined benefit schemes	-	-	-	(33)	(33)
Fair value gains on available-for-sale financial assets	-	-	90	-	90
Tax on movements taken directly to equity	-	-	(25)	5	(20)
Exchange on revaluation of subsidiary net assets	-	-	(9)	-	(9)
Balance as at 31 December	**56**	**523**	**488**	**2,520**	**3,587**

Notes on the Financial Statements continued

2004	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Balance as at 1 January	56	523	434	1,889	2,902
Profit for the year	-	-	-	357	357
Actuarial losses on defined benefit schemes	-	-	-	(16)	(16)
Fair value losses on available-for-sale financial assets	-	-	(10)	-	(10)
Tax on movements taken directly to equity	-	-	5	3	8
Exchange on revaluation of subsidiary net assets	-	-	3	-	3
Dividends paid	-	-		(101)	(101)
Balance as at 31 December	**56**	**523**	**432**	**2,132**	**3,143**

29 Other Reserves

2005	Capital reserve £m	Capital redemption reserve £m	Capital contribution reserve £m	Revaluation reserve £m	Translation reserve £m	Total £m
Balance as at 1 January	104	189	46	90	3	432
Fair value gains on available-for-sale financial assets	-	-	-	90	-	90
Tax on movements taken directly to equity	-	-	-	(25)	-	(25)
Exchange on revaluation of subsidiary net assets	-	-	-	-	(9)	(9)
Balance as at 31 December	**104**	**189**	**46**	**155**	**(6)**	**488**

2004	Capital reserve £m	Capital redemption reserve £m	Capital contribution reserve £m	Revaluation reserve £m	Translation reserve £m	Total £m
Balance as at 1 January	104	189	46	95	-	434
Fair value losses on available-for-sale financial assets	-	-	-	(10)	-	(10)
Tax on movements taken directly to equity	-	-	-	5	-	5
Exchange on revaluation of subsidiary net assets	-	-	-	-	3	3
Balance as at 31 December	**104**	**189**	**46**	**90**	**3**	**432**

30 Insurance contract liabilities

	2005 £m	2004 £m
Provision for long-term insurance contract liabilities	**434**	412
Provision for claims outstanding and loss adjustment expenses	**3,924**	3,750
Provision for unearned premiums	**1,396**	1,369
Total insurance contract liabilities	**5,754**	5,531
Settlement period for claims outstanding		
Less than 12 months	**855**	874
Greater than 12 months	**3,069**	2,876
	3,924	3,750

Provision for long-term insurance contract liabilities

	2005 £m	2004 £m
Balance as at 1 January	**412**	394
Total claims payments made in the year	**(35)**	(33)
Increase in liabilities	**57**	51
Balance as at 31 December	**434**	412

Provision for claims outstanding and loss adjustment expenses

	2005 £m	2004 £m
Balance as at 1 January	**3,750**	3,580
Total claims payments made in the year	**(1,693)**	(1,738)
Increase in liabilities	**1,856**	1,929
Exchange and other movements	**11**	(21)
Balance as at 31 December	**3,924**	3,750

Provision for unearned premiums

	2005 £m	2004 £m
Balance as at 1 January	**1,369**	1,350
Premiums written in the year	**3,008**	3,050
Premiums earned in the year	**(2,975)**	(3,031)
Exchange and other movements	**(6)**	-
Balance as at 31 December	**1,396**	1,369

Notes on the Financial Statements continued

General insurance contracts – assumptions, change in assumptions and sensitivity

a) Process used to decide on assumptions

The risks associated with insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis.

The Group uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The two methods most commonly used are the chain-ladder and the average cost per claim methods.

Chain-ladder methods may be applied to paid claims or incurred claims (i.e., paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

Chain-ladder techniques are most appropriate for mature classes of business that have a relatively stable development pattern. The average cost per claim method applies an estimated average cost to the final number of claims expected to be notified in each cohort e.g., accident year. The final number of claims is usually derived using chain-ladder techniques but in the case of industrial disease claims is more usually derived by fitting a statistical curve to observed claim notifications. The average cost per claim is that anticipated when all notified and IBNR claims have been settled and is based on observed historical trends in notified claims and future anticipated claims inflation.

The average cost per claim technique can be used when a class of business does not have a relatively stable claims development pattern over time. The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combination of techniques have been selected for individual accident years or groups of accident years within the same class of business.

b) Change in assumptions

No significant changes to assumptions were made in 2005 for the estimation of General Insurance claims.

c) Sensitivity analysis – claims development tables

In addition to scenario testing, the development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Group's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet. An accident-year basis is considered to be most appropriate for the business written by the Group.

Accident year - Gross	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	Total £m
Estimate of ultimate claims costs:						
- at end of accident year	1,913	1,902	1,852	1,900	1,810	
- one year later	1,853	1,850	1,836	1,861	-	
- two years later	1,895	1,866	1,829	-	-	
- three years later	1,881	1,853	-	-	-	
- four years later	1,880	-	-	-	-	
Current estimate of cumulative claims	1,880	1,853	1,829	1,861	1,810	9,233
Cumulative payments to date	1,616	1,465	1,280	1,184	858	6,403
Liability recognised in the balance sheet	264	388	549	677	952	2,830
Liability in respect of prior years						1,013
Loss adjustment expenses						81
Total liability included in the balance sheet						**3,924**

Accident year - Net	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	Total £m
Estimate of ultimate claims costs:						
- at end of accident year	1,879	1,875	1,818	1,872	1,754	
- one year later	1,814	1,819	1,802	1,830	-	
- two years later	1,862	1,831	1,799	-	-	
- three years later	1,849	1,821	-	-	-	
- four years later	1,845	-	-	-	-	
Current estimate of cumulative claims	1,845	1,821	1,799	1,830	1,754	9,049
Cumulative payments to date	1,596	1,451	1,261	1,179	852	6,339
Liability recognised in the balance sheet	249	370	538	651	902	2,710
Liability in respect of prior years						916
Loss adjustment expenses						81
Liability net of reinsurance included in the balance sheet						**3,707**

a) Process used to decide on assumptions

The following main economic assumptions have been made:

	2005 %	2004 %
Inflation rates:		
Expenses	**4.0**	3.5
Benefits	**3.0**	2.5
Discount rates:		
Regular Premium Lifetime Care Plans (non-linked)	**3.45**	3.80
Single Premium Lifetime Care Plans (non-linked)	**4.15**	4.60
Regular Premium Lifetime Care Plans (index-linked)	**0.95**	1.50
Single Premium Lifetime Care Plans (index-linked)	**1.00**	1.20
Immediate Lifetime Care Plans (non-linked)	**4.00**	4.30
Immediate Lifetime Care Plans (index-linked)	**1.90**	1.75

The assumed inflation rates are determined by considering rates derived from market prices of index-linked securities, with the addition of a prudent margin and an allowance for the excess of future expense inflation over price inflation. Discount rates are determined having regard to the yields of assets backing the liabilities, subject to deductions to allow for credit risk and for prudent margins.

For Lifetime Care Plans, the mortality and morbidity assumptions are based on internal tables, derived from the company's own experience. For Immediate Lifetime Care Plans the mortality assumptions are based on the IM80 / IF80 tables, but with adjustments for each individual case. Experience is monitored annually for the major products. Mortality and morbidity assumptions include margins for prudence.

The provision for future expenses in determining the liabilities for all types of business covers servicing fees payable by the Company to AXA Sun Life Services plc under the Management Services Agreement, fees payable to investment managers and further amounts in respect of other expenses. Assumptions are based on recent experience adjusted where necessary to allow for expected changes.

No allowance has been made for voluntary discontinuance.

The terms of certain policies allow for the periodic review of premium rates and levels of benefits. Changes to premium rates that are expected to arise as a result of future reviews are taken into account in calculating the technical provision. In other cases, it is assumed that policyholders will continue to pay premiums in line with their policy conditions.

b) Change in assumptions

Changes have been made to the mortality, morbidity and premium review assumptions relating to Lifetime Care Plans following a review of experience in 2005. This resulted in a decrease of approximately £13m in liabilities, net of reinsurance, due to a reduction in assumed sickness rates which was partially offset by a reduction in assumed mortality rates.

There was also a review of allowances for future mortality improvement and the current level of prudence in the valuation margins. Generally these assumptions were strengthened, resulting in an increase in liabilities, net of reinsurance, of approximately £29m.

c) Sensitivity

The following tables present the sensitivity of the value of insurance liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance liabilities. The table below indicates the liability adjustment required as a result of the stated change in the variable.

Notes on the Financial Statements continued

Variable	Change in variable	Change in net liability 2005 £m
Assurance Mortality/Morbidity	Immediate Care Plans assumed increase in best estimate of life expectancy (~30%). Long-term Care Plans assumed claims inception rates increase by 20%, healthy mortality rates reduce by 20% & claim termination rates reduce by 30%.	**97**
Corporate spreads	Widening of corporate bond spreads of 7bps (AAA Approved), 33bps (AAA Unapproved), 82bps (AA), 107 bps (A) and nil for Credit Risk Security Exempt Organisations	**4**
Expenses	Increasing by 10% with an extra increase in year 1 of only £2m. Expense inflation increasing from a base assumption of 2.5% pa, to 10% in year 1 and 4.5% thereafter.	**27**
Reinsurance Default	Transition rates between credit rating of reinsurers increasing by 10%	**5**

2005 provision reconciliation

	2005		
	Gross £m	**Reins £m**	**Net £m**
Balance as at 1 January	412	(122)	290
Effect of new business in year	24	-	24
Effect of policy terminations in year	(41)	10	(31)
Change in valuation basis due to investment conditions	9	(4)	5
Change in valuation basis due to other factors			
LTC-Mortality and sickness rates experience review	(10)	8	(2)
LTC-Premium review	(22)	11	(11)
LTC-Review of prudence margins and addition of future mortality improvements	61	(32)	29
LTC-New reinsurance arrangements	-	(4)	(4)
ICP-Experience review and review prudence margins	1	-	1
Balance as at 31 December	**434**	**(133)**	**301**

31 Insurance and reinsurance liabilities

	2005 £m	2004 £m
Direct insurance liabilities	**187**	128
Reinsurance liabilities	**30**	22
Total insurance and reinsurance liabilities	**217**	150

All amounts are payable within one year of the balance sheet date.

32 Borrowings

	2005 £m	2004 £m
Loans from immediate parent company		
15 year subordinated loan repayable 2016	**100**	100
Perpetual subordinated loan	**50**	50
Subordinated loans	**150**	150
Unsecured bank loans	**2**	4
Listed unsecured 6 5/8% Company bonds repayable 2023	**148**	148
Total Borrowings	**300**	302
Available less than one year	**2**	4
Available more than one year	**298**	298

The subordinated loans bear interest at rates of six months deposit London Inter-Bank Offer Rate plus a margin ranging from 170 to 220 basis points. They are redeemable on demand by the lender, provided the lender has given not less than five years' notice in writing to the borrower.

On 19 December 2005, the notice period terms in the agreements were changed to those detailed above.

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying value		Fair value	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Subordinated loans	**150**	150	**150**	150
Short-term borrowings	**2**	4	**2**	4
Debentures and other loans	**148**	148	**185**	168
	300	302	**337**	322

The carrying amounts of subordinated loans and short-term borrowings approximate their fair value.

33 Provisions for other liabilities and charges

	MIB provision £m	Vacant space provision £m	FSCS provision £m	Other provisions £m	Total £m
Balance as at 1 January 2005	23	41	6	28	98
Charged to income statement	19	5	-	8	32
Released during the year	(2)	-	(3)	-	(5)
Utilised during year	(13)	(1)	(3)	(18)	(35)
Balance as at 31 December 2005	**27**	**45**	**-**	**18**	**90**

	2005 £m	2004 £m
To be settled within 12 months	**43**	48
To be settled after 12 months	**47**	50
	90	98

a) MIB provision
The MIB provision relates to the levy payable in respect of 2005 premiums. The levy is assessed retrospectively based on prior year motor premiums.

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

c) FSCS provision
The Financial Services Compensation Scheme ("FSCS") announced in a press release on 26 January 2005 its intention to call a levy based on 2004 premiums. The amount of the General Insurance Contribution Group is a prospective levy of £95m compared with their actual levy in 2003 of £135m. Based on similar assumptions to the actual 2004 levy, the Group's share was estimated to be £6m, which was included as a provision as at 31 December 2004.

Subsequently, on 8 April and 26 May the FSCS reduced significantly their expected levy on the A3 group to reflect a reduction in expected compensation payments for general insurance claims and confirmation of a significant recovery from the estate of an insolvent insurer. This resulted in a final invoice of £3m which was paid in August. The balance of the overprovision of £3m was released.

On 19 January 2006, the FSCS announced its intention to refund a surplus (due to further improvements in recoveries and compensation claims) to the A3 group roughly equivalent to the levy paid in 2005. They also announced that there would be no levy based on 2005 premiums. Accordingly, a credit of £3m has been booked to these financial statements; the amount was received on 1 March 2006.

d) Other provisions
Other includes provisions for liabilities arising from the reorganisation of the business and costs related to general insurance operations.

34 Other liabilities

	2005 £m	2004 £m
Accruals and deferred income	**156**	77
Amounts due to immediate parent company	**26**	7
Amounts due to fellow subsidiary undertakings	**-**	6
Social security and other tax payments	**18**	15
Other liabilities	**118**	118
Total other liabilities	**318**	223

Estimated fair values are the amounts recorded at year end.

All amounts are payable within one year of the balance sheet date.

35 Deferred income tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Notes on the Financial Statements continued

	2005 £m	2004 £m
Balance as at 1 January	**77**	110
Income statement credit/(charge) *(Note 13)*	**21**	(41)
Tax (charge)credit to equity *(Note 28)*	**(20)**	8
Exchange differences	**2**	-
Balance as at 31 December	**80**	77

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

a) Deferred tax assets

	Retirement obligations £m	Tax losses carried forward £m	Other short term timing differences £m	Total £m
Balance as at 1 January 2005	13	124	12	149
Income statement (charge)/credit *(Note 13)*	(4)	26	(12)	10
Retained earnings	5	-	-	5
Balance as at 31 December 2005	**14**	**150**	**-**	**164**

The Group is carrying forward tax losses in a number of Group companies that will be recovered over the next five years as expected taxable profits emerge.

b) Deferred tax liabilities

	Unrealised appreciation of investments £m	Equalisation reserve £m	Other short-term timing differences £m	Total £m
Balance as at 1 January 2005	51	20	1	72
Income statement (credit)/charge *(Note 13)*	(38)	6	21	(11)
Revaluation reserve	25	-	-	25
Exchange difference	-	-	(2)	(2)
Balance as at 31 December 2005	**38**	**26**	**20**	**84**

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 31 December 2005 was £80m (2004: £77m).

The deferred income tax charged or credited to equity during the year gross of transfers to retained earnings is as follows:

	2005 £m	2004 £m
Retained earnings:		
- retirement obligations	**(5)**	(3)
Revaluation reserve:		
- financial assets	**25**	(5)
	20	(8)

Deferred tax assets are recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, unless it is expected that the earnings will be remitted in the foreseeable future. £30m has been provided against the unremitted earnings of the Group's overseas subsidiaries. As the remaining earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

36 Retirement benefit obligations

AXA UK Pension Scheme

Staff engaged in the Group's activities, excluding employees of AXA Ireland which has its own pension scheme, 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 Group is unable accurately to identify its share of the underlying assets and liabilities of the defined benefit section. Accordingly, the Group has accounted for its contribution to the defined benefit section as if it were a defined contribution arrangement

An independent actuarial review by Watson Wyatt of the defined benefit scheme revealed a deficit of £582m as at 31 December 2005 (£510m as at 31 December 2004) before taking account of any tax relief. This represents a snapshot of the present cost of meeting pension obligations that will crystallise over a period of many years. The scheme invests in a wide range of assets, including equities, which over the long term, are expected by the Directors to produce higher returns than those underlying the assessment of the deficit as at 31 December 2005. Although the scheme is being accounted for as a defined contributions scheme, the following disclosures are required to be shown in respect of the scheme:

The principal assumptions made by the actuaries were:

	2005 **£m**	**2004** **£m**
Discount rate	**4.7%**	5.3%
Expected return on plan assets	**6.8%**	6.7%
Future salary increases	**4.2%**	4.2%
Future pension increases	**2.7%**	2.7%
Inflation assumption	**2.7%**	2.7%

Changes in the present value of the defined benefit obligation are as follows:

	2005 **£m**	**2004** **£m**
Present value of obligation, as at 1 January	**2,552**	2,274
Service cost	**38**	31
Interest cost	**134**	122
Actuarial losses	**329**	218
Benefits paid	**(106)**	(93)
Present value of obligation, as at 31 December	2,947	2,552

Notes on the Financial Statements continued

Changes in the fair value of plan assets are as follows:

	2005 £m	2004 £m
Fair value of plan assets, as at 1 January	**2,042**	1,899
Expected return on plan assets	**137**	125
Employer contributions	**45**	40
Employee contributions	**5**	4
Benefits paid	**(106)**	(93)
Actuarial gains	**242**	67
Fair value of plan assets as at 31 December	**2,365**	2,042

Analysis of assets by category

	2005 £m	2004 £m
Equities	**1,553**	1,289
Debt securities	**700**	658
Property	**109**	84
Cash	**3**	11
Fair value of plan assets as at 31 December	**2,365**	2,042

Other Pension Schemes

The Group operates the AXA Unapproved Top-up Scheme which is a defined benefit scheme. The scheme is an unfunded arrangement and therefore no Company contributions were paid during the accounting period or are to be paid in the future. However, the Company has paid the current pensions in payment over the year of £3m. The AXA Unapproved Top-up Scheme has been closed to new members since 1999.

A subsidiary of the Group offers certain healthcare benefits, on a non-contributory basis, to substantially all employees who were employed prior to June 1999, upon retirement. The expected costs of this benefit have been assessed in accordance with the advice of an independent qualified actuary as at 31 December 2005.

Full details of the AXA Unapproved Top-up and healthcare benefit schemes can be seen in the tables below.

The Group's subsidiary in Ireland operates a defined benefit scheme. A full valuation was carried out at 30 April 2005. Full details of the scheme are contained in the tables below.

The principal assumptions made by the actuaries were:

	2005			2004		
	UK			UK		
	Top up scheme	Healthcare scheme	Ireland	Top up scheme	Healthcare scheme	Ireland
Discount rate	**4.7%**	**4.7%**	**4.2%**	5.3%	5.3%	4.9%
Expected return on plan assets	**-**	**-**	**5.8%**	-	-	5.9%
Future salary increases	**4.2%**	**-**	**4.0%**	4.2%	-	4.0%
Future pension increases	**2.7%**	**-**	**2.0%**	2.7%	-	2.0%
Inflation assumption	**2.7%**	**8.0%**	**2.0%**	2.7%	8.0%	2.0%

Notes on the Financial Statements continued

Mortality tables - UK schemes

Pensioners and dependants - PMA92 (C=2010) for men and PFA92 (C=2010) for women.

For active and deferred members - PMA92 (C=2020) for men and PFA92 (C=2020).

These mortality tables were used for both 2005 and 2004.

Mortality tables – Ireland scheme

For the 2005 valuation the following tables were used:

Pensioners and dependants – 90% of PMA92 (C=2010) and 90% of PFA92 (C=2010) for women.

For active and deferred members - 90% of PMA92 (C=2025) and 90% of PFA92 (C=2025) for women.

In 2004 the following assumptions were used for all members:

PMA92 (C=2010) for men and PFA92 (C=2010) for women.

Expected return on plan assets

There are no assets in the AXA Unapproved Top-up and healthcare schemes.

The expected return on plan assets for the pension scheme in Ireland is based on market expectation at the beginning of the period and derived by taking the weighted average of the long-term expected return for each class of investment held by the fund. The expected individual rates of return were 7.5% (equities), 3.5% (debt securities), 6.0% (property) and 3.0% (cash). The corresponding 2004 expected returns were 7.3% (equities), 3.8% (debt securities), 5.3% (property) and 3.0% (cash).

Pensions and other post-retirement obligations

	UK				
	Top up scheme 2005 £m	Healthcare scheme 2005 £m	Ireland 2005 £m	Total 2005 £m	2004 £m
Present value of funded obligations	28	14	231	**273**	210
Fair value of plan assets:	-	-	(175)	**(175)**	(143)
Equities	-	-	(101)	**(101)**	(85)
Debt securities	-	-	(61)	**(61)**	(44)
Property	-	-	(3)	**(3)**	(3)
Cash	-	-	(10)	**(10)**	(11)
Net liability in the balance sheet	**28**	**14**	**56**	**98**	**67**

Notes on the Financial Statements continued

The amounts recognised in the income statement are as follows:

	UK Top up scheme 2005 £m	UK Healthcare scheme 2005 £m	Ireland 2005 £m	Total 2005 £m	2004 £m
Current service cost	-	-	5	**5**	5
Interest cost	1	1	8	**10**	10
Expected return on plan assets	-	-	(8)	**(8)**	(8)
Past service cost	-	-	4	**4**	-
Total included with employee benefit expenses	1	1	9	11	7

The amounts recognised in equity is as follows:

	UK Top up scheme 2005 £m	UK Healthcare scheme 2005 £m	Ireland 2005 £m	Total 2005 £m	2004 £m
Actual return on assets	-	-	29	**29**	14
less expected return on scheme assets	-	-	(8)	**(8)**	(8)
Actual return on assets in excess of expected	-	-	21	**21**	6
Experience (losses)/gains on liabilities	(1)	1	(10)	**(10)**	(5)
Change in actuarial assumptions	(2)	(2)	(40)	**(44)**	(17)
Actuarial losses on pension benefits	(3)	(1)	(29)	(33)	(16)

Changes in the present value of the defined benefit obligation are as follows:

	UK Top up scheme 2005 £m	UK Healthcare scheme 2005 £m	Ireland 2005 £m	Total 2005 £m	2004 £m
Present value of obligation, as at 1 January	26	13	171	**210**	180
Exchange	-	-	(4)	**(4)**	-
Service cost	-	-	5	**5**	5
Interest cost	1	1	8	**10**	10
Past service cost	-	-	4	**4**	-
Actuarial losses	3	1	50	**54**	22
Benefits paid	(2)	(1)	(3)	**(6)**	(7)
Present value of obligation, as at 31 December	28	14	231	273	210

The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend on the following is set out below:

Notes on the Financial Statements continued

	1 % increase		1 % decrease	
	2005	2004	2005	2004
	£m	£m	£m	£m
Current service cost and interest cost of net periodic post employment medical costs	**0.2**	0.1	**0.1**	0.1
Present value of obligation for post employment medical costs	**2.6**	2.2	**2.0**	1.8

Changes in the fair value of plan assets are as follows:

	UK				
	Top up scheme	Healthcare scheme	Ireland	Total	
	2005	2005	2005	2005	2004
	£m	£m	£m	£m	£m
Fair value of plan assets, as at 1 January	-	-	143	**143**	123
Exchange	-	-	(3)	**(3)**	-
Expected return on plan assets	-	-	8	**8**	8
Employer contributions	-	-	9	**9**	10
Benefits paid	-	-	(3)	**(3)**	(4)
Actuarial gains	-	-	21	**21**	6
Fair value of plan assets as at 31 December	**-**	**-**	**175**	**175**	**143**

History of experience gains and losses

	UK					
	Top up scheme		Healthcare scheme		Ireland	
	2005	2004	2005	2004	2005	2004
Difference between expected and actual return on scheme assets:						
- amount - gain £m	**-**	-	**-**	-	**21**	6
- percentage of scheme assets	**-**	-	**-**	-	**11.9%**	3.9%
Experience gains and losses on obligations:						
- amount - gain/(loss) £m	**(1)**	-	**1**	-	**(10)**	(5)
- percentage of the present value of the obligations	**(1.5)%**	-	**6.1%**	-	**(4.3)%**	(2.9)%
Total amount recognised outside income statement:						
- amount - loss £m	**(3)**	(1)	**(1)**	(4)	**(29)**	(11)
- percentage of the present value of the obligations	**(9.8)%**	(4.2)%	**(8.9)%**	(23.9)%	**(12.7)%**	(6.6)%

The total pension cost which has been charged to the income statement for the Group is £41m (2004: £28m) which includes £6m (2004: £5m) costs for defined contribution schemes.

The contributions payable by the Group are determined by the pension scheme trustees after consulting the scheme actuaries, and in the case of the Irish scheme after consultation with the Company.

The estimated contributions to be paid by the Group in 2006 are £43m.

Notes on the Financial Statements continued

37 Cash generated from operations

	2005 £m	2004 £m
Operating profit before tax and exceptionals	**438**	410
Depreciation and fixed asset write-offs	**9**	5
Amortisation of intangibles	**25**	15
Amortisation of preference shares	**(8)**	(4)
Realised and unrealised investment gains	**(80)**	(69)
Amortisation of available-for-sale investments	**30**	26
Impairment charge on available-for-sale investments	**5**	10
Change in insurance technical provisions	**186**	254
Change in other assets and liabilities	**(213)**	(17)
Interest expense	**20**	20
Interest income	**(253)**	(224)
Dividend income	**(25)**	(122)
Cash generated from operations	**134**	304

38 Related parties

AXA Insurance plc and its subsidiary undertakings paid £5m to a fellow subsidiary undertaking, GIE AXA, under a service agreement to share costs.

AXA Services Limited recovers its costs and related expenses from other group companies. During 2005 this subsidiary recharged expenses of £25m to its intermediate parent company, AXA UK plc and £25m to fellow subsidiary undertakings.

AXA-GRE Europe Investments Limited, a fellow subsidiary undertaking, redeemed £996m and £686m 6% redeemable preference shares with AXA Insurance plc and Guardian Royal Exchange International (Holdings) B.V. respectively. The proceeds were loaned to AXA UK plc.

A loan of £75m was made by Guardian Royal Exchange plc to AXA UK plc.

The Group paid reinsurance premiums of £61m to fellow subsidiary undertakings AXA Cessions and AXA Reinsurance UK plc.

The Group received inwards treaty business premiums of £13m from AXA Cessions.

39 Commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2005 £m	2004 £m
Property, plant and equipment	1	1
	1	1

Operating lease commitments – where a Group company is the lessee

The commitments relate mainly to land and buildings and are subject to rent reviews.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2005 £m	2004 £m
No later than 1 year	1	1
Later than 1 year and no later than 5 years	4	3
Later than 5 years	10	11
	15	15

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

41 Acquisitions & Disposals

a) Disposal of personal lines direct business and interest in RAC Financial Services

On 11 October 2004, RAC plc acquired the renewal rights from a subsidiary company, AXA Insurance UK plc, to the personal lines direct insurance business for a consideration of £9m. Set against this was a provision of £3m for the estimated handling costs of mid term adjustments and cancellations. These relate to the current annual policies, pre renewal to RAC, and will be processed by RAC for an agreed fee per adjustment. The net profit of £6m has been credited to the income statement. The agreement covering the disposal of the renewal rights included a deferred consideration clause dependant on renewal retention rates being achieved over a target figure. A potential £4m to £6m was estimated to be due to the Group in 2005 based on an agreed rate per renewed policy. No provision was made in the 2004 financial statements for the deferred consideration.

During 2005, a gain of £6m has been recognised and credited to the income statement in respect of the actual deferred consideration due and a release of the handling costs provision. The deferred consideration was dependant on renewal retention rates being achieved over a target figure and based on an agreed rate per renewed policy. This amounted to £5m of which £3m has been received during the year. The handling costs provision of £3m was based on the estimated number of adjustments to be processed by RAC, at an agreed fee per adjustment, in respect of the then current annual policies, pre renewal to RAC. The actual number of adjustments was lower than expected and there has been a corresponding release of £1m in the provision.

On 11 October 2004, RAC plc also acquired from a subsidiary company, AXA Services Limited, its interest in the joint venture, RAC Financial Services, which was established in 2002. The consideration received was £21m, less direct costs of £1m. Provision has been made for the accelerated write-off of IT systems and committed IT costs amounting to £14m, resulting in a net profit of £6m credited to the income statement.

	2004 £m
Disposal of UK personal lines direct business	6
Disposal of interest in RAC Financial Services	6
Profit on disposal of operations	12

Notes on the Financial Statements continued

b) Disposal of AXA (Cardiff) Limited

On 9 December 2004, a subsidiary Company, AXA Insurance UK plc, disposed of the interest in AXA (Cardiff) Limited to its ultimate parent undertaking, AXA UK plc, for a consideration of £30m. There was no profit or loss on disposal.

42 Contingent liabilities

With the approval of Financial Services Authority certain wholly owned United Kingdom subsidiaries have entered into a mutual guarantee whereby each company guarantees payment of all liabilities incurred by the others in respect of general insurance business.

43 Events after balance sheet date

On 26 April 2006 the Group's subsidiary, AXA PPP healthcare group plc, announced that agreement had been reached with the shareholders of Securehealth (Holdings) Limited (SHL) to acquire the entire share capital of SHL. The SHL Group are insurance intermediaries distributing health related insurances. The initial consideration is £14m with further amounts payable subject to the terms of the contract.

Parent Company Auditors Report

We have audited the financial statements of Guardian Royal Exchange plc for the year ended 31 December 2005 which comprise, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors
As described in the statement of directors' responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practices).

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

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

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

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion the financial statements

- give a true and fair view, in accordance with the United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005 and of its profit for the year then ended; and

- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
29 June 2006.

Parent Company Balance Sheet

As at 31 December 2005

	Note	2005 £m	2004 £m
Fixed assets			
Shares in subsidiary undertakings	1	1,747	1,747
Other financial investments	2	-	1
		1,747	1,748
Current assets			
Debtors: amounts falling due within one year	3	2,063	9
Cash at bank and in hand		2	1
		2,065	10
Creditors			
Amounts falling due within one year	4	(606)	(498)
Net current liabilities		1,459	(488)
Total assets less current liabilities		3,206	1,260
Creditors			
Amounts falling due after more than one year	5	(148)	(148)
Provision for liabilities	6	(1)	(4)
Net assets		3,057	1,108
Capital and reserves			
Called up share capital	7	56	56
Share premium account	7	523	523
Capital redemption reserve	8	189	189
Capital contribution reserve	8	46	46
Profit and loss account	8	2,243	294
Total equity shareholders funds		3,057	1,108

The separate financial statements on pages 66 to 71 were approved by the Board of Directors on 29 June 2006 and were signed on its behalf by:

Director
29 June 2006

Parent Company Accounting Policies

I ***Basis of accounting***

The separate financial statements of the Company are presented as required by the Companies Act 1985 and have been prepared in accordance with applicable United Kingdom accounting standards and law. In 2005, several new Financial Reporting Standards have become effective and require entities to apply the accounting practices set out in the standards for accounting periods beginning on or after 1 January 2005. Of these standards, the principal ones applying to the Company are:

- FRS 21 (Events after the balance sheet date) has been adopted, although there is no overall impact on the Company's results in either the current or prior year.

- The presentational requirements of FRS 25 (Financial Instruments: Disclosure and Presentation) have been adopted with no impact on the current or prior year.

As permitted by section 230 of the Companies Act 1985, the Company's income statement has not been included in these financial statements.

II ***Investment income***

Investment income consists of interest, dividends and realised gains. Income from listed equities is recognised when 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.

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

III ***Realised and unrealised investment gains and losses***

Realised investment gains and losses are calculated by reference to the net sales proceeds and the unrealised gains and losses on investments represent the difference between the valuation of the investment at the balance sheet date and their original cost or if they have been previously valued, their valuation at the last balance sheet date.

IV ***Valuation of investments***

Investments in subsidiary undertakings are stated at cost unless their value has been impaired, in which case they are valued at their realisable value or value in use as appropriate.

Investments are stated at market values, bid price for unit trusts and directors' valuations for other investments.

V ***Deferred tax***

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

VI ***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.

Parent Company – Notes on the Financial Statements

1 Shares in Group Undertakings

	2005 £m
Shares in subsidiary undertakings	
Cost at 1 January 2005 and at 31 December 2005	1,747
	1,747

The principal subsidiary undertakings of the Company are:

	Country of incorporation	Holdings of ordinary shares	
Insurance Companies			
AXA Insurance plc	England	100%	(Parent)
AXA Insurance UK plc	England	100%	
The Royal Exchange Assurance	England	100%	
AXA General Insurance Limited	England	100%	
AXA PPP healthcare limited	England	100%	
PPP lifetime care plc	England	100%	
AXA Insurance Limited	Ireland	100%	
Other Companies			
Denplan Limited	England	100%	
AXA Services Limited	England	100%	(Parent)
AXA PPP healthcare group plc	England	100%	(Parent)
AXA PPP healthcare Administration Services Limited	England	100%	
AXA Holdings Ireland Limited	Ireland	100%	
AXA Ireland Limited	Ireland	100%	
Guardian Royal Exchange International (Holdings) BV	Netherlands	100%	

Notes:

1 The country of principal operation for each of the above companies is the country of incorporation, with the exception of Guardian Royal Exchange International (Holdings) B.V. where the company transacts UK based financing and investment activities.

2 All holdings of ordinary shares are held by a subsidiary unless otherwise stated.

3 On 19 December 2005. AXA Insurance plc agreed to transfer its subsidiary undertaking, PPP lifetime care plc, to a fellow subsidiary, AXA Sun Life plc following the transfer of its business by way of a Court scheme under Part VII of the Financial Services and Markets Act 2000 for £nil consideration. The final Court hearing is scheduled for July 2006 and if approval is given the scheme is expected to be implemented before 1 July 2007. The book value of PPP lifetime care plc of £75m has been fully impaired.

2 Other financial investments

	2005 £m	2004 £m
Shares and other variable yield securities: Unlisted	-	1

Parent Company – Notes on the Financial Statements continued

The cost price of investments held at 31 December 2005 was £nil (2004: £1m).

3 Debtors

	2005 £m	2004 £m
Amounts falling due within one year		
Amounts due from intermediate parent company	**2,056**	5
Amounts due from subsidiary undertaking	**4**	1
Taxation	**3**	3
Total amounts falling due within one year	**2,063**	9

4 Creditors – amounts falling due within one year

	2005 £m	2004 £m
Amounts due to intermediate parent company	**5**	-
Amounts due to subsidiary undertakings	**597**	494
Other creditors	**4**	4
Total amounts falling due within one year	**606**	498

5 Creditors – amounts falling due after more than one year

	2005 £m	2004 £m
Non-bank loans over 5 years: listed unsecured 6 5/8% Company bonds repayable in 2023	**148**	148
Total amounts falling due after more than one year	**148**	148

6 Provisions for liabilities

	Vacant space provision £m
Balance as at 1 January 2005	4
Profit and loss credit	(3)
Balance as at 31 December 2005	**1**

Parent Company – Notes on the Financial Statements continued

7 Share capital

	2005		2004	
	Shares	£m	Shares	£m
Authorised				
Ordinary shares of £5.25p each	**1,142,859,044**	**60**	1,142,859,044	60
Non-cumulative redeemable preference shares of 20.5p each	**931,707,318**	**191**	931,707,318	191
		251		251
Issued & fully paid				
At 31 December	**1,059,785,981**	**56**	1,059,785,981	56

Share premium account

	2005 £m	2004 £m
Balance as at 31 December	**523**	523

8 Reserves

	Profit and loss account £m	Capital redemption reserve £m	Capital contribution reserve £m	Total £m
Balance as at 1 January 2005	294	189	46	529
Profit for the year	1,949	-	-	1,949
Balance as at 31 December 2005	**2,243**	**189**	**46**	**2,478**

9 Capital commitments

At 31 December 2005 contracts placed for future capital expenditure not provided in the financial statements amounted to £nil (2004: £nil).

10 Ultimate parent

In the opinion of the directors, the Company's ultimate parent and controlling company is AXA, a company incorporated in France. The parent undertaking of the largest and smallest 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.

11 Related Parties

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

12 Cash flow statement

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