



# **AXA Art Insurance Limited**

## **Directors' Report and Financial Statements for the year ended 31 December 2006**

Registered Office 106 Fenchurch Street, London, EC3M 5JE

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COMPANIES HOUSE

# AXA Art Insurance Limited

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## Directors

Dr U Guntram	(Chairman)
Miss A S Fell-Clark	(appointed 15th February 2007)
Miss D P Gage	
A M Golder	(resigned 31st December 2006)
D Holt	(resigned 25th June 2006)
P J Hubbard	(appointed 16th August 2006)
C Kleyboldt	
M Pix	

## Secretary

R A Cryer

## Registered office

106 Fenchurch Street, London EC3M 5JE  
Registered in England No 293215

## Auditors

PricewaterhouseCoopers LLP  
London

# AXA Art Insurance Limited

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## CHIEF EXECUTIVE'S STATEMENT

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2006 has been another year of strong results for AXA Art Insurance Limited (AXA Art UK), in a market which has seen fierce competition for yet another year. This latter has been the leading factor in only a marginal increase in gross written premiums compared to 2005. The Company's focus has remained on retaining profitable accounts, seeking out new business which fits the current portfolio profile and on providing our business partners with unsurpassed service levels.

Premiums written and earned for the year were £17.1m (€25.4m) and £17m (€25.2m) respectively, compared with £17m and £17.1m for the same period in 2005.

In a climate of rate reductions, driven by increased competition from both London and overseas domestic markets, the underwriters have had a hard battle on their hands to second guess the competition in order to retain business. Where business has been lost, it has often been at unsustainable rates and frequently in catastrophe areas.

In spite of market conditions, the Company's profit before tax is almost unchanged at £3.5m (2005 £3.6m). This is in part due to the lack of large losses to which we are exposed as a company, as well as the continued low attritional losses. The gross combined ratio for continuing business was 40.5% (2005 54.8%), which is testament to strong technical underwriting and risk selection.

The lack of claims resulted in more funds being available for investment and net investment income, helped by slightly higher interest rates, rose from £921k to £968k. Sterling's strength, particularly against the US dollar (a 14% rise in 2006) has meant a negative net currency movement reflected in the profit and loss account, almost all of which was offset against outstanding claims and unearned premiums, which have been revalued to year end rates.

During 2006, the emphasis of the Company was on growing the UK regional account in order to balance the more volatile London market book. In order to achieve this, the ARTplus product was considerably revamped, with value added services provided by other AXA entities being wrapped into the coverage. The ARTplus product can now finally compete again in the High Value Household market and we are beginning to see the effects of the enhancements in early 2007.

From the beginning of 2007, AXA Art UK has taken over the responsibility for AXA Art's business operation in Hong Kong. This allows for further development of the Asian market in a co-ordinated manner, both locally and via the London market.

AXA Art UK has maintained its standing as leading art insurer in an increasingly overcrowded market place. The management changes which have happened at the end of 2006 and beginning of 2007 have been widely met with approval in the market and the team feels re-energised and re-focused after a short period of transition. The Company is in an excellent position to forge ahead in 2007, building on the growth initiatives started in 2006.

Thank you to all our clients, brokers and the hard working team for the support given to AXA Art UK in 2006, and we all look forward to the challenges and opportunities ahead of us in 2007.



Annabel Feli-Clark  
Chief Executive  
28th March 2007

# AXA Art Insurance Limited

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## REPORT OF THE DIRECTORS FOR 2006

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The directors submit their annual report together with the audited financial statements for the year ended 31st December 2006

### PRINCIPAL ACTIVITIES

The principal activity of the company is the underwriting of general insurance business

The company has a wholly owned subsidiary, AXA Art Services Limited, which undertakes management and underwriting services

### BUSINESS REVIEW

The key KPIs by which the Company measures its performance are gross written premiums, gross combined ratio and profit before tax. Analysis of performance against those KPIs is detailed in the Chief Executive's Statement on page 2. The results for the year are shown on pages 11 and 12.

### DIVIDENDS

The directors recommend a final dividend for 2006 of £2,419,000 (2005: £2,487,000)

### DIRECTORS

The names of the present directors appear on page 1. Dr Guntram, Miss Gage and Messrs Kleyboldt and Pix all served throughout the year, as did Mr Golder, who resigned on 31st December. Mr Holt resigned on 25th June 2006, whilst Mr Hubbard was appointed on 16th August 2006, and Miss Fell-Clark was appointed on 15th February 2007.

### DIRECTORS' INTERESTS

Under the provisions of the Companies Act 1985 (Disclosure of Directors' Interests) (Exceptions) Regulations 1985, the directors of the Company are exempt from disclosing to the company any interests they may have where the company is a wholly-owned subsidiary of a body incorporated outside Great Britain.

## **FINANCIAL INSTRUMENTS**

### **Financial risk management objectives and policies**

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

#### **Price risk**

Price risk can be defined as the risk that movements in market factors (such as pricing of bonds), interest rates and currency rates impact adversely the value of, or income from, the financial assets.

The group manage this risk via a strategy of selecting an asset mix of government / low risk corporate debt.

#### **Insurance and reinsurance risk**

Insurance risk is associated with the claims arising from the underlying policies. Reinsurance is used to manage insurance risk and is monitored by management.

#### **Currency**

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

#### **Credit risk**

Credit risk can be defined as the risk of capital or income loss resulting from counterparty default or issuer credit downgrades affecting financial assets. This is managed by selecting a low risk asset base of government backed securities or low risk corporate debt.

Exposure to credit risk from non-investment items is controlled via different processes including the active monitoring of premium debt.

#### **Liquidity and cashflow 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. This risk is controlled by regular short-term cash flow forecasting.

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

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

- select suitable policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, and

- prepare the financial statements on a going concern basis unless it is inappropriate to presume that 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the group's system of internal financial control, 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

## STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of this report confirms that

- so far as each of them is aware, there is no information relevant to the audit of the Company's consolidated financial statements for the year ended 31st December 2006 of which the auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken in his/her duty in order to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

## GUARANTEE

Eagle Star Insurance Company Limited and Nordstern Allgemeine Versicherungs-Aktiengesellschaft severally guarantee as to 50% each the due fulfilment of all policies written by the company up to 7th January 1993. All policies written by the company after this date are guaranteed by AXA Konzern Aktiengesellschaft

## ELECTIVE RESOLUTIONS

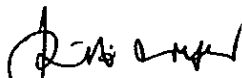
Elective resolutions have been passed for the purposes of

- dispensing with laying of accounts and reports before general meeting
- dispensing with the holding of an annual general meeting
- dispensing with the annual appointment of auditors

## AUDITORS

PricewaterhouseCoopers LLP have indicated their willingness to continue in office until such time as the company or the auditors otherwise determine in accordance with the elective resolution above

By order of the Board

  
R.A Cryer  
Secretary  
28th March 2007

# AXA Art Insurance Limited

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## REPORT OF THE AUDITORS

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### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AXA ART INSURANCE LIMITED

We have audited the group and parent company financial statements (the "financial statements") of AXA Art Insurance Limited for the year ended 31st December 2006 which comprise the Group and Company Profit and Loss Accounts, the Reconciliation of Movements in Consolidated Shareholders' Funds, the Group and Company Balance Sheets and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 whether, in our opinion, the information given in the directors' report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if 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 financial statements. This other information comprises only the Directors' Report and the Chief Executives Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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.


## **EQUALIZATION PROVISIONS**

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalization provisions in respect of general insurance business. The nature of equalization provisions is explained in the accounting policies on page 9, whilst the amounts set aside at 31st December 2006, and the effect of the movement in those provisions during the year on the equity shareholders' funds, general business technical result and profit before tax, are disclosed in note 21(b).

## **OPINION**

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31st December 2006 and of the group's loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
28th March 2007



# AXA Art Insurance Limited

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## ACCOUNTING POLICIES

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### BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with the provisions of Section 255 and 255A of, and Schedule 9A to, the Companies Act 1985, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers (the ABI SORP) dated December 2005 (as amended in December 2006)

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

The Company has adopted FRS 20, Shared based payment, FRS 23, The effects of changes in foreign exchange rates and FRS 24, Financial Reporting in hyperinflationary economies for the 2006 year end but their adoption has had no impact on the financial statements

The Company has not adopted FRS 26, Financial Instruments Measurement. The company is exempt from this standard as it does not hold derivatives at fair value

### BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the company and its subsidiary. As permitted by Section 230 of the Companies Act the profit and loss account of the company is not presented as part of these accounts

### PREMIUMS

Written premiums comprise the premiums on contracts incepting in the financial year, and are inclusive of pipeline premiums due but not yet notified to the group

Written premiums are stated gross of commissions payable to intermediaries and exclusive of taxes and duties levied on premiums

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inward reinsurance business

### UNEARNED PREMIUMS

A provision for unearned premiums is made which represents that part of the gross, and reinsurers' share of, premiums written which is estimated to be earned in the following or subsequent financial years. It is calculated separately on the 365ths basis

### DEFERRED ACQUISITION COSTS

Acquisition costs represent the expenses, both direct and indirect, of acquiring insurance policies written during the financial year. Acquisition costs are accrued over an equivalent period to that over which the underlying business is written and are charged to the accounting period in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date

## **CLAIMS INCURRED**

Claims incurred comprise all claim payments and internal and external settlement expense payments made in the financial year and the movement in the provision for outstanding claims and settlement expenses, including claims incurred but not reported, net of salvage and subrogation recoveries

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

## **CLAIMS OUTSTANDING**

Provision is made for outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported at that date. Included in the provision is an estimate of the internal and external costs of handling the outstanding claims. Material salvage and other recoveries are recorded as other assets and not deducted from outstanding claims

Provisions for outstanding claims are based on notifications to the company valued either in accordance with a loss adjuster's report or the company's estimate of loss based on the facts as reported. Claims incurred but not reported are estimated by reference to an analysis of the historical incidence of late reported claims adjusted to reflect changes in the volume of business written

Salvage most commonly arises from the recovery of stolen goods. The timing and incidence of recoveries are not readily predictable - salvage is therefore recognised at the point that recovery by the company is reasonably assured. Salvage not realized at year end is valued at the estimated fair market value

## **EQUALIZATION PROVISION**

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

## **UNEXPIRED RISKS PROVISION**

Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date

## **PREMIUM LEVIES**

The levies payable to the Financial Services Compensation Scheme are included within administrative expenses as incurred

## **INVESTMENTS**

Investments are stated at market value for listed securities

Realized gains or losses represent the difference between net sale proceeds and purchase price

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

Unrealized gains or losses represent the difference between the valuation of investments at the balance sheet date and their purchase price, or, if they have been previously valued, their valuation at the last balance sheet date, and are recognized in the non-technical account

Investment income is the amount receivable for the year and includes the appropriate tax credit, and together with realized gains and losses, expenses and charges are reported in the non-technical account

## **DEPRECIATION OF FIXED ASSETS**

Depreciation of fixed assets is provided over their expected useful lives on a straight line basis. The annual rate of depreciation applied to all fixed assets is 25%. Assets under construction are not depreciated until first use.

## **FOREIGN EXCHANGE RATES**

Assets and liabilities in overseas currencies are translated into sterling at rates of exchange ruling at close of business on 31st December. Income and expenditure in overseas currencies are translated into sterling at the rate ruling at the beginning of the month in which the transaction takes place. All exchange movements have been included in the non technical account.

## **PROVISIONS FOR OTHER RISKS AND CHARGES**

Deferred taxation is provided in full on all timing differences at the rate at which is expected that the tax liability or benefit will arise. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax balances are not discounted.

## **TRANSACTIONS WITH RELATED PARTIES**

Advantage has been taken of the exemption under Financial Reporting Standard (FRS) 8 not to disclose transactions between entities 90% or more of whose voting rights are controlled within the AXA, Paris group of companies.

## **CASH FLOW STATEMENT**

Advantage has been taken of the exemption under the revised FRS1 not to present a statement of cash flow as the company is 90% or more controlled within the AXA Konzern Aktiengesellschaft group of companies, and the consolidated financial statements in which the subsidiary undertaking is included are publicly available.

## **PENSION SCHEMES**

The group operates, through its subsidiary undertaking, various individual retirement benefit arrangements covering certain employees who are eligible and have opted for membership. The schemes are operated as money purchase arrangements funded externally with appropriate contributions made to the pension fund manager which is a life assurance company incorporated in the United Kingdom.

Ongoing amounts charged to the profit and loss account are the pensions costs for the year in relation to this money purchase pension arrangement.

## **LEASES**

Rentals under operating leases are charged to the profit and loss account in equal annual instalments over the period of the lease.

## **DIVIDENDS**

Following adoption of FRS21, final dividends proposed but not approved at the balance sheet date are no longer included as a liability in the balance sheet and the prior year balance sheet has been restated. There was no impact on profit for the current or prior year as a result of this change. Interim dividends are recognized when paid.

# AXA Art Insurance Limited

## CONSOLIDATED PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT - GENERAL BUSINESS

FOR THE YEAR ENDED 31ST DECEMBER 2006

	Note	2006 £000	2005 £000	2005 £000
Gross premiums written	1	17,128	17,027	
Outward reinsurance premiums		(4,304)	(5,572)	
Net Written premiums			12,824	11,455
Change in the gross provision for unearned premiums	21a			
Gross amount		(95)	29	
Reinsurers' share		180	209	
			85	238
Earned premiums, net of reinsurance			12,909	11,693
Claims paid				
Gross amount		(925)	(3,558)	
Reinsurers' share		(873)	1,726	
		(1,798)	(1,832)	
Change in the provision for claims	21a			
Gross amount		(696)	699	
Reinsurers' share		146	(1,493)	
		(550)	(794)	
Claims incurred, net of reinsurance		(2,348)	(2,626)	
Net operating expenses	5	(7,077)	(6,449)	
Change in the equalization provision	21a&b	(172)	(229)	
Total technical charges			(9,597)	(9,304)
Balance on the technical account for general business			3,312	2,389

The accounting policies and the notes on pages 18 to 31 form an integral part of these financial statements

# AXA Art Insurance Limited

## CONSOLIDATED PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 2006

	Note	2006 £000	2005 £000
Balance on the general business technical account		3,312	2,389
Investment income	3	968	921
Unrealized gains on investments		0	356
Investment expenses and charges	4	(160)	(447)
Unrealized losses on investments		(8)	0
		800	830
Other income		138	428
Other expenditure	6	(748)	(76)
Profit on ordinary activities before tax	6	3,502	3,571
Tax on profit on ordinary activities	10	(1,083)	(1,084)
Profit on ordinary activities after tax		2,419	2,487
Dividends paid	11	(2,487)	(2,386)
(Loss)/profit for the financial year	20	(68)	101

The company has no recognised gains or losses other than its profit or loss for the period

All results are from continuing operations

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents

The accounting policies and the notes on pages 18 to 31 form an integral part of these financial statements

# AXA Art Insurance Limited

## RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31ST DECEMBER 2006

		2006 £000	2005 £000
Profit on ordinary activities after tax		2,419	2,487
Dividends	11	(2,487)	(2,386)
Retained (loss)/profit for the financial year and net addition to shareholders' funds	20	(68)	101
Opening shareholders' funds		11,625	11,524
Closing shareholders' funds		11,557	11,625

# AXA Art Insurance Limited

## CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2006

	Note	2006 £000	2005 £000	2005 £000
<b>ASSETS</b>				
<b>Investments</b>				
Other financial investments	14	17,975		16,694
<b>Reinsurers' share of technical provisions</b>				
Provision for unearned premiums	21a	1,520	1,340	
Claims outstanding		825	679	
		<u>2,345</u>	<u>2,019</u>	
<b>Debtors</b>				
Debtors arising out of direct insurance operations				
Policyholders		11	17	
Intermediaries		3,388	3,606	
Debtors arising out of reinsurance operations				
	15	30	768	
Other debtors	16	43	401	
		<u>3,472</u>	<u>4,792</u>	
<b>Other assets</b>				
Tangible assets	18	870	506	
Cash at bank and in hand		2,979	3,655	
		<u>3,849</u>	<u>4,161</u>	
<b>Prepayments and accrued income</b>				
Accrued interest and rent		261	181	
Deferred acquisition costs	21a	2,847	2,794	
Other prepayments and accrued income		135	91	
		<u>3,243</u>	<u>3,066</u>	
<b>Total assets</b>		<u><u>30,884</u></u>	<u><u>30,732</u></u>	

The accounting policies and the notes on pages 18 to 31 form an integral part of these financial statements

# AXA Art Insurance Limited

## CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2006

	Note	2006 £000	2005 £000	2005 £000
<b>LIABILITIES</b>				
<b>Capital and reserves</b>				
Called up share capital	19	5,000		5,000
Profit and loss account	20	6,557		6,625
Shareholders' funds attributable to equity interests			11,557	11,625
<b>Technical provisions</b>				
Provision for unearned premiums	21a	7,514		7,419
Claims outstanding	21a	5,980		5,284
Equalization provision	21a&b	2,693		2,521
			16,187	15,224
<b>Provisions for other risks and charges</b>	22		350	0
<b>Creditors payable in less than one year</b>				
Creditors arising out of direct insurance operations	23	28		41
Creditors arising out of reinsurance operations	24	741		1,463
Other creditors including taxation and social security	25	699		1,101
			1,468	2,605
<b>Accruals and deferred income</b>	26		1,322	1,278
<b>Total liabilities</b>			30,884	30,732

The accounting policies and the notes on pages 18 to 31 form an integral part of these financial statements

Approved by the board of directors on 28th March 2007 and signed on its behalf by



A S Fell-Clark  
Director



# AXA Art Insurance Limited

## BALANCE SHEET

AS AT 31ST DECEMBER 2006

	Note	2006 £000	2005 £000	2005 £000
<b>ASSETS</b>				
<b>Investments</b>				
Investments in group undertakings	13	10	10	
Other financial investments	14	17,975	16,694	
		<u>17,985</u>	<u>16,704</u>	
<b>Reinsurers' share of technical provisions</b>				
Provision for unearned premiums	21a	1,520	1,340	
Claims outstanding		825	679	
		<u>2,345</u>	<u>2,019</u>	
<b>Debtors</b>				
Debtors arising out of direct insurance operations				
Policyholders		11	17	
Intermediaries		3,388	3,606	
Debtors arising out of reinsurance operations				
	15	30	768	
Other debtors	16	744	561	
		<u>4,173</u>	<u>4,952</u>	
<b>Other assets</b>				
Cash at bank and in hand		2,640	3,140	
<b>Prepayments and accrued income</b>				
Accrued interest and rent		261	181	
Deferred acquisition costs	21a	2,847	2,794	
		<u>3,108</u>	<u>2,975</u>	
<b>Total assets</b>		<u><u>30,251</u></u>	<u><u>29,790</u></u>	

The accounting policies and the notes on pages 18 to 31 form an integral part of these financial statements

# AXA Art Insurance Limited

## BALANCE SHEET

AS AT 31ST DECEMBER 2006

	Note	2006 £000	2005 £000	2005 £000
<b>LIABILITIES</b>				
<b>Capital and reserves</b>				
Called up share capital	19	5,000		5,000
Profit and loss account	20	6,537		6,539
Shareholders' funds attributable to equity interests			11,537	11,539
<b>Technical provisions</b>				
Provision for unearned premiums	21a	7,514		7,419
Claims outstanding	21a	5,980		5,284
Equalization provision	21a&b	2,693		2,521
			16,187	15,224
<b>Provisions for other risks and charges</b>	22		350	0
<b>Creditors payable in less than one year</b>				
Creditors arising out of direct insurance operations	23	28		41
Creditors arising out of reinsurance operations	24	741		1,463
Other creditors including taxation and social security	25	753		1,035
			1,522	2,539
<b>Accruals and deferred income</b>	26		655	488
<b>Total liabilities</b>			30,251	29,790

The accounting policies and the notes on pages 18 to 31 form an integral part of these financial statements

# AXA Art Insurance Limited

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2006

### 1 Segmental information

#### 1(a) Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balance

	2006	2006	2006	2006	2006
	Gross	Gross	Gross	Gross	Reinsurance
	premiums	premiums	claims	operating	balance
	written	earned	incurred	expenses	
	£000	£000	£000	£000	£000
Direct insurance					
Fire and other damage to property	16,812	16,669	1,789	7,723	3,447
Third party liability	0	0	(469)	15	454
Miscellaneous	0	0	(122)	4	118
	16,812	16,669	1,198	7,742	4,019
Reinsurance	316	364	423	144	23
	17,128	17,033	1,621	7,886	4,042

	2005	2005	2005	2005	2005
	Gross	Gross	Gross	Gross	Reinsurance
	premiums	premiums	claims	operating	balance
	written	earned	incurred	expenses	
	£000	£000	£000	£000	£000
Direct insurance					
Fire and other damage to property	16,679	16,690	1,707	7,098	5,331
Third party liability	0	0	998	20	(1,018)
Miscellaneous	0	0	52	4	(56)
	16,679	16,690	2,757	7,122	4,257
Reinsurance	348	366	102	156	44
	17,027	17,056	2,859	7,278	4,301

Commissions payable in respect of direct insurance amounted to £4,615,000 (2005 £4,465,000)

# AXA Art Insurance Limited

## NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2006

### 1(b) Analysis of premiums, profit before taxation and net assets

The company writes art, and associated, insurance business in the United Kingdom and the directors consider this to be the company's only geographical and business segment

### 2 Prior years' claims provisions

Over provisions for claims provisions held at the beginning of the year compared to net payments and provisions at the end of the year in respect of prior years' claims are as follows

	2006 £000	2005 £000
Fire and other damage to property	1,835	434
Miscellaneous	2	23
	<u>1,837</u>	<u>457</u>

### 3 Investment income

	2006 £000	2005 £000
Income from investments	966	921
Other interest receivable	2	0
	<u>968</u>	<u>921</u>

# AXA Art Insurance Limited

## NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2006

### 4 Investment expenses and charges

	2006 £000	2005 £000
Investment management expenses, including interest	91	28
Losses on realization of investments	69	419
	<b>160</b>	<b>447</b>

### 5 Net operating expenses

	2006 £000	2005 £000
Acquisition costs	7,008	6,541
Change in gross deferred acquisition costs	(53)	(108)
	<b>6,955</b>	<b>6,433</b>
Administrative expenses	931	845
	<b>7,886</b>	<b>7,278</b>
Gross operating expenses	(857)	(938)
Reinsurance commissions and profit participation	48	109
Change in deferred reinsurance commission		
	<b>7,077</b>	<b>6,449</b>

### 6 Profit on ordinary activities before tax

	2006 £000	2005 £000
<b><i>Profit on ordinary activities before tax is stated</i></b>		
<i>after crediting</i>		
Income from listed investments	771	574
<i>after charging</i>		
Other expenditure	748	76
Depreciation	135	135
Auditors' remuneration		
Audit	40	38

Other expenditure includes net losses made on foreign currency transactions, and other expenses incurred in relation to Insurance Premium Taxation on overseas business

# AXA Art Insurance Limited

## NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2006

### 7 Remuneration of directors

	2006 £000	2005 £000
Aggregate emoluments	259	239
Compensation for loss of office (excluding shares)	200	0
	<b>459</b>	<b>239</b>

	2006 £000	2005 £000
Aggregate value of contributions to a defined contribution scheme	29	21

	Number 2006	Number 2005
Number of directors		
To whom benefits are accruing under a defined benefit pension scheme	0	0
To whom benefits are accruing under a defined contribution pension scheme	1	1

	2006 £000	2005 £000
Highest paid director		
Emoluments	226	205
Compensation for loss of office (excluding shares)	200	0
Contributions to a defined contribution scheme	29	21
	<b>455</b>	<b>226</b>

# AXA Art Insurance Limited

## NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2006

### 8 Staff numbers and costs

The average number of persons employed by the group (including directors) was as follows

	Number 2006	Number 2005
Management	5	5
Underwriting and administration	24	25
	<u>29</u>	<u>30</u>

The aggregate payroll costs in respect of these persons were as follows

	2006 £000	2005 £000
Salaries	1,861	1,734
Social security costs	222	205
Other pension costs	209	196
	<u>2,292</u>	<u>2,135</u>

### 9 Auditors' remuneration

During the year the group obtained the following services from the group's auditor at costs as detailed below

	2006 £000	2005 £000
<b>Audit Services</b>		
Fees payable to the Company's auditor for the audit of the parent and subsidiary company accounts	40	38
<b>Non Audit Services</b>	<u>0</u>	<u>0</u>
<b>Total</b>	<u>40</u>	<u>38</u>

# AXA Art Insurance Limited

## NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2006

### 10 Taxation on profit for the year

	2006 £000	2005 £000
Current taxation		
UK corporation tax on profits of the period	931	1,096
Adjustment in respect of previous periods	15	(3)
Total current tax	946	1,093
Deferred tax		
Origination and reversal of timing differences	16	(9)
Pension cost charge in excess of pension cost relief	121	0
Total deferred tax (note 17)	137	(9)
<b>Tax on profit on ordinary activities</b>	<b>1,083</b>	<b>1,084</b>

The tax assessed for the period is higher (2005 higher) than the standard rate of corporation tax in the UK (30%) The differences are explained below

	2006 £000	2005 £000
Profit on ordinary activities before tax	3,502	3,571
Profit on ordinary activities multiplied by standard rate in the UK - 30% (2005 30%)	1,051	1,071
Effects of		
Expenses not deductible for tax purposes	18	16
Accelerated capital allowances and other timing differences	(17)	9
Pension contribution relief in excess of net pension cost charge	(121)	0
Adjustments to tax charge in respect of previous periods	15	(3)
Current tax charge	946	1,093



# AXA Art Insurance Limited

## NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2006

### 11 Dividends

	2006 £000	2005 £000
Interim dividend paid	0	1,000
Final dividend paid	2,487	1,386
	<b>2,487</b>	<b>2,386</b>

The directors are proposing a final dividend in respect of the financial year ended 31st December 2006 of £2,419,000

### 12 Profit of company

Of the consolidated profit after taxation and dividends, a loss of £2,000 (2005 profit £148,000) is dealt with in the accounts of the company

### 13 Investment in group undertakings

At 31st December 2006 and 2005 AXA Art Insurance Limited held ordinary shares in the following subsidiary

<i>Name of Company</i>	<i>Country of incorporation</i>	<i>Description of shares</i>	<i>Percentage of issued share capital</i>
AXA Art Services Limited	Great Britain	Ordinary shares of £1 each	100

The principal activity of AXA Art Services Limited, a company registered in England and Wales, is to act as underwriting manager

Investment in group undertakings is stated at the directors' estimate of its current value, the estimate at 31st December 2006 being £10,000 (2005 £10,000)

### 14 Other financial investments

	Market Value 2006 £000	Market Value 2005 £000	Group & Company Cost 2006 £000	Cost 2005 £000
Debt securities and other fixed interest securities	15,676	14,322	15,703	14,341
Deposits with credit institutions	2,299	2,372	2,299	2,372
	<b>17,975</b>	<b>16,694</b>	<b>18,002</b>	<b>16,713</b>

# AXA Art Insurance Limited

## NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2006

### 15 Debtors arising out of reinsurance operations

	Group & Company	
	2006	2005
	£000	£000
Amounts owed by intermediaries	30	9
Amounts owed by group undertakings	0	759
	<b>30</b>	<b>768</b>

### 16 Other debtors

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Amount owed by group undertaking	0	0	744	341
Salvage recoverable	0	220	0	220
Deferred taxation	43	181	0	0
	<b>43</b>	<b>401</b>	<b>744</b>	<b>561</b>

### 17 Deferred taxation

	2006	2005
	£000	£000
Balance at 1st January	181	172
(Debited)/credited to the profit and loss account during the year	(138)	9
Balance at 31st December	<b>43</b>	<b>181</b>
Calculation of deferred tax asset		
Pension contribution relief (see note 29)	0	121
Accelerated capital allowances	43	60
	<b>43</b>	<b>181</b>

# AXA Art Insurance Limited

## NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2006

### 18 Tangible assets

The group	Fixtures fittings & equipment £000	Assets in course of construction £000	Total £000
<b>Cost</b>			
At 1st January 2006	1,120	376	1,496
Additions	389	0	389
Transfers	376	(376)	0
Revaluation of assets	110	0	110
Disposals	(601)	0	(601)
<b>At 31st December 2006</b>	<b>1,394</b>	<b>0</b>	<b>1,394</b>
<b>Depreciation</b>			
At 1st January 2006	990	0	990
Charge for year	135	0	135
Eliminated on disposal	(601)	0	(601)
<b>At 31st December 2006</b>	<b>524</b>	<b>0</b>	<b>524</b>
<b>Net book value</b>			
<b>At 31st December 2006</b>	<b>870</b>	<b>0</b>	<b>870</b>
At 31st December 2005	130	376	506

### 19 Called up share capital

	2006 £000	2005 £000
<b>Authorised</b>		
5,000,000 (2005 5,000,000) ordinary shares of £1 each	5,000	5,000
<b>Called up, allotted and fully paid</b>		
5,000,000 (2005 5,000,000) ordinary shares of £1 each	5,000	5,000

# AXA Art Insurance Limited

## NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2006

### 20 Reserves

	Profit and loss account 2006	
	Group £000	Company £000
At 1st January 2006	6,625	6,539
Retained profit for the year	(68)	(2)
<b>At 31st December 2006</b>	<b>6,557</b>	<b>6,537</b>

### 21 Technical provisions and deferred acquisition costs

#### 21(a) Movement during the year

The group and company	Provision for unearned premiums £000	Claims outstanding £000	Equalization provision £000	Total £000	Deferred acquisition costs £000
<b>Gross amount</b>					
At 1st January 2006	7,419	5,284	2,521	15,224	2,794
Movement in the provision	95	696	172	963	53
<b>At 31st December 2006</b>	<b>7,514</b>	<b>5,980</b>	<b>2,693</b>	<b>16,187</b>	<b>2,847</b>
<b>Reinsurance amount</b>					
At 1st January 2006	1,340	679	0	2,019	373
Movement in the provision	180	146	0	326	48
<b>At 31st December 2006</b>	<b>1,520</b>	<b>825</b>	<b>0</b>	<b>2,345</b>	<b>421</b>
<b>Net technical provisions</b>					
<b>At 31st December 2006</b>	<b>5,994</b>	<b>5,155</b>	<b>2,693</b>	<b>13,842</b>	<b>2,426</b>
At 31st December 2005	6,079	4,605	2,521	13,205	2,421

# AXA Art Insurance Limited

## NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2006

### 21(b) Equalization provision

As explained in the accounting policy relating to equalization provisions, an equalization provision is established in the financial statements. The effect of the provision is to reduce shareholders' funds at 31st December 2006 by £1,877,000 (2005 £1,757,000). The increase in provision during the year had the effect of reducing the balance on the technical account for general business and profit and loss before tax of £172,000 (2005 £229,000).

### 21(c) Business in run-off

The following amounts, which relate to business no longer written and in run-off, are included in the Consolidated Profit and Loss account - technical account

	2006		2005	
	£000	£000	£000	£000
Gross premiums written and earned		0		0
Outwards reinsurance premiums		0		0
		<u>0</u>		<u>0</u>
Gross claims incurred	611		(990)	
Reinsurers' share	(592)		1,016	
	<u></u>	19	<u></u>	26
Net operating expenses		(19)		(26)
Balance on the technical account for business no longer written		<u>0</u>		<u>0</u>

### 22 Provisions for other risks and charges

As explained in the accounting policies on page 10, provision is made for tax liabilities arising from the allocation of items of income and expenditure to different periods for taxation and accounting purposes, except where it is probable that a liability will not crystallize.

Other provisions comprise £350,000 (2005 £nil) which has been made in respect of insurance premium tax related amounts due to foreign tax authorities.

# AXA Art Insurance Limited

## NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2006

### 23 Creditors arising out of direct insurance operations

	Group & Company	
	2006	2005
	£000	£000
Amounts owed to intermediaries	28	41

### 24 Creditors arising out of reinsurance operations

	Group & Company	
	2006	2005
	£000	£000
Amounts owed to intermediaries	274	1,143
Amounts owed to group undertakings	467	320
	741	1,463

### 25 Other creditors including taxation and social security

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Corporation tax payable	328	642	455	631
Social security	59	55	0	0
Amounts due to group undertakings	14	4	0	4
Other	298	400	298	400
	699	1,101	753	1,035

# AXA Art Insurance Limited

## NOTES TO THE ACCOUNTS (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2006

### 26 Accruals and deferred income

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Deferred reinsurance commissions	421	373	421	373
Other accruals and deferred income	901	905	234	115
	<b>1,322</b>	<b>1,278</b>	<b>655</b>	<b>488</b>

### 27 Leases

The total rentals under operating leases, charged as an expense to the profit and loss account, are disclosed below

	Group & Company	
	2006	2005
	£000	£000
Land and buildings	<b>155</b>	<b>155</b>

Annual commitments under leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which each lease expires

Obligations under operating leases comprise  
Land and buildings

	Group & Company	
	2006	2005
	£000	£000
Expiring in more than five years	<b>155</b>	<b>155</b>

# AXA Art Insurance Limited

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## NOTES TO THE ACCOUNTS (continued)

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FOR THE YEAR ENDED 31ST DECEMBER 2006

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### 28 Guarantee

Eagle Star Insurance Company Limited and Nordstern Allgemeine Versicherungs-Aktiengesellschaft severally guarantee as to 50% each the due fulfilment of all policies written by the company up to 7th January 1993. All policies written by the company after this date are guaranteed by AXA Konzern Aktiengesellschaft.

### 29 Pension schemes

The group operates, through its subsidiary undertaking, various individual retirement benefit arrangements covering certain employees who are eligible and have opted for membership. The schemes are operated as money purchase arrangements funded externally with appropriate contributions made to the pension fund manager which is a life assurance company incorporated in the United Kingdom.

The pension charge for the period in respect of these arrangements was £209,000 (2005 £196,000).

### 30 Ultimate parent company

The company is a subsidiary undertaking of AXA Art Versicherung Aktiengesellschaft, a company incorporated in Germany.

The smallest group in which the results of the company are included is AXA Konzern Aktiengesellschaft, a company incorporated in Germany. Copies of its accounts can be obtained from Colonia-Allee 10-20, 51067 Cologne, Germany.

The ultimate parent undertaking of the company and the largest group in which the results of the company are included and for which group accounts are prepared is AXA, a company incorporated in France. Copies of its accounts can be obtained from 16 Avenue Matignon, 75008 Paris, France.