Registered Number 78950

AXA INSURANCE UK PLC

Directors' Report and Financial Statements
for the year ended 31 December 2007

Registered Office 5 Old Broad Street, London EC2N 1AD

DIRECTORS

N J-M D Moreau (Chairman)
M Cliff
K G Gibbs
P J Hubbard
I H Johnson
P L H Maso y Guell Rivet
F de Méneval
J O'Neill
I Robinson
G Stouls

SECRETARY

J P Small

AUDITORS

PricewaterhouseCoopers LLP

AXA INSURANCE UK PLC

DIRECTORS' REPORT

The dırectors have pleasure ın submıttıng theır report together wıth the audıted financıal statements for the year ended 31 December 2007

PRINCIPAL ACTIVITY

The Company's prıncıpal and ongoıng actıvıty ıs the wrıtıng of general ınsurance busıness ın the Unıted Kıngdom The busıness conducted ıs prıncıpally property and motor ın both commercıal and personal lınes, together wıth lıabılıty ınsurance (commercıal) and travel and credıtor ınsurance (personal)

BUSINESS REVIEW

Results and performance

Profit before tax decreased by £268 6m to £53 3m ın 2007 arısıng from an adverse movement of £281 6m ın the underwrıtıng result offset by an ımprovement of £13.0m ın the ınvestment result The Company's adoptıon of a new accountıng standard ın 2007, FRS 26 (as detaıled ın note 1 1) has requıred the 2006 comparatıves to be restated (profit before tax ıs ıncreased from £269 0m to £321 9m)

Durıng the year, gross wrıtten premıums ıncreased by £187.2m or 9 9% to £2,074 8m (2006 £1,887 6m) Thıs was drıven by

- Personal Lınes Motor followıng the acquısıtıon by AXA UK plc ın the year of onlıne ınsurance broker Swıftcover where polıcıes ın force ıncreased by 178% durıng 2007 helped by ıncreased volumes through aggregators
- Travel and Warranty busıness also grew led by growth ın delegated authorıty busıness, whılst Credıtor shows a small downturn followıng a contractıon ın the market
- The competıtıve market place and the company's strong desıre to underwrıte busıness at premıum levels whıch are sustaınable, ımpacted new busıness volumes and premıums ın Property and Casualty Motor shows an ıncrease drıven by growth ın goods vehıcle busıness

The underwrıtıng loss before tax for the year ıs £114 6m (2006 £167 0m profit)

- The 2007 results were adversely ımpacted by the January storms and summer floods ın the UK The losses attrıbutable to these events are currently estımated at £225m (before tax).
- These losses were partıally offset by a release of £164m from reserves Thıs release followed a revıew of prıor year reserves durıng 2007 whıch ındıcated that many lıabılıty claıms have been settled for amounts lower than orıgınally antıcıpated
- Current year underlyıng loss ratıos have worsened through a combınatıon of busıness mıx and deterıoratıons ın Pets, Warranty and Commercıal Motor, offset by an ımprovement ın Employers' Lıabılıty
- The combıned operatıng ratıo reflects these ıssues and also a challengıng ıncrease ın commıssıons Thıs follows soft market condıtıons and broker consolıdatıon leadıng to pressure on rates

BUSINESS REVIEW (CONTINUED)

Results and performance (continued)

- Two separate provisions totalling £24m have had to be made this year Advance commission (note 11) has been impaired by £12m due to an expected fall off in future business as a result of the 'credit crunch' A further £5m (2006 £8m) impairment is offset against creditors due to a compensating overstatement A review of an underperforming contract has resulted in an onerous contract provision of £12m (note 25)

The total investment return for the year is a profit before tax of £88 7m (2006 £103 7m) Due to the presentation change referred to above, the investment return reported in the profit and loss account is £167 9m (2006 £154 9m) The decrease in the total investment return is due primarily to the general decrease in the financial markets

The procedures put in place by the Company identified all significant exposures to risk arising out of the current financial market conditions (credit crunch) The valuation of financial instruments, where the market liquidity was negatively affected or where no active market exists, was considered specifically, and all credit events that have occurred prior to 31 December 2007 have been considered

Business environment

The UK insurance market is highly competitive and we have endeavoured to maintain strong positions in our selected markets through developing a far greater customer understanding and focus We have increased our use of e-enabled systems which allow brokers to interact directly with our systems and improve the overall broker experience We continue to look at ways of improving claims management within an overall risk management approach

Strategy and acquisitions

The Company has in place a variety of methodologies to monitor and manage the risks it accepts and to plan for increasing its involvement in its chosen markets A number of initiatives are in place to deliver profitable growth in these markets and distribution channels We continue to pursue the Group's 2012 Ambition targets for doubling revenues and tripling earnings by 2012, and our goal of becoming the 'preferred company' for customers and employees

In 2007 AXA UK plc continued with its priority strategy of securing extra distribution capability The Company's subsidiary, Venture Preference Limited, was transferred to a new broking and advisory arm, structurally separate from the distribution and underwriting business of the Company The broking business of Venture Preference is wholly independent The business placed with the Company remains largely unchanged and represents a low percentage of their turnover

In March 2007, AXA UK plc acquired the direct online insurance broker Swiftcover Swiftcover continues to operate as an independent entity with the Company underwriting 100% of the motor business Swiftcover's expertise in web-based distribution will be further utilised as the Company grows its direct capabilities in other product lines, including re-entering the direct market under the AXA brand

BUSINESS REVIEW (CONTINUED)

Principal risks and uncertainties

The Company is part of the AXA UK plc group which has established groupwide processes for risk acceptance and risk management which are addressed through a framework of policies, procedures and internal controls All policies are subject to ongoing review by management, risk management and group internal audit Compliance with regulation, legal and ethical standards is a high priority for the Company and the compliance and finance teams take on an important oversight role in this regard

Financial risk management, including the impact of risk on economic capital, is discussed in note 2

The principal risks from the general insurance business arise mainly from events outside of our control, such as fluctuations in the timing, frequency and severity of claims compared to our expectations Underwriting and reinsurance strategies may also give rise to risk and uncertainty through inaccurate pricing, inadequate reinsurance protection and inadequate reserving These are within our control and strategies are communicated clearly throughout the business via policy statements and guidelines

Future outlook

As previously indicated, the 2007 results have been severely impacted by weather events and the Company remains subject to a strongly competitive UK insurance market With the maintenance of pricing disciplines and the absence of major weather related events the Company expects the combined operating ratio to return to levels witnessed in recent years in the short term In 2008 our key focus remains on improving our customer experience and service quality to build customer loyalty and trust, and on continuing to strengthen our distribution capability, particularly in the direct distribution arena

Key performance indicators

The Company is the principle UK underwriter for AXA Insurance plc, its parent company The board monitors the progress of the Company and its subsidiaries together using a variety of KPIs therefore it is not considered meaningful to provide company specific KPIs except as noted below

	2007	2006	
Gross written premiums	£2,074 8m	£1,887 6m	
Underwriting result	£(114 6)m	£167 0m	
Current year loss ratio	71 2%	57 3%	Ratio of net current year claims incurred to net earned premiums
Combined operating ratio	106.2%	89 6%	Ratio of net claims incurred, commissions and expenses to net earned premiums

DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2007 (2006 £52m)

DIRECTORS

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

Mr A P Fairchild resigned as a director of the Company on 30 April 2007
Mr I H Johnson was appointed as a director of the Company on 19 June 2007
Mr L Matras resigned as a director of the Company on 29 December 2007
Mr I D L Richardson resigned as a director of the Company on 31 December 2007
Mr I Robinson was appointed as a director of the Company on 1 January 2008

INDEMNIFICATION OF DIRECTORS

The Company is party to a groupwide indemnity policy which benefits all of its current directors and is a Qualifying Third Party Indemnity Provision for the purpose of the Companies Act 1985

PAYMENT OF CREDITORS

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Information on the use of financial instruments by the group and its management of financial risk is disclosed in note 2 to the financial statements In particular, the Company's exposures to market risk, credit risk and liquidity risk are separately disclosed in that note

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

Each director in office at the date of approval of this report confirms that

- so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The following statement 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 Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing those financial statements, the directors are required to

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS (CONTINUED)

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

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

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

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

EXERCISE OF DIRECTORS' AXA SA OPTIONS

5 directors of the Company exercised share options during the year (2006 5)

By Order of the Board

J. P. Small
Secretary
28 March 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

AXA INSURANCE UK PLC

We have audited the financial statements of AXA Insurance UK plc for the year ended 31 December 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, 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

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 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

Equalisation provisions

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation provisions The nature of equalisation provisions, the amounts set aside at 31 December 2007, and the effect of the movement in those provisions during the year on the equity shareholders' funds, the balance on the general business technical account and profit before tax, are disclosed in accounting policy note 1 2 (h) and note 24 respectively

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its profit 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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
31 March 2008

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2007

General business technical account

	Note	2007 £m	2006 £m
Gross written premiums	3 2	**2,074.8**	1,887 6
Outward reinsurance premiums		**(100.5)**	(103 4)
Net written premiums		**1,974.3**	1,784 2
Change in provision for unearned premiums			
- gross amount		**(92.6)**	(56 8)
- reinsurers' share		**(0.5)**	(0 7)
		(93.1)	(57 5)
Earned premiums, net of reinsurance		**1,881.2**	1,726 7
Other technical income, net of reinsurance		**17.7**	11 5
Total technical income		**1,898.9**	1,738 2
Claims paid			
- gross amount		**(1,187.8)**	(994 6)
- reinsurers' share		**22.8**	31 8
		(1,165.0)	(962 8)
Change in outstanding claims provision			
- gross amount		**(14.5)**	144 7
- reinsurers' share		**(23.4)**	(21 5)
		(37.9)	123 2
Claims incurred, net of reinsurance		**(1,202.9)**	(839.6)
Net operating expenses	3 3	**(795.9)**	(707 4)
Change in the equalisation provision	24	**(14.7)**	(24 2)
Total technical charges		**(2,013.5)**	(1,571 2)
Balance on the general business technical account		**(114.6)**	167 0

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

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2007

Non-technical account

	Note	2007 £m	2006 Restated £m
Balance on the general business technical account		**(114.6)**	167 0
Investment income	5 1	**217.5**	168 4
Unrealised gains on investment property valuations		**-**	1 2
Investment expenses and charges	5 2	**(42.0)**	(12 2)
Unrealised losses on investment property valuations		**(12.6)**	-
Foreign exchange gains/(losses)		**5.0**	(2 5)
		167.9	154 9
Profit on ordinary activities before tax		**53.3**	321.9
Tax on profit on ordinary activities	10 1	**(24.1)**	(60 0)
Profit on ordinary activities after tax		**29.2**	261.9
Dividends paid		**-**	(52 0)
Profit for the financial year	21,22	**29.2**	209 9

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2007

	Note	2007 £m	2006 Restated £m
Profit for the financial year		**29.2**	209.9
Change in current value of subsidiary undertakings	13 1	**56.5**	(76 9)
Revaluation of available for sale financial assets		**(78.3)**	(52 9)
Tax at 30% on the revaluation of available for sale financial assets	10 1	**23.5**	15 8
Unrealised (losses)/gains on group occupied property valuations		**(0.9)**	1 7
Total gains and losses recognised since last annual report	22	**30.0**	97 6

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

BALANCE SHEET
as at 31 December 2007

	Note	2007 £m	2006 £m
ASSETS			
Intangible assets			
Other intangibles	11	**46.4**	72 9
Investments			
Land and buildings	12	**105.1**	58 8
Investment in group undertakings	13 1	**784.4**	736 9
Other financial investments	14	**2,640.3**	2,747 1
		3,529.8	3,542 8
Reinsurers' share of technical provisions			
Provision for unearned premiums		**17.0**	17 5
Claims outstanding		**101.7**	125 1
		118.7	142 6
Debtors			
Direct insurance operations	15	**661.3**	553 2
Reinsurance operations		**32.8**	32 4
Deferred tax	16	**162.2**	151 0
Other debtors	17	**509.6**	293 0
		1,365.9	1,029 6
Other assets			
Tangible fixed assets	18	**35.7**	27 8
Cash at bank and in hand	19	**13.1**	110 3
		48.8	138 1
Prepayments and accrued income			
Accrued interest		**41.6**	35 4
Deferred acquisition costs		**292.0**	212 6
Other prepayments and accrued income		**1.3**	1 3
		334.9	249 3
Total assets		**5,444.5**	5,175 3

BALANCE SHEET
as at 31 December 2007

	Note	2007 £m	2006 Restated £m
LIABILITIES			
Capital and reserves			
Called-up share capital	20,21	**122.3**	122 3
Share premium account	21	**798.7**	798 7
Revaluation reserve	21	**(2.5)**	(3 3)
Capital contributions	21	**228.7**	228 7
Profit and loss account	21	**208.7**	179 5
Equity shareholders' funds	21,22	**1,355.9**	1,325 9
Subordinated liabilities	23	**80.0**	80 0
Technical provisions			
Provision for unearned premiums		**946.3**	853 7
Claims outstanding		**2,270.9**	2,253 2
Equalisation provision	24	**125.9**	111 2
		3,343.1	3,218 1
Provisions for other risks	25	**40.7**	28 0
Creditors			
Direct insurance operations		**221.8**	175 1
Reinsurance operations		**16.5**	16 1
Amounts owed to credit institutions	26	**15.9**	0 1
Other creditors including taxation and social security	27	**365.8**	328 7
		620.0	520 0
Accruals and deferred income		**4.8**	3 3
Total liabilities		**5,444.5**	5,175 3

The financial statements on pages 9 to 42 were approved by the Board on 26 March 2008 and were signed on its behalf by

P. L. H. Maso y Guell Rivet
Director

1. STATEMENT OF ACCOUNTING POLICIES

The pnncipal accountmg policies are set out below

1.1 Basis of preparation and changes in accounting policy

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

The financial statements have been prepared m accordance with applicable UK accountmg standards A summary of the most important accountmg policies is set out below, together with an explanation of where changes have been made to previous policies on adoption of new accountmg standards m the year

The Company has adopted Financial Reportmg Standard ("FRS") 26 (Financial Instruments Measurement) m these financial statements as the Company now uses denvatives for mitigating nsk which has tnggered the adoption of the standard This gives nse to the followmg changes m accountmg policy

- Other financial investments have been classified as available for sale with movements m fair value taken directly to equity Comparative figures have been restated to show the revaluation of available for sale financial assets m the statement of total recognised gams and losses rather than through the non-technical account The effect of this change is to increase the profit after tax by £54 8m (2006 £37 1m)
- An impairment review has been undertaken on available for sale financial assets Comparative figures have been restated to transfer accumulated losses from the revaluation reserve to the profit and loss account m respect of equity secunties where there has been a significant or prolonged decline m the fair value of the asset below its cost The effect of this change is detailed m note 21
- The above changes have no impact on shareholders' funds

The Company has also adopted FRS 29 (Financial Instruments Disclosures) The adoption of this standard represents a change m accountmg policy and comparative figures have been restated accordingly There is no impact on the current year profit or openmg shareholders' funds ansmg from the adoption of the standard, as its provisions relate to disclosure

The Company is a wholly-owned subsidiary undertakmg and its immediate parent undertakmg is established under UK law and, therefore, m accordance with section 228 of the Companies Act 1985, it has not prepared consolidated financial statements for the year ended 31 December 2007

1.2 General business

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

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.2 General business (continued)

(a) Premiums

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

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

(b) Other technical income

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

(c) Claims incurred

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

(d) Claims provisions and related reinsurance recoveries

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

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

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.2 General business (continued)

(d) Claims provisions and related reinsurance recoveries (continued)

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

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

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

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

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

Property, aviation and accident business

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

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.2 General business (continued)

(d) Claims provisions and related reinsurance recoveries (continued)

Motor business

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

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

Liability and marine claims

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

1. A combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes The initial estimate of the loss ratio, based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation and on the anticipated market experience, is an important assumption in this estimation technique In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort

2. Using the costs of claims notified to the Company at the balance sheet date which are estimated on a case by case basis to reflect the individual circumstances of each claim The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications Adjustments are made to allow for movements in the variables described above

3. By splitting the total case by case cost of notified claims into three band sizes (attritional, large and very large). The ultimate expected cost of claims in each band is then estimated by reference to the projected number of claims (based on statistics showing how the number of notified claims has been developed over time) and the anticipated average final cost of notified and IBNR claims (based on historical levels adjusted to allow for movements in the variables described above)

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

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.2 General business (continued)

(d) Claims provisions and related reinsurance recoveries (continued)

Disease-related and pollution claims

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

Reinsurance recoveries

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

(e) Salvage and subrogation

Salvage and subrogation is held as an asset in the balance sheet and is shown in other debtors

(f) Deferred acquisition expenses

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

(g) Unexpired risks

Provision is made for unexpired risks when, after taking account of investment income on insurance funds, it is anticipated that unearned premiums will be insufficient to meet the future claims and expenses of business in force at the end of the year Classes of business which the directors consider are managed together are aggregated for this purpose Where required the unexpired risks provision is included within 'Other technical provisions'

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.2 General business (continued)

(h) Claims equalisation provision

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

(i) Investment return

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

1.3 Other intangible assets

Advance commission payments in respect of future business are deferred and capitalised at cost in other intangible assets Costs are amortised on either a straight line basis or following an earnings pattern over varying periods over which the Company is expected to benefit Carrying values of intangible assets are regularly reviewed for indications of impairment

1.4 Investments

(a) Land and buildings

Land and buildings are valued at open market valuation Full valuations are made by external, professionally qualified valuers every year in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors The aggregate surplus or deficit on revaluation of group occupied properties is recognised in the statement of total recognised gains and losses and is taken to the revaluation reserve The aggregate surplus or deficit on revaluation of investment properties is taken to the non-technical account

In accordance with SSAP 19, no depreciation or amortisation is provided in respect of freehold investment properties and leasehold properties with over 20 years to run The requirement of the Companies Act 1985 is to depreciate all properties This requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view Depreciation is only one of the factors reflected in the annual valuations, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified

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

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.4 Investments (continued)

(b) Investments in group undertakings and participating interests

In the balance sheet, investments in group undertakings and participating interests are stated at net asset value as an approximation to current value Movements in current value are recognised in the statement of total recognised gains and losses and are taken to the revaluation reserve.

(c) Other financial investments

The Company classifies all its shares, other variable yield securities, units in unit trusts, debt securities and other fixed interest securities as available for sale financial assets The classification of investments is determined at initial recognition and is re-evaluated at every reporting date

Available for sale financial assets are non-derivative financial assets which are designated as available for sale or which are not classified as fair value through profit and loss, held to maturity or loans and receivables 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 recognised in the statement of total recognised gains and losses and taken to the revaluation reserve

The fair values of listed and unlisted investments for which a market exists are based on current bid prices on the balance sheet date or the last trading day before that date The fair values of other unlisted investments, for which no active market exists, are established by the use of valuation techniques

Mortgages and loans are valued at redemption values less provisions

On disposal or impairment, fair value adjustments accumulated in the revaluation reserve are transferred to the non-technical account

(d) Investment income

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

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

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

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

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.5 Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that the value of an available for sale financial asset has been impaired A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset which have an impact on the estimated future cash flows of the financial assets 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 the statement of total recognised gains and losses and is charged to the non-technical account

An impairment loss of a debt instrument is reversed through the non-technical account if the fair value of the instrument increases in a subsequent period and such an increase can be related to an event which occurred after the impairment loss was originally recognised An impairment loss of an equity instrument is not reversed

1.6 Derivative financial instruments

Derivative financial instruments, used for mitigating risk, include futures, forward foreign exchange contracts, credit default swaps and currency swaps They are classified as available for sale Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value Fair values are obtained from quoted market prices in active markets and valuation techniques including discounted cash flow models and options pricing models which have certain inputs not based on observable market data

Changes in the fair value of derivative instruments are recognised immediately in the non-technical account No adjustment is made to the classification of existing investments to reflect the effect of the future settlement of these transactions

1.7 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

1.8 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

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.9 Tangible fixed assets and depreciation

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

- Computers and major software developments 20% - 33 3%
- Fixtures, fittings, equipment and motor vehicles 12 5% - 33 3%
- Leasehold improvements period of lease to a maximum of 50 years

1.10 Staff pension costs

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

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

1.11 Operating leases

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

1.12 Dividends

Interim dividends are recognised when paid and final dividends are booked as a liability when they are approved by the members passing a written resolution

2. MANAGEMENT OF FINANCIAL RISK

2.1 Financial risk management objectives and policies

The Company ıs exposed to financıal rısk through the ınherent uncertaınty ın undertakıng ınsurance busıness affectıng ıts financıal assets and lıabılıtıes The most ımportant components of thıs rısk are market (ıncludıng ınterest rate and prıce rısks), credıt and lıquıdıty rısks

The Company ıs part of AXA UK plc whıch has establıshed a groupwıde financıal rısk management framework and assocıated set of polıcıes These are desıgned to ensure that financıal rısks are adequately controlled and monıtored through Rısk Commıttees advısıng the Group Chıef Executıve and ındıvıdual busıness unıt Chıef Executıves A dedıcated Fınancıal Rısk Management functıon supports the ındıvıdual busıness unıts by ensurıng that a full understandıng and control of financıal rısks ıs ıncorporated ınto management decısıon makıng and procedures

Fınancıal rısks are consıdered from both a shareholder and a polıcyholder lıabılıty perspectıve wıth the adoptıon of approprıate rısk polıcıes to cover dıfferent sıtuatıons, such as ınsurance contracts, where the prıncıpal technıque ıs to match assets to lıabılıtıes, and non-ınvestment credıt rısk The Company does not use hedge accountıng

The Company has not changed the processes used to manage ıts rısks from prevıous perıods The notes below explaın how financıal rısks are managed

2.2 Market risk

Market rısk can be defined as the rısk that movements ın market factors (such as prıcıng of equıtıes or bonds), ınterest rates and currency rates ımpact adversely the value of, or ıncome from, the financıal assets Also, to the extent that claıms ınflatıon ıs correlated to ınterest rates, lıabılıtıes to polıcyholders are exposed to ınterest rate rısk

For an ınsurance company, market rısk appetıte ıs requıred to reflect the aım of retaınıng prudent margıns to avoıd ınsolvency whılst balancıng the desıre to optımıse ınvestment performance In order to control market rısk, assets are chosen where relevant to match a range of underlyıng lıabılıty characterıstıcs such as theır mean duratıon, ınflatıon and currency factors

The Investment Commıttee ıs responsıble for strategy for the ınvested assets of AXA UK group companıes by settıng ınvestment guıdelınes The Commıttee defines and documents the range of strategıc asset allocatıon by class of asset takıng ınto account the ınteractıon between assets and lıabılıtıes The Commıttee also defines concentratıon lımıts Together, these controls are monıtored monthly for each portfolıo to help control the ımpact of prıce rısks on the portfolıo

(a) Interest rate

The faır value of debt securıtıes ıs exposed to future ınterest rate fluctuatıons Included ın debt securıtıes of £1,843 5m (2006 £1,812 4m) ıs £547 2m (2006 £385 4m) ın respect of varıable rate debentures Debt securıtıes wıth fixed ınterest rate are exposed to faır value ınterest rate rısk but not cashflow ınterest rate rısk Debt securıtıes wıth varıable ınterest rates are exposed to cashflow ınterest rate rısk but not faır value ınterest rate rısk

2. MANAGEMENT OF FINANCIAL RISK (CONTINUED)

2.2 Market risk (continued)

(a) Interest rate (continued)

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date An increase of 100 basis points in interest yields would result in additional profit for the period of £5 0m (2006 £4 5m) plus unrealised losses in the statement of total recognised gains and losses of £62 9m (2006 £62 0m) A decrease of 100 basis points in interest yields would result in additional loss for the period of £5 0m (2006 £4 5m) plus unrealised gains in the statement of total recognised gains and losses of £67 0m (2006 £66 9m)

(b) Equity price risk

Listed equity securities represent 62% (2006 71%) of total equity investments If the relevant market indices had increased/decreased by 10%, with all other variables constant, and all the Company's equity investments moving according to the historical correlation index, the profit for the year would increase/decrease by £8 0m (2006 £12 5m), and unrealised gains recorded through the statement of total recognised gains and losses would increase/decrease by £21 3m (2006 £29 2m)

(c) Currency risk

The Company is exposed to currency risk in respect of portfolios denominated in other currencies, principally the US dollar and euro Mitigation of this risk is partly achieved by matching the liabilities with assets in the same currency At 31 December 2007, if the pound had weakened/strengthened by 1%, with all other variables constant, the profit before tax for the year would have been £0 8m (2006 £1 0m) lower/higher

2.3 Capital management

The Company is regulated by the FSA and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities The Company manages capital in accordance with these rules and has embedded in its processes the necessary tests to ensure continuous and full compliance with such regulations Given the variability of the many inflows and outflows which are subject to price and other combinations of risk, regular monitoring of liability and asset profiles is undertaken to establish the implications for supporting capital requirements

The Company is subject to the FSA's capital adequacy requirements (which are based on EU Directive requirements) At 31 December 2007 the total capital available to meet it's adjusted solo basis Solvency I requirement is £721m (2006 £959m) which exceeds the General Insurance Capital Requirement by 27% (2006 85%), the fall being due to increased loans to its parent company

2. MANAGEMENT OF FINANCIAL RISK (CONTINUED)

2.3 Capital management (continued)

The Company is also subject to self-assessed risk-based capital requirements under the FSA's individual capital adequacy regime and 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 FSA to whom regular reports are made The Company has complied with all regulatory capital requirements throughout the year

In addition, general insurers are required to maintain equalisation provisions in respect of certain classes of business to protect against the impact of large claims and catastrophes The basis on which these equalisation provisions are established is set out in regulations Further details of the equalisation provision amount and movement are disclosed in accounting policy note 1 2 (h) and note 24 respectively

2.4 Insurance and reinsurance risk

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

2.5 Credit risk

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

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

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

2. MANAGEMENT OF FINANCIAL RISK (CONTINUED)

2.5 Credit risk (continued)

The assets bearing credit risk are summarised below

	2007 £m	2006 £m
Debt securities - available for sale - listed	**1,843.5**	1,812 4
Direct insurance operations	**661.3**	553 2
Reinsurance operations	**32.8**	32 4
Other debtors	**17.1**	10 8
Available for sale overseas unincorporated investment funds	**77.7**	50 7
Deposits with credit institutions	**436.3**	522 9
Cash at bank and in hand	**13.1**	110 3
Total assets bearing credit risk	**3,081.8**	3,092 7

An analysis of credit risk assets by economic exposure is shown below

	2007 £m	2006 £m
AAA	**510.9**	976 0
AA	**559.2**	499 8
A	**997.5**	744 7
BBB	**218.7**	161 8
Below BBB	**7.1**	-
Not rated (primarily related to insurance receivables)	**788.4**	710 4
Total assets bearing credit risk	**3,081.8**	3,092 7

The following table provides the aging of financial assets that are past due but not impaired

	Not past due or impaired	**Overdue less than 6 months**	**Overdue 6-12 months**	**Overdue over 1 year**	**Provided for**	**Carrying value £m**
2007						
Direct insurance operations	**92%**	**5%**	**1%**	**1%**	**1%**	**661.3**
Reinsurance operations	**89%**	**0%**	**0%**	**0%**	**11%**	**32.8**
2006						
Direct insurance operations	96%	3%	0%	0%	1%	553 2
Reinsurance operations	90%	0%	0%	0%	10%	32 4

2. MANAGEMENT OF FINANCIAL RISK (CONTINUED)

2.6 Liquidity risk

Lıquıdıty nsk ıs defined as the nsk that the Company, ırrespectıve of solvency and profitabılıty, may not have sufficıent avaılable cash (or near cash assets or fundıng facılıtıes) to pay oblıgatıons when they fall due at reasonable cost

Lıquıdıty nsk could anse from ıllıquıd asset holdıngs, ınappropnate asset/lıabılıty matchıng or ınexact forecast operatıng lıquıdıty requırements resultıng ın ınsuffıcıent short-term (ıncludıng ıntra-day) and longer-term lıquıdıty. Thıs ıs controlled vıa the hıgher level requırements of AXA UK for annual lıquıdıty revıews ıncludıng stress testıng to ensure that suffıcıent lıquıdıty exısts ın the busıness In addıtıon, a robust workıng capıtal management envıronment ıs encouraged by ensunng there are appropnate loan and overdraft facılıtıes, backed up by regular short-term cashflow forecastıng

The table below provıdes an analysıs of the Company's financıal lıabılıtıes beanng lıquıdıty nsk, all of whıch are payable wıthın one year apart from subordınated loans whıch are payable after five years (note 23)

	2007 £m	2006 £m
Subordınated loans	**80.0**	80 0
Dırect ınsurance operatıons	**221.8**	175 1
Reınsurance operatıons	**16.5**	16 1
Amounts owed to credıt ınstıtutıons	**15.9**	0 1
Other credıtors ıncludıng taxatıon and socıal secunty	**365.4**	328 7
Total lıabılıtıes beanng lıquıdıty nsk	**699.6**	600 0

3. GENERAL INSURANCE BUSINESS

3.1 Geographical analysis

Substantıally all gross wrıtten premıums ın respect of dırect and reınsurance busıness are wrıtten ın the Unıted Kıngdom

3.2 Class of business analysis

	Gross written premiums		**Gross earned premiums**	
	2007 £m	2006 £m	**2007** £m	2006 £m
Direct and reinsurance accepted				
Motor - thırd party	**26.5**	20 3	**22.6**	18 9
- other	**448.6**	351 3	**399.6**	319 2
Accıdent and health	**212.3**	168 5	**203.2**	163 3
Thırd party lıabılıty	**362.1**	388 1	**374.1**	391 3
Fıre and other damage to property	**833.4**	814 1	**831.7**	786 8
Marıne, avıatıon and transport	**18.6**	27 7	**19.0**	28 9
Mıscellaneous	**173.3**	117 6	**132.0**	122 4
	2,074.8	1,887 6	**1,982.2**	1,830 8

3. GENERAL INSURANCE BUSINESS (CONTINUED)

3.2 Class of business analysis (continued)

	Gross claims incurred		**Gross operating expenses**	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Direct and reinsurance accepted				
Motor - third party	**10.3**	7 4	**4.8**	4 4
- other	**339.6**	171 2	**109.3**	81 1
Accident and health	**131.9**	121 6	**114.6**	77 6
Third party liability	**79.3**	104 9	**131.7**	122 8
Fire and other damage to property	**542.5**	366 7	**365.7**	359 6
Marine, aviation and transport	**4.5**	(5 2)	**9.1**	13 0
Miscellaneous	**94.2**	83 3	**65.3**	53 2
	1,202.3	849 9	**800.5**	711 7

The business analysis follows the categories used in the FSA return

	Reinsurance balance	
	2007	2006
	£m	£m
Direct and reinsurance accepted		
Motor - third party	**(0.6)**	(0 8)
- other	**(11.4)**	(10 1)
Accident and health	**(1.3)**	(2 2)
Third party liability	**(3.9)**	(11 8)
Fire and other damage to property	**(78.0)**	(62 2)
Marine, aviation and transport	**1.1**	(1 4)
Miscellaneous	**(2.9)**	(1 0)
	(97.0)	(89 5)

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

3.3 Analysis of net operating expenses

	2007	2006
	£m	£m
Acquisition costs	**736.2**	589 5
Movement in deferred acquisition costs	**(79.6)**	(24 2)
Administrative expenses	**143.9**	146 4
Reinsurance commission and profit participation	**(4.6)**	(4 3)
	795.9	707 4

Commissions expense on direct insurance business amounted to £615 0m (2006 £500 6m)

4. MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

	2007	2006
	£m	£m
Motor	**(15.1)**	(87 6)
Accident and health	**2.0**	8 9
Third party liability	**(176.2)**	(133 3)
Fire and damage to other property	**(26.5)**	(6 9)
Marine, aviation and transport	**(9.2)**	(15 6)
Miscellaneous	**(0.7)**	14 7
Total decrease in prior years' claims reserves	**(225.7)**	(219 8)

An actuarial reserve review led to a reduction in prior year reserves mainly in Liability and Property lines where savings on claims as they settle have been greater than previously expected

5. INVESTMENT RETURN

5.1 Investment income

	2007	2006 Restated
	£m	£m
Interest income from available for sale investments	**133.7**	126 5
Other income from available for sale investments	**21.9**	16 4
Gains on the realisation of available for sale financial assets	**61.9**	25 5
	217.5	168 4

5.2 Investment expenses and charges

	2007	2006
	£m	£m
Investment management expenses	**3.0**	3 4
Interest payable	**6.1**	5 4
Net expenses of land and buildings	**0.9**	1 9
Movement in impairment on available for sale financial assets	**32.0**	1 5
	42.0	12 2

5. INVESTMENT RETURN (CONTINUED)

5.3 Total investment return

	2007	2006
	£m	£m
Investment income (note 5 1)	**217.5**	168 4
Investment expenses (note 5 2)	**(42.0)**	(12 2)
Net unrealised losses on available for sale financial assets	**(78.3)**	(52 9)
Other	**(8.5)**	0 4
Total investment return	**88.7**	103 7
Analysed between.		
Non-technical account	**167.9**	154 9
Statement of total recognised gains and losses	**(79.2)**	(51 2)
Total investment return	**88.7**	103 7

6. DIRECTORS' EMOLUMENTS

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

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

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

7. STAFF COSTS

Staff engaged in the Company's activities are employees of AXA Services Limited, a fellow subsidiary undertaking, and the related costs incurred are recharged to the Company Pension costs included in the recharge are detailed in note 8

8. STAFF PENSION COSTS

Staff engaged ın the Company's actıvıtıes are members of the AXA UK Pensıon Scheme whıch embraces a number of companıes ın the AXA UK group The Scheme has both defined benefit and defined contrıbutıon sectıons but the Company ıs unable accurately to ıdentıfy ıts share of the underlyıng assets and lıabılıtıes of the defined benefit sectıon Accordıngly, the Company has accounted for ıts contrıbutıon to the defined benefit sectıon as ıf ıt were a defined contrıbutıon arrangement

An ındependent actuarıal revıew by Watson Wyatt of the defined benefit scheme revealed a deficıt of £296m as at 31 December 2007 (£574m as at 31 December 2006) before takıng account of any tax relıef Thıs represents a snapshot of the present cost of meetıng pensıon oblıgatıons that wıll crystallıse over a perıod of many years The Scheme ınvests ın a wıde range of assets, ıncludıng equıtıes, whıch over the long term, are expected by the dırectors to produce hıgher returns than those underlyıng the assessment of the deficıt as at 31 December 2007 The AXA UK group made addıtıonal contrıbutıons totallıng £26m (2006 £23m) to the Scheme, ın accordance wıth the plan to reduce the deficıt

The total pensıon cost whıch has been charged to the profit and loss account of the Company ıs £21 7m (2006 £19 0m) There were no outstandıng contrıbutıons as at 31 December 2007 (2006 £nıl)

9. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Profit on ordınary actıvıtıes before tax ıs stated after chargıng

	2007	2006
	£m	£m
Amortısatıon of ıntangıble asset (note 11)	34.0	26 6
Impaırment of ıntangıble asset (note 11)	17.0	8 0
Tangıble fixed asset deprecıatıon (note 18)	9.0	0 6
Onerous loss (note 25)	12.2	-
Rentals under operatıng leases	12.4	10 3

Durıng the year the Company obtaıned the followıng servıces from the Company's audıtor at costs detaıled below

	2007	2006
	£m	£m
Audit services		
Fees payable to the Company's audıtor for the audıt of the statutory accounts	0.5	0 5
Non-audit services		
Fees payable to the Company's audıtor and ıts assocıates for other servıces		
Other servıces pursuant to legıslatıon	0.2	0 6
	0.7	1 1

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

10.1 Analysis of tax charge/(credit) in period

	Profit and loss account		Statement of total recognised gains and losses	
	2007	2006 Restated	**2007**	2006 Restated
	£m	£m	**£m**	£m
Current tax:				
UK corporation tax on profit of the period	**22.3**	78 8	**(23.5)**	(15 8)
Adjustments in respect of previous periods	**12.3**	22 3	**-**	-
	34.6	101 1	**(23.5)**	(15 8)
Foreign tax	**0.7**	0 2	**-**	-
Total current tax (note 10 2)	**35.3**	101 3	**(23.5)**	(15 8)
Deferred tax:				
Origination and reversal of timing differences	**(10.8)**	13 8	**-**	-
Adjustment to deferred tax assets arising in previous periods	**(0.4)**	(55 1)	**-**	-
Total deferred tax (note 16)	**(11.2)**	(41 3)	**-**	-
Tax charge/(credit)	**24.1**	60 0	**(23.5)**	(15 8)

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

10. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

10.2 Factors affecting current tax charge/(credit) for the period

The tax assessed for the penod ıs hıgher (2006 hıgher) than the standard rate of corporatıon tax ın the UK (30%) The dıfferences are explaıned below

	Profit and loss account		Statement of total recognised gains and losses	
	2007	2006 Restated	**2007**	2006 Restated
	£m	£m	**£m**	£m
Profit before tax	**53.3**	321 9	**(22.7)**	(128.1)
Profit multıplıed by standard rate of corporatıon tax ın the UK of 30% (2006 30%)	**16.0**	96 5	**(6.8)**	(38 4)
Effects of:				
Expenses not deductıble for tax purposes (prımarıly equıty unrealısed gaıns taxed on a sıx year spread and unrealısed losses on subsıdıarıes)	**4.0**	3 8	**0.2**	23 1
Income not taxable (prımarıly UK equıty ıncome and unrealısed gaıns on subsıdıarıes)	**(4.5)**	(3 7)	**(16.9)**	(0 5)
Capıtal allowances for the penod ın excess of depreciatıon	**0.2**	(0 2)	**-**	-
Surplus tax losses carrıed forward	**6.8**	-	**-**	-
Utılısatıon of tax losses	**-**	(17 5)	**-**	-
Hıgher tax rates on overseas earnıngs	**0.5**	0 1	**-**	-
Adjustments to tax charge ın respect of prevıous penods	**12.3**	22.3	**-**	-
Current tax charge/(credıt) for the penod (note 10 1)	**35.3**	101 3	**(23.5)**	(15 8)

10.3 Factors that may affect future tax charges

The Company has a substantıal tradıng loss carrıed forward as at 31 December 2007 Thıs wıll sıgnıficantly reduce tax payable ın future accountıng penods

11. OTHER INTANGIBLE ASSETS

	Total £m
Cost	
At 1 January 2007	130 8
Additions	24 5
At 31 December 2007	155 3
Accumulated amortisation	
At 1 January 2007	57 9
Charge for the year	34 0
Impairment	17 0
At 31 December 2007	108 9
Net book value – 31 December 2007	**46.4**
Net book value – 31 December 2006	72 9

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

The annual impairment review resulted in an impairment of £12 0m (2006 £nil) due to an unexpected fall off in future business due to the credit crunch and a £5 0m (2006 £8 0m) offset against creditors due to a compensating overstatement

12. LAND AND BUILDINGS

	2007 £m	2006 £m
Market value Freehold	**105.1**	58 8
Cost	**115.7**	56 0

Included in land and buildings at market value is £11 6m (2006 £12 5m) in respect of land and buildings occupied by the Company for its own use The remaining properties form part of a jointly held property portfolio with 85% held by the Company and 15% held by AXA PPP healthcare limited, a subsidiary undertaking

Land and buildings were valued at 31 December 2007 on an open market existing use basis by Lambert Smith Hampton or by CB Richard Ellis, who are external chartered surveyors, in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors

12. LAND AND BUILDINGS (CONTINUED)

On 23 December 2005, the Company and Ipswich Borough Council concluded agreements for the Company to lease Suffolk House, Ipswich and to substantially repair and refurbish the building Refurbishment is being conducted in phases and has to be completed within five years of the date of the agreement To ensure that the Council would not be disadvantaged if the Company failed to complete the repair works, the Council required the Company to deposit £8 5m into an escrow bank account A separate escrow agreement ensures that this money can only be used for the purpose of the repairs and refurbishment and the balance is now £3 3m

A provision of £5 1m was created at 31 December 2005 for the estimated repair costs, of which £1 2m remains at 31 December 2007 for utilisation in the future refurbishment phases (see note 25) Refurbishment costs, in excess of the repair costs considered necessary by the Council, are being capitalised as leasehold improvements (see note 18) Owing to the phased nature of the refurbishment, occupation will also be phased, and so an onerous lease provision was created last year At 31 December 2007 this stands at £1 1m (2006 £1 6m), undiscounted

13. INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

13.1 Investment in subsidiary undertakings

	2007	2006
	£m	£m
Current value at 1 January	**736.9**	813 8
Movement in current value	**56.5**	(76 9)
Disposal of Venture Preference Limited (at cost)	**(9.0)**	-
Current value at 31 December	**784.4**	736 9
Cost	**780.9**	789 9

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

On 8 January 2007, the Company's wholly-owned subsidiary, Venture Preference Limited (VPL), was transferred to AXA Advisory Holdings Limited at net asset value, funded by an increase in the loan from the Company to AXA Insurance plc of £10.5m AXA Advisory Holdings Limited is the new advisory and broking arm of AXA UK plc and the transfer ensures the structural separation of the distribution and underwriting business of the Company from this new broking capability

13. INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS (CONTINUED)

13.2 Particulars of principal subsidiary undertakings

	Country of incorporation or registration	Holding of ordinary shares
Insurance companies		
AXA General Insurance Limited	England	100%
AXA PPP healthcare limited (indirect holding)	England	100%

14. OTHER FINANCIAL INVESTMENTS

	Current value		Cost	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Available for sale shares and other variable yield securities and units in unit trusts				
- listed	**213.3**	291 9	**202.9**	234 0
- non-listed	**132.2**	119 9	**148.9**	121 5
Available for sale debt securities and other fixed income securities				
- listed	**1,843.5**	1,812 4	**1,901.5**	1,848 3
- non-listed	**15.0**	-	**15.0**	-
Deposits with credit institutions	**436.3**	522 9	**436.3**	522 9
	2,640.3	2,747 1	**2,704.6**	2,726 7

Other financial investments are denominated in the following currencies

	Current value	
	2007	2006
	£m	£m
Pound	**2,574.1**	2,651 6
Euros	**12.8**	13 9
US dollar	**45.9**	63 5
Other currencies	**7.5**	18 1
	2,640.3	2,747 1

15. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2007 £m	2006 £m
Due from policyholders	**136.9**	142 1
Due from intermediaries	**524.4**	411 1
	661.3	553 2

16. DEFERRED TAX

The deferred tax asset comprises

	2007 £m	2006 £m
Accelerated capital allowances	**(0.5)**	0 5
Tax losses carried forward	**164.0**	156 6
Unrealised losses	**-**	(3 8)
Other timing differences	**(1.3)**	(2 3)
Undiscounted deferred tax asset	**162.2**	151 0
Asset at start of period	**151.0**	109 7
Deferred tax credit in profit and loss account (note 10 1)	**11.2**	41 3
Undiscounted deferred tax asset	**162.2**	151 0

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

The tax credit incorporates a charge of £11 4m caused by the reduction in the future tax rate from 30% to 28% effective from 1 April 2008

17. OTHER DEBTORS

	2007 £m	2006 £m
Amounts due from intermediate parent undertakings	**34.4**	18 5
Amounts due from immediate parent undertaking	**347.9**	154 3
Amounts due from subsidiary undertakings	**5.1**	2 9
Amounts due from fellow subsidiary undertakings	**10.3**	9 7
Amounts due from associated group undertaking	**0.1**	0 1
Salvage and subrogation recoverable	**69.8**	67 2
Other debtors	**42.0**	40 3
	509.6	293 0

18. TANGIBLE FIXED ASSETS

	Leasehold improvements £m	Vehicles £m	Fixtures and fittings £m	Software £m	Total £m
Cost					
At 1 January 2007	4 9	0 1	0 9	23 5	29 4
Additions	2 1	-	1 6	13 2	16 9
At 31 December 2007	7 0	0 1	2 5	36 7	46 3
Accumulated depreciation					
At 1 January 2007	-	0.1	0 9	0 6	1 6
Charge for the year	0 5	-	0 1	8 4	9 0
At 31 December 2007	0 5	0 1	1 0	9 0	10 6
Net book value – 31 December 2007	**6.5**	**-**	**1.5**	**27.7**	**35.7**
Net book value – 31 December 2006	4 9	-	-	22 9	27 8

Leasehold improvements relate to refurbishment of operational property

Software additions relate to expenditure incurred in the design and development of software for use within the Company's computer systems

19. CASH AT BANK AND IN HAND

Cash at bank and in hand includes £3 3m (2006 £8 5m) in an encumbered escrow account as disclosed in note 12

20. CALLED-UP SHARE CAPITAL

	2007		2006	
	Authorised £m	**Paid-up £m**	Authorised £m	Paid-up £m
Authorised:				
489,056,602 (2006 489,056,602) Ordinary shares of 25p each	**122.3**	-	122 3	-
Issued:				
489,056,602 (2006 489,056,602) Ordinary shares of 25p each	-	**122.3**	-	122 3
	122.3	**122.3**	122 3	122 3

21. STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital £m	Share premium account £m	Revaluation reserve £m	Capital contributions £m	Profit and loss account £m	Total £m
At 1 January 2007						
Previously reported	122 3	798 7	(49 5)	228 7	225 7	1,325 9
Prior year restatement on adoption of FRS 26						
Revaluation of assets	-	-	18 4	-	(18 4)	-
Losses re impairment	-	-	27 8	-	(27 8)	-
Restated	122 3	798 7	(3 3)	228 7	179 5	1,325 9
Profit for the year	-	-	-	-	29 2	29 2
*Movement in STRGL**						
Change in current value of subsidiary undertakings	-	-	56 5	-	-	56 5
Revaluation of assets	-	-	(79 2)	-	-	(79 2)
Deferred tax thereon	-	-	23 5	-	-	23 5
At 31 December 2007	**122.3**	**798.7**	**(2.5)**	**228.7**	**208.7**	**1,355.9**

Revaluation reserve comprises of net unrealised gains and losses on available for sale investments, group occupied property and investment in subsidiary undertakings

Prior year restatements are net of tax

**Statement of total recognised gains and losses*

22. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2007 £m	2006 Restated £m
Profit on ordinary activities after tax	**29.2**	209 9
Recognised gains/(losses) on change in current value of subsidiaries	**56.5**	(76 9)
Revaluation of available for sale financial assets (net of tax)	**(54.8)**	(37 1)
Unrealised (losses)/gains on property revaluations	**(0.9)**	1 7
Net addition to shareholders' funds	**30.0**	97 6
Shareholders' funds at 1 January	**1,325.9**	1,228 3
Shareholders' funds at 31 December	**1,355.9**	1,325 9

23. SUBORDINATED LOANS

	2007	2006
	£m	£m
Subordmated loans are payable as follows		
After five years	**80.0**	80 0

On 21 December 2001, the Company was granted a subordmated loan facılıty of £50m by ıts ımmedıate parent company, AXA Insurance plc On the same date, the Company drew down £30m Under the terms of the loan agreement, ınterest on each drawdown ıs payable annually at LIBOR plus 1 7% Each loan granted under the facılıty has a maturıty of fifteen years from the date of drawdown and ıs repayable on demand by the lender, provıded the lender has gıven not less than five years notıce ın wrıtıng to the borrower On 28 March 2002, the Company drew down a further £10m

On 28 March 2002, the Company was granted a perpetual subordmated loan facılıty of £50m by ıts ımmedıate parent company, AXA Insurance plc On 11 June 2002, the Company drew down £40m Under the terms of the agreement, ınterest on each drawdown ıs payable half-yearly at LIBOR plus 2 2% Each loan granted under the facılıty ıs repayable on demand by the lender, provıded the lender has gıven not less than five years notıce ın wrıtıng to the borrower

24. EQUALISATION PROVISION

The equalısatıon provısıon ıs establıshed ın accordance wıth accountıng polıcy note 1 2 (h) The effect of thıs provısıon ıs to reduce shareholders' funds by £125 9m (2006 £111 2m) The ıncrease ın the provısıon durıng the year had the effect of reducıng the balance on the technıcal account for general busıness and the profit before tax by £14 7m (2006 £24 2m)

25. ANALYSIS OF PROVISIONS FOR OTHER RISKS

	MIB provision	**Vacant space provision**	**Other provisions**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 January 2007	9.2	10 5	8 3	28 0
Charge for the year	15 4	3 8	14 9	34 1
Utılısed durıng the year	(11 3)	(2 7)	(7 4)	(21 4)
At 31 December 2007	**13.3**	**11.6**	**15.8**	**40.7**

Motor Insurers' Bureau (MIB) provision

The MIB provısıon relates to the levy payable ın respect of 2007 premıums The levy ıs assessed on 2007 premıums and ınformatıon avaılable from the MIB at the tıme Followıng the final assessment of the 2006 provısıon there was an addıtıonal charge of £2 2m ın 2007 (2006 £nıl)

25. ANALYSIS OF PROVISIONS FOR OTHER RISKS (CONTINUED)

Vacant space provision

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

Other provisions

Included in other provisions are

Suffolk House provisions, £1 2m (other) and £1 1m (vacant space) (see note 12)
As described in note 12, provision has been made for anticipated repair costs for Suffolk House, Ipswich At the year end, £1 2m of this provision remains for utilisation in the further refurbishment phases In addition, due to the timing of the refurbishment and future occupation, the onerous lease provision (included under vacant space) has been reduced to £1 1m (2006 £1 6m)

Fire Brigade levy, £2 4m
The cumulative position represents the accrual for the estimated 2007 charge of £1 5m and a balance of £0.9m for potential prior year charges following an industry wide audit by the London Metropolitan Fire Brigade in 2005

Provision for onerous contract, £12 2m
A review of an underperforming contract has resulted in an onerous contract provision of £12 2m in 2007

26. AMOUNTS OWED TO CREDIT INSTITUTIONS

	2007	2006
	£m	£m
Bank borrowings are as follows		
Amounts owed to credit institutions, repayable other than by instalments within one year or on demand	**15.9**	0 1
	15.9	0 1

The carrying amount of amounts owed to credit institutions approximate their fair value

27. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2007 £m	2006 £m
Amounts due to intermediate parent undertakings	-	0 3
Amounts due to subsidiary undertakings	**280.2**	221 3
Amounts due to fellow subsidiary undertakings	**2.6**	1 9
Amounts due in respect of future group tax relief	**52.1**	69 5
Other creditors	**30.9**	35 7
	365.8	328 7

All the above amounts are payable within one year and approximate their fair value

28. OBLIGATIONS UNDER NON-CANCELLABLE OPERATING LEASES

	2007 £m	2006 £m
Annual commitments under non-cancellable operating leases are as follows		
Expiry date		
Within one year	**1.3**	0 1
Between one and five years	**0.9**	2 0
After five years	**3.3**	2 8
	5.5	4 9

All operating lease commitments relate to land and buildings

29. CAPITAL EXPENDITURE COMMITMENTS

As disclosed in note 12, the agreement for the repair and refurbishment of Suffolk House has a completion date of December 2010 by which time it is anticipated that capital expenditure of a further £2 0m (2006 £2 0m) will be incurred The Company had no other capital expenditure commitments as at 31 December 2007 (2006 £nil)

30. CONTINGENT ASSETS AND LIABILITIES

(a) With the approval of the FSA, the Company and certain of its fellow subsidiary undertakings have entered into a mutual guarantee whereby each company guarantees payment of all liabilities incurred by the others in respect of general insurance business

(b) The Company has an intra-group deed of guarantee with Swiftcover Insurance Services Limited, a fellow subsidiary undertaking This is an FSA "comparable" guarantee which is in lieu of a professional indemnity policy The Company guarantees to pay professional negligence claims against Swiftcover in circumstances where such claims would have been covered under the terms of the AXA group Professional Indemnity Cover up to an annual aggregate of €15m for misselling claims and €8m for all other claims

31. CASH FLOW STATEMENT

Under FRS 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 Guardian Royal Exchange plc financial statements which can be obtained from 5 Old Broad Street, London EC2N 1AD

32. RELATED PARTIES

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

Other than for transactions arising in respect of the arrangements mentioned below, there were no material transactions by the Company with non-group related parties in 2007

The pension scheme referred to in note 8, the costs of administering which, with the exception of investment management expenses, are borne by the Company

33. ULTIMATE PARENT

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

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