Registered Number 975601

SUN LIFE UNIT ASSURANCE LIMITED

Directors' Report and Financial Statements

for the year ended 31 December 2006

Registered Office 5 Old Broad Street, London EC2N 1AD

SUN LIFE UNIT ASSURANCE LIMITED

DIRECTORS

N J-M D. Moreau (Chairman)
P J Evans (Chief Executive)
D E Hynam
P L H Maso y Guell Rivet
F de Méneval
A J Purvis
I D. Richardson

SECRETARY

J P Small

AUDITORS

PricewaterhouseCoopers LLP

SUN LIFE UNIT ASSURANCE LIMITED

DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2006.

BUSINESS REVIEW

Principal Activities

The Company's principal business is the transaction of unit-linked life insurance business in the United Kingdom Sales, marketing and administration services are provided by AXA Sun Life Services plc The Company is part of the AXA Life group of companies which transacts all of the long-term insurance business of the AXA UK Group.

The Company does not actively underwrite new business direct with policyholders. Instead new business is received via reinsurance from Sun Life Assurance Society plc and AXA Sun Life plc of unit-linked life business underwritten direct with policyholders by these group companies

Business environment and company positioning

In the United Kingdom the life and savings market is a highly regulated mature market with distribution largely through third party intermediaries

The business reassured by the Company relates to individual clients who are concentrated in higher socio-economic groups, typically investing in unit-linked bonds During 2006 the Company benefited from group investment to improve its offering to individuals including launching open architecture to widen investment choice.

Business performance

The Company has adopted Financial Reporting Standard 26 (Financial Instruments: Measurement) in these financial statements The Company has taken advantage of the transitional provision not to restate comparatives The most significant impact of the new accounting standard has been to extend the use of deposit accounting to direct written investment contracts which are not deemed to transfer significant insurance risk The main impact of deposit accounting is that no amounts are shown as premiums or claims in the profit and loss account thereby reducing total premiums and claims recognised

	2006	2005
	£m	£m
Total operating cashflow	**385**	305
Profit after tax	**126**	77
Capital resources available to meet regulatory requirements	**105**	65

Total operatıng cashflow

Total operatıng cashflow ıs a non-GAAP key performance ındıcator whıch measures the value of net cash receıpts from polıcyholders (ıe cashflows ın less cashflows out). It ındıcates whether the Company ıs gaınıng or losıng funds under management as a result of polıcyholder transactıons The ımpact of deposıt accountıng ın respect of ınvestment contracts means that the premıums and claıms ıncluded ın the profit and loss account cannot be dırectly compared to the total operatıng cashflow figure shown here

The ımprovement ın total operatıng cashflow durıng the year reflects an ıncrease ın cash ınflows of £234m as a result of the rıse ın sales of ınvestment bonds Thıs has been partıally offset by ıncreased surrenders ın respect of old ınvestment bonds

Profit after tax

Profit after tax has ıncreased by £49m relatıve to 2005. Thıs ıs maınly due to one-off non-unıt technıcal provısıon releases of £66m

Capıtal resources

Capıtal resources avaılable to meet regulatory requırements represent the amount of admıssıble net assets avaılable to meet the solvency requırements of the Company. The ıncrease ın capıtal resources as at 31 December 2006 ıs maınly due to the one-off non-unıt reserve movements of £66m

Principal risk and uncertainties

The framework for rısk management ıs descrıbed ın note 2 'Management of financıal rısk'

A descrıptıon of the key busıness rısks affectıng the Company are set out below

Competıtıve envıronment

The Company operates ın a hıghly competıtıve market wıth contınual pressure on product margıns as a result of external competıtıon In order to mıtıgate thıs rısk the AXA Lıfe group has ınıtıated both a cost reductıon programme desıgned to generate cost savıngs, and product and dıstrıbutıon developments desıgned to enable the busıness to ıncrease ıts scale and thereby absorb fixed costs more easıly

Regulatory envıronment

The Company operates ın a hıghly regulated market place where there ıs rısk of non-complıance wıth exıstıng domestıc regulatıons as well as unantıcıpated costs and errors ın ımplementıng future regulatory change

The group mitigates regulatory risk through its regulatory risk policy A key part of this policy is the requirement for business units to maintain an independent compliance department with sufficient resources of appropriate competence to provide support to the business unit's senior managers in the proper discharge of their regulatory responsibilities This includes identifying and assessing changes in regulation, and ensuring appropriate changes are made to procedures, systems and controls to ensure compliance with the revised regulations

Financial and insurance risk

The Company is exposed to a number of financial risks including market, credit and liquidity risk The risks are controlled via the application of risk policies which include control over investment concentrations by type/issuer/credit-rating and reviews of the economic matching of asset durations to liability durations

The Company aims to mitigate insurance risk through a number of measures including the application of new business, medical underwriting and pricing policies designed to ensure that premiums charged are appropriate to the risk assumed and the purchase of appropriate external reinsurance to manage the level of insurance risk retained

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in Note 2 'Management of financial risk'

Future outlook

Following the transfer of business (see following note) the Company will cease to transact insurance business and is expected to apply to the Financial Services Authority for de-authorisation during 2007

TRANSFER OF BUSINESS

As reported in the Directors' Report accompanying the Financial Statements for the year ended 31 December 2005, during March 2006 initial Court approval was received to commence the process under a Part VII Scheme

a) to transfer all of the policies and associated assets and liabilities in the long term fund of Sun Life Unit Assurance Limited into the long term fund of AXA Sun Life plc, and

b) to transfer all the assets and liabilities in the shareholder fund of Sun Life Unit Assurance Limited into the AXA Sun Life plc shareholder fund

The purpose of the Scheme was to simplify the corporate structure of the AXA Sun Life Holdings plc group and to enhance its capital efficiency

Final Court approval of the scheme was obtained in July 2006 The scheme was implemented on 1 January 2007 and resulted in £14,511m of assets and £14,046m of liabilities being transferred into AXA Sun Life plc The transfer resulted in a loss of £465m being recognised and the capital and reserves of the Company being reduced to £2m The residual assets of £2m are intended to cover the base capital requirements of the Company in the period up to de-authorisation On de-authorisation it is expected that the residual assets will be transferred to AXA Sun Life plc creating a further loss of £2m and reducing capital and reserves to £0m

These movements are expected to be reflected in the 2007 financial statements although the timing of the £2m transfer is dependent on the date of de-authorisation Implementation of the scheme resulted in the termination of the current intra-group reinsurance contracts between AXA Sun Life plc, Sun Life Assurance Society plc and Sun Life Unit Assurance Limited in respect of unit-linked business

ACTUARIAL VALUATION

A valuation of the long-term business fund was made as at 31 December 2006 which showed a surplus. A transfer of £60.0 million (2005. £20 0 million) of the surplus has been from the long-term business fund to the shareholders fund

DIVIDENDS

An interim dividend was approved on 26th October 2006 £23m of this interim dividend was paid by the Directors on 27 October 2006 and £3m was paid on 8 November 2006. The directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (2005 nil interim dividend, nil final dividend).

DIRECTORS

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

Mr R E Lee resigned as a director on 7 June 2006 Mr D. Holt resigned on 30 June 2006 and Mr N. J-M D. Moreau was appointed as a director on 1 July 2006. Mr. K. C Bounds resigned as a director on 30 December 2006

APPOINTMENT OF DIRECTORS

In accordance with Clause 92(1) of the Company's Laws and Regulations Mr. F de Méneval will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-appointment.

In accordance with Clause 76 of the Company's Laws and Regulations, Mr. N J-M D. Moreau will retire at the forthcoming Annual General Meeting having been appointed by the directors since the last Annual General Meeting. Being eligible, he offers himself for re-appointment

DIRECTORS' INTERESTS

As permitted by Statutory Instrument, the register of directors' interests does not include the interests of the following directors in the share capital and debentures of the Company, its ultimate holding company (AXA) or subsidiaries of the ultimate holding company as such interests are disclosed in the Directors' Reports of the following companies, which are parent companies of the Company

• P J Evans)	
• N J-M D Moreau)	reported by AXA UK plc
• P. L H. Maso y Guell Rivet)	
• F de Méneval)	
• I D. Richardson)	
• D E. Hynam)	reported by AXA Sun Life Holdings plc
• A J. Purvis)	

Save as stated above, none of the directors at 31 December 2006 had interests in the share capital of the Company, its ultimate holding company (AXA) or subsidiaries of the ultimate holding company

INDEMNIFICATION OF DIRECTORS

The Company is party to a group-wide 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 Sun Life Services plc.

AUDIT DISCLOSURE

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

a) so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware; and

b) 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

AUDITORS

Under Section 379A of the Companies Act 1985, the Company has elected to dispense with the following obligations:

- to lay accounts and reports before general meetings;
- to hold annual general meetings, and
- to appoint auditors annually

By Order of the Board

Jeremy P. Small

J. P. Small
Secretary
30 March 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES

The following statement is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements

The responsibilities of the auditors are set out in the auditors' report

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 of the profit or loss of the Company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently; with the exception of changes arising on the adoption of new accounting standards in the year,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SUN LIFE UNIT ASSURANCE LIMITED

We have audited the financial statements of Sun Life Unit Assurance Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds 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 judgments 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

AUDITORS' REPORT

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 2006 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
30 March 2007

SUN LIFE UNIT ASSURANCE LIMITED

PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – LONG-TERM BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006	2006	2005	2005
		£m	£m	£m	£m
Earned premiums, net of reinsurance					
Gross premiums written	3	1,537.5		1,302 9	
Outward reinsurance premiums		(0.7)		(0 7)	
			1,536.8		1,302 2
Investment income	4		938.4		695.7
Unrealised gains on investments			351.2		987.7
Other technical income, net of reinsurance			5.8		10.7
			2,832.2		2,996.3
Claims incurred, net of reinsurance					
Claims paid		(1,029.7)		(893.8)	
Change in provision for outstanding claims		0.3		3.2	
			(1,029.4)		(890.6)
Change in other technical provisions, net of reinsurance					
Long-term business provision		84.4		(46 7)	
Technical provisions for linked liabilities	20	(1,615.0)		(1,886 6)	
			(1,530.6)		(1,933.3)
Net operating expenses	5		(84.1)		(65 3)
Investment expenses and charges	6		(25.3)		(16.5)
Tax attributable to the long-term business	10		(38.9)		(15 3)
Balance on the long-term business technical account			123.9		75.3
Balance on the long-term business technical account before exceptional items			58.2		75.3
Exceptional item	28		65.7		-
Balance on the long-term business technical account including exceptional items			123.9		75 3

All of the above amounts are in respect of discontinued operations. Please refer to 'Transfer of Business' section in the Directors' Report.
The information on pages 16 to 42 forms an integral part of these financial statements

SUN LIFE UNIT ASSURANCE LIMITED

PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	**2006**	2005
		£m	£m
Balance on the long-term business technical account		**123.9**	75.3
Tax credit attributable to the balance on the long-term business technical account	10	**37.3**	26.9
Shareholders' pre-tax profit from long-term business		**161.2**	102.2
Investment income	4	**3.4**	2.9
Unrealised gains on investments		**-**	0 1
Investment expenses and charges	6	**(0.5)**	(0 2)
Unrealised losses on investments		**(0.4)**	-
Other charges		**(0.2)**	(0.1)
Profit on ordinary activities before tax		**163.5**	104.9
Tax on profit on ordinary activities	10	**(38.0)**	(27.7)
Profit on ordinary activities after tax		**125.5**	77 2

All of the above amounts are in respect of discontinued operations Please refer to 'Transfer of Business' section in the Directors' Report.

There were no gains or losses recognised during the year other than the profit for the financial year shown above

The information on pages 16 to 42 forms an integral part of these financial statements

SUN LIFE UNIT ASSURANCE LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 2006

	2006	2005
	£m	£m
Profit for the financial year	**125.5**	77 2
Dividends Paid	**(26.0)**	-
Net addition to shareholders' funds	**99.5**	77 2
Shareholders' funds at 1 January	**367.6**	290 4
Shareholders' funds at 31 December	**467.1**	367 6

The information on pages 16 to 42 forms an integral part of these financial statements.

SUN LIFE UNIT ASSURANCE LIMITED

BALANCE SHEET
AT 31 DECEMBER 2006

	Note	2006		2005	
Assets		**£m**	**£m**	£m	£m
Investments					
Investments in group undertakings	11	**28.0**		26 7	
Other financial investments	12	**127.9**		208 4	
			155.9		235 1
Assets held to cover linked liabilities	13		**13,942.7**		12,446.6
Debtors					
Other debtors	14	**31.2**		4 8	
			31.2		4 8
Other assets					
Cash at bank and in hand			**8.2**		6 0
Prepayments and accrued income					
Accrued interest and rent		**0.5**		0.5	
Deferred acquisition costs		**374.3**		299 7	
Other prepayments and accrued income		**0.6**		2 0	
			375.4		302 2
Total assets			**14,513.4**		12,994 7

The information on pages 16 to 42 forms an integral part of these financial statements.

SUN LIFE UNIT ASSURANCE LIMITED

BALANCE SHEET
AT 31 DECEMBER 2006

	Note	2006		2005	
		£m	£m	£m	£m
Liabilities					
Capital and reserves					
Called up share capital	15	**3.0**		3 0	
Profit and loss account	16	**464.1**		364 6	
Shareholders' funds			**467.1**		367 6
Technical provisions					
Long-term business provision	17	**13.3**		97 7	
Claims outstanding		**0.2**		0.5	
			13.5		98 2
Technical provision for linked liabilities	18		**13,942.7**		12,446 6
Provisions for other risks and charges	19		**39.2**		23.4
Creditors					
Creditors arising out of direct insurance operations		**6.2**		2.4	
Amount owed to credit institutions		**13.9**		11 8	
Other creditors including taxation	21	**28.6**		42 6	
			48.7		56 8
Accruals and deferred income			**2.2**		2 1
Total liabilities			**14,513.4**		12,994 7

The financial statements were approved by the Board of Directors on 30 March 2007 and signed on its behalf by

Director Philippe Maes, Ch Dir

The information on pages 16 to 42 forms an integral part of these financial statements.

1. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies are set out below

Basis of presentation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985 which cover the special disclosures applicable to insurance companies

The financial statements have also been prepared in accordance with applicable UK accounting standards and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") dated December 2005 and revised in December 2006.

Compliance with Statement of Accounting Practice ("SSAP") 19 (Accounting for Investment Properties) requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the departure is provided in the accounting policy note relating to investments below

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

Changes in accounting policies

The Company has adopted FRS 26 (Financial Instruments Measurement) for these financial statements giving rise to the following changes in accounting policy

- Contracts which do not transfer significant insurance risk have been reclassified as investment contracts This requires deposit accounting to be adopted for these contracts with the result that only shareholder margins and not policyholder elements of premiums and claims are recognised in the profit and loss account Liabilities are now recognised on an amortised cost basis The effect of this change in accounting policy has had no impact on opening shareholders' funds for year ended 31 December 2006 and no impact on the profit after tax arising in the year

- Listed investments which have been treated as financial assets at 'fair value through profit and loss' have been revalued at the bid price having previously been valued at mid-market value The impact of this change has been to reduce investment values by £6 6m This change has arisen in the unit-linked funds and it is offset by a corresponding reduction in linked liabilities, leaving opening shareholders' funds unchanged

The Company has taken advantage of the FRS 26 transitional provision not to restate comparatives and as such comparatives have been prepared using the previous requirements of the ABI SORP and the Companies Act. The adjustments that would be needed to restate comparatives would be to apply deposit accounting for contracts which do not transfer significant insurance risk and to revalue opening financial assets from mid-market price to bid price

The Company has adopted FRS 25 'Financial Instruments Presentation and Disclosure' The adoption of this standard represents a change in accounting policy but as for FRS 26 the Company has taken advantage of the transitional FRS 25 provision not to restate comparatives There is no impact on current year's profit or opening shareholders' funds arising from the adoption of the standard, as its provisions relate to disclosure

FRS 20 (Share based payment), FRS 23 (The effects of changes in foreign exchange rates) and FRS 24 (Financial reporting in hyperinflationary economies) are also applicable for the 2006 year end but their adoption has no impact on the financial statements

Contract classification

FRS 26 requires contracts issued by an insurer to be classified as insurance, investment with discretionary participation features (DPF) or investment Contracts classified as investment fall within the scope of FRS 26 whilst those classified as insurance or investment with DPF continue to fall within the scope of the ABI SORP

The Company issues contracts that transfer insurance risk or financial risk or both The Company issues no investment contracts with DPF

Insurance contracts are those contracts that transfer significant insurance risk and may also transfer financial risk As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of the insured event that are at least 10% more than the benefits payable if the insured event did not occur A contract that is classified as an insurance contract continues to be treated as such until all rights and obligations under the contract expire

Investment contracts are those contracts that transfer financial risk but do not transfer significant insurance risk Unit-linked contracts where the contract liability under the contract is dependent on the value of the underlying financial assets, derivatives or investment property are classified as investment contracts unless the contracts also contain features that transfer significant insurance risk

Where business is written via contracts with the legal form of reinsurance, the contract is assessed to determine whether it transfers significant risk For this assessment a significant transfer of persistency expense risk can give rise to significant insurance risk

Insurance contracts

Premium income and commission

Premiums, reinsurance premiums and commission are accounted for when due

Claims

Claims are accounted for when the policy ceases to hold units in the fund Reinsurance recoveries on claims are accounted for when the related claims become due

Acquisition costs and their deferral

The costs of acquiring new business written which are expected to be recoverable from future revenue margins are deferred and recognised in the balance sheet as deferred acquisition costs

The deferred acquisition cost asset is amortised over the period in which the costs, net of the related deferred tax provision, are expected to be recoverable out of margins arising from the related policies The rate of amortisation is consistent with the pattern of emergence of such margins

Long-term reinsurance contracts

The Company has reinsured certain business written by Sun Life Assurance Society plc and AXA Sun Life plc, fellow subsidiaries within the group, to transfer part or all of one or more of the following risks mortality, morbidity, investment, persistency and expenses Such contracts are accounted for as insurance contracts provided the risk transfer is significant Contracts with the legal structure of reinsurance contracts, which do not transfer significant insurance risk, are accounted for in accordance with their substance as financial instruments falling under FRS 26

Unit-linked investment contracts

Amounts received in respect of unit-linked investment contracts are accounted for using deposit accounting, under which amounts collected are credited directly to the balance sheet, as an adjustment to the liability to the policyholder Financial liabilities in respect of unit-linked investment contracts are carried in the balance sheet as 'Technical provisions for linked liabilities' (see separate accounting policy note)

Fees receivable (included in other technical income) are recognised in the profit and loss account in the year they are assessed unless they relate to services to be provided in future years, in which case they are deferred and recognised as the service is provided

Incremental costs that are directly attributable to securing unit-linked investment contracts, and are expected to be recoverable, are deferred and recognised in the balance sheet as deferred acquisition costs The asset is amortised as the related fees for investment management services are recognised

Investment return

Investment income and expenses include dividends, interest, rents, gains and losses on the realisation of investments, and related expenses Dividends are recognised on the date on which shares are quoted ex-dividend Income from government and other fixed income securities, loans and deposits is recognised on an accruals basis Shareholder investment income and expenses are recognised in the non-technical account Investment income and expenses of the long-term insurance business fund are recognised in the technical account

Unrealised gains and losses on investments represent the difference between the valuation of the investments (including land and buildings) at the balance sheet date and their original cost. The unrealised gains and losses attributed to long-term business or held to cover linked liabilities are included in the long-term business technical account Other unrealised gains and losses are included in the non-technical account.

Expenses incurred and interest payable in the management of investments are dealt with on an accruals basis.

Realised gains and losses are calculated as sale proceeds less purchase cost

Regular way purchases and sales of financial assets are accounted for at trade date

Investments

Land and buildings

Land and buildings are stated at open market value as determined annually by qualified surveyors C B Richard Ellis, or Jones Lang La Salle Ltd, firms of independent Chartered Surveyors

Under the Companies Act 1985, land and buildings are required to be depreciated over their expected useful economic lives In respect of investment properties this requirement conflicts with the requirement of SSAP 19, that no depreciation should be provided in respect of such investments The Directors consider that to depreciate investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted It is considered that if depreciation was charged it would not be significant on the basis of expected future residual values

Investments in group undertakings and participating interests

Loans issued to group undertakings are initially stated at fair value plus directly attributable transaction costs and are then subsequently valued at amortised cost using the effective interest method The effective interest rate is determined by identifying the yield on financial instruments with similar terms and conditions to the loans being valued

Other financial investments / Assets held to cover linked liabilities

The Company classifies all its shares, other variable yield securities, units in unit trusts, debt securities and other fixed interest securities at fair value through profit and loss The classification of investments is determined at initial recognition

Financial assets are recognised when the Company becomes a party to the contractual provision of the instruments For equities and debt securities, this is taken to be the trade date Financial assets are derecognised when the Company's contractual rights to the cashflows of the financial assets expire provided that substantially all risks and rewards have been transferred For equities and debt securities, the de-recognition date is taken to be the trade date of the sale transaction

Investments in the long term fund are recorded at fair value through profit and loss This policy is appropriate because, within the profit and loss account, it results in the matching of movements in the policyholder liabilities in the long-term business fund with the movements in the financial assets backing these liabilities Investments in the shareholders' fund are recorded at fair value through profit and loss because the assets are managed and their performance evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the AXA UK Group's key management personnel

The fair values of listed investments are based on current bid prices at the balance sheet date The only investments considered to be unlisted are investments in property limited partnerships by the long term fund The fair value of these assets is taken as the Company's appropriate share of the net asset value of the partnerships The net asset value is based on the latest external market valuation of the underlying property investments, which are updated at least every six months. The valuation would be adjusted in the event of a significant market movement in the period between the last market valuation and the reporting date The valuation technique is not supported by observable market values

Loans, receivables, deposits with credit institutions, certificates of deposits are non-derivative financial assets with fixed or determinate payments that are not quoted in an active market. These instruments are classified upon initial recognition as fair value through profit and loss. This policy is appropriate because, within the profit and loss account, it results in the matching of movements in the policyholder liabilities in the long-term business fund with the movements in the financial assets backing these liabilities. Where the assets are in the shareholders' fund the policy is appropriate because the assets are managed on a fair value basis

Impairment of assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset is 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

Derivative financial instruments

Derivative financial instruments include futures, forward exchange contracts, and over the counter derivatives They are classified as held for trading. 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 option pricing models which have certain inputs not based on observable market prices

Changes in the fair value of derivative instruments are recognised immediately in net fair value gains in the profit and loss account for the period No adjustment is made to the classification of existing investments to reflect the effect of the future settlement of these transactions. Unrealised gains and losses on derivatives and financial instruments attributable to the long-term funds are included in the long-term business technical account.

Long-term business provision

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

The principal assumptions underlying the calculation of the long-term business provision are set out in note 17.

Technical provision for linked liabilities

Liabilities under unit-linked contracts are recognised as and when the units are created and are dependent on the value of the underlying financial assets, derivatives or investment property.

Unit-linked contracts which transfer significant insurance risk are classified as insurance contracts and are carried in the balance sheet at an amount determined by the valuation of the related units on the valuation date which is determined from the value of assets held to provide linked benefits to policyholders

Unit-linked contracts classified as investment contracts are carried in the balance sheet at amortised cost. The amortised cost of these financial liabilities is equivalent to the amount payable on demand The Company considers this basis to be equivalent in all material respects to the valuation of contracts which transfer significant insurance risk and to the fair value of the liabilities.

Other Financial liabilities

Other financial liabilities are held at fair value on initial recognition and then subsequently valued at amortised cost using the effective interest rate, with movements included in the Profit and Loss Account

Financial liabilities are recognised when the Company becomes a party to the contractual provision of the instruments Financial liabilities are derecognised when the obligation specified in the instrument is discharged, cancelled or expires

Offsetting financial instruments

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

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year All other foreign currency transactions are recorded at the actual rate of exchange prevailing on the date of the transaction and any exchange differences are dealt with in the part of the profit and loss account in which the underlying transaction is reported

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Provision is made for deferred tax liabilities, using the incremental liability method, on material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account Deferred tax assets are recognised to the extent that they are regarded as recoverable Deferred tax is calculated using rates substantively enacted at the balance sheet date Deferred tax balances have not been discounted.

The balance transferred from the long-term business technical account to the non-technical account is grossed up at the effective shareholders' corporation tax rate applicable

2. MANAGEMENT OF FINANCIAL RISK

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

Group-wide policies are in place in relation to specific risk areas. Where UK-wide policies are not appropriate, due to the diverse nature of the risk individual business units are exposed to, policies have been established at a local business unit level For example, there are separate policies in respect of insurance risk and non-investment related credit risk within the various business units of the AXA UK Group

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 market, credit, liquidity and cash flow risks

Hedge Accounting

There are no current or forecasted transactions for which hedge accounting is used

The following tables reconcile equities and debt securities to the balance sheet.

	2006
Equities	**£m**
Other financial investments – Note 12	13 1
Linked assets – Note 13	7,151 8
	7,164.9

	2006
Debt securities	**£m**
Other financial investments – Note 12	38 3
Linked assets – Note 13	4,351 4
	4,389.7

Market rate risk

Market risk can be defined as the risk that movements in market factors namely equity, bond, property and commodity prices, interest rates and foreign exchange rates impact adversely the value of, or income from, shareholder and policyholder funds

For an insurance company market risk appetite is required to reflect the aim of retaining prudent margins to avoid insolvency Other factors which are relevant to market risk strategies are meeting the regulatory duty to Treat Customers Fairly and the desire to optimise investment performance

Policyholder funds

The Company only underwrites unit-linked life contracts where the policyholder liabilities are directly linked to the market value of assets within the investment funds. As such, there is no direct market risk to the shareholder in respect of price fluctuations on these assets. There is a secondary shareholder exposure to market risk arising from the fact that management fees due are related to the market value of assets in the policyholder funds Policyholder assets are invested according to the investment guidelines of the specific unit-linked fund to which they relate

Shareholder funds

The Company holds shareholder assets backing retained profits and shareholder capital and working capital items such as outstanding claims The majority of these assets are held as cash, short term deposits with no price risk and holdings in fixed interest securities designed to generate a return over that available on cash deposits at low levels of market risk.

		2006	
Debt securities by interest rate	**0% to 4%**	**> 4%**	**Total**
Debt securities £m	2,614 3	1,775.4	**4,389.7**
Interest rate - Average	1.0%	5.1%	**2.7%**

The fair value of debt securities is exposed to future interest rate fluctuations. As the majority of debt securities are backing unit-linked liabilities, changes in their value are offset by changes in the linked liabilities

Included in debt securities are £2,855.9m in respect of index linked bonds and £383.4m in respect of variable rate debentures For index linked bonds, future coupon cashflows are adjusted for changes in inflation rates to provide protection against erosion of the value of the bond The coupon on variable rate debentures varies according to underlying interest rates

Debt securities, index linked bonds and intercompany loans with fixed interest rate are exposed to fair value interest rate risk but not cashflow interest rate risk

Debt securities and intercompany loans with variable interest rates are exposed to cashflow interest rate risk but not fair value interest rate risk.

All other financial instruments are not directly exposed to interest rate risk

The average effective interest rate for deposits with credit institutions is 5 0%

The average effective interest rate for intercompany loans approximates to LIBOR.

Equity analysis by industry	2006 £m	%
Financial institutions	1,991 9	27 8
Consumers	1,175.0	16 4
Energy	12.7	0.2
Communications	380 2	5 3
Industrial	654 2	9 1
Utilities	1,340 3	18.7
Basic material	207 4	2 9
Technology	41 9	0 6
OEICS, unit trusts	1,352 7	18 9
Others	8 6	0.1
Total	**7,164.9**	**100.0**

Debt securities analysis by industry	2006 £m	%
Government stock	3,473 9	79.1
Financial institutions	737.6	16 8
Others	178.2	4.1
Total	**4,389.7**	**100.0**

Currency risk

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

Currency analysis equity	2006 £m	%
EUR	124.0	1 7
GBP	6,817 5	95.2
USD	86 8	1 2
Others	136.6	1.9
Total	**7,164.9**	**100.0**

Currency analysis of debt securities	2006 £m	%
EUR	23 7	0.6
GBP	4,245 0	96 7
USD	67.9	1.5
Others	53 1	1.2
Total	**4,389.7**	**100.0**

Liquidity and cash flow risk

Liquidity or cash flow risk is defined as the risk that the Company, irrespective of solvency and profitability, may not have sufficient available cash (or near cash assets or funding facilities) to enable the Company to meet policyholder, Government, regulatory or operational obligations as they fall due

This risk could arise as a result of illiquid asset holdings, inappropriate asset/ liability matching, or inaccurate assessments of potential operating liquidity requirements resulting in insufficient short-term (including intra-day) and longer term liquidity.

Liquidity risk in the Company is controlled via the requirements of AXA UK that business units carry out annual liquidity reviews including stress testing to ensure that sufficient liquidity exists in the business These reviews incorporate the results of reviews by the investment managers into the liquidity of the investment portfolios. In addition the UK Group policy requires companies to ensure daily cash management procedures are efficient, well documented and controlled and that robust working capital management procedures exist

Maturity analysis 2006	**Less than 1 year £m**	**1-5 years £m**	**Over 5 years £m**	**Other £m**	**Total £m**
Financial assets					
Equities	-	-	-	7,164 9	**7,164.9**
Debt securities	6.0	693 2	3,690 5	-	**4,389.7**
Deposits with credit institutions	1,357 1	-	-	-	**1,357.1**
Receivables	106 3	-	-	-	**106.3**
Investments in group undertakings	-	-	28 0	-	**28.0**
Cash	53.4	-	-	-	**53.4**
Derivatives	8 4	2 8	-	-	**11.2**
Total	**1,531.2**	**696.0**	**3,718.5**	**7,164.9**	**13,110.6**

Maturity analysis 2006	**Less than 1 year £m**	**1-5 years £m**	**Over 5 years £m**	**Other £m**	**Total £m**
Financial liabilities					
Investment contract liabilities	12 2	50 4	146 6	1,184 1	**1,393.3**
Creditors	17 5	-	-	-	**17.5**
Total	**29.7**	**50.4**	**146.6**	**1,184.1**	**1,410.8**

Contracts with no maturity date are investment bonds and whole life policies. Contracts with a maturity date are endowment contracts

There is no difference between maturity dates and time at which interest rates cease to be fixed.

Credit risk

Credit risk can be defined as the risk of capital or income loss resulting from counterparty default or issuer credit downgrades Credit risk can arise from investment related assets or from non-investment related assets A UK group-wide policy exists for the control of investment related credit risk whilst a business unit level policy exists for non-investment related items

For investment related items credit risk is actively accepted in anticipation of the potential returns to be made on the investments. The level of credit risk to which the portfolios are exposed is controlled via the application of concentration limits to limit the exposure to any one counterparty and in the case of fixed income and cash instruments to limit total exposure to issuers with lower credit ratings

Non-investment items which generate credit risk generally arise as a by product of the Company's insurance operations Items covered by the non-investment credit risk policy include balances with external reinsurers, loans and advances to intermediaries, commission debts, policyholder premium debts, policyholder loans and other operational debts. For the Company, exposure to non-investment credit risk is restricted to that arising from premium debt which is controlled by active monitoring of the levels of debt.

Credit profile of debt securities

	2006	
Ratings	**£m**	**%**
AAA	3,528 0	80 4
AA	113.2	2 6
A	460 2	10.5
BBB	286 8	6.5
Not rated	1 5	0.0
Total	**4,389.7**	**100.0**

The total amount exposed to credit risk which includes debt securities, deposits with credit institutions, receivables and cash is £5,906 6m

The Company holds no financial assets pledged as collateral to it by third parties and has pledged none of its own assets as collateral to third parties

3. SEGMENTAL ANALYSIS

In the opinion of the directors, the Company operates in one business segment, being that of long-term insurance business principally in the United Kingdom

i) Gross premiums written

	2006 £m	2005 £m
Direct insurance	-	1 4
Reinsurance inwards	1,537.5	1,301 5
	1,537.5	1,302 9
Regular premiums	53.5	62 1
Single premiums	1,484.0	1,240 8
	1,537.5	1,302 9
UK business	1,537.3	1,302.7
Overseas business	0.2	0 2
	1,537.5	1,302 9

All premiums are from unit-linked life policies for individual lives.

ii) Gross new business premiums

	Regular premiums 2006	Regular premiums 2005	Single premiums 2006	Single premiums 2005
	£m	£m	£m	£m
Gross new business premiums	8.9	8 3	1,484.0	1,240 8

Gross new business premiums are in respect of reinsurance inwards treaties which transfer significant risk

In classifying new business premiums the following bases of recognition have been adopted.

- Recurrent single premium contracts are included as new business single premiums
- Regular premiums received other than annually are reported on an annualised basis
- Premiums received in respect of contracts which do not transfer significant risk are deposit accounted and therefore not included in the analysis.

4. INVESTMENT INCOME

	Technical Account		Non-technical Account	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
Income from group undertakings	**-**	-	**1.3**	1.3
Income from land and buildings	**48.5**	37.2	**-**	-
Income from other investments	**485.3**	392 8	**2.1**	1.6
Gains on the realisation of investments	**404.6**	265 3	**-**	-
Interest	**-**	0 4	**-**	-
	938.4	695.7	**3.4**	2 9

5. NET OPERATING EXPENSES

	Technical Account	
	2006	2005
	£m	£m
Acquisition costs	**125.5**	107.8
Change in deferred acquisition costs	**(74.6)**	(71 8)
Administrative expenses	**33.2**	29 3
	84.1	65 3

6. INVESTMENT EXPENSES AND CHARGES INCLUDING INTEREST

	Technical Account		Non-technical Account	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
Investment Management expenses	**18.0**	16 5	**-**	-
Other Interest	**1.3**	-	**-**	-
Losses on the realisation of investments	**-**	-	**0.5**	0 2
Transaction costs on investment purchases	**6.0**	-	**-**	-
	25.3	16.5	**0.5**	0 2

The adoption of FRS26 in 2006 has required transaction costs on investment purchases to be disclosed in investment expenses

7. AUDITORS' REMUNERATION

	2006 £m	2005 £m
Audit services		
Fees payable to Company's auditor	**0.1**	0 1
Non-audit services		
Other services pursuant to legislation Attestation under the Sarbanes-Oxley Act	**0.1**	-

8. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2006 £m	2005 £m
Profit on ordinary activities before tax is stated after charging·		
Auditors' remuneration – Audit services	**0.1**	0 1
Net commissions payable in respect of reinsured business	**91.5**	82.2

The profit for the year includes changes in fair value of financial assets estimated using a valuation technique of £11 7m Interest income or cost on loans to group companies and other borrowings valued at amortised cost is considered to be immaterial and is therefore not disclosed Interest costs on unit-linked liabilities valued at amortised cost are disclosed under note 20

The fees in respect of Sarbanes-Oxley attestation are deemed to relate to the Company but have been borne by AXA UK Plc.

9. REMUNERATION OF DIRECTORS AND EMPLOYEES

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

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

Mr D E Hynam, Mr R E. Lee, Mr K. C. Bounds and Mr A J Purvis were also directors of AXA Sun Life Holdings 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

The costs of staff are borne by AXA Sun Life Services plc ("ASLS") ASLS levies management fees on the Company based upon standard rates and volumes of business processed It is not therefore possible to identify separately the amounts of staff costs within the management fees Staff costs are disclosed in the accounts of ASLS

10. TAXATION

	Technical Account 2006 £m	Technical Account 2005 £m	Non-technical Account 2006 £m	Non-technical Account 2005 £m
UK corporation tax:				
UK corporation tax	**35.0**	47 6	**0.7**	0.8
Adjustments in respect of prior periods	**(11.9)**	(42 7)	-	-
Double taxation relief	**(1.0)**	(0 8)	-	-
Total UK corporation tax	**22.1**	4.1	**0.7**	0 8
Overseas tax	**1.0**	0.8	-	-
Tax credit attributable to the balance on the long-term business technical account	-	-	**37.3**	26.9
Total current tax	**23.1**	4 9	**38.0**	27 7
Deferred tax:				
Net deferred acquisition costs	**9.8**	10 4	-	-
Adjustments in respect of prior periods	**6.0**	-	-	-
Total deferred tax	**15.8**	10.4	-	-
Tax on profit on ordinary activities	**38.9**	15 3	**38.0**	27.7

UK corporation tax shown under the technical account is charged on the basis applicable to life assurance companies Corporation tax has been charged at a rate of 30% (2005: 30%) on shareholders' profits and at a rate of 20% (2005 20%) on policyholders' income. UK corporation tax shown under the non-technical account is charged at a rate of 30% (2005: 30%)

Factors affecting the tax charge
The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%) The differences are explained below.

Non-technical account	2006 £m	2005 £m
Profit on ordinary activities before tax	**163.5**	104 9
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005· 30%)	**49.1**	31.5
Difference between effective rate of 23 1% (2005: 26 3%) and standard rate (30%) on balance on long-term business account	**(11.1)**	(3 8)
Current tax charge for the period	**38.0**	27.7

11. INVESTMENTS IN GROUP UNDERTAKINGS

	Carrying Value		Purchase Price	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
Loans	**28.0**	26 7	**28.0**	26 7
	28.0	26 7	**28.0**	26 7

12. OTHER FINANCIAL INVESTMENTS

	Carrying Value		Purchase Price	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
Listed shares and other variable yield securities and units in listed unit trusts	**13.1**	8.0	**9.0**	6 2
Debt securities and other fixed income securities	**38.3**	99.5	**39.5**	120 6
Deposits with credit institutions	**76.5**	100 9	**76.5**	78 6
	127.9	208 4	**125.0**	205 4

13. ASSETS HELD TO COVER LINKED LIABILITIES

	Carrying Value		Purchase Price	
	2006	2005	**2006**	2005
	£m	£m	**£m**	£m
Assets held to cover linked liabilities	**13,942.7**	12,446 6	**9,297.0**	9,158 2

The carrying value for the current year is split as follows.

	2006
	£m
Equity	7,151 9
Debt securities	4,351.5
Land and buildings	957.8
Deposits with credit institutions	1,280 6
Debtors	94 6
Cash	45 4
Other assets	60.9
Total	**13,942.7**

14. OTHER DEBTORS

	2006	2005
	£m	£m
Amounts owed by group undertakings	29.8	3.5
Other debtors	1.4	1.3
	31.2	4 8

15. CALLED UP SHARE CAPITAL

	2006		2005	
	Authorised	Paid-up	Authorised	Paid-up
	£m	£m	£m	£m
Authorised:				
3,000,000 ordinary shares of £1 each	3.0		3.0	
Issued:				
3,000,000 ordinary shares of £1 each, fully paid		3.0		3 0

16. PROFIT AND LOSS ACCOUNT

	2006	2005
	£m	£m
As at 1 January	364.6	287 4
Dividends paid	(26.0)	-
Retained profit for the financial year	125.5	77 2
At 31 December	464.1	364 6

The profit and loss account includes £335.5 million (2005 £268.7 million) which is not distributable

17. TECHNICAL PROVISIONS

Capital management policies

The Company's objectives in managing its capital are

- to support the writing of new business
- to ensure that payments due to policyholders are met
- to satisfy the capital requirements of the regulators
- to assist in the efficient use of available capital in the AXA Group

Restrictions on available capital resources

Surplus in the Long-Term Fund can generally be distributed to shareholders subject to meeting regulatory requirements and other capital management objectives of the Company

No transfers from the Long-Term Fund can take place without an up to date actuarial valuation

The capital held within the shareholders' fund is generally available to meet any requirements, including distribution to shareholders, provided that regulatory requirements and other capital management objectives of the Company remain satisfied.

Intra-group capital arrangements

Intra-group capital arrangements are used to assist in the efficient use of available capital across the AXA Group. The Company has made a loan of £25m (2005 £25m) from its shareholder fund to AXA Sun Life Holdings plc.

Technical provisions

The Company writes unit-linked life business. The technical provision for linked liabilities is determined in accordance with the policy detailed in note 1 (Statement of Accounting policies).

Additional technical provisions arising from insurance linked contracts are held within the long-term business provision, and include an allowance for any excess of future costs over policy charges A discounted cash-flow valuation method has been adopted to determine these additional provisions for all major classes of business. The main assumptions relate to the discount rate, future expenses and future unit price growth, and future mortality experience. Further provisions such as those in respect of equalisation of tax between funds and mis-selling costs are also held

In September 2006 the FSA issued Consultation Paper 06/16 that contained proposals for the relaxation of the valuation rules for non-profit business These rule changes were confirmed in the Policy Statement 06/14 issued in December 2006. For practical reasons these were not implemented in this valuation, and thus no allowance has been made in the valuation of non-profit or unit-linked business for:

- lapse assumptions,
- negative reserves; or
- non-attributable expenses.

Main assumptions

Economic

The following main economic assumptions have been made.

	2006	2005
	% p.a.	% p a.
Inflation rate	**4.25**	4 00
Discount rate	**2.50**	2 25
Unit growth rate	**4.60**	4 40

The assumed inflation rate is determined by considering rates derived from market prices of index-linked securities, with the addition of a prudent margin and an allowance for the excess of future expense inflation over price inflation The discount rate is determined having regard to the yields of assets backing the liabilities, subject to deductions for a prudent margin and to allow for tax. The unit growth rate is set by considering the inflation rate and adding a prudent estimate of the long-term excess of unit growth rates over inflation rates and deducting an allowance for tax The unit growth assumption is before deduction of fund management charges

Mortality

Mortality assumptions are based on published tables suitably adjusted to reflect actual experience. Experience is monitored annually for the major products. Mortality assumptions include margins for prudence Since the previous accounting period no changes to mortality assumptions have been made

Expenses

The provision for future expenses in determining the liabilities for all types of business covers servicing fees payable by the Company to AXA Sun Life Services plc (ASLS) under the Management Services Agreement, fees payable to investment managers and further amounts in respect of other expenses Fees payable to investment managers are assumed to be 0 16% p a of funds, unchanged from 2005 Assumptions are based on recent experience adjusted where necessary to allow for expected changes, including the expected outcome of a review of fees payable to ASLS due to be implemented in 2007 Expenses are applied for each policy individually

Persistency

No allowance has been made for voluntary discontinuance.

Premiums

It is assumed that policyholders will continue to pay premiums in line with their policy conditions. However, if for a particular class of business the assumption that the contract is made paid-up on the valuation date gives higher reserves, then this is assumed

Options and guarantees

There are no significant options or guarantees

Regulatory capital statement

	2006	2005
Available capital resources	**£m**	£m
Shareholders' funds outside long-term fund	**113.8**	77.7
Shareholders' funds within long-term fund	**353.3**	289.9
Total shareholders' funds	**467.1**	367.6
Adjustments onto regulatory basis:		
Assets	**(454.9)**	(379 2)
Liabilities	**92.3**	76 1
Total capital resources available to meet regulatory requirements	**104.5**	64 5
Regulatory capital requirements		
Long-term Insurance Capital Requirement	**8.5**	10.7
Total regulatory capital requirements	**8.5**	10.7

Regulatory Capital Resources

The regulatory capital resources of the Company shown in the capital statement are equal to the excess of the market value of assets (after deducting the value of any assets that cannot be included in the regulatory valuation) over the regulatory value of liabilities The regulatory value of technical provisions included in liabilities is the same as that reported on the balance sheet.

Regulatory Capital Requirements

The regulatory capital resources must be sufficient to meet the regulatory capital requirements prescribed by the Financial Services Authority (FSA). There are two components of regulatory capital requirements.

- the Long-Term Insurance Capital Component (LTICR), which is determined by applying various fixed percentages to certain liabilities and sums at risk, together with a element based on expenses, and
- the Resilience Capital Requirement (RCR), which is the amount needed to cover various stress tests applicable to the regulatory valuation

No RCR is required, as the base valuation covers the impact of the stress tests.

The FSA also requires the Company to determine its Individual Capital Assessment (ICA), or any Individual Capital Guidance (ICG) notified by the FSA, if higher and to hold sufficient capital to cover the amount of ICA The ICA is based on the Company's own assessment of the risks that it is subject to The ICA is determined in accordance with guidance laid down by the FSA. The ICG is determined by the FSA on the basis of analysis of the Company's ICA

Analysis of liabilities

The whole of the liabilities of the Company relate to unit-linked business.

Capital resource sensitivities

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities. It is also sensitive to assumptions and experience relating to expenses and persistency

The most significant sensitivities arise from the following risks:

- persistency risk which would arise if increased rates of surrenders reduced future profit margins on fund management charges, and
- market risk which would arise if falls in the value of policyholders' invested assets reduced future fund management charges

The timing of any impact on capital would depend on the interaction of past experience and assumptions about future experience In general, if experience had deteriorated or was expected to deteriorate and management actions were not expected to reduce the future impact, then assumptions relating to future experience would be changed to reflect it, where appropriate In this way, liabilities would be increased to anticipate the future impact of the worse experience with immediate impact on the capital position

Movements in capital resources

Analysis of movements in capital resources between 31 December 2005 and 31 December 2006·

	£m	
Total capital resources available to meet regulatory requirements at 31 December 2005		64 5
Changes in assumptions used to determine technical provisions		
Interest rates	0 5	
Expenses	(4 3)	
Other	8.6	
		4 8
Changes in management policy		-
Other changes		
Strain of writing new business	(72 5)	
Surplus emerging on existing business	44.5	
Releases from other reserves	57.5	
Dividends paid	(26 0)	
Tax	22 4	
Other	9 3	
		35 2
Total changes		40.0
Total capital resources available to meet regulatory requirements at 31 December 2006		104 5

In "Change in assumptions - other" there is a reserve release of £8 2m arising as a result of changes in the treatment of non-guaranteed enhancements paid on unit cancellation.

Two significant components of the other reserves are related to the Capital Gains Tax (CGT) calculations for the Company·

- A Tax Equalisation Reserve is held that represents tax on unrealised gains which has been deducted from the unit linked funds, but which has not yet had to be paid to HMRC. It exists because unit values are calculated assuming that each fund is taxed in isolation, but in reality tax is applied at a company level.
- A Capital Gains Tax Provision was set up to cover the possible cost of compensating policyholders for cumulative differences that were identified between the allowance for CGT incorporated into unit prices and the final fund level CGT

Following the completion of the CGT calculations for the years 1998 to 2004, the Tax Equalisation Reserve was rebased so that the closing balance at 31 December 2006 reflects the timing differences between company and individual unit-linked funds at that date This rebasing exercise resulted in the reserve being reduced by £32 3m, of which £7.3m was utilised (offsetting current tax on realised gains) and £25.0m contributed to capital resources.

The potential policyholder compensation amounts were reduced significantly following completion of the CGT review for the years 1998 to 2004. Of the resulting £38 9m fall in the Capital Gains Tax Provision, £6 4m was utilised and £32 5m was released to capital resources

18. TECHNICAL PROVISION FOR LINKED LIABILTIES

	2006
	£m
Investment contract liabilities	1,393 3
Insurance contracts liabilities	12,549.4
Technical provision for linked liabilities	13,942.7

The maturity value of the investment contract liabilities is determined by the fair value of the linked assets at maturity date. There will be no difference between the carrying amount and the maturity amount at maturity date

19. PROVISIONS FOR OTHER RISKS AND CHARGES

	Deferred taxation
	£m
At 1 January 2006	**23.4**
Charge to profit and loss account	**15.8**
At 31 December 2006	**39.2**

The balance in respect of deferred taxation can be analysed as follows

	2006	2005
	£m	£m
Net deferred acquisition costs	39.2	23.4

20. CHANGE IN TECHNICAL PROVISIONS FOR LINKED LIABILITIES

Due to deposit accounting under FRS 26 for investment contracts the change in technical provisions for linked liabilities recorded in the technical account for long-term business does not equal the movement in the technical provision for linked liabilities The differences are explained below.

	2006 £m	2005 £m
Change in technical provision for linked liabilities	**(1,615.0)**	(1,886 6)
Adjustments made for reinsurance contracts which do not transfer significant risk		
Gross premiums written	**(24.5)**	(24 7)
Claims paid	**149.3**	133 6
Other Technical Income	**0.7**	-
	125.5	108 9
Unrealised Gains (see Change in accounting policies, Note 1)	**(6.6)**	-
Change in technical provision for linked liabilities on a consistent basis with balance sheet classification	**(1,496.1)**	(1,777 7)
Balance sheet movement in technical provision for linked liabilities	**(1,496.1)**	(1,777 7)

An amount of £494m is included the change in technical provision for linked liabilities in respect of investment contracts valued at amortised cost and represents the interest expense based on the return on the underlying assets

21. OTHER CREDITORS INCLUDING TAX

	2006 £m	2005 £m
Tax payable	**18.0**	9 5
Amounts owed to group undertakings	**1.6**	21.6
Other creditors	**9.0**	11 5
	28.6	42 6

22. DERIVATIVES VALUED IN ACCORDANCE WITH FAIR VALUE ACCOUNTING RULES

Included within assets held to cover linked liabilities are derivative contracts accounted for under the fair value accounting rules The derivative contracts have a fair value of £11 2m (2005 £3.6m) and a cost of £8 3m (2005. £3 9m) Movements recorded in the profit and loss account for the year were £11 9m (2005: £12.8m) in respect of realised gains and £3.2m (2005 £0 6m) in respect of unrealised gains/(losses) The fair value of derivatives includes

- £5 7m (2005 £2 0m) in respect of futures used by linked investment funds to manage equity or fixed interest market exposure. These derivatives are listed on recognised exchanges and so the quoted price is regarded as their fair value Movements in fair value arise from variations in the underlying indices and cashflows are dependent on quoted prices at the dates on which the contracts expire or are closed out

- £2.7m (2005· £(1.2))m in respect of forward foreign exchange contracts used to manage exchange risk in respect of foreign investments. The fair value of these contracts is calculated via reference to the difference between the balance sheet date spot rate and the forward rate in the contract Movements in fair values arise from variations in exchange rates and cashflows are dependent on exchange rates on the dates on which the contracts expire.

- £2 8m (2005 £2 7m) in respect of over the counter derivatives negotiated with investment bank counterparties which back products with capital protection features These are valued according to indicative bid prices supplied by the counterparty which are a reflection of their assessment of prevailing market conditions The valuation technique is not supported by observable market values The tranche product derivative representing £2 8m of the balance will be realised in 2009 when the tranche matures and the amount realised will depend on the level of the FTSE 100 at that point in time

Notional and fair value of derivatives	**2006**	
	Notional Amount £m	Fair Value Asset £m
Futures	424 0	5 7
Forwards	127.6	2.7
Swaptions	28.8	2.8
Total	**580.4**	**11.2**

23. ASSETS ATTRIBUTABLE TO THE LONG-TERM INSURANCE BUSINESS FUND

At 31 December 2006 the total amount of assets representing the long-term fund valued in accordance with Schedule 9A to the Companies Act 1985 is £14,398 5m (2005 £12,915 5m).

24. CONTINGENT LIABILITIES

The Company has provided ındemnıty to a fellow subsıdıary (AXA Sun Lıfe Servıces plc "ASLS"), whıch acts as a dıstrıbutor and thırd party admınıstrator for the Company's products and servıces. Thıs ındemnıty ıs provıded ın the event of ASLS becomıng ınsolvent, to meet and deal wıth any cıvıl liabılıty whıch ASLS has ıncurred to ınvestors ın the course of ıts relevant busıness, for as long as ASLS remaıns ın ıts role

No amount has been recognısed under the financıal guarantee requirements of FRS 26 as the lıkelıhood of any lıabılıty arısıng from the ındemnıty ıs consıdered remote and so ıts faır value ıs consıdered to be immaterıal

25. CAPITAL COMMITMENTS

At 31 December 2006 the Company had contracted for capıtal commıtments of £37.5m (2005· £27.6m)

26. RELATED PARTIES

As the Company ıs a wholly-owned subsıdıary ıt has taken advantage of the exemptıon granted under Fınancıal Reportıng Standard 8 (Related Party Dısclosures) where subsıdıary undertakıngs do not have to dısclose transactıons wıth Group companıes qualıfyıng as related partıes provıded that consolıdated financıal statements are publıcly avaılable.

Durıng the Prıor year the long-term busıness fund of the Company ınvested ın a number of unıt trusts and OEICs managed by AXA Fund Managers Lımıted, a group company As at 31 December 2006 the value of the unıts and shares held by the long-term busıness fund was £1,094 8m (2005: £1,125 0m)

27. IMMEDIATE AND ULTIMATE PARENT COMPANIES

The Company ıs an ımmedıate subsıdıary of AXA Sun Lıfe Holdıngs plc, a company ıncorporated ın Great Brıtaın and regıstered ın England and Wales In the opınıon of the dırectors, the Company's ultımate parent and controllıng company ıs AXA, a company ıncorporated ın France The parent undertakıng of the largest and smallest group whıch ıncludes the Company and for whıch group financıal statements are prepared ıs AXA Copıes of the AXA group financial statements can be obtaıned from 23, Avenue Matıgnon, 75008 Parıs, France

28. EXCEPTIONAL ITEM

Durıng 2006 non-recurrıng technıcal provısıon releases were made totallıng £65.7m as detaıled ın note 17.

29. NON-ADJUSTING POST BALANCE SHEET

As a result of the Budget announced on 21 March 2007 the corporatıon tax rate ıs expected to reduce from 30% to 28% wıth effect from 1 Aprıl 2008 An estımate of the ımpact on the deferred tax lıabılıty of the Company ıs that ıt wıll reduce by £7.4m