

Guardian Royal Exchange plc

2002 Report and Accounts



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Registered Office: 107 Cheapside, London, EC2V 6DU

Registered Number: 1821312

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Directors' Report

Directors

P. J. Evans

D. Holt

P. J. Hubbard

Secretary

I. D. Richardson

Auditors

PricewaterhouseCoopers LLP

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2002.

REVIEW OF ACTIVITIES

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

The pre-tax loss for the year largely results from further loss reserve strengthening and large unrealised losses on investments reflecting market conditions through 2002. The loss reserve strengthening principally relates to the continued increase in the cost of large injury losses in the UK and further strengthening of reserves for London Market business.

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

GOING CONCERN

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

DIVIDENDS

An interim dividend of £100,910,934 was paid on 9 December 2002 (2001 - £101,187,402). The directors do not recommend the payment of a final dividend for the year (2001 - £nil).

DIRECTORS

The directors of the Company at the date of this report appear above.

Mr. A. K. Haste resigned as a director on 8 July 2002, on which date Mr. P. J. Evans and Mr. P. J. Hubbard were appointed directors.

DIRECTORS' INTERESTS

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

* P. J. Evans)	
* D. Holt)	reported by AXA UK plc
* P. J. Hubbard)	

Directors' Report continued

EMPLOYEES

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

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

A full range of written, audio, video and regular face-to-face communications, including team briefings, regular appraisals, company newspapers and various bulletins are used. Regular consultation is maintained with independent and certified trade unions on the complete range of employment and business issues.

Many businesses within the Group have Investors in People accreditation.

PAYMENT OF CREDITORS

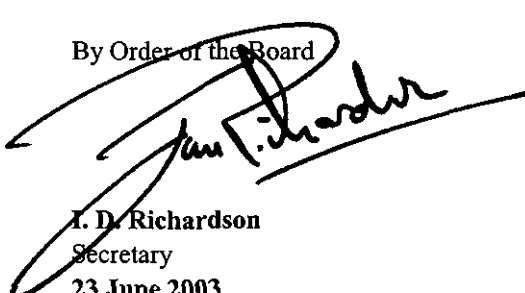
The Company's policy on the payment of creditors is to agree terms of payment when orders for goods and services are placed and to pay in accordance with those terms.

Balances outstanding for the Company at 31 December 2002 represented a credit period of 25 days (2001 - 25 days).

AUDITORS

Following the conversion of the Company's auditors PricewaterhouseCoopers to a Limited Liability Partnership ("LLP") from 1 January 2003, PricewaterhouseCoopers resigned on 10 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. Special Notice has been received that a resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company, and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board



I. D. Richardson
Secretary
23 June 2003

Directors' Responsibilities for the Financial Statements

The following statement, which should be read in conjunction with the statement of auditors' responsibilities set out on pages 5 and 6, is made for the purpose of clarifying the respective responsibilities of the directors and the auditors in the preparation of the financial statements.

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

- select suitable accounting policies and then apply them consistently; with the exception of changes arising on the adoption of new accounting policies in the year;

- make judgements and estimates that are reasonable and prudent;

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

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

Independent Auditors' Report

Auditors' report to the members of Guardian Royal Exchange plc

We have audited the financial statements on pages 7 to 42 which have been prepared in accordance with the accounting policies set out on pages 15 to 21.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 in to 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 whether the financial statements are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

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

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amount set aside at 31 December 2002, and the effect of the movement in those reserves during the year on the general business technical result and loss before tax, are disclosed in the accounting policies and pages 7 to 11 of the financial statements.

Independent Auditors' Report cont..

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2002 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Southwark Towers

32 London Bridge Street

London SE1 9SY

23 June 2003

Consolidated Profit and Loss Account

for the year ended 31 December 2002

General business technical account	2002		2001	
	£m	£m	£m	£m
Gross written premiums		2,683		2,491
Outward reinsurance premiums		(101)		(74)
Net written premiums (<i>note: 1a & 1b</i>)		2,582		2,417
Change in provision for unearned premiums				
- gross amount	(58)		30	
- reinsurers' share	(1)		(17)	
		(59)		13
Earned premiums, net of reinsurance		2,523		2,430
Other technical income		40		38
Total technical income		2,563		2,468
Claims paid				
- gross	(1,878)		(2,073)	
- reinsurers' share	53		71	
	(1,825)		(2,002)	
Change in outstanding claims provision				
- gross (<i>including strengthening of £127m (2001: £104m), note 24</i>)	(233)		44	
- reinsurers' share	36		(53)	
	(197)		(9)	
Claims incurred, net of reinsurance		(2,022)		(2,011)
Change in other technical provisions net of reinsurance		2		20
Net operating expenses (<i>note: 1d</i>)		(756)		(792)
Amortisation of goodwill in acquired claims provisions (<i>note: 14</i>)		(5)		(6)
Operating result before movement in equalisation reserves		(218)		(321)
Change in equalisation reserves		(13)		11
Balance on the general business technical account		(231)		(310)

As explained in "Changes in accounting policies", comparative figures have been restated in accordance with FRS 19 "Deferred Tax" to include deferred tax on a full provision basis.

The general business operating result before movement in equalisation reserves represents:

Operating result		
- continuing operations	(220)	(317)
- discontinued operations	2	(4)
	(218)	(321)

Consolidated Profit and Loss Account continued

for the year ended 31 December 2002

Long term business technical account	2002 £m	2001 £m
Gross written premiums	53	49
Outward reinsurance premiums	(9)	(8)
Earned premiums, net of reinsurance (<i>note: 2a & 2b</i>)	<u>44</u>	<u>41</u>
Investment income (<i>note: 2c</i>)	7	11
Unrealised investment gains	2	-
Claims paid		
- gross	(19)	(28)
- reinsurers' share	3	3
	(16)	(25)
Change in the provision for claims		
- gross	-	-
- reinsurers' share	-	-
	-	-
Claims incurred, net of reinsurance	(16)	(25)
Change in other technical provisions		
Long term business provision:		
- gross	(35)	(3)
- reinsurers' share	14	3
	(21)	-
Other technical provisions, net of reinsurance	(22)	(13)
	(43)	(13)
Net operating expenses (<i>note: 2d</i>)	(8)	(10)
Unrealised investment losses	-	(8)
Other technical charges, net of reinsurance:		
Amortisation of present value of acquired in-force business (<i>note: 14</i>)	(1)	(1)
Tax attributable to the long term business (<i>note: 4</i>)	4	1
Balance on the long term business technical account	<u>(11)</u>	<u>(4)</u>

Consolidated Profit and Loss Account continued

for the year ended 31 December 2002

	2002		Restated 2001	
Non-technical account	£m	£m	£m	£m
Balance on the general business technical account		(231)		(310)
Balance on the long term business technical account	(11)		(4)	
Tax credit attributable to the balance on the long term business technical account	(4)		(1)	
		(15)		(5)
Investment income				
Income from participating interest: Fellow subsidiary undertaking (note: 3a)	101		101	
Other investment income (note: 3a)	224		325	
		325		426
Investment expenses and charges (note: 3b)	(27)		(17)	
Unrealised investment losses	(279)		(225)	
Amortisation of goodwill (note: 14)	(6)		20	
Other income	1		2	
Corporate investment loss		(311)		(220)
Operating loss comprising:				
Continuing business		(221)		(116)
Discontinued business		2		(4)
Movement in claims equalisation reserves		(13)		11
Loss on ordinary activities before tax		(232)		(109)
Tax on loss on ordinary activities (note: 4)		88		113
(Loss)/profit on ordinary activities after tax		(144)		4
Equity minority interests		-		(3)
(Loss)/profit for the financial year		(144)		1
Dividends (note: 23c)		(101)		(101)
Retained loss for the financial year		(245)		(100)
Earnings per ordinary share		(13.6)p		0.1p
Fully diluted earnings per ordinary share		(13.6)p		0.1p

As explained in "Changes in accounting policies", comparative figures have been restated in accordance with FRS 19 "Deferred Tax" to include deferred tax on a full provision basis.

The calculation of earnings per ordinary share is based on a loss of £144m (2001: profit £1m) and on a weighted average of 1,059,785,981 (2001: 920,533,584) ordinary shares.

Details of the calculation of fully diluted earnings per share are set out in note 22.

Consolidated Balance Sheet

for the year ended 31 December 2002

Assets	2002		2001	
	£m	£m	£m	£m
Intangible assets (note: 14)		99		110
Present value of acquired in-force business (note: 14)		5		6
Investments				
Land and buildings (note: 5)	47		47	
Investments in group undertakings and participating interests (notes: 5 & 7)				
Interest in fellow subsidiary undertaking	1,682		1,682	
Interest in associated undertakings	15		15	
Other financial investments (notes: 5 & 7)	4,207		4,055	
Deposits with ceding companies	13		13	
		5,964		5,812
Assets held to cover linked liabilities		102		80
Reinsurers' share of technical provisions				
Provision for unearned premiums	14		15	
Long term business provision	68		54	
Technical provision for unit linked liabilities	14		12	
Claims outstanding	282		221	
		378		302
Debtors				
Debtors arising out of direct insurance operations (note: 8a)	730		744	
Debtors arising out of reinsurance operations	39		46	
Other debtors	539		606	
		1,308		1,396
Other assets				
Tangible fixed assets (note: 6)	40		38	
Stocks	1		1	
Cash at bank and in hand	291		321	
		332		360
Prepayments and accrued income				
Accrued interest and rent	49		45	
Deferred acquisition costs	208		211	
Other prepayments and accrued income	114		112	
		371		368
Total Assets excluding pension asset		8,559		8,434
Pension asset		-		15
Total Assets including pension asset		8,559		8,449

Consolidated Balance Sheet

for the year ended 31 December 2002

	2002		Restated 2001	
Liabilities and reserves	£m	£m	£m	£m
Capital and reserves				
Called up share capital (<i>note: 16a</i>)		56		56
Share premium account (<i>note: 16b</i>)		523		523
Other reserves (<i>note: 17a</i>)	264		254	
Profit and loss account (<i>note: 17a</i>)	<u>1,707</u>		<u>1,985</u>	
		<u>1,971</u>		<u>2,239</u>
Equity shareholders' funds		<u>2,550</u>		<u>2,818</u>
Subordinated loans (<i>note: 11</i>)		150		150
Technical provisions				
Provision for unearned premiums	1,260		1,191	
Long term business provision	167		132	
Claims outstanding	3,532		3,236	
Equalisation provision	27		14	
Other technical provisions	<u>11</u>		<u>13</u>	
		4,997		4,586
Technical provisions for linked liabilities		116		92
Provisions for other risks and charges (<i>note: 9</i>)		112		174
Deposits received from reinsurers		-		1
Creditors				
Creditors arising out of direct insurance operations	107		85	
Creditors arising out of reinsurance operations	13		28	
Amounts owed to credit institutions (<i>note: 11</i>)	8		-	
Non-convertible debenture loans (<i>note: 11</i>)	148		148	
Other creditors including taxation and social security (<i>note: 10</i>)	<u>254</u>		<u>271</u>	
		530		532
Accruals and deferred income		<u>88</u>		<u>96</u>
Total liabilities and reserves excluding pension liability		<u>8,543</u>		<u>8,449</u>
Pension Liability		16		-
Total Liabilities and reserves including pension liability		<u>8,559</u>		<u>8,449</u>

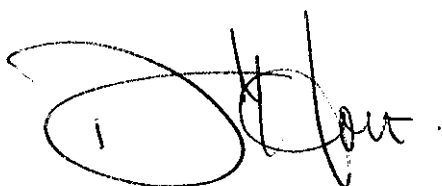
Comparative figures have been restated to reflect the impact of the change in accounting policy for Deferred Tax.

Parent Company Balance Sheet

for the year ended 31 December 2002

	2002	Restated 2001
	£m	£m
Fixed assets		
Investments		
Shares in subsidiary undertakings (note: 23b)	1,638	1,543
Other financial investments - Loan Notes	115	115
	1,753	1,658
Current assets		
Debtors		
Amount due from immediate parent company	37	128
Amounts due from fellow subsidiary undertakings	4	-
	41	128
Creditors: amounts falling due within one year		
Amount due to immediate parent company	47	-
Amounts due to subsidiary undertakings	481	518
Other creditors including tax and social security	5	5
	533	523
Net current liabilities	(492)	(395)
Total assets less current liabilities	1,261	1,263
Creditors: amounts falling due after more than one year		
Debenture loan (note: 11)	148	148
Provisions for liabilities and charges		
Deferred taxation	30	30
Net assets	1,083	1,085
Representing:		
Share capital (note: 16a)	56	56
Share premium (note: 16b)	523	523
Capital redemption reserve (note: 17b)	189	189
Profit and loss account (note: 17b)	315	317
Equity shareholders' funds	1,083	1,085

The accounts on pages 7 to 42 were approved by the directors and signed on 23 June 2003.



Director

Cash Flow Statement - General Insurance and Corporate

for the year ended 31 December 2002

	2002		2001	
	£m	£m	£m	£m
Operating activities				
General Insurance	458		70	
Shareholders' cash outflow to life insurance funds	<u>(8)</u>		<u>-</u>	
		450		70
Integration and restructuring costs paid		(2)		(15)
Returns on investments and servicing of finance				
Interest paid		(21)		(13)
Taxation recovered		26		54
Capital expenditure				
Purchases less sales of fixed assets		(10)		(15)
Acquisitions and disposals				
Acquisition of subsidiary undertakings (note: 20a)	(1)		1	
Disposal of subsidiary undertakings	<u>-</u>		<u>(3)</u>	
		(1)		(2)
Equity dividends paid		(101)		(101)
Financing				
Increase in borrowings		-		181
Cash available for investment		<u>341</u>		<u>159</u>
Invested as follows:				
Increase in cash balances		(34)		(108)
Portfolio investments (note: 21b)				
Ordinary and preference shares	(374)		(11)	
Fixed income securities	133		188	
Property	1		(1)	
Deposits with credit institutions	<u>615</u>		<u>91</u>	
		375		267
Net cash invested		<u>341</u>		<u>159</u>

The cash flow statement does not include amounts relating to life business except cash transactions between life business and shareholders.

Statement of Total Recognised Gains and Losses

for the year ended 31 December 2002

	2002	Restated 2001
	£m	£m
(Loss)/profit for the financial year	(144)	1
Exchange gains/(losses) on translation of overseas net assets not in profit and loss account	10	(1)
Actuarial losses on retirement benefits	(37)	(24)
Deferred tax on actuarial losses	4	4
Total losses relating to the year	(167)	(20)
Implementation of FRS 17	-	60
Implementation of FRS 19	(38)	-
Total losses recognised in the year	(205)	40

Reconciliation of Movements in Group Shareholders' Funds

for the year ended 31 December 2002

	2002	Restated 2001
	£m	£m
(Loss)/profit for the financial year	(144)	1
Dividends	(101)	(101)
Profit and loss account transfer from reserves	(245)	(100)
Actuarial losses on retirement benefits, net of tax	(33)	(20)
Exchange gains/(losses) on translation of overseas net assets	10	(1)
Issue of ordinary share capital	-	449
	(268)	328
Shareholders' funds at beginning of year (originally £2,856m before the deduction of prior year adjustments, above, of £(38)m).	2,818	2,490
Shareholders' funds at end of year	2,550	2,818

Accounting Policies

I Adoption of new accounting standards and changes in accounting policies

The provisions of FRS 19 "Deferred Tax" have been adopted for the first time in these financial statements. As a consequence, full provision has been made for deferred tax on assets and liabilities arising on timing differences. Prior year figures have been restated accordingly and the effect of this change in accounting policy is disclosed in note 4.

II Basis of accounting and consolidation

a) The accounting policies adopted are in accordance with applicable United Kingdom accounting standards to the extent that they are appropriate to insurance companies and are in accordance with the Statement of Recommended Practice on accounting for insurance business issued by the Association of British Insurers (ABI SORP).

b) The consolidated accounts are prepared in accordance with the requirements of Section 255A of, and Schedule 9A to, the Companies Act 1985 relating to insurance groups.

c) The balance sheet of the Company has been prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985. As permitted by section 230 of the Companies Act 1985, a separate profit and loss account for the Company is not presented.

d) Investments in principal associated companies and joint ventures are accounted for in accordance with the equity basis of accounting and the gross equity basis, respectively.

III General Business

a) Premiums

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

b) Claims incurred

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

c) Claims provisions and related reinsurance recoveries

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Group 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 incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened.

Accounting Policies continued

Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

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

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

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

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

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

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

Property, aviation and accident business

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

Healthcare business

Healthcare business is short tail. The total costs of claims paid by the Group at the balance sheet date is used to project the expected total cost for claims incurred by reference to statistics which show how the total cost of claims paid in previous periods have developed over time.

Accounting Policies continued

Motor business

The estimated cost of motor claims excluding the cost of personal injury claims is calculated by reference to the projected number of claims, based on statistics showing how the number of notified claims has been developed over time, and the anticipated average cost per claim, based on historical levels adjusted to allow for movements in the variables described above.

The personal injury element of motor claims costs is estimated using the same method as used for liability claims described below. In addition the estimate is assessed in the context of the historical development of paid and incurred claims and the implied loss ratios for each accident year.

Liability and marine claims

These claims have longer tail than those of the other classes of business described above and so a larger element of the claims provision relates to IBNR claims. Claims estimates for the Group's marine and liability business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability class of business is also subject to the emergence of new types of latent claims but no allowance is included for this as at the balance sheet date. Further details on the inherent uncertainties in these claims provisions are provided in note 24.

Pollution claims

There may be a long delay between the occurrence and notification of these types of claim. In estimating the cost of claims the Group considers the type of risks written historically that may give rise to exposure to these risks, notifications received from policyholders, the nature and extent of the cover provided, the current legal environment, changes in the effectiveness of clean up techniques and industry benchmarks of the typical cost of claims of this kind and of total expected insured losses.

Reinsurance recoveries

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

d) Salvage and subrogation

Estimated recoveries are included within debtors.

e) Deferred acquisition expenses

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

f) Unexpired risks provision

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

Accounting Policies continued

Unexpired risk surpluses and deficits are offset where business classes are managed together and provision is made if an aggregate deficit arises.

g) Underwriting results

Underwriting results are recognised principally on an annual accounting basis.

h) Claims equalisation reserve

Equalisation provisions have been established in accordance with the requirements of the Interim Prudential Sourcebook for Insurers to mitigate exceptionally high loss ratios for classes of business displaying a high degree of claims volatility. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date.

i) Investment return

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

IV Long term business

a) Premiums

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

b) Claims and surrenders

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

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

Surrenders and medical insurance claims are accounted for when paid.

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

c) Deferred acquisition expenses

The direct and indirect costs of acquiring new business which relate to subsequent accounting periods are deferred to the extent that they are recoverable out of future revenue margins and are amortised in accordance with the pattern of revenue margins on the associated contracts. The unamortised balance of deferred acquisition costs is shown as an asset gross of tax on the balance sheet.

d) Long term business provision

The long-term business provision is computed by a Fellow of the Institute of Actuaries having due regard for the actuarial principles laid down in the Council of the European Communities Directive 92/96/EEC. The provision is adjusted to reflect the modified statutory solvency basis.

Accounting Policies continued

In general a discounted cashflow method is employed using a multiple state model. This involves estimating the number of persons insured in each state (e.g. healthy, disabled or deceased) using transition rates derived from industry or UK data. Each in-force policy is projected using the model and the reserves are set so as to eliminate any negative cashflows. There are also two small classes of business, now closed to new business, for which a net premium valuation is employed.

A long term employee healthcare plan provided group private medical insurance cover for employees. There are now no remaining active schemes for this class of business. Hence, provisions for this product comprise principally a provision for outstanding claims. Margins are included to allow for the risks associated with the business.

The valuation interest rate used is based on the yield of invested assets adjusted in accordance with the Financial Services and Markets Act 2000. In addition, a prudent assessment is made of future experience of morbidity, mortality and expense inflation.

e) Investment return

The total investment return, attributed to long term business or held to cover linked liabilities, which includes both realised and unrealised gains, is taken to the long term business technical account. Shareholder investment return is recognised in the non-technical account.

Investments

V a) Investment income

Investment income represents interest, rents and dividends receivable for the year including, where appropriate, related overseas imputed tax credits. Dividends are recognised on the date on which shares are quoted ex-dividend.

b) Realised and unrealised investment gains and losses

Realised investment gains and losses are calculated by reference to the net sales proceeds and the original purchase cost. For presentation purposes, as required by legislation, net realised gains are included in investment income and net realised losses in investment expenses and charges. Unrealised gains and losses on investments represent the difference between the valuation of the investment at the balance sheet date and their original cost.

c) Valuation

Investments are stated at market values for listed securities; open market valuations as appraised by external professionally qualified surveyors for properties; bid price for unit trusts; redemption values less provisions for mortgages and loans; and directors' valuations for other investments. Investment properties are not depreciated, as the directors consider that they are held for investment purposes and to depreciate them would not give a true and fair view.

In the balance sheet of the Company, investments in subsidiary undertakings are stated at cost, unless their value has been impaired in which case they are valued at their realisable value or value in use as appropriate.

d) Group occupied properties

As required by the Companies Act, properties occupied by the Group are included as investments. The properties are valued on an existing use basis by external professionally qualified surveyors.

VI Land for development and work in progress

Land for development and work in progress is stated at the lower of cost and net realisable value and is shown as stocks in the balance sheet.

Accounting Policies continued

VII Acquisition accounting

Goodwill arising on acquisitions is capitalised and amortised on a straight line basis over a period appropriate to the business acquired but, in any case, no longer than 20 years. Goodwill arising prior to 31 December 1997 has been eliminated against reserves in accordance with the accounting policy at the date of acquisition. The gain or loss on subsequent disposal of a subsidiary will include any attributable unamortised goodwill.

Acquired general business claims provisions are stated on an undiscounted basis. The difference between this and their fair value is included as a separate component of goodwill and amortised over the anticipated run-off period of the acquired provisions.

The present value of in-force contracts (PVIF) arising on the acquisition of life business is recognised as an asset. That part of the PVIF which will be recognised as profit over the remaining lifetime of the policies is amortised and the discount unwound, over that lifetime on a systematic basis. The amortisation pattern is determined actuarially to reflect the expected pattern of emergence of profits from the acquired contracts and is stated net of any unwind in the discount rate used to calculate the asset. The PVIF carrying value is tested annually for impairment.

VIII Foreign Exchange

Transactions denominated in currencies other than Sterling are recorded at the rates ruling at the date of the transaction. Assets and liabilities denominated in currencies other than Sterling are translated at year-end exchange rates. Exchange gains and losses arising from life business are taken to the life technical account. Other gains and losses are treated as part of the investment return in the profit and loss account, except for exchange gains and losses on hedging loans and overseas subsidiary undertakings which are taken to revaluation reserve.

Assets and liabilities of subsidiary companies and branches are translated into Sterling at year-end rates of exchange with profits and losses for the year translated at average rates. The resulting exchange gains and losses are taken to revaluation reserve.

IX Taxation

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 current tax rates. 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.

X Tangible assets and depreciation

Major items of equipment 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. External costs associated with major software developments are capitalised and depreciated over three years from the date of implementation.

XI Staff pension costs

Staff engaged in the Group's activities, excluding staff of AXA Ireland which has its own pension scheme, are members of the AXA UK Pension Scheme which embraces a number of companies in the AXA UK Group. The scheme has both defined benefit and defined contribution sections. As the Group is unable to identify its share of the underlying assets and liabilities of the defined benefit section, under the rules of Financial Reporting Standard 17 (Retirement Benefits), the Group accounts for its contribution to the defined benefit section as if it were a defined contribution arrangement. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Accounting Policies continued

The scheme in Ireland is accounted for in line with the requirements of Financial Reporting Standard 17 (Retirement Benefits) where the financial statements reflect at fair value the assets and liabilities relating to the pension scheme. Operating costs are charged to the technical account, financing costs to the non-technical account and actuarial gains and losses to the statement of recognised gains and losses.

XII Derivatives

Equity future contracts entered into by the Group which set the future disposal price of certain equities are included in the financial statements as Ordinary stocks and shares, with unrealised gains and losses taken to the Non-technical account. Interest rate swap payments and receipts arising on swaps used to hedge the Group's debt exposure are included within interest payable and spread over the period to which they relate.

Notes on the Financial Statements

1 General insurance business

a) Geographical analysis

	2002		2001	
	Net written premiums £m	Underwriting result £m	Net written premiums £m	Underwriting result £m
United Kingdom	2,241	(219)	2,115	(295)
Republic of Ireland	332	13	294	(16)
Continental Europe - disposed business	1	1	-	(2)
Asia - disposed business	-	1	-	(2)
Other, including central reinsurance				
- continuing business	8	(9)	8	-
	<u>2,582</u>	<u>(213)</u>	<u>2,417</u>	<u>(315)</u>

The underwriting result excludes the movement in equalisation reserves and amortisation of goodwill in acquired claims provisions.

The territorial results are after central reinsurance protection. The 'Other' result includes this reinsurance in respect of the following territories:-

	2002		2001	
	Net written premiums £m	Underwriting result £m	Net written premiums £m	Underwriting result £m
United Kingdom	-	-	-	-
Republic of Ireland	-	(1)	-	2
	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>2</u>

b) Class of business analysis

	2002		2001	
	Net written premiums £m	Underwriting result £m	Net written premiums £m	Underwriting result £m
Property	669	-	580	(24)
Motor	789	(77)	806	(91)
Liability	268	(176)	192	(113)
Other	160	(13)	149	(99)
Total excluding healthcare	<u>1,886</u>	<u>(266)</u>	<u>1,727</u>	<u>(327)</u>
Short term healthcare	696	53	690	12
Total general business	<u>2,582</u>	<u>(213)</u>	<u>2,417</u>	<u>(315)</u>

c) Claims Equalisation Reserve

Equalisation provisions are established in accordance with the requirements of the Insurance Prudential Sourcebook Chapter 6. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within the technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date. At 31 December 2002 claims equalisation reserves were £27m (2001: £14m).

Notes on the Financial Statements continued

d) Analysis of net operating expenses

	2002 £m	2001 £m
Acquisition costs	496	485
Decrease in deferred acquisition costs	2	18
Administrative expenses	256	288
Reinsurance commissions and profit participation	2	1
	<u>756</u>	<u>792</u>

2 Long term business

a) Geographical analysis

	Net written premiums £m	2002 Pre-tax result £m	Net written premiums £m	2001 Pre-tax result £m
United Kingdom and Republic of Ireland				
Continuing business	44	(15)	41	(4)
Discontinued business	-	-	-	(1)
	<u>44</u>	<u>(15)</u>	<u>41</u>	<u>(5)</u>

b) Class of business analysis

	2002 £m	2001 £m
Group business - regular premiums:		
Long Term Employee Healthcare	-	6
Individual business:		
Single premiums	40	30
Regular premiums	13	13
Total gross written premiums	<u>53</u>	<u>49</u>

The gross annualised value of new annual premiums and the amount of new single premiums are as follows:

	2002 £m	2001 £m
Individual business:		
Single premiums	40	30
Regular premiums	1	1

Outward reinsurance premiums of £9m (2001: £8m) have been charged to the long term business account.

c) Investment income

	2002 £m	2001 £m
Income from other investments	7	7
Realised investment and foreign exchange gains	-	4
	<u>7</u>	<u>11</u>

Income from other investments includes £7m (2001: £6m) in respect of listed investments.

Notes on the Financial Statements continued

d) Net operating expenses

	2002 £m	2001 £m
Acquisition costs	7	8
Increase in deferred acquisition costs	(1)	-
Administrative expenses	2	2
	<u>8</u>	<u>10</u>

e) Tax attributable to shareholders

Life profits have been grossed up by the effective rate of tax in the territory concerned.

f) Long term business provision

A summary of the principal assumptions underlying the long term business provision is given below:

Global Assumptions

Expense inflation	3.50% (2001: 4.00%)
Inflation	2.50% (2001: 3.00%)

Long Term Care Plans

Morbidity - inception rates (revised base rates)	Internal table based on the company's experience data
- termination rates (revised base rates)	(revised during 2002)

Mortality (healthy base rate unchanged)	Non-standard tables constructed by the Company allowing for future improvements to 2010.
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Morbidity and mortality assumptions underlying the lifetime care plans have been reviewed during the year in the light of actual experience. Changes implemented have increased reserves by around £15 million.

Valuation rate of interest	3.45% - regular premiums (2001: 4.0%) 4.25% - single premiums (2001 : 4.85%) 1.70% - regular premiums index linked (2001: 1.80%) 1.75% - single premiums index linked (2001 : 2.15%)
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Renewal expenses	£60.55 regular premium in deferment (2001: £52.60) £57.28 single premium in deferment (2001: £49.75)
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Immediate Care Plans

Mortality	Based on IM80/IF80
Valuation rate of interest	3.75% - single premiums (2001: 3.40%) 0.90% - single premium index-linked (2001:2.25%)
Maintenance expense	£114.55 (2001: £99.51)

Further provision has been made for guarantees (where appropriate) and claims expenses.

Notes on the Financial Statements continued

3 Corporate investment

a) Other investment income

	2002 £m	2001 £m
Income from property	1	2
Income from other investments	218	220
Realised investment gains	5	103
	<u>224</u>	<u>325</u>

The income of £101m (2001:£101m) from fellow subsidiary undertaking relates to a preference shareholding in AXA GRE Europe Investments Limited.

Realised investment gains include foreign exchange losses of £13m (2001: profit £3m).

Income from other investments includes £175m (2001: £179m) from listed investments.

b) Other expenses and charges

	2002 £m	2001 £m
Interest expense (<i>note: 3c</i>)	21	13
Investment management expenses	6	4
	<u>27</u>	<u>17</u>

c) Interest expense

	General insurance and corporate		Life	
	2002 £m	2001 £m	2002 £m	2001 £m
On loans repayable within five years:				
Other loans	2	3	-	-
On loans repayable beyond five years:				
Other loans	9	-	-	-
Non-bank loans	10	10	-	-
	<u>21</u>	<u>13</u>	<u>-</u>	<u>-</u>

Notes on the Financial Statements continued

4 Taxation

a) Tax attributable to the long term business

(i) Analysis of credit in period

	2002 £m	2001 £m
Current tax:		
UK Corporation Tax on losses of the period	4	1
Total current tax (note 4a(ii))	<u>4</u>	<u>1</u>
Deferred tax:		
Origination and reversal of timing differences	-	-
Total deferred tax	<u>-</u>	<u>-</u>
Tax on loss on ordinary activities	<u>4</u>	<u>1</u>

ii) Factors affecting tax credit for the period

The tax assessed for the period is in line with the standard rate of corporation tax in the UK (30%).

The analysis is shown below:

	2002 £m	2001 £m
Balance on long term technical account before tax	<u>(15)</u>	<u>(5)</u>
Balance on long term technical account before tax multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	4	1
Current tax credit for period (note 4a(i))	<u>4</u>	<u>1</u>

b) Tax on Loss on Ordinary Activities

(i) Analysis of (charge)/credit in period

	£m	2002 £m	£m	2001 £m
Current tax:				
UK Corporation Tax on losses of the period	(39)		6	
Adjustments in respect of previous periods	<u>6</u>		<u>17</u>	
		(33)		23
Foreign tax		(9)		6
Tax attributable to balance on long term technical account		<u>4</u>		<u>1</u>
Total current tax (note 4b(ii))		<u>(38)</u>		<u>30</u>
Deferred tax:				
Origination and reversal of timing differences	99		56	
Adjustment to deferred tax assets/(liabilities) arising in previous periods	<u>27</u>		<u>27</u>	
Total deferred tax (note 4d)		<u>126</u>		<u>83</u>
Tax on loss on ordinary activities		<u>88</u>		<u>113</u>

The previous period adjustment to deferred tax assets/liabilities arises from an increase in the quantum of tax losses surrendered between group companies.

Following a change in United Kingdom legislation, where an insurance company revalues its investment assets to market value in the profit and loss account, this revaluation will be charged to corporation tax. In previous periods a deferred tax provision was established in respect of the potential liability on the unrealised tax gain (note 4d). This liability will reverse in forthcoming accounting periods.

Notes on the Financial Statements continued

(ii) Factors affecting tax (charge)/credit for the period

The tax charge assessed for the period is higher (2001: tax credit lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £m	2001 £m
Loss on ordinary activities before tax	(232)	(109)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	70	33
Effects of:		
Expenses not deductible for tax purposes (Primarily goodwill written off)	(5)	-
Income not taxable (Primarily UK Equity income)	42	47
Other timing differences, principally tax losses carried forward	(156)	(69)
Lower tax rates on overseas earnings	5	2
Adjustment to tax charge in respect of previous periods	6	17
Current tax (charge)/credit for period (note 4b(i))	(38)	30

The company has adopted the provisions contained within Finance Reporting Standard 19 ("Deferred Tax"). Prior year figures have been restated accordingly. The effect of this restatement is to increase the tax credit by £3m (2001: £14m) and increase the deferred tax asset by £8m (2001: increase the deferred tax liability by £38m).

(iii) Factors that may affect future tax charges

The Group has substantial trading losses carried forward as at 31 December 2002. These will significantly reduce tax payable in future accounting periods.

c) Tax in statement of recognised gains and losses

(i) Analysis of credit in period

	2002 £m	2001 £m
Deferred tax:		
Origination and reversal of timing differences	4	4
Total deferred tax (note 4d)	4	4
Tax on loss on ordinary activities	4	4

(ii) Factors affecting current tax for the period

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

	2002 £m	2001 £m
Losses recognised before tax		
Actuarial losses on retirement benefits	(37)	(24)
Losses recognised multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	11	7
Effects of:		
Expenses not deductible for tax purposes	(11)	(7)
Current tax for period	-	-

The company has adopted the provisions contained within Finance Reporting Standard 19 ("Deferred Tax"). The restatement of prior year figures is disclosed in note 4b(ii).

Notes on the Financial Statements continued

d) Provision for Deferred Tax

	2002 £m	2001 £m
Accelerated capital allowances	12	12
Tax losses carried forward	167	62
Unrealised losses	(83)	(108)
Other timing differences	(16)	(13)
Undiscounted asset/(provision) for deferred tax	80	(47)
Provision at start of period	(47)	(130)
Deferred tax credit in Profit and Loss account for period (<i>note 4b</i>)	126	83
Deferred tax credit in statement of recognised gains and losses for period (<i>note 4c</i>)	4	4
Tax disclosed with asset	(5)	(3)
Exchange and other movements	2	(1)
Asset/(provision) at end of period	80	(47)

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

A deferred tax asset of £18m arising from tax losses carried forward has not been recognised in the accounts. This asset will be recoverable against future tax profits.

Notes on the Financial Statements continued

5 Consolidated balance sheet as at 31 December 2002

	General and Corporate		Life		Consolidated	
	Restated				Restated	
	2002	2001	2002	2001	2002	2001
	£m	£m	£m	£m	£m	£m
Intangible assets	99	110	-	-	99	110
Present value of acquired in-force business	5	6	-	-	5	6
Land and buildings						
Company occupied	30	46	-	-	30	46
Other	17	1	-	-	17	1
	47	47	-	-	47	47
Investment in fellow subsidiary undertaking	1,682	1,682	-	-	1,682	1,682
Associated undertakings	15	15	-	-	15	15
Other financial investments						
British Government Securities	630	640	43	29	673	669
Overseas Government, municipal and public boards	654	487	2	2	656	489
Debentures and debenture stocks	1,071	1,043	43	25	1,114	1,068
	2,355	2,170	88	56	2,443	2,226
Preference and guaranteed stocks and shares	33	40	-	-	33	40
Ordinary stocks and shares	729	1,390	-	-	729	1,390
	762	1,430	-	-	762	1,430
Mortgages and loans	122	127	-	-	122	127
Deposits with credit institutions	872	257	8	15	880	272
Deposits with ceding companies	13	12	-	1	13	13
Total Investments	5,868	5,740	96	72	5,964	5,812
Assets held to cover linked liabilities	-	-	102	80	102	80
Reinsurers' share of technical provisions	296	236	82	66	378	302
Debtors	1,313	1,401	4	5	1,308	1,396
Other assets	328	350	4	10	332	360
Prepayments and accrued income	365	364	6	4	371	368
Pension asset	-	15	-	-	-	15
TOTAL ASSETS	8,274	8,222	294	237	8,559	8,449
Capital and Reserves						
Share capital	56	56	-	-	56	56
Share premium	523	523	-	-	523	523
Other reserves	1,971	2,239	-	-	1,971	2,239
Equity shareholders' funds	2,550	2,818	-	-	2,550	2,818
Technical provisions	4,829	4,454	168	132	4,997	4,586
Technical provisions for linked liabilities	-	-	116	92	116	92
Other liabilities and provisions	879	950	10	13	880	953
Pension liability	16	-	-	-	16	-
Total liabilities and shareholders' funds	8,274	8,222	294	237	8,559	8,449

Notes on the Financial Statements continued

6 Fixed assets

	Cost £m	Depreciation £m	Net book value £m
At 1 January 2002	101	(63)	38
Purchases	11	-	11
Sales	(36)	35	(1)
Depreciation charge for the year	-	(8)	(8)
At 31 December 2002	<u>76</u>	<u>(36)</u>	<u>40</u>

Fixed assets are primarily computer equipment, fixtures and fittings.

7 Investments

The cost of investments held at 31 December 2002 was £3,404m (2001: £3,584m). The cost of investments held to cover linked liabilities was £100m (2001: £78m).

Investments totalling £3,269m (2001: £3,683m) are listed on a recognised stock exchange. Of these £1,945m (2001: £2,696m) are listed on the London Stock Exchange.

Land and buildings includes £4m (2001: £4m) in respect of leasehold properties of which £1m (2001: £1m) related to land held on short lease.

All properties in the UK and Ireland are subject to external valuation, by Nelson Bakewell and Jones Lang LaSalle respectively, as at 31 December 2002.

Principal interests in associated undertakings at 31 December 2002 were as follows:

	Share Capital	Holding	Country
Aviation and General Insurance Company Limited	Equity	36%	United Kingdom
Earlyweigh Limited	Preference	100%	United Kingdom

The country shown is that of incorporation and principal operation.

Aviation and General Insurance Company Limited is an insurance company.

Earlyweigh Limited is the holding company of Layton Blackham insurance brokers.

PanEuroRe an associated company incorporated in Luxembourg was liquidated in 2002. A distribution of funds was received in 2001.

The investment in fellow subsidiary undertaking relates to a preference shareholding in AXA GRE Europe Investments Limited.

8 a) Debtors arising out of direct insurance operations

	General and Corporate		Life		Consolidated	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Due from policyholders	450	460	1	5	451	465
Due from intermediaries	279	279	-	-	279	279
	<u>729</u>	<u>739</u>	<u>1</u>	<u>5</u>	<u>730</u>	<u>744</u>

b) Other Debtors

Included within other debtors are amounts due from an intermediate parent undertaking of £176m (2001: £245m) and amounts due from fellow subsidiary undertakings of £16m (2001: £23m).

c) Other prepayments and accrued income

Included within other prepayments and accrued income are amounts due from fellow subsidiary undertakings of £101m (2001: £101m).

Notes on the Financial Statements continued

9 Provisions for other risks and charges

	Pensions £m	Deferred Taxation £m	Other £m	Total £m
At 1 January 2002 as originally stated	28	9	99	136
Implementation of FRS 19	-	38	-	38
Revised balance at 1 January 2002, as restated	28	47	99	174
Reclassification of deferred taxation to Note 4d	-	(47)	-	(47)
Utilised	(2)	-	(49)	(51)
Profit and loss account	8	-	31	39
Statement of Total Recognised Gains and Losses	(3)	-	-	(3)
At 31 December 2002	31	-	81	112

Other includes provisions for liabilities arising from the reorganisation of the business, vacant property and costs related to general insurance operations and will be payable up to ten years.

10 Other creditors

	General and Corporate		Life		Consolidated	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Amounts due to intermediate parent undertaking	60	44	-	-	60	44
Amounts due to fellow subsidiary undertakings	7	23	-	-	7	23
Taxation	70	88	-	-	70	88
Other creditors	118	116	8	10	117	116
	255	271	8	10	254	271

11 Loans

	General and Corporate		Life		Consolidated	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Loans from intermediate parent company						
15 year subordinated loan repayable 2016	100	100	-	-	100	100
Perpetual subordinated loan	50	50	-	-	50	50
Subordinated loans	150	150	-	-	150	150
Unsecured loan repayable 2004 - included in amounts due to intermediate parent undertaking	38	40	-	-	38	40
Non-Bank Loans						
Listed unsecured 6 5/8% Company bonds repayable 2023	148	148	-	-	148	148
Loans from bankers						
Unsecured	8	-	-	-	8	-
	344	338	-	-	344	338

The subordinated loans are repayable at the London Inter-Bank offer rate for any period as may be agreed, plus a margin ranging from 170 to 220 basis points.

The unsecured loan is repayable at interest rates of 12 months London Inter-Bank offer rate plus a margin of 30 basis points.

Repayment periods

Loans from intermediate parent company

Between 1 and 2 years	38	-	-	-	38	-
Between 2 and 5 years	-	40	-	-	-	40
Over 5 years	150	150	-	-	150	150
Loans other than from bankers						
Over 5 years	148	148	-	-	148	148
Loans from bankers						
1 year or less	8	-	-	-	8	-
	344	338	-	-	344	338

Notes on the Financial Statements continued

12 Capital expenditure commitments

At 31 December 2002, capital expenditure on equipment amounting to £0.5m (2001: £2m) had been authorised but had not been provided for in the accounts. Contracts had been placed for £nil (2001: £0.3m) of the authorised expenditure.

13 Auditors' remuneration

2002
£000

2001
£000

Remuneration, including expenses, of the auditors of the Company and its subsidiaries for statutory work. This includes £nil (2001: £nil) in respect of the audit of the Company, which was borne by its intermediate parent company, AXA UK plc.

982 1,294

Remuneration for regulatory and taxation advice and other non audit services provided by the Company's auditors to the Company and its United Kingdom subsidiaries amounted to £826,000 (2001: £1,037,000).

14 Intangible assets and present value of acquired in-force business

	Goodwill	Negative Goodwill	Goodwill in acquired claims provisions	Total	Present value of acquired in-force business
	£m	£m	£m	£m	£m
Cost					
At 1 January 2002	170	(76)	44	138	8
At 31 December 2002	170	(76)	44	138	8
Amortisation					
At 1 January 2002	40	(31)	19	28	2
Charged/(credited) in year	8	(2)	5	11	1
At 31 December 2002	48	(33)	24	39	3
Net book value at 31 December 2002	122	(43)	20	99	5
Net book value at 31 December 2001	130	(45)	25	110	6

15 Staff

a) Staff pensions costs

Company Pension Scheme - UK

Staff engaged in the Group's activities, excluding staff of AXA Ireland which has its own pension scheme, are members of the AXA UK Pension Scheme which embraces a number of companies in the AXA UK Group. The scheme has both defined benefit and defined contribution sections but the Group is unable to identify its share of the underlying assets and liabilities of the defined benefit section. Accordingly, the Group has accounted for its contribution to the defined benefit section as if it were a defined contribution arrangement.

An independent actuarial review by Watson Wyatt of the defined benefit scheme revealed a deficit of £429m as at 31 December 2002 (surplus of £60m as at 31 December 2001) before taking account of any tax relief. This represents a snapshot of the present cost of meeting pension obligations that will crystallize over a period of many years. The scheme invests in a wide range of assets, including equities, which over the long term, are expected by the Directors to produce higher returns than those underlying the assessment of the deficit as at 31 December 2002.

The total pension cost which has been charged to the profit and loss account of the Group is £19m (2001 - £15m). There are no outstanding contributions as at 31 December 2002 (2001: - £nil).

Notes on the Financial Statements continued

15 Staff

a) Staff pensions costs (cont)

Company Pension Scheme - Ireland

The company operates a defined benefit scheme. A full actuarial valuation was carried out at 31 March 2002 by a qualified independent actuary and updated to 31 December 2002. The major assumptions used by the actuary were:

	At 31/12/2002	At 31/12/2001
Rate of increase in salaries	4.0%	4.5%
Rate of increase in pensions in payment	2.25%	3.0%
Discount rate	5.5%	6.0%
Inflation assumption	2.25%	3.0%

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

	Long-term rate of return expected at 31/12/2002	Value at 31/12/2002 £m	Long-term rate of return expected at 31/12/2001	Value at 31/12/2001 £m
Equities	7.75%	58	8.0%	92
Bonds	4.75%	30	5.5%	20
Property	5.75%	10	6.0%	2
Other	4.0%	4	5.0%	8
Total market value of assets		102		122
Present value of scheme liabilities		(121)		(105)
(Deficit)/surplus in the scheme		(19)		17
Related deferred tax asset/(liability)		3		(2)
Net pension (liability)/asset		(16)		15

Analysis of the amount charged to operating loss:

	2002 £m	2001 £m
Current service cost	4	3
Past service cost	-	4
Total operating charge	4	7

Analysis of the amount credited to other income:

	2002 £m	2001 £m
Expected return on pension scheme assets	10	10
Interest on pension scheme liabilities	(7)	(6)
Net return	3	4

Notes on the Financial Statements continued

15 Staff

a) Staff pensions costs (cont)

Company pension scheme - Ireland (cont)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL):

	2002 £m	2001 £m
Actual return less expected return on pension scheme assets	(38)	(18)
Experience losses arising on the scheme liabilities	(5)	(2)
Changes in assumptions	3	-
Actuarial loss recognised in STRGL	<u>(40)</u>	<u>(20)</u>

Movement in surplus during the year:

	2002 £m	2001 £m
Surplus in scheme at beginning of year	17	41
Exchange gains/(losses)	1	(1)
Movement in year:		
Current service cost	(4)	(3)
Contributions	4	-
Past service costs	-	(4)
Other income	3	4
Actuarial loss	(40)	(20)
(Deficit)/surplus in scheme at end of the year	<u>(19)</u>	<u>17</u>

The actuarial valuation at 31 December 2002 showed a decrease in the surplus from £17m to a deficit of £19m.

History of experience gains and losses:

	2002 £m	2001 £m	2000 £m
Difference between the expected and actual return on scheme assets:			
amount (£m)	(38)	(18)	1
percentage of scheme assets	(37%)	(15%)	1%
Experience gains and losses on scheme liabilities:			
amount (£m)	(5)	(2)	(1)
percentage of the present value of the scheme liabilities	(4%)	(2%)	(1%)
Total amount recognised in statement of total recognised gains and losses:			
amount (£m)	(40)	(20)	-
percentage of the present value of the scheme liabilities	(33%)	(19%)	-

Other post-retirement benefits

A subsidiary of the Group offers certain healthcare benefits, on a non-contributory basis, to substantially all employees who were employed prior to June 1989, upon retirement. The expected costs of this benefit have been assessed in accordance with the advice of an independent qualified actuary as at 31 December 2002 and based on the latest actuarial valuation dated 31 December 2001.

Notes on the Financial Statements continued

15 Staff

a) Staff pensions costs (cont)

The assumptions, which have the most significant effect on the results of the valuation are those relating to the discount rate, at 5.5% per annum (2001: 5.8%), and medical inflation which has been assumed at 8% over the next five years.

The Company provides for this accrued benefit by spreading the cost over the average working lives of the employees within the scheme, the cost of which was £1m for 2002 (2001 - £1m). A related provision of £10m (2001 - £12m) is held at the balance sheet date.

Analysis of the amount charged to operating loss

	2002 £m	2001 £m
Current service cost	-	-

Analysis of the amount charged to other income

	2002 £m	2001 £m
Interest on post-retirement scheme liabilities	1	1

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2002 £m	2001 £m
Gain/(loss) on change of assumptions	3	(4)
Actuarial gain/(loss) recognised in STRGL	3	(4)

History of experience gains and losses

	2002 £m	2001 £m
Experience loss on scheme liabilities:		
amount	-	(4)
percentage of the present value of the scheme liabilities	-	(30%)
Total amount recognised in statement of total recognised gains and losses:		
amount	3	(4)
percentage of the present value of the scheme liabilities	26%	(30%)

Movement in deficit during the year

	2002 £m	2001 £m
Deficit in scheme at beginning of year	(12)	(8)
Contributions paid	-	1
Other income	(1)	(1)
Actuarial gain/(loss)	3	(4)
Deficit in scheme at end of the year	(10)	(12)

Notes on the Financial Statements continued

b) Staff numbers and costs

	2002 £m	2001 £m
Wages and salaries	187	174
Social security costs	16	16
Other pension costs	19	15
	<u>222</u>	<u>205</u>

The average weekly number of employees, including executive directors, comprised:

	2002	2001
United Kingdom insurance operations	6,899	7,309
Ireland	791	786
Asia	389	194
	<u>8,079</u>	<u>8,289</u>

16 Share capital and share premium

a) Share capital

		2002 Authorised £m	2002 Paid-up £m	2001 Authorised £m	2001 Paid-up £m
Authorised	1,142,859,044 ordinary shares of 5.25p each and 931,707,318 non-cumulative redeemable preference shares of 20.5p each	60		60	
		<u>191</u>		<u>191</u>	
		<u>251</u>		<u>251</u>	
Issued	1,059,785,981 (2001: 1,059,785,981) ordinary shares of 5.25p		56		56

b) Share premium

	£m
Balance at 1 January 2002 and 31 December 2002	<u>523</u>

Notes on the Financial Statements continued

17 a) Reserves

	Profit and loss account £m	Capital reserve £m	Other reserves £m	Total £m
Balance at 31 December 2000, as initially stated	2,156	104	151	2,411
Prior year adjustments:				
Implementation of FRS19 - Deferred Tax	(51)			(51)
Revised balance at 31 December 2000, as restated	2,105	104	151	2,360
Transfer to profit and loss account	(100)	-	-	(100)
Exchange on translation of overseas net assets	-	-	(1)	(1)
Actuarial gains and losses - Retirement benefits	(20)	-	-	(20)
Balance at 31 December 2001	1,985	104	150	2,239
Transfer to profit and loss account	(245)	-	-	(245)
Exchange on translation of overseas net assets	-	-	10	10
Actuarial gains and losses - Retirement benefits	(33)	-	-	(33)
Balance at 31 December 2002	1,707	104	160	1,971
			2002	2001
Profit and loss reserve excluding pension (liability)/asset			1,723	1,970
Pension reserve			(16)	15
Profit and loss reserve			1,707	1,985

The capital reserve represents the share premium in respect of ordinary shares of AXA Insurance plc (formerly, Guardian Royal Exchange Assurance plc) which were acquired by the Company under the Scheme of Arrangement in 1984 and acquired since that date on options being exercised to subscribe for ordinary shares under employee share option schemes.

Other reserves are non-distributable. They include the capital redemption reserve of the Company of £189m which was created in 1998 on the redemption of B shares. The balance is a revaluation reserve which arises from exchange gains/(losses) from the translation of overseas net assets to Sterling.

The cumulative amount of goodwill written off against reserves is £199m (2001: £199m).

b) Company

	Profit and loss account £m	Capital Redemption Reserve £m	Total £m
Balance at 1 January 2002	317	189	506
Transfer from profit and loss account	(2)	-	(2)
Balance at 31 December 2002	315	189	504

Profit and loss reserves are all distributable.

Notes on the Financial Statements continued

18 Geographical Analysis of Net Assets

	2002	Restated 2001
	£m	£m
United Kingdom	800	828
Republic of Ireland	146	136
	<u>946</u>	<u>964</u>
Asia	4	3
Others, including corporate centre	1,481	1,720
	<u>2,431</u>	<u>2,687</u>
Net assets of joint venture and associates	15	15
Intangible assets and present value of acquired in-force business	104	116
	<u>2,550</u>	<u>2,818</u>

19 Contingent liabilities

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

20 Acquisitions & Disposals

a) AXA's non-insurance Lifestyle and Health assistance services

On 22 May 2001 the Group's subsidiaries, Medical and Industrial Services Limited, Access 24 UK Limited and PPP Healthcare Employee Support Limited were transferred to AXA Assistance (UK) Limited, for a net consideration of £2m. The purpose of this transaction was the formation of a joint venture between Inter Partner Assistance SA and the Group concerning the development of AXA's non-insurance lifestyle and health assistance services. The consideration was satisfied by the issue to AXA PPP Healthcare Group, a subsidiary of the Group, of ordinary shares in AXA Assistance (UK) Ltd, the joint venture company. Each of the companies referred to above are companies within the AXA Group. There was no profit or loss on this transaction. In 2001 the joint venture did not trade at the levels originally expected and the investment in the operation was written down to a nil value.

On 6 December 2002 agreement was reached between the parties on the deconstruction of the joint venture. The transaction involved AXA PPP Healthcare Group disposing of its interest in AXA Assistance (UK) Limited for a consideration of £0.4m and acquiring the beneficial interest in the shares of Medical and Industrial Services Limited for a consideration of £0.7m. The agreement was with the benefit of trading from 1 January 2002 and the results of Medical and Industrial Services Limited have been consolidated for the year.

No fair value adjustments were required to book values of the assets and liabilities of Medical and Industrial Services Limited. An analysis of the assets and liabilities acquired are as follows:

	£m
Land and Buildings	1
Debtors	3
Creditors	(3)
Net Assets acquired	<u>1</u>
Consideration	<u>1</u>
Goodwill	<u>nil</u>

In the last financial year to 31 December 2001, Medical and Industrial Services Limited made a consolidated loss after tax of £0.4m.

Notes on the Financial Statements continued

b) Acquisition of BUPA Dental Cover Limited

On 9 January 2001 the Group's subsidiary, Denplan limited acquired BUPA Dental Cover Limited and its associated dental capitation business. The company has subsequently been renamed Denplan Bournemouth Limited. The total consideration, including legal fees was £1m. No fair value adjustments were required to book values of the assets and liabilities of the companies acquired. An analysis of the assets and liabilities, together with the resulting goodwill arising is detailed below.

	£m
Cash	2
Creditors	(2)
Net assets acquired	<u>nil</u>
Consideration	1
Goodwill	<u>1</u>

In its last financial year to 31 December 2000, Denplan Bournemouth made a consolidated loss after tax of £1m.

21 Notes on cash flow statements

a) Reconciliation of loss before tax to net cash inflow from operating activities

	2002 £m	2001 £m
Operating loss	(232)	(109)
Exclude:		
Interest expense	21	13
Investment losses	<u>292</u>	<u>125</u>
Profit before taxation (excluding investment gains and interest)	81	29
Increase in insurance funds, net of reinsurance	260	85
Increase/(decrease) in equalisation reserves	13	(11)
Goodwill written off	11	(14)
Net increase/(decrease) in debtors and creditors	77	(33)
Depreciation and fixed asset write offs	<u>8</u>	<u>14</u>
Net cash inflow from operations	<u>450</u>	<u>70</u>

b) Purchases and sales of portfolio investments

	£m	2002 £m	£m	2001 £m
Purchases of ordinary and preference shares	350		476	
Sales of ordinary and preference shares	<u>(724)</u>		<u>(487)</u>	
		(374)		(11)
Purchases of fixed income securities	1,150		1,139	
Sales of fixed income securities	<u>(1,017)</u>		<u>(951)</u>	
		133		188
Purchases of properties	3		2	
Sales of properties	<u>(2)</u>		<u>(3)</u>	
		1		(1)
Net sales of portfolio investments		(240)		176
Increase in deposits with credit institutions		<u>615</u>		<u>91</u>
Movements in portfolio investments arising from cash flows		<u>375</u>		<u>267</u>

Notes on the Financial Statements continued

c) Movement in portfolio investments, net of financing

	£m	2002 £m	£m	2001 £m
Decrease in cash balances	(34)		(108)	
Cash flow:				
Increase in portfolio investments	375		267	
Increase in borrowings	-		(181)	
Movement arising from cash flows		341		(22)
Changes in market values and impact of exchange rate movements		(246)		(138)
Movement in life business balances		20		-
Acquisitions and disposals of subsidiary undertakings		1		(1)
Movement in portfolio investments, net of financing		116		(161)
Portfolio investments, net of financing, at 1 January		4,085		4,246
Portfolio investments, net of financing, at 31 December		4,201		4,085

d) Movement in cash, portfolio investments and financing

	At 1 Jan 2002 £m	Acquired and disposed operations £m	Cash Flow £m	Changes in Life Business £m	Changes in market values and currencies £m	At 31 Dec 2002 £m
Cash	321	-	(34)	(5)	1	283
Ordinary and preference shares	1,430	-	(374)	-	(294)	762
Fixed income securities	2,353	-	133	32	47	2,565
Properties	47	1	1	-	(2)	47
Deposits with credit institutions	272	-	615	(7)	-	880
Loans due later than one year	(338)	-	-	-	2	(336)
	4,085	1	341	20	(246)	4,201

22 Fully diluted earnings per share

The fully diluted earnings per share is based on a loss of £144m (2001: profit of £1m) and on a weighted average of 1,059,785,981 ordinary shares (2001: 920,533,584).

23 Guardian Royal Exchange plc

a) Profit for the year

The profit attributable to shareholders which was dealt with in the profit and loss account of Guardian Royal Exchange plc for the year ended 31 December 2002, including paid and proposed dividends from subsidiaries, was £99m (2001: £98m). As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not included in these accounts.

Notes on the Financial Statements continued

b) Investments

Shares in subsidiary undertakings	£m
Balance at 1 January 2002	1,543
Additions represent:	
Cost of acquisition of shares in AXA Insurance plc	95
Balance at 31 December 2002	1,638

c) Dividends

	2002 £m	2001 £m
Interim paid	101	101

24 Claims Reserves Strengthening and Inherent Uncertainty

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution, mainly included in the Group's London market technical provisions, is subject to a range of uncertainties that are generally greater than those encountered for other classes of business. A significant issue is the long delay in reporting losses since the onset of illness and disability arising from exposure to harmful conditions may only become apparent many years later. For example, cases of mesothelioma can have a latent period of up to 40 years. 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 will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. 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.

There was strengthening of prior year reserves in 2001 of £104m. This consisted of £42m strengthening in London market business, £45m increase in employer's and public liability business and £17m strengthening for personal injury awards where the discount rates applied were decreased as a result of court precedent.

During 2002 there was further reserve strengthening of £127m. Principally, this is in respect of the increasing cost of large injury losses in the UK liability account and reserve strengthening on London market business following actuarial reviews.

The Group's exposure to environmental pollution claims is not believed to be material.

25 Directors Emoluments

The directors are employed and paid by companies in 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 any other company in the AXA group, in respect of services to the Company.

Mr. P.J. Evans, Mr. A.K. Haste, Mr. D. Holt and Mr. P.J. Hubbard 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.

Notes on the Financial Statements continued

26 Ultimate parent

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

27 Related Parties

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

28 Principal Group Companies

	Country of incorporation	Holdings of ordinary shares	
Insurance Companies			
AXA Insurance plc	England	100%	(Parent)
AXA Insurance UK plc	England	100%	
The Royal Exchange Assurance	England	100%	
Atlas Assurance Company Limited	England	100%	
AXA Direct Insurance Limited	England	100%	
Guardian Health Limited	England	100%	
AXA General Insurance Limited	England	100%	
Orion Personal Insurances Limited	England	100%	
AXA PPP healthcare Limited	England	100%	
PPP lifetime care plc	England	100%	
AXA Insurance Limited	Ireland	100%	
Other Companies			
Bruton Property Holdings Limited	England	100%	(Parent)
Denplan Limited	England	100%	
Guardian Investment Holdings Limited	England	100%	(Parent)
Guardian Asset Management Limited	England	100%	
Guardian Properties Limited	England	100%	
AXA Services Limited	England	100%	(Parent)
The Metropolitan Trust Company Limited	England	100%	
AXA PPP healthcare group plc	England	100%	
AXA PPP healthcare Administration Services Limited	England	100%	
AXA Holdings Ireland Limited	Ireland	100%	
AXA Ireland Limited	Ireland	100%	
Guardian Royal Exchange International (Holdings) B.V.	Netherlands	100%	

Notes:

- 1 The country of principal operation for each of the above companies is the country of incorporation, with the exception of Guardian Royal Exchange International (Holdings) B.V. where the company transacts UK based financing and investment activities.
- 2 Information regarding other subsidiaries is submitted with the annual return.
- 3 All holdings of ordinary shares are held by a subsidiary unless otherwise stated.