Guardian Royal Exchange plc

2007 Annual Report and Financial Statements

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

Contents

Directors' Report

Directors

N J-M D Moreau
P L H Maso y Guell Rivet
I Robinson

Secretary

J P Small

Auditors

PricewaterhouseCoopers LLP

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2007

REVIEW OF ACTIVITIES

Results and performance

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

The pre-tax profit of the Group for the year has decreased by £230m to £121m, principally resulting from an adverse underwriting result arising from the January storms and summer floods in the UK, and a net loss on the transfer of the Life & Savings business and the disposal of a subsidiary

The underwriting loss for the year is £101m (2006 profit of £45m) The positive benefit of premium growth in both UK general insurance and healthcare was badly affected by the adverse claims experience in 2007 The 2007 results do not include any contribution from the Life & Savings business which in 2006 contributed £30m of insurance revenue and £12m of underwriting profit

The growth in general insurance premiums was due largely to strong growth in volumes in UK motor and across all lines in healthcare, together with growth in delegated authority business improving both travel and warranty Creditor business was affected by a contraction in the market and property and casualty were also impacted by the desire to write business at premium levels which are sustainable UK motor in particular benefited from the acquisition in the year by the immediate parent company, AXA UK plc, of online insurance broker Swiftcover which increased in-force policies by 178%, helped by increased volumes through aggregators This growth was not mirrored in the Irish motor market which continues to be affected by lower average premiums in part as a result of lower claims costs

2007 saw major catastrophic events in the UK January storms and summer floods Together the losses attributable to these events are currently estimated at £225m (before tax) A review of prior year reserves during 2007 indicated that many liability claims have been settled for amounts lower than originally anticipated and this led to a release of reserves which partially offset the weather events Current year underlying loss ratios have worsened though a combination of business mix and deterioration in pet and warranty business, although healthcare loss ratios have improved partly through sustained cost controls, and Irish claims costs have fallen The combined operating ratio for the UK general insurance business reflects these issues and a challenging increase in commissions following soft market conditions and broker consolidation leading to pressure on rates

Additional provisions totalling a net £36m have had to be made this year Advance commission has been impaired by a further £17m (offset by a compensating £5m reduction in an associated liability for retained commission) due to an expected fall off in future business as a result of the 'credit crunch' A review of an underperforming contract has resulted in an onerous contract provision of £12m and a further £12m to cover a potential dispute with an agent

Directors' Report continued

The net investment result shows a profit of £354m (2006 £326m) Other net investment income reflects increased net realised gains which arose through taking advantage of favourable market conditions, offset by increased impairment as the markets subsequently deteriorated

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

As disclosed under Transfer of Business, the Group's subsidiary, PPP lifetime care plc, has transferred all of its business to a fellow subsidiary, AXA Sun Life plc The AXA Life Group is committed to continuing the development of PPP lifetime care's products and pursuing the policy of providing a high quality service with caring support, which will consolidate its market position

Strategy and acquisitions

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

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

In March 2007, AXA UK plc acquired GBI (Holdings) Limited whose active subsidiary is the direct online insurance broker Swiftcover Swiftcover continues to grow and operate successfully as an independent entity, with a subsidiary company of the Group underwriting 100% of their motor business Swiftcover's expertise in web-based distribution will be further utilised as the Group grows its direct capabilities in other product lines, including re-entering the direct market under the AXA brand

Future outlook

As previously indicated, the 2007 results have been severely impacted by weather events and the Group remains subject to a strongly competitive UK and Irish insurance market With the maintenance of pricing disciplines and the absence of major weather related events, the Group expects the combined operating ratio to return to levels witnessed in recent years in the short-term In 2008, the Group's key focus remains on improving our customer experience and service quality to build customer loyalty and trust, and continuing to strengthen our distribution capabilities, particularly in the direct distribution arena The Group has a number of initiatives in place to build on these areas and to move the business forward in 2008

TRANSFER OF BUSINESS

As reported in the Directors' Report accompanying the Group financial statements for the year ended 31 December 2006, 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 PPP lifetime care plc into the long-term fund of AXA Sun Life plc, and

b) to transfer all the assets and liabilities in the shareholder fund of PPP lifetime care plc 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 £532m of assets and £408m of liabilities being transferred into AXA Sun

Life plc for nil consideration The carrying value of PPP lifetime care plc was £124m and the transfer resulted in a loss to the Group of this amount

GOING CONCERN

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

DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2007 (2006 interim £2 billion, final £nil)

DIRECTORS

The directors of the Company at the date of this report are shown on page 2

Mr I D Richardson resigned as a director of the Company on 31 December 2007
Mr I Robinson was appointed as a director of the Company on 1 January 2008
Mr P J Hubbard resigned as a director of the Company on 11 April 2008

APPOINTMENT OF DIRECTORS

In accordance with Article 89 of the Articles of Association of the Company, Mr I Robinson will retire at the forthcoming Annual General Meeting, having been appointed a director since the last Annual General Meeting, and, being eligible, will offer himself for re-appointment

In accordance with Article 90 of the Articles of Association of the Company, Mr P L H Maso y Guell Rivet will retire by rotation at the forthcoming Annual General Meeting Being eligible he will offer himself for re-appointment

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

DIRECTORS' INTERESTS

According to the register of directors' interests, none of the directors had interests in the share capital and debentures of the Company or its subsidiary undertakings

EXERCISE OF DIRECTORS' AXA SA OPTIONS

1 director of the Company exercised share options during the year (2006 2)

EMPLOYEES

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

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

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

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

Directors' Report continued

Many businesses within the AXA UK 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 2007 represented a credit period of 41 days (2006 restated 49 days)

FINANCIAL RISK MANAGEMENT

The Group applies a number of techniques to manage and mitigate its risks Details are provided on pages 28 to 33

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the Group and the Parent Company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) The Group and Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period

In preparing those financial statements, the directors are required to

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

The directors confirm that they have complied with the above requirements in preparing the financial statements They also confirm that to the best of their knowledge, the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair value of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS

Directors' Report continued

Regulation, and the Parent Company 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

AUDITORS

A Resolution to re-appoint the auditors, PricewaterhouseCoopers LLP, who have indicated their willingness to continue in office, and to authorise the directors to determine their remuneration will be proposed at the Annual General Meeting

By Order of the Board

J. P. Small
Secretary
26 June 2008

Independent Auditors' Report

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

We have audited the Group financial statements of Guardian Royal Exchange plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes These Group financial statements have been prepared under the accounting policies set out therein

We have reported separately on the Parent Company financial statements of Guardian Royal Exchange plc for the year ended 31 December 2007

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the Group 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 Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements

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

Basis of audit opinion

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

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

Independent Auditors' Report continued

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended,
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the Group financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
27 June 2008

Consolidated Income Statement

for the year ended 31 December 2007

	Note	2007 £m	2006 £m
Insurance revenue			
Income from insurance contracts		3,319	3,171
Revenue ceded to reinsurers		(121)	(131)
Net insurance revenue	3	3,198	3,040
Other income			
Investment income	4	284	277
Net realised gains on available for sale financial assets	5	66	56
Other operating income	7	149	120
Total income		3,697	3,493
Policyholder claims and benefits			
Insurance claims and loss adjustment expenses	9	(2,136)	(1,910)
Insurance claims and loss adjustment expenses recoverable from reinsurers	9	7	(8)
Other expenses			
Net fair value losses on assets at fair value through expenses	6	-	(2)
Insurance contract acquisition expenses	10	(926)	(855)
Marketing and administration expenses	10	(284)	(243)
Cost of asset management services		(5)	(7)
Other operating expenses	8	(100)	(97)
Operating result		253	371
Finance costs	12	(21)	(20)
Loss on disposal of operations	41	(111)	-
Profit before tax		121	351
Income tax expense	13	(8)	(70)
Profit for the year attributable to equity holders of the Company		113	281
Earnings per share (pence per share)	14	10 66	26 52
Diluted earnings per share (pence per share)	14	10.66	26 52

Consolidated Balance Sheet

as at 31 December 2007

	Note	2007 £m	2006 £m
ASSETS			
Goodwill and intangible assets	18	229	225
Property, plant and equipment	16	52	55
Investment property	17	121	54
Associate undertakings	21	-	10
Investment in financial assets	22	4,473	5,125
Reinsurers' share of insurance contract liabilities	23	164	308
Insurance and reinsurance receivables	24	1,079	961
Current taxation		-	6
Deferred taxation	35	160	80
Deferred acquisition costs	19	383	313
Other receivables	25	1,077	602
Cash and cash equivalents	26	738	892
Total assets		8,476	8,631

Consolidated Balance Sheet continued

as at 31 December 2007

	Note	2007 £m	2006 £m
EQUITY			
Share capital	**27, 28**	**56**	56
Share premium	**27, 28**	**523**	523
Other reserves	**28, 29**	**343**	410
Retained earnings	**28**	**947**	814
Capital and reserves attributable to ordinary shareholders	**28**	**1,869**	1,803
LIABILITIES			
Technical provisions - insurance contract liabilities	**30**	**5,569**	5,757
Borrowings	**32**	**301**	405
Insurance and reinsurance liabilities	**31**	**260**	247
Provisions for other liabilities and charges	**33**	**100**	75
Retirement benefit obligations	**36**	**52**	77
Other liabilities	**34**	**295**	267
Current tax		**30**	-
Total liabilities		**6,607**	6,828
Total equity and liabilities		**8,476**	8,631

The financial statements on pages 9 to 64 were approved by the Board of Directors on 26 June 2008 and were signed on its behalf by

I. Robinson
Director
26 June 2008

Consolidated Cash Flow Statement

for the year ended 31 December 2007

	Note	2007 £m	2006 £m
Cash flows from operating activities			
Cash generated from operations	37	(20)	161
Income taxes paid		(12)	(94)
Interest paid		(21)	(20)
Interest received		256	252
Dividends received		30	27
Net cash from operating activities		233	326
Cash flows from investing activities			
Proceeds from sale of			
Investments		1,667	3,297
Loan repayment received from related party		-	2,000
Intangible assets		-	2
Investments in subsidiaries (net of cash disposed)		1	-
Purchase of			
Investments		(1,343)	(3,296)
Bonds/loans granted to related parties		(526)	(137)
Property, plant and equipment		(11)	(12)
Intangible assets		(48)	(60)
Investments in subsidiaries (net of cash acquired)		(28)	(13)
Net cash outflow from investing activities		(288)	1,781
Cash flows from financing activities			
Dividends paid to ordinary shareholders		-	(2,000)
Net (decrease)/increase in cash and cash equivalents		(55)	107
Cash and cash equivalents at 1 January		784	677
Exchange gains on cash and cash equivalents		6	-
Cash and cash equivalents at 31 December	26	735	784

Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2007

	Note	2007 £m	2006 £m
Profit for the financial year		**113**	281
Exchange on revaluation of subsidiary net assets		**20**	(5)
Revaluation of available for sale financial assets		**(123)**	(101)
Actuarial gains on defined benefit schemes	**36**	**23**	15
		33	190
Tax effect of items not recognised in income statement	**28**	**33**	26
Total recognised income attributable to equity shareholders		**66**	216

Accounting Policies

Significant Accounting Policies

I *Basis of presentation*

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 1985 applicable to Companies reporting under IFRS They are prepared under the historical cost convention, modified by the revaluation of available for sale financial investments and financial instruments at fair value through income

The use of IFRS requires management to exercise judgement in the selection and application of accounting policies and in the use of accounting estimates Those areas which could have a significant impact in the financial statements are set out on pages 17 to 21 and on page 27

As recommended by IAS 1, assets and liabilities are generally classified globally on the balance sheet in increasing order of liquidity, which is more relevant for financial institutions than a classification between current and non-current items As for most insurance companies, expenses are classified by destination in the income statement

The financial statements of the Parent Company are presented on pages 65 to 71

a) *Changes in presentation*

- The accounting policies adopted are consistent with those of the previous financial year except for the following

  IFRS 7, Financial Instruments Disclosures
  IFRS 7 introduces new disclosure requirements around the Group's exposure to risk arising from financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables The additional disclosures relate to qualitative and quantitative information including sensitivity analysis to market risk and are incorporated in the Management of Risks section There were also complementary amendments to IAS 1, Presentation of Financial Statements – Capital Disclosures, which introduces disclosures about the level of an entity's capital and how it manages capital, and to IFRS 4, Insurance Contracts, which addresses the disclosure requirements of risks arising from insurance contracts

  IFRIC 11, IFRS 2 - Group and Treasury Share Transactions
  IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for instance, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions This interpretation does not have any impact on the Group's financial statements

- Interpretations to published accounting standards that are effective in 2007 but not relevant for the Group's operations

  IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies

  IFRIC 8, Scope of IFRS 2

  IFRIC 9, Reassessment of Embedded Derivatives

  IFRIC 10, Interim Financial Reporting and Impairment

b) *Recently issued accounting pronouncements*

There are a number of accounting developments relevant to the Group's future financial reporting which are listed below

Accounting Policies continued

- United Kingdom Listing Authority disclosure rules

  The Group will take advantage of a transitional provision whereby the Group need not disclose its half-yearly financial report in accordance with DTR 4 2 until 1 January 2015 as it is an issuer of debt securities which were admitted to the official list before 1 January 2005 pursuant to Chapter 23 of the Listing Rules

- Recently published accounting standards that are not yet effective and have not been early adopted by the Group

  IFRS 8, Operating Segments which replaces IAS 14 Segment Reporting
  IFRS 8 introduces more detailed analysis of operating segments but will have no impact on the results or the earnings per share The new standard requires segmental information to be presented on the same basis as internal reports that are regularly reviewed by senior management in order to allocate resources and monitor performance IFRS 8 is effective for accounting periods beginning 1 January 2009, subject to endorsement by the EU

  IAS 23 (Amendment), Borrowing Costs
  This amendment removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale This is not expected to have any impact on the Group's financial statements The amendment to IAS 23 is effective for accounting periods beginning 1 January 2009, subject to endorsement by the EU

  IAS 1, Presentation of Financial Statements
  This revised standard will result in presentational changes, such as a mandatory statement of comprehensive income, and standardisation of accounting terminology used to describe the financial statements This is not expected to have any impact on the Group's result or earnings per share The changes are effective for accounting periods beginning 1 January 2009, subject to endorsement by the EU

  IFRS 3, Business Combinations, and amendment to IAS 27, Consolidated and Separate Financial Statements
  This revised standard changes existing accounting practice in the treatment and presentation of minority interests (to be renamed non controlling interests), and in the treatment of consideration in business combinations Currently, the consideration for a business combination may include costs of acquisition and movements in contingent consideration The revised standard requires costs to be expensed (rather than included in goodwill) and contingent consideration to be measured at fair value at the acquisition date (rather than being adjusted against goodwill should the amount change) The new standards will be applied prospectively and so only affect future periods after adoption which is effective for accounting periods beginning 1 July 2009, subject to endorsement by the EU

  Insurance Contracts (IFRS Phase II) and Solvency II
  The Group will be affected by these two long-term projects through its insurance subsidiaries

  - IFRS Phase II is intended to address accounting for insurance contracts and is based around a framework of three building blocks to measure insurance liabilities (best estimate of future cash flows, discounted to reflect the time value of money, with margins for bearing risk and providing other services) The IASB has begun to analyse the responses to its Discussion Paper and does not expect to issue an Exposure Draft before 2009 and a final standard before 2010

  - Solvency II is a European initiative to address regulatory reporting and incorporates its own requirement for measuring insurance liabilities Its primary objective is to strengthen policyholder protection by aligning capital requirements more closely with the risk profile of the entity Assets and liabilities will be valued on an 'economic' market-consistent basis It is currently undergoing field testing and is likely to require full adoption around the same time, if not before, IFRS Phase II

Accounting Policies continued

- Interpretations to published accounting standards that are not yet effective and have not been early adopted by the Group

  IFRIC 14, IAS 19 – The limit on a defined benefit asset, Minimum Funding Requirements and their interaction
  IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset It also explains how the pension asset or liability may be affected by funding requirements The Group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Group's financial statements

- Interpretations to published accounting standards that are not yet effective and not relevant for the Group's operations

  IFRIC 12, Service Concession Agreements
  This relates to the provision of public sector services and is not applicable to the Group

  IFRIC 13, Customer Loyalty Programmes
  IFRIC 13 clarifies the accounting treatment of customer loyalty incentives It is not applicable to the Group as none of the Group companies operates such loyalty programmes

II Basis of consolidation

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

The acquisition of subsidiaries is accounted for using the purchase method

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

III Segmental reporting

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

IV Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency)

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement

Translation differences on non-monetary items, such as equities classified as available for sale financial assets, are included in the fair value revaluation reserve in equity

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

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

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

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

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

V ***Product classification***

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

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

VI ***General insurance contracts - recognition and measurement***

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

a) *Premiums*

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

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

b) *Claims incurred*

Claims incurred 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 (IBNR) and related expenses, together with any adjustments to claims from previous years Where applicable, deductions are made for salvage and other recoveries

c) *Claims provisions and related reinsurance recoveries*

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of IBNR claims to the Group The estimated cost of claims includes expenses to be incurred in settling claims and for IBNR claims, a deduction is made for the expected value of salvage and other recoveries The 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 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 IBNR claims may often not be apparent to the insurer until many years after the event giving rise to the claims has happened Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience

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

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

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

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

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

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

- Property, aviation and accident business

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

- Healthcare business

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

- Motor business

  The estimated cost of motor claims excluding the cost of personal injury claims is calculated by reference to the projected number of claims, based on statistics showing how the number of notified claims has been developed over time, and the anticipated average cost per claim, based on historical levels adjusted to allow for movements in the variables described above The personal injury element of motor claims costs is estimated using the same method as used for liability claims described below In addition, the estimate is assessed in the context of the historical development of paid and incurred claims and the implied loss ratios for each accident year

- Liability and marine claims

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

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

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

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

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

- Disease-related and pollution claims

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

- Plaintiffs' expanding theories of liability, compounded by inconsistent court decisions and judicial interpretations
- A few large claims, accompanied by a very large number of small claims or claims made with no subsequent payment, often driven by intensive advertising by lawyers seeking claimants

   - The tendency for speculative, inflated and/or unsupported claims to be made to insurers, with the aim of securing a settlement on advantageous terms
   - The long delay in reporting claims and exposures, since the onset of illness and disability arising from exposure to harmful conditions, may only become apparent many years later (for example, cases of mesothelioma can have a latent period of up to 40 years)
   - Inadequate development patterns
   - Difficult issues of allocation of responsibility among potentially responsible parties and insurers
   - Complex technical issues that may give rise to delays in notification arising from unresolved legal issues on policy coverage and the identity of the insured
   - The tendency for social trends and factors to influence jury verdicts
   - Developments pertaining to the Group's ability to recover reinsurance for claims of this nature

- Reinsurance recoveries

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

d) *Salvage and subrogation*

Estimated recoveries in respect of notified claims are included within other receivables

e) *Deferred acquisition expenses*

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

f) *Unexpired risks*

Provision is made for unexpired risks when, after taking account of investment income on insurance funds, it is anticipated that unearned premiums, net of any associated deferred acquisition costs, will be insufficient to meet the future claims and expenses of business in force at the end of the year Classes of business which the directors consider are managed together are aggregated for this purpose The future claims are calculated having regard to events that have occurred prior to the balance sheet date

VII Long-term insurance contracts - recognition and measurement

This accounting policy is included for comparative purposes only as there is no company undertaking long-term business in the Group following the Part VII transfer and sale of the business of PPP lifetime care plc on 1 January 2007

a) *Premium income*

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

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

Accounting Policies continued

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 provision for long-term insurance contract liabilities

c) *Provision for long-term insurance contract liabilities*

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

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

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

VIII Intangible assets

a) *Goodwill*

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

b) *Computer software*

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

c) *Commission advances*

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

d) *Other intangible assets*

Other intangible assets can arise from the fair valuation of assets acquired in business combinations and also from the separate purchase of books of business In both cases, the asset is amortised over the anticipated useful life and is reviewed for impairment on a regular basis

IX Property, plant and equipment

a) *Property*

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

b) *Plant and equipment*

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

X ***Investment property***

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

Where there is an unrealised loss over 15%, an impairment is recognised as the difference between the net book value of the investment property and the fair value of the asset based on an independent valuation

XI ***Financial assets***

Financial assets are classified on initial recognition into the following categories

- Financial assets at fair value through income
- Available for sale financial assets
- Held to maturity financial assets
- Loans and receivables

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

a) *Fair value through income*

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

b) *Available for sale*

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

c) *Held to maturity*

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

d) *Loans and receivables*

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

Accounting Policies continued

e) General

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

The Group applies the IAS 39 fair value hierarchy Fair values of financial assets traded on active markets are determined using quoted market prices when available A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis In other cases, the Group uses recognised valuation techniques to determine market value These include pricing models, use of discounted cash flow data and, where available, evidence of arm's length transactions in similar assets

XII Impairment of assets

a) Available for sale financial assets

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

b) Financial assets carried at amortised cost

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

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

c) Non-financial assets

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

XIII Derivative financial instruments

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

Accounting Policies continued

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

XIV ***Cash and cash equivalents***

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

XV ***Share capital***

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

XVI ***Borrowings***

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

XVII ***Offsetting***

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

XVIII ***Taxation***

Taxation charged or credited in the income statement is based on profits determined in accordance with relevant taxation legislation, adjusted by movements in provisions relating to prior years UK tax in respect of profits generated by non-UK subsidiaries is recognised in the income statement in the period for which the profits arise except where the Group is able to control the remittance of earnings and it is probable that no such remittance is expected in the foreseeable future, in which case UK tax is provided on dividends received Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities

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

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

XIX ***Employee benefits***

a) Pension obligations

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

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

19 the Group therefore treats its contributions to the defined benefit sections as if they were defined contribution arrangements

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

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

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

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

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

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

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

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

b) *Other post-retirement obligations*

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

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

c) *Termination benefits*

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

d) *Profit sharing and bonuses*

Employees benefit from profit sharing arrangements based on a formula which has regard to both personal performance and profitability of the applicable AXA Group companies The

Group recognises a liability for the cost of profit sharing and bonuses when contractually obliged to do so

XX *Provisions*

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

XXI *Leases*

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

XXII *Dividend distributions*

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

XXIII *Revenue recognition*

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

a) *Services*

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

b) *Interest income*

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

c) *Interest charges made to policyholders*

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

d) *Dividend income*

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

Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate There are several sources of uncertainly that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims Details of the measures adopted in measuring these liabilities are provided in accounting policies section VI c on page 17 Details on the process used to decide on assumptions for non-life insurance contracts and sensitivity analyses can be found in note 30 to the financial statements

Management of Risks

Financial risk management objectives and policies

The Group is exposed to financial risk through the inherent uncertainty in undertaking insurance business affecting its financial assets and liabilities The most important components of this risk are market (including interest rate and price risks), credit and liquidity risks

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

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

The Group has not changed the processes used to manage its risks from previous periods The notes below explain how financial risks are managed

Market risk

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

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

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

Prior to 1 January 2007 when the Group transferred its long-term insurance business, there were previously non-profit liabilities split between fixed and index-linked amounts The term distribution of fixed interest assets was closely matched with the liabilities through investment strategy, and for unit-linked business the Group matched all the assets on which unit prices and therefore policyholder liabilities were based with assets in the portfolio

a) *Interest rate*

The fair value of debt securities is exposed to future interest rate fluctuations Included in debt securities is £707m (2006 £564m) in respect of variable rate debentures Debt securities with fixed interest rates are exposed to fair value interest rate risk but not cash flow interest rate risk Debt securities with variable interest rates are exposed to cash flow interest rate risk but not fair value interest rate risk

	2007			2006		
Debt securities	**1% to 4%**	**> 4%**	**Total**	**1% to 4%**	**> 4%**	**Total**
Debt securities £m	612	3,097	**3,709**	551	3,642	4,193
Interest rate - average	3 2%	5 7%	**5.2%**	2 9%	5 4%	5 1%

Management of Risks continued

Equity analysis by industry 1	2007 £m	2007 %	2006 £m	2006 %
Financial institutions	**122**	**20.3%**	141	23 0%
Consumer	**90**	**15.0%**	127	20 7%
Energy	**49**	**8.1%**	54	8 8%
Manufacturing & Pharmaceuticals	**18**	**3.0%**	35	5 7%
Utilities	**38**	**6.3%**	49	8 0%
Basic materials	**43**	**7.2%**	36	5 8%
Technology & Telecommunications	**44**	**7.3%**	57	9 3%
Others	**197**	**32 8%**	116	18 7%
Total	**601**	**100 0%**	615	100 0%

1 Includes mutual funds

Debt securities analysis by industry	2007 £m	2007 %	2006 £m	2006 %
Financial institutions	**1,674**	**45.1%**	1,793	42 8%
Manufacturing & Pharmaceuticals	**14**	**0.4%**	16	0 4%
Utilities	**40**	**1.1%**	63	1 5%
Technology & Telecommunications	**143**	**3.9%**	151	3 6%
Government securities	**1,515**	**40.9%**	1,950	46 5%
Others	**323**	**8.6%**	220	5 2%
Total	**3,709**	**100.0%**	4,193	100 0%

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date An increase of 100 basis points in interest yields would result in additional profit for the period of £2m (2006 £2m) plus unrealised losses in the consolidated statement of recognised income and expense of £142m (2006 £146m) A decrease of 100 basis points in interest yields would result in additional loss for the period of £2m (2006 £2m) plus unrealised gains in the consolidated statement of recognised income and expense of £154m (2006 £160m)

b) *Equity price risk*

Listed equity securities represent 98% (2006 98%) of total equity investments If the relevant market indices had increased/decreased by 10%, with all other variables constant, and all the Group's equity investments moving according to the historical correlation index, the profit for the year would increase/decrease by £12m (2006 £25m), and unrealised gains recorded through the consolidated statement of recognised income and expense would increase/decrease by £34m (2006 £45m)

c) *Currency risk*

The Group is exposed to currency risk in respect of portfolios denominated in other currencies, principally the US dollar and Euro Mitigation of this risk is partly achieved by matching the liabilities with assets in the same currency The Euro investments shown in the tables below principally relate to financial assets held by the Group's subsidiary undertaking in Ireland At 31 December 2007, if the pound had weakened/strengthened by 1%, with all other variables constant, the profit before tax for the year would have been £4m (2006 £5m) lower/higher

Currency analysis of equity 1	2007 £m	2007 %	2006 £m	2006 %
USD	**21**	**3.5%**	45	7 3%
JYP	**3**	**0.5%**	8	1 3%
GBP	**445**	**74.0%**	421	68 5%
AUD	**1**	**0.2%**	2	0 3%
EURO	**127**	**21 1%**	131	21 3%
Others	**4**	**0 7%**	8	1 3%
Total	**601**	**100 0%**	615	100 0%

1 Includes mutual funds

Currency analysis of debt securities	2007 £m	2007 %	2006 £m	2006 %
USD	**96**	**2.6%**	77	1 8%
GBP	**2,680**	**72.3%**	3,146	75 0%
EURO	**909**	**24.5%**	959	22 9%
Others	**24**	**0.6%**	11	0 3%
Total	**3,709**	**100.0%**	4,193	100 0%

Capital management

The Group's UK and Irish insurance operations are regulated by the Financial Services Authority (FSA) and The Irish Financial Services Regulatory Authority respectively Accordingly, the Group is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities The Group manages capital in accordance with these rules and has embedded in its processes the necessary tests to ensure continuous and full compliance with such regulations Given the variability of the many inflows and outflows which are subject to market and other combinations of risk, regular monitoring of liability and asset profiles is undertaken to establish the implications for supporting capital requirements

The individual insurance companies are subject to capital adequacy requirements (which are based on EU Directive requirements) At 31 December 2007 the total capital available to meet the UK Insurance Group's adjusted solo basis Solvency I requirement is £804m (2006 £1,188m) which exceeds the General Insurance Capital Requirement by 31% (2006 56%), the fall being due to increased loans to its parent company For Ireland, after the payment of a €280m dividend to the parent company, the total regulatory assets available to cover the minimum solvency margin under Solvency I are €236m (2006 €473m) which exceed the required solvency margin of €74m (2006 €78m)

For the UK, the AXA Insurance Group is also subject to self-assessed, risk-based capital requirements under the FSA's individual capital adequacy regime and carries out an Individual Capital Assessment (ICA), taking into account the variability of these risks, to ensure that there are sufficient assets to back the liabilities, under extreme scenarios The ICA is established at levels of security defined by the AXA Group and the FSA to whom regular reports are made The Group has complied with all regulatory capital requirements throughout the year

Insurance and reinsurance risk

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

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

Management of Risks continued

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

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

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

With the transfer of the long-term insurance business, the risks previously associated with this business no longer apply In respect of lifetime care contracts previously undertaken, insurance risk referred to fluctuations in the timing and frequency of insured events relative to the expectations of the firm at the time of underwriting Uncertainty in the estimation of future long-term benefit payments and premiums receipts arose from the unpredictability of long-term changes in overall levels or mortality and morbidity and the variability in contract holder behaviour Such insurance risk was managed through its underwriting and reinsurance arrangements

Liquidity risk

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

Liquidity risk could arise from illiquid asset holdings, inappropriate asset/liability matching or inexact forecast operating liquidity requirements resulting in insufficient short-term (including intra-day) and longer-term liquidity This is controlled via the higher level requirements of AXA UK plc for annual liquidity reviews including stress testing to ensure that sufficient liquidity exists in the business In addition, a robust working capital management environment is encouraged by ensuring there are appropriate loan and overdraft facilities, backed up by shorter-term, regular cash flow forecasting

The tables below provide an analysis of the maturity periods of the Group's financial assets and liabilities bearing liquidity risk

2007	Less than 1 year £m	1-2 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
Financial assets						
Equities and mutual funds	-	-	-	-	601	**601**
Debt securities	650	364	728	1,967	-	**3,709**
Loans/bonds with related parties	-	-	-	126	-	**126**
Deposit with credit institutions	37	-	-	-	-	**37**
Total financial assets	**687**	**364**	**728**	**2,093**	**601**	**4,473**

Management of Risks continued

2007	Less than 1 year £m	Over 5 years £m	Total £m
Financial liabilities			
15 year subordinated loan repayable 2016	-	100	**100**
Perpetual subordinated loan	-	50	**50**
Unsecured bank loan	3	-	**3**
Listed unsecured 6 5/8% Company bonds repayable 2023	-	148	**148**
Total borrowings	**3**	**298**	**301**

2006	Less than 1 year £m	1-2 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
Financial assets						
Equities and mutual funds	-	-	-	-	615	**615**
Debt securities	534	693	945	2,021	-	**4,193**
Loans	-	-	1	5	-	**6**
Deposit with credit institutions	311	-	-	-	-	**311**
Total financial assets	**845**	**693**	**946**	**2,026**	**615**	**5,125**

2006	Less than 1 year £m	Over 5 years £m	Total £m
Financial liabilities			
15 year subordinated loan repayable 2016	-	100	**100**
Perpetual subordinated loan	-	50	**50**
Unsecured bank loan	107	-	**107**
Listed unsecured 6 5/8% Company bonds repayable 2023	-	148	**148**
Total borrowings	**107**	**298**	**405**

Credit risk

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

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

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

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

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

- Reinsurance exposures and balances with external party reinsurers,
- Compliance with the credit policy applied to reinsurers, and

Management of Risks continued

- The credit exposure of the portfolio

An analysis of credit risk assets (debt securities) by economic exposure is shown in the table below

	2007		2006	
Ratings	**£m**	**%**	**£m**	**%**
AAA	**1,815**	**48.8%**	2,228	53 1%
AA	**736**	**19.9%**	709	16 9%
A	**862**	**23 3%**	1,001	23 9%
BBB	**296**	**8 0%**	250	6 0%
Not rated	**-**	**0.0%**	5	0 1%
Total	**3,709**	**100 0%**	4,193	100 0%

The maximum exposure for the Group to credit risk is shown in the table below

Maximum credit risk	**2007 (carrying value) £m**	**2006 (carrying value) £m**
Investment in financial assets	**4,080**	4,571
Reinsurers' share of insurance contract liabilities	**164**	308
Insurance and reinsurance receivables	**1,079**	961
Other receivables	**1,077**	602
Cash and cash equivalents	**738**	892
	7,138	7,334

Notes to the Financial Statements

1 Segmental information – Business segments

The segment results for the year ended 31 December 2007 are as follows

	Life & Savings £m	Healthcare £m	Motor £m	Property £m	Liability £m	Other £m	Group £m
Insurance revenue							
Income from insurance contracts		895	670	851	378	525	3,319
Revenue ceded to reinsurers		(10)	(8)	(83)	(9)	(11)	(121)
Net insurance revenue	**-**	**885**	**662**	**768**	**369**	**514**	**3,198**
Underwriting result 1		54	(36)	(146)	82	(55)	(101)
Net investment result 2		22	93	40	109	90	354
Operating result	**-**	**76**	**57**	**(106)**	**191**	**35**	**253**
Finance costs							(21)
Loss on disposal of operations							(111)
Profit before tax							**121**
Income tax expense							(8)
Profit for the year attributable to equity holders of the Company							**113**
Other segment items included in the income statement:							
Depreciation and amortisation expenses	**-**	**3**	**3**	**4**	**2**	**8**	**20**

The Life & Savings segment has been discontinued in 2007 following the transfer of the PPP lifetime care plc business to AXA Sun Life plc as disclosed in note 41

The segment results for the year ended 31 December 2006 are as follows

	Life & Savings £m	Healthcare £m	Motor £m	Property £m	Liability £m	Other £m	Group £m
Insurance revenue							
Income from insurance contracts	36	822	609	823	386	495	3,171
Revenue ceded to reinsurers	(6)	(10)	(16)	(81)	(10)	(8)	(131)
Net insurance revenue	**30**	**812**	**593**	**742**	**376**	**487**	**3,040**
Underwriting result 1	12	53	92	24	(132)	(4)	45
Net investment result 2	10	16	77	30	87	106	326
Operating result	**22**	**69**	**169**	**54**	**(45)**	**102**	**371**
Finance costs							(20)
Profit before tax							**351**
Income tax expense							(70)
Profit for the year attributable to equity holders of the Company							**281**
Other segment items included in the income statement:							
Depreciation and amortisation expenses	**-**	**1**	**2**	**3**	**2**	**8**	**16**

Notes to the Financial Statements continued

Notes to tables

1 Underwriting result comprises net insurance revenues, other operating income and other operating expenses, policyholder claims and benefits, insurance contract acquisition expenses, and marketing and administration expenses, less exchange gains and losses, and non-insurance related income and expenses

2 Net investment result comprises investment income, net realised gains on available for sale financial asset investments, net fair value gains and losses on assets at fair value through income and expenses, and cost of asset management services, plus exchange gains and losses, and non-insurance related income and expenses

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows

	Life & Savings £m	Healthcare £m	Motor £m	Property £m	Liability £m	Other £m	Group £m
Reinsurance assets		3	44	46	39	32	164
Other assets		783	2,257	1,204	2,045	2,023	8,312
Total assets	**-**	**786**	**2,301**	**1,250**	**2,084**	**2,055**	**8,476**
Insurance liabilities		519	1,827	931	1,734	558	5,569
Other liabilities		159	166	116	(10)	607	1,038
Total liabilities	**-**	**678**	**1,993**	**1,047**	**1,724**	**1,165**	**6,607**
Capital expenditure	**-**	**36**	**5**	**6**	**3**	**3**	**53**

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows

	Life & Savings £m	Healthcare £m	Motor £m	Property £m	Liability £m	Other £m	Group £m
Reinsurance assets	110	9	56	58	37	38	308
Other assets	311	672	2,149	1,168	2,187	1,836	8,323
Total assets	**421**	**681**	**2,205**	**1,226**	**2,224**	**1,874**	**8,631**
Insurance liabilities	391	461	1,742	863	1,789	511	5,757
Other liabilities	30	124	169	169	53	526	1,071
Total liabilities	**421**	**585**	**1,911**	**1,032**	**1,842**	**1,037**	**6,828**
Capital expenditure	**-**	**17**	**4**	**5**	**3**	**7**	**36**

2 Segmental Information – Geographical segments

The Group's business segments are managed as a single group operating in the following main geographical areas

Income from insurance contracts	**2007 £m**	**2006 £m**
UK	**2,882**	2,725
Republic of Ireland	**316**	315
Total income from insurance contracts	**3,198**	3,040

Notes to the Financial Statements continued

Total assets	2007 £m	2006 £m
UK	6,827	7,117
Republic of Ireland	1,649	1,487
Other	-	27
Total assets	8,476	8,631

Capital expenditure	2007 £m	2006 £m
UK	47	32
Republic of Ireland	3	2
Other	3	2
Total capital expenditure	53	36

3 Net premium revenue

	2007 £m	2006 £m
Long-term insurance contracts	-	36
Short-term insurance contracts		
- premium receivables	3,433	3,174
- change in unearned premium provision	(114)	(39)
Premium revenue arising from contracts issued	3,319	3,171
Long-term reinsurance contracts	-	(6)
Short-term reinsurance contracts		
- premium payables	(116)	(128)
- change in unearned premium provision	(5)	3
Premium revenue ceded to reinsurers on insurance contracts issued	(121)	(131)
Net premium revenue	3,198	3,040

4 Investment income

	2007 £m	2006 £m
Available for sale		
- dividend income	31	27
- interest income	203	193
Real estate income	2	-
Cash and cash equivalents interest income	48	45
	284	265
Fair value through income		
- dividend income	-	1
- interest income	-	11
	-	12
Total investment income	284	277

Notes to the Financial Statements continued

5 Net realised gains on available for sale financial assets

	2007 £m	2006 £m
Realised gains/(losses) on financial assets		
- debt securities	29	(9)
- equities	59	49
Impairment of financial assets		
- release	19	26
- allowance	(42)	(7)
Other realised gains/(losses)	1	(3)
Total net realised gains on available for sale financial assets	66	56

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

	2007 £m	2006 £m
Net fair value losses on financial assets at fair value through income	-	2

Total unrealised losses on investments which arose in the period were £nil (2006 £5m), due to the transfer of the PPP lifetime care plc business to AXA Sun Life plc as disclosed in note 41

7 Other operating income

	2007 £m	2006 £m
Other income from non-insurance business	60	42
Recharge of expenses to immediate parent company	39	34
Recharge of expenses to fellow subsidiary undertakings	50	44
Other operating income	149	120

8 Other operating expenses

	2007 £m	2006 £m
Other expenses from non-insurance business	5	10
Foreign exchange losses	6	9
Expenses incurred by Service Company	89	78
Other operating expenses	100	97

Notes to the Financial Statements continued

9 Policyholder claims and benefits

	2007 £m	2006 £m
Insurance claims and loss adjustment expenses		
Gross claims paid	2,122	1,908
Gross changes in insurance contract liabilities for claims	17	42
Change in long-term insurance contract liabilities	-	(43)
Change in unexpired risks provision	(3)	3
	2,136	1,910
Insurance claims and loss adjustment expenses recoverable		
Reinsurers' share of		
claims paid	(34)	(51)
change in insurance contract liabilities for claims	27	36
change in long-term insurance contract liabilities	-	23
	(7)	8
Net policyholder claims and benefits	2,129	1,918

10 Other expenses by destination

	2007 £m	2006 £m
Movement in advanced commission payments *(note 18)*	27	(15)
Amortisation of deferred acquisition costs *(note 19)*	(70)	9
Costs incurred for the acquisition of insurance contracts expensed in the year	976	866
Attributable to reinsurers	(7)	(5)
Total expenses for the acquisition of insurance contracts	926	855

	2007 £m	2006 £m
Marketing and administrative expenses	265	227
Depreciation of property, plant and equipment	8	8
Amortisation of software development costs	9	8
Amortisation of intangible assets	2	-
Total marketing and administrative expenses	284	243

The operating lease payments recognised as an expense during the year were £15m (2006 £13m)

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

	2007 £000's	2006 £000's
Audit services		
- Fees payable to the Company's auditor for the audit of the statutory accounts	116	100
Non-audit services		
- Fees payable to the Company's auditor and its associates for other services	1,210	1,409
- Other services pursuant to legislation	368	1,038
- Tax services	34	51
- Other	34	43
	1,762	2,641

Notes to the Financial Statements continued

Other services principally include fees relating to group and regulatory reporting, and other services pursuant to legislation relate to the requirements of Section 404 of the Sarbanes Oxley Act

11 Employee benefit expense

	2007 No	2006 No
Average number of employees in the year were		
- UK	**6,505**	6,734
- Ireland	**1,004**	938
- India	**2,190**	2,646
	9,699	10,318

	2007 £m	2006 £m
Wages and salaries	**264**	244
Social security costs	**26**	24
Pension costs - defined contribution plans	**6**	6
Pension costs - defined benefit plans	**37**	31
	333	305

12 Finance costs

	2007 £m	2006 £m
Interest expense		
- non-bank borrowings	**11**	10
- unsecured company bonds	**10**	10
Finance costs	**21**	20

13 Income tax expense

	2007 £m	2006 £m
Current tax	**60**	44
Deferred tax *(note 35)*	**(52)**	26
Income tax expense	**8**	70

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

	2007 £m	2006 £m
Profit before tax	121	351
Tax at the UK rate of 30% (2006 30%)	36	105
Effects of		
- tax calculated at domestic tax rates applicable to profits in the respective countries	(10)	(14)
- income not subject to tax	(6)	(1)
- unremitted overseas earnings	(44)	20
- disposal of subsidiary undertakings	34	-
- the change in UK tax rate to 28%	2	-
- adjustments to tax charge in respect of previous periods	(4)	(40)
Tax charge for the period	8	70

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

14 Earnings per share

Basic

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

	2007	2006
Profit attributable to the Company's equity holders (£m)	**113**	281
Weighted average number of ordinary shares in issue (thousands)	**1,059,786**	1,059,786
Basic earnings per share (pence per share)	**10.66**	26 52

Diluted

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

15 Dividends

	2007 £m	2006 £m
Interim paid	-	2,000

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

Notes to the Financial Statements continued

16 Property, plant and equipment

	Land and buildings £m	Motor vehicles £m	Equipment £m	Total £m
Cost				
Balance as at 1 January 2007	61	2	24	87
Additions at cost	3	1	7	11
Disposals	-	(1)	(12)	(13)
Balance as at 31 December 2007	**64**	**2**	**19**	**85**
Accumulated depreciation				
Balance as at 1 January 2007	18	1	13	32
Charge for the year	4	-	4	8
Disposals	-	-	(7)	(7)
Balance as at 31 December 2007	**22**	**1**	**10**	**33**
Net book value as at 31 December 2007	**42**	**1**	**9**	**52**
Cost				
Balance as at 1 January 2006	53	2	22	77
Additions at cost	8	1	3	12
Disposals	-	(1)	(1)	(2)
Balance as at 31 December 2006	**61**	**2**	**24**	**87**
Accumulated depreciation				
Balance as at 1 January 2006	13	1	11	25
Charge for the year	5	-	3	8
Disposals	-	-	(1)	(1)
Balance as at 31 December 2006	**18**	**1**	**13**	**32**
Net book value as at 31 December 2006	**43**	**1**	**11**	**55**

Depreciation expense of £8m (2006 £8m) has been charged to marketing and administration expenses

The expected useful economic lives of Land and buildings is the period of the lease to a maximum of 50 years, Motor vehicles is 4 to 5 years, and Equipment is 8 years

17 Investment properties

	2007 £m	2006 £m
Cost		
Balance as at 1 January	54	1
Additions at cost	70	53
Impairment movement	(2)	3
Disposals	-	(3)
Balance as at 31 December	**122**	**54**
Accumulated depreciation		
Balance as at 1 January	-	-
Charge for the year	1	-
Balance as at 31 December	**1**	**-**
Net book value as at 31 December	**121**	**54**

Notes to the Financial Statements continued

Subsequent to a new investment property portfolio being acquired from a fellow subsidiary undertaking, AXA Sun Life plc, during November 2006, further investments have been made The properties were valued at £108m on an open market existing use basis by CB Richard Ellis, who are external chartered surveyors, at 31 December 2007

18 Goodwill and intangible assets

	Goodwill £m	Software development £m	Advance commissions £m	Other intangibles £m	Total £m
Balance as at 1 January 2007					
Cost	128	61	123	-	312
Accumulated amortisation	-	(37)	(50)	-	(87)
Net book value as at 1 January 2007	**128**	**24**	**73**	**-**	**225**
Additions	14	13	31	15	73
Impairment	-	-	(17)	-	(17)
Disposal - transfer to fellow subsidiary	-	-	(11)	-	(11)
Amortisation charge	-	(9)	(30)	(2)	(41)
Net book value as at 31 December 2007	**142**	**28**	**46**	**13**	**229**
Balance as at 31 December 2007					
Cost	142	74	126	15	357
Accumulated amortisation	-	(46)	(80)	(2)	(128)
Net book value as at 31 December 2007	**142**	**28**	**46**	**13**	**229**
Balance as at 1 January 2006					
Cost	114	53	81	-	248
Accumulated amortisation	-	(29)	(23)	-	(52)
Net book value as at 1 January 2006	**114**	**24**	**58**	**-**	**196**
Additions	14	10	50	-	74
Impairment	-	-	(8)	-	(8)
Disposals	-	(2)	-	-	(2)
Amortisation charge	-	(8)	(27)	-	(35)
Net book value as at 31 December 2006	**128**	**24**	**73**	**-**	**225**
Balance as at 31 December 2006					
Cost	128	61	123	-	312
Accumulated amortisation	-	(37)	(50)	-	(87)
Net book value as at 31 December 2006	**128**	**24**	**73**	**-**	**225**

a) **Goodwill** relates to the acquisition of the PPP healthcare group, SecureHealth and ICAS (see note 41) Based on future profit forecasts approved by management, the carrying value is considered to be fully recoverable and no impairment is considered necessary

b) **Software development** is all internally developed

c) **Advance commissions** are in respect of future business and the annual impairment review resulted in an impairment of £17m (2006 £8m)

d) **Other intangibles** arise mainly from the fair valuation of the assets acquired on acquisition together with some new books of business acquired

Notes to the Financial Statements continued

19 Deferred acquisition costs

	2007 £m	2006 £m
Deferred acquisition costs as at 1 January	313	322
Credit/(charge) to income statement in the year	70	(9)
Acquisition costs deferred during the year	393	315
Amortisation charged during the year	(323)	(323)
Deferred acquisition costs as at 31 December	383	313

20 Investments in subsidiaries

Particulars of principal subsidiary undertakings

	Country of incorporation or registration	Holdings of ordinary shares	
Insurance companies			
AXA Insurance plc	England	100%	(Parent)
AXA Insurance UK plc	England	100%	
The Royal Exchange Assurance	England	100%	
AXA General Insurance Limited	England	100%	
AXA PPP healthcare limited	England	100%	
AXA Insurance Limited	Ireland	100%	
Other companies			
Denplan Limited	England	100%	
SecureHealth (Holdings) Limited	England	100%	
ICAS International Holdings Limited	England	100%	
AXA Services Limited	England	100%	(Parent)
AXA PPP healthcare group plc	England	100%	(Parent)
AXA Holdings Ireland Limited	Ireland	100%	
Guardian Royal Exchange International (Holdings) BV	Netherlands	100%	

Notes

1 The country of principal operation for each of the above companies is the country of incorporation, with the exception of Guardian Royal Exchange International (Holdings) BV where the company transacts UK-based financing and investment activities, and The Royal Exchange Assurance whose principal countries of operation are Cyprus and Greece

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

21 Investment in associate undertaking

	2007 £m	2006 £m
Balance as at 31 December	-	10

As disclosed in note 41, the associate's parent was transferred to a fellow subsidiary undertaking during the year

Investments in associates at 31 December 2006 included goodwill of £10m

The Group's interest at 31 December 2006 in the ordinary shares of its principal associate, which is unlisted and the holding company of Layton Blackham Insurance Brokers, is as follows

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit/ (loss)	%interest held
		£m	£m	£m	£m	
Layton Blackham Holdings Limited	UK	22	21	25	1	39%

The country shown is that of incorporation and principal operation

22 Investment in financial assets

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

	2007 £m	2006 £m
Available for sale	**4,310**	4,507
Fair value through income	**-**	301
Held to maturity - AXA UK plc 2017 5 75% bonds	**100**	-
Loans	**26**	6
Deposits with credit institutions	**37**	311
Total financial assets	**4,473**	5,125

Available for sale financial assets	2007 £m	2006 £m
Equity securities		
- listed	**386**	523
- unlisted	**7**	11
Debt securities		
- listed	**3,681**	3,837
- unlisted	**28**	75
Mutual funds - unlisted	**208**	61
Total available for sale financial assets	**4,310**	4,507

Financial assets at fair value through income	2007 £m	2006 £m
Equity securities - listed	**-**	20
Debt securities - listed	**-**	281
Total financial assets at fair value through income	**-**	301

The decrease in financial assets at fair value through income in 2007 relates to the transfer of the PPP lifetime care plc business to AXA Sun Life plc as disclosed in note 41

Notes to the Financial Statements continued

23 Reinsurers' share of insurance contract liabilities

	2007 £m	2006 £m
Reinsurers' share of provision for long-term insurance contract liabilities	-	110
Reinsurers' share of provision for claims outstanding and loss adjustment expenses	144	174
	144	284
Reinsurers' share of provision for unearned premiums	20	24
Reinsurers' share of insurance contract liabilities	164	308
Settlement period for reinsurers' share of claims outstanding and long-term insurance contract liabilities		
Less than 12 months	14	17
Greater than 12 months	130	267
	144	284

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

	2007 £m	2006 £m
Balance as at 1 January	110	133
Reinsurers' share of claims payments made in year	-	(5)
Decrease in recoverables	(110)	(18)
Balance as at 31 December	-	110

The decrease in recoverables in 2007 relates to the transfer of the PPP lifetime care plc business to AXA Sun Life plc as disclosed in note 41

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

	2007 £m	2006 £m
Balance as at 1 January	174	217
Reinsurers' share of claims payments made in year	(34)	(46)
Increase in recoverables	7	10
Exchange and other movements	(3)	(7)
Balance as at 31 December	144	174

Reinsurers' share of provision for unearned premiums

	2007 £m	2006 £m
Balance as at 1 January	24	21
Premiums written in the year	117	134
Premiums earned in the year	(121)	(131)
Balance as at 31 December	20	24

Notes to the Financial Statements continued

24 Insurance and reinsurance receivables

	2007 £m	2006 £m
Direct insurance receivables	1,027	926
Reinsurance receivables	52	35
Total insurance and reinsurance receivables	1,079	961

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

25 Other receivables

	2007 £m	2006 £m
Accrued interest	76	80
Prepayments and accrued income	22	22
Amounts due from ultimate parent company	2	5
Loans due from intermediate parent company	783	357
Other amounts due from intermediate parent company	84	10
Amounts due from fellow subsidiary undertakings	2	5
Other receivables	108	123
Total other receivables	1,077	602

No interest is charged on intercompany loans

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

26 Cash and cash equivalents

	2007 £m	2006 £m
Cash at bank and in hand	66	173
Short-term bank deposits	672	719
Cash and cash equivalents	738	892

The effective interest rate on short-term bank deposits, which have an average maturity of 19 days (2006 17 days), was 5 6% (2006 4 7%)

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

	2007 £m	2006 £m
Cash and cash equivalents	738	892
Bank overdrafts	(3)	(108)
	735	784

Notes to the Financial Statements continued

27 Ordinary share capital

	2007 Shares	2007 £m	2006 Shares	2006 £m
Authorised				
Ordinary shares of 5 25p each	**1,142,859,044**	**60**	1,142,859,044	60
Non-cumulative redeemable preference shares of 20 5p each	**931,707,318**	**191**	931,707,318	191
		251		251
Issued and fully paid Ordinary shares at 31 December	**1,059,785,981**	**56**	1,059,785,981	56

Share premium account	2007 £m	2006 £m
Balance as at 31 December	523	523

28 Reconciliation of movements in equity

2007	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Balance as at 1 January	56	523	410	814	**1,803**
Profit for the year	-	-	-	113	**113**
Actuarial gains on defined benefit schemes	-	-	-	23	**23**
Fair value losses on available for sale financial assets	-	-	(123)	-	**(123)**
Tax on movements taken directly to equity - current	-	-	7	-	**7**
- deferred	-	-	29	(3)	**26**
Exchange on revaluation of subsidiary net assets	-	-	20	-	**20**
Balance as at 31 December	**56**	**523**	**343**	**947**	**1,869**

2006	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Balance as at 1 January	56	523	488	2,520	**3,587**
Profit for the year	-	-	-	281	**281**
Actuarial gains on defined benefit schemes	-	-	-	15	**15**
Fair value losses on available for sale financial assets	-	-	(101)	-	**(101)**
Tax on movements taken directly to equity - deferred	-	-	28	(2)	**26**
Dividend paid	-	-	-	(2,000)	**(2,000)**
Exchange on revaluation of subsidiary net assets	-	-	(5)	-	**(5)**
Balance as at 31 December	**56**	**523**	**410**	**814**	**1,803**

Notes to the Financial Statements continued

29 Other Reserves

2007	Capital reserve £m	Capital redemption reserve £m	Capital contribution reserve £m	Revaluation reserve £m	Translation reserve £m	Total £m
Balance as at 1 January	104	189	46	82	(11)	**410**
Fair value losses on available for sale financial assets	-	-	-	(123)	-	**(123)**
Tax on movements taken directly to equity - current	-	-	-		7	**7**
- deferred	-	-	-	29	-	**29**
Exchange on revaluation of subsidiary net assets	-	-	-	-	20	**20**
Balance as at 31 December	**104**	**189**	**46**	**(12)**	**16**	**343**

2006	Capital reserve £m	Capital redemption reserve £m	Capital contribution reserve £m	Revaluation reserve £m	Translation reserve £m	Total £m
Balance as at 1 January	104	189	46	155	(6)	**488**
Fair value losses on available for sale financial assets	-	-	-	(101)	-	**(101)**
Tax on movements taken directly to equity - deferred	-	-	-	28	-	**28**
Exchange on revaluation of subsidiary net assets	-	-	-	-	(5)	**(5)**
Balance as at 31 December	**104**	**189**	**46**	**82**	**(11)**	**410**

The capital redemption reserve is non-distributable and was created in 1998 on the redemption of B shares

Capital contributions were received in 2003 from the immediate parent, AXA UK plc

The revaluation reserve represents the movement in the financial assets as disclosed in accounting policy XI b

The translation reserve represents exchange differences on the translation into Sterling of the results and financial position of those entities whose functional currency is not Sterling

30 Insurance contract liabilities

	2007 £m	2006 £m
Provision for long-term insurance contract liabilities	-	391
Provision for claims outstanding and loss adjustment expenses	4,012	3,930
Provision for unearned premiums	1,557	1,433
Provision for unexpired risks provision	-	3
Total insurance contract liabilities	5,569	5,757
Settlement period for claims outstanding		
Less than 12 months	776	748
Greater than 12 months	3,236	3,182
	4,012	3,930

Notes to the Financial Statements continued

Provision for long-term insurance contract liabilities

	2007 £m	2006 £m
Balance as at 1 January	**391**	434
Total claims payments made in the year	**-**	(35)
Decrease in liabilities	**(391)**	(8)
Balance as at 31 December	**-**	391

The decrease in liabilities in 2007 relates to the transfer of the PPP lifetime care plc business to AXA Sun Life plc as disclosed in note 41

Provision for claims outstanding and loss adjustment expenses

	2007 £m	2006 £m
Balance as at 1 January	**3,930**	3,924
Total claims payments made in the year	**(2,122)**	(1,873)
Increase in liabilities	**2,139**	1,915
Exchange and other movements	**65**	(36)
Balance as at 31 December	**4,012**	3,930

Provision for unearned premiums

	2007 £m	2006 £m
Balance as at 1 January	**1,433**	1,396
Premiums written in the year	**3,433**	3,210
Premiums earned in the year	**(3,319)**	(3,171)
Exchange and other movements	**10**	(2)
Balance as at 31 December	**1,557**	1,433

General insurance contracts – assumptions, change in assumptions and sensitivity

a) *Process used to decide on assumptions*

In addition to controlling upstream risks and analysing the reinsurance strategy, the General Insurance businesses specifically monitor reserve risks

Reserves have to be booked for claims as they are reported These reserves are measured individually for each file by the claims departments Additional reserves for incurred but not reported (IBNR) claims, along with reserves for not enough reserved (IBNER - incurred but not enough reported) are also booked Various statistical and actuarial methods are used in these calculations Calculations are initially carried out locally by the technical departments in charge, and are then reviewed by local risk management teams

The Group has an annual review programme to ensure the validity and coherence of the models used is in accordance with actuarial principles and accounting rules in force

The Group's methods are based on internal and industry best practice

Actuaries in charge of assessing reserves for claims payable do not use a single method but a selection of approaches such as

- Methods based on the development of claims (paid or incurred) using triangulation methods (e g chain ladder and link ratio) for which past experience is applied to each loss occurrence or underwriting year, in order to make reserves projections until their estimated final development

- The average cost per claim method which applies an estimated average cost to the final number of claims expected to be notified in each loss occurrence or underwriting year
- Methods based on claims ratios (such as the ultimate claims ratio or the additional claims ratio)
- Hybrid methods (such as Bornhuetter-Ferguson and Cape Cod)
- Methods based on frequency and severity estimates

The analysis is segmented differently depending on product type, geographical location, distribution channel, regulation and other factors in order to obtain a homogeneous claims base and ensure an appropriate analysis of reserves

Assumptions depend on available data relating to reported losses at the time of the estimates, as well as regulations, claims management procedures, pricing, underwriting information and the type of activities and claims (coverage type, attritional or major claims, recent or old occurrence) They also depend on economic, social and environmental factors, as well as on the legislative and political context, which are important variables in terms of reserves Assumptions are made following discussions with claims managers, pricing actuaries, underwriters and other specialised departments These discussions lead to the definition of reasonable estimate ranges

However, it must be kept in mind that estimates are based mainly on assumptions that may prove different from subsequent experience, particularly in the event of changes in the economic environment (e g a rise in inflation), in the legal environment (case law) and in the social environment (class action suits), and especially if they affect the Group's main portfolios simultaneously

b) *Change in assumptions*

No significant changes to assumptions were made in 2007 for the estimation of General Insurance claims

c) *Sensitivity analysis – claims development tables*

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

Accident year - Gross	**2001 £m**	**2002 £m**	**2003 £m**	**2004 £m**	**2005 £m**	**2006 £m**	**2007 £m**	**Total £m**
Estimate of ultimate claims costs								
- at end of accident year	1,929	1,921	1,870	1,917	1,827	1,959	2,304	13,727
- one year later	1,870	1,867	1,851	1,876	1,928	1,954	-	11,346
- two years later	1,911	1,882	1,844	1,828	1,814	-	-	9,279
- three years later	1,897	1,869	1,737	1,704	-	-	-	7,207
- four years later	1,896	1,763	1,630	-	-	-	-	5,289
- five years later	1,822	1,719	-	-	-	-	-	3,541
- six years later	1,832	-	-	-	-	-	-	1,832
Current estimate of cumulative claims	1,832	1,719	1,630	1,704	1,814	1,954	2,304	12,957
Cumulative payments to date	1,699	1,558	1,437	1,358	1,353	1,504	1,288	10,197
Liability recognised in the balance sheet	133	161	193	346	461	450	1,016	2,760
Liability in respect of prior years								1,252
Total liability included in the balance sheet								**4,012**

Accident year - Net	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	Total £m
Estimate of ultimate claims costs								
- at end of accident year	1,896	1,893	1,836	1,889	1,770	1,921	2,286	13,491
- one year later	1,830	1,836	1,816	1,846	1,880	2,136	-	11,344
- two years later	1,878	1,848	1,813	1,775	1,765	-	-	9,079
- three years later	1,865	1,837	1,708	1,657	-	-	-	7,067
- four years later	1,861	1,732	1,605	-	-	-	-	5,198
- five years later	1,799	1,680	-	-	-	-	-	3,479
- six years later	1,800	-	-	-	-	-	-	1,800
Current estimate of cumulative claims	1,800	1,680	1,605	1,657	1,765	2,136	2,286	12,929
Cumulative payments to date	1,675	1,537	1,418	1,352	1,323	1,490	1,296	10,091
Liability recognised in the balance sheet	125	143	187	305	442	646	990	2,838
Liability in respect of prior years								1,030
Liability net of reinsurance included in the balance sheet								**3,868**

Life insurance contracts – assumptions, change in assumptions and sensitivity

Following the transfer of the PPP lifetime care plc business to AXA Sun Life plc as disclosed in note 41, the detail previously disclosed on life insurance contracts is only relevant in respect of the 2006 position and has therefore been curtailed from that previously reported

a) *Process used to decide on assumptions*

The following main economic assumptions were made

	2006 %
Inflation rates:	
Expenses	4 25
Benefits	3 25
Discount rates:	
Regular Premium Lifetime Care Plans (non-linked)	3 85
Single Premium Lifetime Care Plans (non-linked)	4 40
Regular Premium Lifetime Care Plans (index-linked)	1 00
Single Premium Lifetime Care Plans (index-linked)	1 00
Immediate Lifetime Care Plans (non-linked)	4 70
Immediate Lifetime Care Plans (index-linked)	2 30

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

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

The provision for future expenses in determining the liabilities for all types of business covered servicing fees payable by the Group's subsidiary PPP lifetime care plc to fellow subsidiary undertaking, AXA Sun Life Services plc under a Management Services Agreement, fees payable to investment managers and further amounts in respect of other expenses Assumptions were based on recent experience adjusted where necessary to allow for expected changes

31 Insurance and reinsurance liabilities

	2007 £m	2006 £m
Direct insurance liabilities	**252**	225
Reinsurance liabilities	**8**	22
Total insurance and reinsurance liabilities	**260**	247

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

32 Borrowings

	2007 £m	2006 £m
Loans from immediate parent company		
15 year subordinated loan repayable 2016	**100**	100
Perpetual subordinated loan	**50**	50
Subordinated loans	**150**	150
Bank overdrafts	**3**	107
Listed unsecured 6 5/8% Company bonds repayable 2023	**148**	148
Total borrowings	**301**	405
Available less than one year	**3**	107
Available more than one year	**298**	298

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

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

	Carrying value		Fair value	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Subordinated loans	**150**	150	**150**	150
Short-term borrowings	**3**	107	**3**	107
Debentures and other loans	**148**	148	**172**	172
	301	405	**325**	429

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

33 Provisions for other liabilities and charges

	MIB provision £m	Vacant space provision £m	Other provisions £m	Total £m
Balance as at 1 January 2007	26	28	21	**75**
Charged to income statement	26	5	32	**63**
Released during the year	-	-	(2)	**(2)**
Utilised during year	(20)	(10)	(6)	**(36)**
Balance as at 31 December 2007	**32**	**23**	**45**	**100**

	2007 £m	2006 £m
To be settled within 12 months	**44**	33
To be settled after 12 months	**56**	42
	100	75

a) The **MIB provision** relates to the levy payable in respect of 2007 premiums and covers both the UK Motor Insurers' Bureau and the Motor Insurers' Bureau of Ireland The levy is assessed on 2007 premiums and information available from the MIB at the time Following the final assessment of the UK 2006 provision there was an additional charge of £2 2m in 2007 (2006 £nil)

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

c) **Other provisions** includes provisions for liabilities arising from the reorganisation of the business, a levy relating to the London Metropolitan Fire Brigade and costs related to general insurance operations Included in the latter category are an onerous contract provision following a review of an underperforming contract and a provision to cover a potential dispute with an agent

34 Other liabilities

	2007 £m	2006 £m
Accruals and deferred income	**160**	140
Amounts due to immediate parent company	**5**	4
Social security and other tax payments	**18**	20
Other liabilities	**112**	103
Total other liabilities	**295**	267

Estimated fair values are the amounts recorded at year-end

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

35 Deferred income tax

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

	2007 £m	2006 £m
Balance as at 1 January	**80**	80
Income statement credit/(charge) (*note 13*)	**52**	(26)
Tax credit to equity (*note 28*)	**26**	26
Exchange differences	**2**	-
Balance as at 31 December	**160**	80

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 31 December 2007 was £160m (2006 £80m)

The UK tax rate changed from 30% to 28% with effect from 1 April 2008, consequently the deferred tax balances have been restated at the tax rate applicable at the estimated date of reversal

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, unless it is expected that the earnings will be remitted in the foreseeable future It has been decided that no overseas dividends will be remitted until the law in this area is either changed or clarified

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

Deferred tax assets

	Retirement obligations £m	Tax losses carried forward £m	Total £m
Balance as at 1 January 2007	15	153	**168**
Income statement credit/(charge) (*note 13*)	(3)	24	**21**
Retained earnings	(3)	-	**(3)**
Balance as at 31 December 2007	**9**	**177**	**186**

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

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

Deferred tax liabilities

	Unrealised appreciation of investments £m	Equalisation reserve £m	Other short-term timing differences £m	Total £m
Balance as at 1 January 2007	8	35	45	**88**
Income statement (credit)/charge (*note 13*)	16	-	(47)	**(31)**
Revaluation reserve	(29)	-	-	**(29)**
Exchange difference	-	-	(2)	**(2)**
Balance as at 31 December 2007	**(5)**	**35**	**(4)**	**26**

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

	2007 £m	2006 £m
Retained earnings retirement obligations	3	2
Revaluation reserve financial assets	(29)	(28)
	(26)	(26)

36 Retirement benefit obligations

AXA UK Pension Scheme

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

An independent actuarial review by Watson Wyatt of the defined benefit scheme revealed a deficit of £306m as at 31 December 2007 (£585m as at 31 December 2006) before taking account of any tax relief This represents a snapshot of the present cost of meeting pension obligations that will crystallise over a period of many years The Scheme invests in a wide range of assets, including equities, which over the long-term, are expected by the directors to produce higher returns than those underlying the assessment of the deficit as at 31 December 2006 The AXA UK Group made additional contributions totalling £26m (2006 £23m) to the Scheme, in accordance with the plan to reduce the deficit A full valuation of the Scheme was carried out at 31 March 2006 by Watson Wyatt Although the scheme is being accounted for as a defined contribution scheme, the following disclosures are required to be shown in respect of the Scheme

The principal assumptions used by the actuaries were

	2007 £m	2006 £m
Discount rate	5 9%	5 1%
Expected return on plan assets	6.7%	6 7%
Future salary increases	5 0%	4 6%
Future pension increases	3 5%	3 1%
Inflation assumption	3.5%	3 1%
Amortisation of available for sale investments	4 7%	2 6%

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

	2007 £m	2006 £m
Present value of obligation as at 1 January	3,062	2,947
Service cost	38	46
Interest cost	154	137
Plan amendments	-	1
Actuarial (gains)/losses	(240)	36
Benefits paid	(109)	(105)
Present value of obligation as at 31 December	2,905	3,062

Notes to the Financial Statements continued

Changes in the fair value of plan assets are as follows

	2007 £m	2006 £m
Fair value of plan assets as at 1 January	**2,478**	2,365
Expected return on plan assets	**164**	156
Employer contributions	**50**	46
Employee contributions	**4**	4
Benefits paid	**(109)**	(105)
Actuarial gains	**12**	12
Fair value of plan assets as at 31 December	**2,599**	2,478

Analysis of assets by category

	2007 £m	2006 £m
Equities	**1,509**	1,509
Debt securities	**955**	826
Property	**131**	139
Cash	**4**	4
Fair value of plan assets as at 31 December	**2,599**	2,478

Other pension schemes

a) The Group operates the AXA Unapproved Top-up Scheme which is a defined benefit scheme The scheme is an unfunded arrangement and therefore no company contributions were paid during the accounting period or are to be paid in the future However, the Group has paid the current pensions in payment over the year of £2m The AXA Unapproved Top-up Scheme has been closed to new members since 1999

b) A subsidiary of the Group offers certain healthcare benefits, on a non-contributory basis, to substantially all employees who were employed prior to June 1999, upon retirement The expected costs of this benefit have been assessed in accordance with the advice of an independent qualified actuary as at 31 December 2007

c) The Group's subsidiary in Ireland operates a defined benefit scheme A full actuarial valuation, on which the amounts recognised in the financial statements are based, was carried out at 31 December 2007

Full details of the AXA Unapproved Top-up Scheme, Healthcare benefit scheme and the Irish pension scheme can be seen in the following tables

The principal assumptions used by the actuaries were

	2007			2006		
	UK			UK		
	Top-up scheme	Healthcare scheme	Ireland	Top-up scheme	Healthcare scheme	Ireland
Discount rate	**5.9%**	**5.9%**	**5.5%**	5 1%	5 1%	4 7%
Expected return on plan assets	**-**	**-**	**6 3%**	-	-	6 1%
Future salary increases	**5.0%**	**-**	**4.5%**	4 6%	-	4 5%
Future pension increases	**3.5%**	**-**	**2 3%**	3 1%	-	2 0%
Inflation assumption	**3 5%**	**8.0%**	**2 3%**	3 1%	8 0%	2 0%

Mortality tables - UK schemes

For the 2006 and 2007 actuarial review the following tables were used

All male members - PMA92C03 -1 5 with medium cohort mortality improvements from 2006

All female members - PFA80C03 +0 5 with medium cohort mortality improvements from 2006

Mortality tables – Ireland scheme

The following tables were used for both 2007 and 2006

Pensioners and dependants - 90% of PMA92 (C=2010) and 90% of PFA92 (C=2010) for male and female members respectively

For active and deferred members - 90% of PMA92 (C=2025) and 90% of PFA92 (C=2025) for male and female members respectively

Expected return on plan assets

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

The expected return on plan assets for the pension scheme in Ireland is based on market expectation at the beginning of the period and derived by taking the weighted average of the long-term expected return for each class of investment held by the fund The expected individual rates of return were 7 75% (equities), 4 5% (debt securities), 7 0% (property) and 4 0% (cash) The corresponding 2006 expected returns were 7 6% (equities), 4 0% (debt securities), 7 0% (property) and 3 5% (cash)

Pensions and other post-retirement obligations

The amounts recognised in the balance sheet are as follows

	UK				
	Top-up scheme 2007 £m	Healthcare scheme 2007 £m	Ireland 2007 £m	Total 2007 £m	2006 £m
Present value of funded obligations	26	12	233	**271**	271
Fair value of plan assets	-	-	(219)	**(219)**	(194)
Equities	-	-	(121)	**(121)**	(113)
Debt securities	-	-	(78)	**(78)**	(64)
Property	-	-	(6)	**(6)**	(5)
Cash	-	-	(14)	**(14)**	(12)
Net liability in the balance sheet	**26**	**12**	**14**	**52**	**77**

The amounts recognised in the income statement are as follows

	UK				
	Top-up scheme 2007 £m	Healthcare scheme 2007 £m	Ireland 2007 £m	Total 2007 £m	2006 £m
Current service cost	-	-	7	**7**	6
Interest cost	1	1	12	**14**	11
Expected return on plan assets	-	-	(13)	**(13)**	(10)
Past service cost	-	-	3	**3**	-
Employee contributions	-	-	(2)	**(2)**	(1)
Total included within employee benefit expenses	**1**	**1**	**7**	**9**	**6**

Notes to the Financial Statements continued

The amounts recognised in the statement of recognised income and expense are as follows

	UK Top-up scheme 2007 £m	UK Healthcare scheme 2007 £m	Ireland 2007 £m	Total 2007 £m	2006 £m
Actual return on assets	-	-	-	-	16
less expected return on scheme assets	-	-	(13)	(13)	(10)
Actual return on assets in excess of expected	-	-	(13)	(13)	6
Experience losses on liabilities	-	-	(4)	(4)	(3)
Change in actuarial assumptions	2	2	36	40	12
Actuarial gains on pension benefits	**2**	**2**	**19**	**23**	**15**

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

	UK Top-up scheme 2007 £m	UK Healthcare scheme 2007 £m	Ireland 2007 £m	Total 2007 £m	2006 £m
Present value of obligation as at 1 January	28	14	229	271	273
Exchange	-	-	20	20	(4)
Service cost	-	-	7	7	6
Interest cost	1	1	12	14	11
Plan amendment	-	-	3	3	-
Actuarial gains	(2)	(2)	(32)	(36)	(9)
Benefits paid	(1)	(1)	(6)	(8)	(6)
Present value of obligation as at 31 December	**26**	**12**	**233**	**271**	**271**

Changes in the fair value of plan assets are as follows

	UK Top-up scheme 2007 £m	UK Healthcare scheme 2007 £m	Ireland 2007 £m	Total 2007 £m	2006 £m
Fair value of plan assets as at 1 January	-	-	194	194	175
Exchange	-	-	17	17	(3)
Expected return on plan assets	-	-	13	13	10
Employer contributions	-	-	12	12	9
Employee contributions	-	-	2	2	1
Benefits paid	-	-	(6)	(6)	(4)
Actuarial (losses)/gains	-	-	(13)	(13)	6
Fair value of plan assets as at 31 December	**-**	**-**	**219**	**219**	**194**

Notes to the Financial Statements continued

Additional information for the current annual period and previous three annual periods

	2007 £m	2006 £m	2005 £m	2004 £m
As at 31 December				
Present value of funded obligations	**271**	271	273	210
Fair value of plan assets	**219**	194	175	143
Deficit	**52**	77	98	67
Experience adjustments on liabilities	**(4)**	(3)	(10)	(5)
Experience adjustments on plan assets	**(13)**	6	21	6

History of experience gains and losses

	UK					
	Top-up scheme		Healthcare scheme		Ireland	
	2007	2006	2007	2006	2007	2006
Difference between expected and actual return on scheme assets						
- amount - (loss)/gain £m	-	-	-	-	**(13)**	6
- percentage of scheme assets	-	-	-	-	**(6 0)%**	3 3%
Experience gains and losses on obligations						
- amount - (loss)/gain £m	-	(1)	-	1	**(4)**	(3)
- percentage of the present value of the obligations	**0.0%**	(4 6)%	**0 0%**	3 4%	**(1.8)%**	(1 2)%
Total amount recognised outside income statement						
- amount - (loss)/gain £m	**2**	(2)	**2**	1	**19**	16
- percentage of the present value of the obligations	**6.7%**	(7 2)%	**20.9%**	6 2%	**8 2%**	6 9%

Sensitivity analysis

The discount rate and the assumed inflation rate both have a significant effect in the IFRS accounting valuation For the schemes recognised on the balance sheet a 0 5% increase in the discount rate would reduce the present value of obligation by £30m A 0 5% increase in the inflation rate assumption would increase the present value of obligation by £17m

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

	1 % increase		1 % decrease	
	2007 £m	2006 £m	2007 £m	2006 £m
Current service cost and interest cost of net periodic post employment medical costs	**0.2**	0 2	**0.2**	0 1
Present value of obligation for post employment medical costs	**2.2**	2 5	**1 7**	1 9

The total pension cost which has been charged to the income statement for the Group is £43m (2006 £37m) which includes £6m (2006 £6m) costs for defined contribution schemes

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

The estimated contributions to be paid by the Group in 2008 are £47m

37 Cash generated from operations

	2007 £m	2006 £m
Profit before tax and loss on disposal of operations	**232**	351
Depreciation and fixed asset write-offs	**9**	8
Amortisation of intangibles and impairments	**58**	43
Realised and unrealised investment gains	**(108)**	(61)
Amortisation of available for sale investments	**4**	19
Impairment charge on available for sale investments	**42**	7
Change in insurance technical provisions	**147**	108
Change in other assets and liabilities	**(139)**	(55)
Interest expense	**21**	20
Interest income	**(256)**	(252)
Dividend income	**(30)**	(27)
Cash generated from operations	**(20)**	161

38 Related parties

AXA Insurance plc and its subsidiary undertakings paid £7m to a fellow subsidiary undertaking, GIE AXA, under a service agreement to share costs.

AXA Services Limited recovers its costs and related expenses from other group companies During 2007 this subsidiary recharged expenses of £39m to its immediate parent company, AXA UK plc, and £50m to fellow subsidiary undertakings

A loan of £30m was made by the Company to AXA UK plc

Loans of £480m were made by AXA Insurance plc to AXA UK plc and AXA UK plc repaid £100m to AXA Insurance plc

Loans of £10m were made by AXA PPP healthcare group plc to AXA UK plc

AXA Insurance plc subscribed for £100m of 5 75% fixed rate bonds due in 2017 issued by AXA UK plc

AXA Insurance UK plc paid commissions of £33m to related insurance intermediaries

The Group paid reinsurance premiums of £53m to fellow subsidiary undertakings, AXA Cessions and AXA Reinsurance UK plc

The Group received inwards treaty business premiums of £24m from AXA Cessions

39 Commitments

Capital commitments

There is no capital expenditure contracted for at the balance sheet date but not yet incurred (2006 £nil)

Operating lease commitments – where a Group company is the lessee

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

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

	2007 £m	Restated 2006 £m
No later than 1 year	4	2
Later than 1 year and no later than 5 years	7	8
Later than 5 years	12	12
	23	22

Operating lease commitments – where a Group company is the lessor

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

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

	2007 £m	2006 £m
No later than 1 year	6	3
Later than 1 year and no later than 5 years	21	10
Later than 5 years	25	13
	52	26

40 Directors emoluments

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

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

41 Acquisitions and disposals

Summary

	2007 £m	2006 £m
Acquisitions (Goodwill *note 18*)		
a) ICAS International Holdings Limited	13	-
b) Ignition New Business Solutions Limited	1	-
c) SecureHealth (Holdings) Limited	-	14
	14	14
Disposals (Income statement)		
d) PPP lifetime care plc	(124)	-
e) Venture Preference Limited	-	-
f) Graywood Investments Limited	13	-
	(111)	-

Notes to the Financial Statements continued

Cash flow movements	2007 £m	2006 £m
Acquisitions		
Cash consideration	29	15
Cash and cash equivalents acquired	(1)	(2)
Net outflow	28	13
Disposals		
Cash consideration	30	-
Cash and cash equivalents transferred	(29)	-
Net inflow	1	-

a) Acquisition of ICAS International Holdings Limited

On 12 October 2007 the Group's subsidiary company, AXA PPP healthcare group plc, purchased the entire share capital of ICAS International Holdings Limited (ICAS) for a consideration of £23m The value of ICAS net assets acquired was £4m

ICAS is the largest Employee Assistance Programmes (well-being services such as occupational health and crisis management) provider in the UK, second but aggressively growing in South Africa and has other strong positions in Europe The acquisition of ICAS is for investment purposes and has had no other effect on the current year financial statements

	2007 £m
Cash acquired	1
Other assets acquired	8
Total liabilities acquired	(5)
Net assets acquired	4
Fair value of intangible assets	6
Assets acquired	10
Consideration	23
Goodwill	13

For the year ended 30 April 2007, ICAS recorded a loss of £108,000

b) Acquisition of Ignition New Business Solutions Limited

On 19 November 2007 the Group's subsidiary, AXA Services Limited, purchased the entire share capital of Ignition New Business Solutions Limited (Ignition NBS) for a consideration of £1m Ignition NBS is a marketing consultancy company registered in England

Completion accounts have not yet been finalised but net assets are minimal and the full consideration is treated as goodwill

The unaudited accounts of Ignition NBS for the year ended 31 July 2007 showed a net asset value of £158,000 and a profit before tax of £7,000

c) Acquisition of SecureHealth (Holdings) Limited in 2006

On 26 April 2006 the Group's subsidiary company, AXA PPP healthcare group plc purchased the entire share capital of SecureHealth (Holdings) Limited (SHL) for an initial consideration of £14m plus an additional amount of £1m for the net assets acquired

SecureHealth Limited, a subsidiary of SHL, is an insurance intermediary distributing health-related insurances, predominantly white-labelled private medical insurance policies underwritten by a fellow subsidiary company AXA PPP healthcare limited

In February 2007, a further consideration of £5m was paid in relation to the purchase agreement following the transfer of the underwriting renewal rights to an additional book of business to AXA PPP healthcare limited At the same time, an intangible asset in respect of the additional business was recognised

The SHL pre-acquisition profits, for the year ended 28 February 2006, amounted to £0 4m SecureHealth Limited recorded profits of £1m for the same period

	2007 £m	2006 £m
Cash acquired	-	2
Other assets acquired	-	1
Total liabilities acquired	-	(2)
Net assets acquired	-	1
Fair value of intangible assets	5	-
Assets acquired	5	1
Consideration	5	15
Goodwill	-	14

d) Transfer of PPP lifetime care plc business

On 19 December 2005 the Group's subsidiary, AXA Insurance plc, agreed to transfer all of the policies and associated assets and liabilities in the long-term fund of PPP lifetime care plc into the long-term fund of AXA Sun Life plc (ASL), a fellow subsidiary, and to transfer all the assets and liabilities in the shareholder fund of PPP lifetime care plc into the AXA Sun Life plc shareholder fund for nil consideration During March 2006 initial Court approval was received to commence the process under a Part VII Scheme with final approval for the scheme obtained in July 2006 The scheme was implemented on 1 January 2007 and resulted in £532m of assets, including cash of £12m, and £408m of liabilities being transferred into ASL With the transfer at nil consideration, this resulted in a loss to the Group of the net asset value of £124m

Net assets of PPP lifetime care plc as at 31 December 2006

	2006 £m
Investments - at fair value through income	301
Investments - available for sale	99
Reinsurers' share	110
Receivables	10
Cash	12
Insurance contract liabilities	(391)
Provisions	(2)
Other liabilities	(15)
Net assets	124

e) Transfer of Venture Preference Limited

On 8 January 2007, the Group's subsidiary, Venture Preference Limited (VPL), was transferred from AXA Insurance UK plc to AXA Advisory Holdings Limited (the new advisory and broking arm of the Group's immediate parent company, AXA UK plc) This was done to ensure the structural separation of the distribution and underwriting business of the Group from this new broking capability The transfer was at net asset value, funded by an increase of £10m in the Group's loan with AXA UK plc, and so there was neither a gain nor loss to the Group VPL already owned 38 9% of Layton Blackham Holdings Limited, the Group's associate undertaking (note 21), and so the transfer removed the associate from the Group's influence

Notes to the Financial Statements continued

f) Disposal of Graywood Investments Limited

On 4 October 2007 the Group's subsidiary, Graywood Investments Limited, was sold to a French fellow subsidiary, Sociéte Beaujon, for a consideration of £33m The initial consideration was £30m, based on an estimated net asset value, and a further £3m was paid in respect of the final net asset value in 2008 The net assets transferred were £20m (of which £17m was cash) resulting in a gain of £13m Graywood Investments Limited is an investment company whose principal investment is AXA Business Services Private Limited (ABS), an Indian company based in Bangalore and Pune ABS provides back office services for the AXA Group worldwide and it was considered more appropriate to position these services in the French parent group structure This was therefore achieved by selling ABS's parent company, Graywood Investments Limited

42 Contingent liabilities

a) With the approval of Financial Services Authority certain wholly-owned UK 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

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

Parent Company Auditors' Report

We have audited the financial statements of Guardian Royal Exchange plc for the year ended 31 December 2007 which comprise the Balance Sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors

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

Basis of audit opinion

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

Parent Company Auditors' Report continued

Opinion

In our opinion

- The financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
26 June 2008

Parent Company Balance Sheet

as at 31 December 2007

	Note	2007 £m	2006 £m
Fixed assets			
Shares in subsidiary undertakings	1	**1,747**	1,747
Current assets			
Debtors amounts falling due within one year	2	**113**	81
Cash at bank and in hand		**-**	2
		113	83
Creditors			
Amounts falling due within one year	3	**(621)**	(616)
Net current liabilities		**(508)**	(533)
Total assets less current liabilities		**1,239**	1,214
Creditors			
Amounts falling due after more than one year	4	**(148)**	(148)
Net assets		**1,091**	1,066
Capital and reserves			
Called up share capital	5, 6	**56**	56
Share premium account	5, 6	**523**	523
Capital redemption reserve	6	**189**	189
Capital contribution reserve	6	**46**	46
Profit and loss account	6	**277**	252
Total equity shareholders' funds	6	**1,091**	1,066

The separate financial statements on pages 67 to 71 were approved by the Board of Directors on 26 June 2008 and were signed on its behalf by

I Robinson
Director
26 June 2008

Parent Company Accounting Policies

I ***Basis of accounting***

The separate financial statements of the Company are presented as required by the Companies Act 1985 and have been prepared in accordance with applicable UK accounting standards and law

The Company has not adopted Financial Reporting Standard ("FRS") 29 (Financial Instruments Disclosures) The Company is exempt from this standard as it does not hold assets at fair value and has therefore not adopted FRS 26 (Financial Instruments Recognition and Measurement)

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

II ***Investment income***

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

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

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

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

IV ***Valuation of investments***

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

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

V ***Deferred tax***

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

VI ***Foreign currencies***

Transactions denominated in foreign currencies are recorded at the rates ruling at the date of the transaction Assets and liabilities denominated in foreign currencies are translated at year-end exchange rates Exchange gains and losses are treated as part of the investment return in the profit and loss account

Parent Company – Notes to the Financial Statements

1 Shares in subsidiary undertakings

	2007 £m
Cost at 1 January and at 31 December	1,747

The principal subsidiary undertakings of the Company are

	Country of incorporation or registration	Holdings of ordinary shares	
Insurance companies			
AXA Insurance plc	England	100%	(Parent)
AXA Insurance UK plc	England	100%	
The Royal Exchange Assurance	England	100%	
AXA General Insurance Limited	England	100%	
AXA PPP healthcare limited	England	100%	
AXA Insurance Limited	Ireland	100%	
Other companies			
Denplan Limited	England	100%	
SecureHealth (Holdings) Limited	England	100%	
ICAS International Holdings Limited	England	100%	
AXA Services Limited	England	100%	(Parent)
AXA PPP healthcare group plc	England	100%	(Parent)
AXA Holdings Ireland Limited	Ireland	100%	
Guardian Royal Exchange International (Holdings) BV	Netherlands	100%	

Notes

1 The country of principal operation for each of the above companies is the country of incorporation, with the exception of Guardian Royal Exchange International (Holdings) BV where the company transacts UK-based financing and investment activities, and The Royal Exchange Assurance whose principal countries of operation are Cyprus and Greece

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

3 As disclosed in note 41f to the Group financial statements, the Company's directly held subsidiary, Graywood Investments Limited, was sold to a fellow French subsidiary

2 Debtors

	2007 £m	2006 £m
Amounts due from intermediate parent company	104	74
Amounts due from subsidiary undertaking	3	4
Amounts due from fellow subsidiary undertaking	2	-
Taxation	4	3
Total amounts falling due within one year	113	81

Parent Company – Notes to the Financial Statements continued

3 Creditors – amounts falling due within one year

	2007 £m	2006 £m
Amounts due to intermediate parent company	16	12
Amounts due to subsidiary undertakings	601	600
Other creditors	4	4
Total amounts falling due within one year	621	616

4 Creditors – amounts falling due after more than one year

	2007 £m	2006 £m
Non-bank loans over 5 years listed unsecured 6 5/8% Company bonds repayable in 2023	148	148
Total amounts falling due after more than one year	148	148

5 Ordinary share capital

	2007		2006	
	Shares	£m	Shares	£m
Authorised				
Ordinary shares of 5 25p each	**1,142,859,044**	60	1,142,859,044	60
Non-cumulative redeemable preference shares of 20 5p each	**931,707,318**	191	931,707,318	191
		251		251
Issued and fully paid Ordinary shares at 31 December	**1,059,785,981**	56	1,059,785,981	56

Share premium account	2007 £m	2006 £m
Balance as at 31 December	523	523

6 Movement in equity shareholders' funds

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Capital contribution reserve £m	Profit and loss account £m	Total £m
Balance as at 1 January 2007	56	523	189	46	252	**1,066**
Profit for year	-	-	-	-	25	**25**
Balance as at 31 December 2007	56	523	189	46	277	1,091

The transfer to the profit and loss account relates principally to the profit on the sale of the subsidiary company, Graywood Investments Limited

The capital redemption reserve is non-distributable and was created in 1998 on the redemption of B shares

The capital contribution reserve represents capital contributions received in 2003 from its immediate parent, AXA UK plc

Parent Company – Notes to the Financial Statements continued

7 Capital commitments

At 31 December 2007 contracts placed for future capital expenditure not provided in the financial statements amounted to £nil (2006 £nil)

8 Ultimate parent

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

9 Related parties

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

10 Cash flow statement

Under FRS 1 (Cash Flow Statements (revised 1996)), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a subsidiary undertaking of a parent undertaking which produces a consolidated cash flow statement The cash flow of the Company is consolidated in the Group financial statements