Guardian Royal Exchange plc

2008 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	(Chief Executive of AXA UK plc Group)
P. L. H. Maso y Guell Rivet	(Chief Executive of AXA Insurance)
I. Robinson	(Group Finance and Risk Director of AXA UK plc Group)

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 2008.

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.

Profit before tax for the group decreased by £101m to a profit of £20m in 2008 arising from an improvement of £96m in the underwriting result offset by an adverse movement of £307m in the investment result and £1m increase in Finance costs. The 2007 result included a loss of £111m on the disposal of subsidiary undertakings (*note 40*).

During the year, gross income from insurance contracts increased by £138m or 4.1% to £3,457m (2007: £3,319m). This was driven by:

- A fall in overall Casualty business, new and retention, which is being heavily impacted by difficult trading conditions in an increasingly competitive market.
- Travel, Warranty and Commercial Lines Property business, which all showed a small downturn following a contraction in the market.
- Creditor business, which has shown a fall as a result of both contraction in the market and reduced marketing.
- Significant growth in Household business reflecting new products, training and marketing initiatives and the launch of direct internet products.
- Personal Lines Motor business growth, the increase in the sale of direct internet based products outweighing the fall in business from third party Intermediaries as a result of increased prices.
- Limited growth in the private medical insurance market, which remains highly competitive.

The underwriting loss before tax for the year is £5m (2007: £101m). This was driven by:

- Current year underlying loss ratios have improved compared with the prior year due primarily to the absence of severe weather conditions and the run off of poor performing schemes.
- Commission rates have fallen due primarily to renegotiation of commission rates on delegated authority accounts
- The improvement in the combined operating ratio reflects the above positive factors, but has also been impacted by costs increasing faster than volumes due to inflation and one off project costs.

The net investment return for the year is a profit of £47m (2007: £354m). The decrease in the net investment return is due primarily to the general decrease in the financial markets, which has resulted in an increased impairment charge and a reduction in the realisation of equity gains.

Directors' Report continued

The procedures put in place by the Group identified all significant exposures to risk arising out of the current financial market conditions (credit crunch). The valuation of financial instruments, where the market liquidity was negatively affected or where no active market exists, was considered specifically, and all credit events that have occurred prior to 31 December 2008 have been considered.

Business environment

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

Strategy

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 the Group's 2012 Ambition target of becoming the 'preferred company' for customers and employees, however the Group is in the process or reviewing the original financial targets of doubling revenues and tripling earnings by 2012, which were defined in 2004 on the basis of growing equity markets that are no longer realistic. We have made solid progress towards our targets in 2008 with investment into customer focused programmes for employees, improving IT stability and our new advertising campaign.

Principal risks and uncertainties

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

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

Future outlook

The Group has a clear strategic business model focusing on traditional insurance and has maintained a strong balance sheet despite the current conditions. Careful financial risk management strategies, along with well established liquidity management practices, will ensure this is maintained in the future.

In 2009 we aim to remain competitive by reducing costs and improving efficiency through a number of initiatives. At the same time we will continue to invest for the long term to support our vision of being Trusted Market Leader; this will ensure we are building a strong foundation for our future.

To support both of these priorities we will continue to develop a culture of personal ownership ensuring that we are focused on the needs of our business and that we continue to deliver trust for our customers.

Directors' Report continued

Key performance indicators

The board monitors the progress of the Group using a variety of KPIs and it is not considered meaningful to provide Group specific KPIs except as noted below: -

	2008	2007	
Gross written premiums	**£3,454m**	£3,433m	
Underwriting result	**£(5)m**	£(101)m	
Current year loss ratio	**64.90%**	68.00%	Ratio of net current year claims incurred to net earned premiums
Combined operating ratio	**100.10%**	103.20%	Ratio of net claims incurred, commissions and expenses to net earned premiums
Operating result	**£42m**	£253m	

GOING CONCERN

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the directors' report review of activities. The ability to cope with unexpected risks to the financial position is shown within management of risks on pages 29-34, where specifically, credit risk shows that 43.8% of all debt based instruments are rated in the highest band and in terms of liquidity risk, 97% of financial assets are classified as available for sale (*note: 20*).

The group has considerable financial resources, with large cash deposits and long term subordinated and debenture borrowings (*note 30*). Detailed budgets, plans and forecasts have been prepared and reviewed setting out the continued financial position of the group for the next 12 months and a strategic plan to 2012. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2008 (2007: £nil).

DIRECTORS

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

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 87 of the Articles of Association of the Company, Mr. N. J-M. D. Moreau 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 2006.

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.

Directors' Report continued

EXERCISE OF DIRECTORS' AXA SA OPTIONS

One director of the Company exercised share options during the year (2007: 1).

EMPLOYEES

The 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.

Many businesses within the Group have Investors in People accreditation.

PAYMENT OF CREDITORS

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

Balances outstanding for the Company at 31 December 2008 represented a credit period of 43 days (2007: 41 days).

FINANCIAL RISK MANAGEMENT

The Group applies a number of techniques to manage and mitigate its risks. Details are provided on pages 29 to 34.

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.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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.

Directors' Report continued

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 view 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 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.

DIRECTORS' STATEMENT PURSUANT TO THE DISCLOSURE AND TRANSPARENCY RULES

Each of the directors, whose names and functions are listed on page 2 confirm that, to the best of each person's knowledge and belief:

- The financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit (loss) of the group and company; and
- The directors report contained in the annual report includes a fair review of the development and performance of the business and the position of the company and group, together with a description of the principal risks and uncertainties that they face.

The board of AXA UK plc are responsible for the maintenance and integrity of the group web site, www.AXA.co.uk. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

I. Robinson
Director
29 April 2009

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 2008, 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 2008.

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 2008 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
29 April 2009

Consolidated Income Statement

for the year ended 31 December 2008

	Note	2008 £m	2007 £m
Insurance revenue			
Income from insurance contracts		3,457	3,319
Revenue ceded to reinsurers		(125)	(121)
Net insurance revenue	3	3,332	3,198
Other income			
Investment income	4	292	284
Net realised (losses)/gains on available for sale financial assets	5	(240)	66
Other operating income	6	223	149
Total income		3,607	3,697
Policyholder claims and benefits			
Insurance claims and loss adjustment expenses	8	(2,146)	(2,136)
Insurance claims and loss adjustment expenses recoverable from reinsurers	8	(15)	7
Other expenses			
Net fair value losses on assets at fair value through expenses		(7)	
Insurance contract acquisition expenses	9	(959)	(926)
Marketing and administration expenses	9	(318)	(284)
Cost of asset management services		(5)	(5)
Other operating expenses	7	(115)	(100)
Operating result		42	253
Finance costs	11	(22)	(21)
Loss on disposal of operations	40	-	(111)
Profit before tax		20	121
Income tax expense	12	(4)	(8)
Profit for the year attributable to equity holders of the Company		16	113
Earnings per share (pence per share)	13	1.51	10.66
Diluted earnings per share (pence per share)	13	1.51	10.66

All transactions relate to continuing operations.

Consolidated Balance Sheet

as at 31 December 2008

	Note	2008 £m	2007 £m
ASSETS			
Goodwill and intangible assets	**17**	**199**	229
Property, plant and equipment	**15**	**58**	52
Investment property	**16**	**104**	121
Investment in financial assets	**20**	**4,317**	4,473
Reinsurers' share of insurance contract liabilities	**21**	**110**	164
Insurance and reinsurance receivables	**22**	**1,056**	1,079
Current taxation		**50**	-
Deferred taxation	**34**	**220**	160
Deferred acquisition costs	**18**	**404**	383
Other receivables	**23**	**889**	1,077
Cash and cash equivalents	**24**	**1,000**	738
Total assets		**8,407**	8,476

Consolidated Balance Sheet continued

as at 31 December 2008

	Note	2008 £m	2007 £m
EQUITY			
Share capital	**25, 26**	**56**	56
Share premium	**25, 26**	**523**	523
Other reserves	**26, 27**	**245**	343
Retained earnings	**26**	**883**	947
Capital and reserves attributable to ordinary shareholders	**26**	**1,707**	1,869
LIABILITIES			
Technical provisions - insurance contract liabilities	**28**	**5,558**	5,569
Borrowings	**30**	**304**	301
Insurance and reinsurance liabilities	**29**	**297**	260
Provisions for other liabilities and charges	**31**	**77**	100
Retirement benefit obligations	**35**	**143**	52
Other liabilities	**32**	**314**	295
Derivative financial instruments	**33**	**7**	-
Current tax		**-**	30
Total liabilities		**6,700**	6,607
Total equity and liabilities		**8,407**	8,476

The financial statements on pages 2 to 63 were approved by the Board of Directors on 29 April 2009 and were signed on its behalf by:

I. Robinson
Director
29 April 2009

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	Note	2008 £m	2007 £m
Cash flows from operating activities			
Cash generated from operations	36	(225)	(20)
Income taxes paid		(78)	(12)
Interest paid		(22)	(21)
Interest received		245	256
Dividends received		37	30
Net cash generated from operating activities		(43)	233
Cash flows from investing activities			
Proceeds from sale of:			
Investments		2,476	1,667
Loan repayment received from related party		392	-
Investments in subsidiaries (net of cash disposed)		-	1
Purchase of:			
Investments		(2,421)	(1,343)
Bonds/loans granted to related parties		(131)	(526)
Property, plant and equipment		(5)	(11)
Intangible assets		(10)	(48)
Investments in subsidiaries (net of cash acquired)		-	(28)
Net cash from investing activities		301	(288)
Net increase/(decrease) in cash and cash equivalents		258	(55)
Cash and cash equivalents at 1 January		735	784
Exchange gains on cash and cash equivalents		1	6
Cash and cash equivalents at 31 December	24	994	735

Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2008

	Note	2008 £m	2007 £m
Profit for the financial year		**16**	113
Exchange on revaluation of subsidiary net assets		**53**	20
Revaluation of available for sale financial assets		**(210)**	(123)
Actuarial (losses)/gains on defined benefit schemes	**35**	**(90)**	23
		(231)	33
Tax effect of items not recognised in income statement	**26**	**69**	33
Total recognised income attributable to equity shareholders		**(162)**	66

Accounting Policies

General Information

The Group is a public limited company which has a debenture listed on the London Stock Exchange and is incorporated and domiciled in the UK. The address of its registered office is 5 Old Broad Street, London, EC2N 1AD.

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.

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 profit or loss.

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 18 to 28.

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 64 to 70.

a) Changes in presentation

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

  IFRIC 14, The limit on a defined benefit asset, Minimum Funding Requirements and their interaction
  IFRIC 14 clarifies when refunds or reductions in future contributions should be regarded as available, how a minimum funding requirement might effect the availability of reduction in future contributions and give rise to a liability. This interpretation does not have an impact on these financial statements, due to the company applying the concession within IAS 19 (note XVIII).

  IAS 39, Financial instruments: Recognition and Measurement and IFRS 7, *Financial Instrument: Disclosures*
  This amendment concerns the reclassification of certain financial instruments out of available for sale profit and loss account in rare circumstances. The deterioration of world markets is classified as a rare circumstance, providing the justification for the immediate publication of this amendment. This amendment is effective from 1 July 2008 with no retrospective adjustments. No reclassifications have been carried out during 2008.

- Interpretations to published accounting standards that are effective in 2008 but not relevant for the Group's operations

  IFRIC 12, Service concession arrangements has not yet been EU endorsed.

Accounting Policies continued

b) *Issued accounting pronouncements*

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

- United Kingdom Listing Authority disclosure rules

  The Group has taken 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.

- 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.

  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.

  IAS 1 (revised), 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.

  IFRS 3 (revised), 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.

  IAS 27 (revised), Consolidated and separate financial statements
  This revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. The revisions will be applied prospectively from January 2010, subject to endorsement by the EU.

Accounting Policies continued

IAS 32 (amendment), Financial Instruments: Presentation, and IAS 1, Presentation of financial statements – puttable financial instruments and obligations arising on liquidation.
The amended standard requires the entity to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The amendment will be applied from 1 January 2009, subject to endorsement by the EU.

IAS 39 (amendment), Financial *Instruments: Recognition and Measurement*
The amended standard clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment will be applied from 1 January 2010, subject to endorsement by the EU.

IFRS 2 (amendment), Share based payment
The amended standard clarifies that vesting conditions are service conditions and performance conditions only. Other features outside of this should not be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. The amendment will be applied from 1 January 2009.

Improvements to IFRS's (generally effective from 1 January 2009)
In May 2008 the IASB published amendments to a number of standards, including IAS 28 'Investments in Associates', IAS 36 'Impairment of Assets' and IAS 19 'Employee Benefits'. The effect of these amendments is not expected to have a significant impact on the group. These amendments will be applied from 1 January 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 Board aims to publish an exposure draft in late 2009 and a final standard in 2011.
- 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. The Group plans to use an internal risk management model that is solvency II compliant and this will be submitted for approval by the FSA later this year. The solvency II directive is due to take effect in October 2012.

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

IFRIC 16, – Hedges of a Net Investment in a Foreign Operation
IFRIC 16 clarifies the main issues that need to be addressed when adopting hedge accounting in this particular area. The group will apply IFRIC 16 from 1 January 2009, but is not expected to have any impact on the Group's financial statements

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

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, where the group bears the cost of rewards/discounts.

Accounting Policies continued

IFRIC 15, Agreements for the construction of real estate
IFRIC 15 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and when revenue from the construction is recognised.

IFRS 5, Non-current assets held-for-sale and discontinued operations
This amendment is intended to clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in a loss of control. This amendment is effective from 1 July 2009, subject to endorsement by the EU.

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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

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). The consolidated financial statements are presented in sterling, which is the company's functional and the Group's presentational 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 within other operating income.

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.

Accounting Policies continued

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.

Accounting Policies continued

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.

Accounting Policies continued

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 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.

Accounting Policies continued

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.

VIII 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.

IX 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.

X Financial assets

Financial assets are designated on initial recognition into the following categories:

- Financial assets at fair value through profit or loss
- 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 profit or loss*

Financial assets are classified as fair value through profit & loss 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.

Accounting Policies continued

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 (excluding Private loans) 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.

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.

The Collateralized Debt Obligations (CDOs) are valued using mark to model. The valuation model follows a discounted cash flow methodology with necessary adjustments to the model so that it properly reflects all parameters considered by market participants (credit risk, liquidity premiums) and parameters that are consistent with accepted economic methodologies for pricing CDOs.

Asset backed securities are valued using mark to model due to highly illiquid secondary markets. The model is a discounted cash-flow methodology which includes specific assumptions and takes into consideration all necessary market inputs needed in setting an appropriate price. Inputs and assumptions are adjusted for each individual asset class, market and rating level.

AXA Private Equity assets are valued by the relevant manager in accordance with the guidelines from the European Venture Capital Association (EVCA), Association Française des Investisseurs en Capital (AFIC) and the British Venture Capital Association (BVCA).

The AXA SA £150 million 5.750% Floating Rate note is valued using a standard valuation method namely a "Curve Swap Model" and employs a pricing tool called Tradix. The swap curve is sourced from Reuters to determine the forwards for 6-month GBP LIBOR which is the benchmark for this bond. The credit spread curves are received from 3 different banks and calculates an average credit spread curve from these indications.

Private loans are valued using mark to model which breaks down the spread into three parts: default probability, liquidity impact and market performance.

Fund of Hedge funds are valued using official prices received from the administrators of the underlying funds. The estimated fund prices are received directly from the fund managers.

There can be no assurance that our valuations on the basis of these models and methodologies represent the price for which a security may ultimately be sold or for which it could be sold at any specific point in time. Use of different models, methodologies and/or assumptions may have a material impact on the estimated fair value amounts.

XI 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.

XII 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.
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.

XIII Cash and cash equivalents

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

Accounting Policies continued

XIV 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.

XV 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.

XVI 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.

XVII 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.

XVIII 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.

Accounting Policies continued

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 in the period in which they arise.

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.

XIX 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.

Accounting Policies continued

XX 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.

XXI 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.

XXII 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 profit or loss 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 in the future. 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.

Details on the process used to decide on assumptions for non-life insurance contracts and sensitivity analyses are included in note 28 to the financial statements.

The table below sets out other items we consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

Item	Accounting policy
Deferred acquisition costs and other assets	VI
Goodwill and other intangible assets	VII
Fair values of financial investments	X
Impairment of financial investments	XI
Fair value of derivative financial instruments	XII
Deferred income taxes	XVII
Pension obligations	XVIII

Further details on the fair value hierarchy used in assessing the values of our financial investments are given in note X(e) to these 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.

a) *Interest rate*

The fair value of debt securities is exposed to future interest rate fluctuations. Included in debt securities is £533m (2007: £707m) 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.

	2008				2007			
Debt securities (yield)	**0% to 1%**	**1% to 4%**	**> 4%**	**Total**	**0% to 1%**	**1% to 4%**	**> 4%**	**Total**
Debt securities £m	685	1,168	1,787	**3,640**	-	612	3,097	3,709
Interest rate - average	-	1.9%	9.2%	**5.1%**	-	3.2%	5.7%	5.2%

Management of Risks continued

Equity analysis by industry 1	2008 £m	2008 %	2007 £m	2007 %
Financial institutions	**219**	**39.7%**	122	20.3%
Consumer	**65**	**11.8%**	90	15.0%
Energy	**33**	**5.9%**	49	8.1%
Manufacturing & Pharmaceuticals	**11**	**2.0%**	18	3.0%
Utilities	**31**	**5.6%**	38	6.3%
Basic materials	**20**	**3.6%**	43	7.2%
Technology & Telecommunications	**29**	**5.3%**	44	7.3%
Others	**144**	**26.1%**	197	32.8%
Total	**552**	**100.0%**	601	100.0%

1 Includes mutual funds

Debt securities analysis by industry	2008 £m	2008 %	2007 £m	2007 %
Financial institutions	**1,529**	**42.1%**	1,674	45.1%
Manufacturing & Pharmaceuticals	**45**	**1.2%**	14	0.4%
Utilities	**293**	**8.0%**	40	1.1%
Technology & Telecommunications	**168**	**4.6%**	143	3.9%
Government securities	**1,200**	**33.0%**	1,515	40.9%
Others	**405**	**11.1%**	323	8.6%
Total	**3,640**	**100.0%**	3,709	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 £1m (2007: £2m) plus unrealised losses in the consolidated statement of recognised income and expense of £122m (2007: £142m). A decrease of 100 basis points in interest yields would result in additional loss for the period of £1m (2007: £2m) plus unrealised gains in the consolidated statement of recognised income and expense of £132m (2007: £154m).

b) *Equity price risk*

Listed equity securities represent 98% (2007: 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 £19m (2007: £12m), and unrealised gains recorded through the consolidated statement of recognised income and expense would increase/decrease by £33m (2007: £34m).

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 2008, if the pound had weakened/strengthened by 1%, with all other variables constant, the profit before tax for the year would have been £3m (2007: £4m) lower/higher.

Management of Risks continued

Currency analysis of equity 1	2008 £m	2008 %	2007 £m	2007 %
USD	**17**	**3.1%**	21	3.5%
JYP	**3**	**0.5%**	3	0.5%
GBP	**234**	**42.4%**	445	74.0%
AUD	**1**	**0.2%**	1	0.2%
EURO	**295**	**53.4%**	127	21.1%
Others	**2**	**0.4%**	4	0.7%
Total	**552**	**100.0%**	601	100.0%

1 Includes mutual funds

Currency analysis of debt securities	2008 £m	2008 %	2007 £m	2007 %
USD	**338**	**9.3%**	96	2.6%
GBP	**1,276**	**35.1%**	2,680	72.3%
EURO	**1,715**	**47.1%**	909	24.5%
Others	**311**	**8.5%**	24	0.6%
Total	**3,640**	**100.0%**	3,709	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 2008 the total capital available to meet the UK Insurance Group's adjusted solo basis Solvency I requirement is £910m (2007: £804m) which exceeds the General Insurance Capital Requirement by 36% (2007: 31%), the increase being primarily due to repayment of inadmissible loans by its parent company. For Ireland the total regulatory assets available to cover the minimum solvency margin under Solvency I are €196m (2007: €236m) which exceed the required solvency margin of €74m (2007: €74m).

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.

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.

2008	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	-	-	-	-	552	**552**
Debt securities	434	302	1,111	1,793	-	**3,640**
Loans/bonds with related parties	-	-	-	125	-	**125**
Total financial assets (note 20)	**434**	**302**	**1,111**	**1,918**	**552**	**4,317**

2008	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	6	-	**6**
Listed unsecured 6 5/8% Company bonds repayable 2023	-	148	**148**
Total borrowings (note 30)	**6**	**298**	**304**

All other financial assets and financial liabilities are due within one year.

Management of Risks continued

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**

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**

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
- The credit exposure of the portfolio.

An analysis of credit risk assets (debt securities) by economic exposure is shown in the table below. The source of the credit rating where available is Bloomberg composite rating, representing the averages of Moody's, Standard and Poor's and Fitch credit rating agencies.

Management of Risks continued

Ratings	2008 £m	2008 %	2007 £m	2007 %
AAA	**1,596**	**43.8%**	1,815	48.8%
AA	**455**	**12.5%**	736	19.9%
A	**1,213**	**33.3%**	862	23.3%
BBB	**341**	**9.4%**	285	7.5%
BB	**4**	**0.1%**	11	0.5%
C	**2**	**0.1%**	-	0.0%
Not rated	**29**	**0.8%**	-	0.0%
Total	**3,640**	**100.0%**	3,709	100.0%

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

Maximum credit risk	2008 (carrying value) £m	2007 (carrying value) £m
Investment in financial assets	**3,911**	4,080
Reinsurers' share of insurance contract liabilities	**110**	164
Insurance and reinsurance receivables	**1,056**	1,079
Other receivables	**889**	1,077
Cash and cash equivalents	**1,000**	738
	6,966	7,138

Notes to the Financial Statements

1 Segmental information – Business segments

The segment results for the year ended 31 December 2008 are as follows:

	Healthcare £m	Motor £m	Property £m	Liability £m	Other £m	Group £m
Insurance revenue						
Income from insurance contracts	1,007	767	881	325	477	3,457
Revenue ceded to reinsurers	(10)	(7)	(22)	(7)	(79)	(125)
Net insurance revenue	**997**	**760**	**859**	**318**	**398**	**3,332**
Underwriting result 1	5	(11)	(2)	8	(5)	(5)
Net investment result 2	(1)	53	1	(5)	(1)	47
Operating result	**4**	**42**	**(1)**	**3**	**(6)**	**42**
Finance costs						(22)
Loss on disposal of operations						-
Profit before tax						**20**
Income tax expense						(4)
Profit for the year attributable to equity holders of the Company						**16**
Other segment items included in the income statement:						
Depreciation and amortisation expenses	**8**	**6**	**6**	**2**	**3**	**25**

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

	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**

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 2008 and capital expenditure for the year then ended are as follows:

	Healthcare £m	Motor £m	Property £m	Liability £m	Other £m	Group £m
Reinsurance assets	4	35	31	10	30	110
Other assets	746	2,498	1,090	1,889	2,074	8,297
Total assets	**750**	**2,533**	**1,121**	**1,899**	**2,104**	**8,407**
Insurance liabilities	529	2,060	854	1,596	519	5,558
Other liabilities	126	168	91	32	725	1,142
Total liabilities	**655**	**2,228**	**945**	**1,628**	**1,244**	**6,700**
Capital expenditure	**3**	**3**	**3**	**1**	**2**	**12**

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

	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**

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	**2008 £m**	**2007 £m**
UK	**3,001**	2,882
Republic of Ireland	**331**	316
Total income from insurance contracts	3,332	3,198

Total assets	**2008 £m**	**2007 £m**
UK	**6,809**	6,827
Republic of Ireland	**1,557**	1,649
Other	**41**	-
Total assets	8,407	8,476

Notes to the Financial Statements continued

Capital expenditure	2008 £m	2007 £m
UK	7	47
Republic of Ireland	3	3
Other	2	3
Total capital expenditure	**12**	**53**

3 Net premium revenue

	2008 £m	2007 £m
Short-term insurance contracts		
- premium receivables	3,454	3,433
- change in unearned premium provision	3	(114)
Premium revenue arising from contracts issued	3,457	3,319
Short-term reinsurance contracts		
- premium payables	(124)	(116)
- change in unearned premium provision	(1)	(5)
Premium revenue ceded to reinsurers on insurance contracts issued	(125)	(121)
Net premium revenue	**3,332**	**3,198**

4 Investment income

	2008 £m	2007 £m
Available for sale:		
- dividend income	31	31
- interest income	208	203
Real estate income	6	2
Cash and cash equivalents interest income	47	48
Total investment income	**292**	**284**

5 Net realised (losses)/gains on available for sale financial assets

	2008 £m	2007 £m
Realised gains/(losses) on financial assets:		
- debt securities	(9)	29
- equities	(20)	59
Impairment of financial assets:		
- release		
Investment properties	2	-
Debt securities	13	1
Equity securities	19	15
Mutual funds	9	3
- allowance		
Investment properties	(46)	(1)
Debt securities	(70)	(2)
Equity securities	(103)	(28)
Mutual funds	(35)	(11)
Other realised gains	-	1
Total net realised gains on available for sale financial assets	**(240)**	**66**

Notes to the Financial Statements continued

6 Other operating income

	2008 £m	2007 £m
Other income from non-insurance business	100	60
Foreign exchange gains	21	-
Recharge of expenses to immediate parent company	37	39
Recharge of expenses to fellow subsidiary undertakings	65	50
Other operating income	223	149

7 Other operating expenses

	2008 £m	2007 £m
Other expenses from non-insurance business	13	5
Foreign exchange losses	-	6
Expenses incurred by Service Company	102	89
Other operating expenses	115	100

8 Policyholder claims and benefits

	2008 £m	2007 £m
Insurance claims and loss adjustment expenses:		
Gross claims paid	2,466	2,122
Gross changes in insurance contract liabilities for claims	(330)	17
Change in unexpired risks provision	10	(3)
	2,146	2,136
Insurance claims and loss adjustment expenses recoverable:		
Reinsurers' share of:		
claims paid	(46)	(34)
change in insurance contract liabilities for claims	61	27
	15	(7)
Net policyholder claims and benefits	2,161	2,129

9 Other expenses by destination

	2008 £m	2007 £m
Movement in advanced commission payments *(note 17)*	18	27
Amortisation of deferred acquisition costs *(note 18)*	(11)	(70)
Costs incurred for the acquisition of insurance contracts expensed in the year	959	976
Attributable to reinsurers	(7)	(7)
Total expenses for the acquisition of insurance contracts	959	926

	2008 £m	2007 £m
Marketing and administrative expenses	295	265
Depreciation of property, plant and equipment	4	8
Amortisation of software development costs	18	9
Amortisation of intangible assets	1	2
Total marketing and administrative expenses	318	284

The operating lease payments recognised as an expense during the year were £14m (2007: £15m).

Notes to the Financial Statements continued

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

	2008 £000's	2007 £000's
Audit services:		
- Fees payable to the Company's auditor for the audit of the statutory accounts	**35**	116
- Fees payable to the Company's auditor for the audit of its subsidiaries	**1,289**	1,210
Non-audit services:		
- Other services pursuant to legislation	**204**	368
- Tax services	**-**	34
- Other	**-**	34
	1,528	1,762

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.

10 Employee benefit expense

	2008 No	2007 No
Average number of employees in the year were:		
- UK	**5,561**	6,505
- Ireland	**1,035**	1,004
- India (*note 40f*)	**-**	2,190
	6,596	9,699

	2008 £m	2007 £m
Wages and salaries	**270**	264
Social security costs	**23**	26
Pension costs - defined contribution plans	**10**	6
Pension costs - defined benefit plans	**42**	37
	345	333

11 Finance costs

	2008 £m	2007 £m
Interest expense:		
- non-bank borrowings	**12**	11
- unsecured company bonds	**10**	10
Finance costs	**22**	21

12 Income tax expense

	2008 £m	2007 £m
Current tax	**(4)**	60
Deferred tax *(note 34)*	**8**	(52)
Income tax expense	**4**	8

Notes to the Financial Statements continued

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:

	2008 £m	2007 £m
Profit before tax	20	121
Tax at the UK rate of 28.5% (2007: 30%)	6	36
Effects of:		
- tax calculated at domestic tax rates applicable to profits in the respective countries	3	(10)
- income not subject to tax	2	(6)
- unremitted overseas earnings	-	(44)
- disposal of subsidiary undertakings	-	34
- the change in UK tax rate to 28%	-	2
- adjustments to tax charge in respect of previous periods	(7)	(4)
Tax charge for the period	4	8

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.

13 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.

	2008	2007
Profit attributable to the Company's equity holders (£m)	**16**	113
Weighted average number of ordinary shares in issue (thousands)	**1,059,786**	1,059,786
Basic earnings per share (pence per share)	**1.51**	10.66

Diluted

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

14 Dividends

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: £nil).

Notes to the Financial Statements continued

15 Property, plant and equipment

	Land and buildings £m	Motor vehicles £m	Equipment £m	Total £m
Cost				
Balance as at 1 January 2008	64	2	19	85
Additions at cost	-	1	4	5
Disposals	-	(1)	(3)	(4)
Exchange and other movements	4	1	3	8
Balance as at 31 December 2008	**68**	**3**	**23**	**94**
Accumulated depreciation				
Balance as at 1 January 2008	22	1	10	33
Charge for the year	1	1	2	4
Disposals	-	(1)	(2)	(3)
Exchange and other movements	-	-	2	2
Balance as at 31 December 2008	**23**	**1**	**12**	**36**
Net book value as at 31 December 2008	**45**	**2**	**11**	**58**
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**

Depreciation expense of £4m (2007: £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 are 4 to 5 years; and Equipment is 8 years.

16 Investment properties

	2008 £m	2007 £m
Cost		
Balance as at 1 January	122	54
Additions at cost	31	70
Impairment movement	(46)	(2)
Balance as at 31 December	**107**	**122**
Accumulated depreciation		
Balance as at 1 January	1	-
Charge for the year	2	1
Balance as at 31 December	**3**	**1**
Net book value as at 31 December	**104**	**121**

Notes to the Financial Statements continued

The properties were valued at £103m on an open market existing use basis by Lambert Smith Hampton, who are external chartered surveyors, at 31 December 2008.

17 Goodwill and intangible assets

	Goodwill £m	Software development £m	Advance commissions £m	Other intangibles £m	Total £m
Balance as at 1 January 2008					
Cost	142	74	126	15	357
Accumulated amortisation	-	(46)	(80)	(2)	(128)
Net book value as at 1 January 2008	**142**	**28**	**46**	**13**	**229**
Additions	-	7	3	-	10
Amortisation charge	-	(18)	(21)	(1)	(40)
Net book value as at 31 December 2008	**142**	**17**	**28**	**12**	**199**
Balance as at 31 December 2008					
Cost	142	81	129	15	367
Accumulated amortisation	-	(64)	(101)	(3)	(168)
Net book value as at 31 December 2008	**142**	**17**	**28**	**12**	**199**
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**

a) **Goodwill** relates to the acquisition of the PPP healthcare group, SecureHealth and ICAS (*note* 40). For each cash generating unit the calculation uses cash flow projections based on business plans approved by management covering a three to five year period and a risk adjusted discount rate of 8.3%. Cash flows beyond that period have been extrapolated using a steady 2% growth rate and terminal value. 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 £nil (2007: £17m).

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

18 Deferred acquisition costs

	2008 £m	2007 £m
Deferred acquisition costs as at 1 January	**383**	313
Exchange and other movements	**10**	-
Credit to income statement in the year:	**11**	70
Acquisition costs deferred during the year	**372**	393
Amortisation charged during the year	**(361)**	(323)
Deferred acquisition costs as at 31 December	**404**	383

19 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 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.

20 Investment in financial assets

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

	2008 £m	2007 £m
Available for sale	**4,192**	4,310
Held to maturity - AXA UK plc 2017 5.75% bonds	**100**	100
Loans	**25**	26
Deposits with credit institutions	**-**	37
Total financial assets	**4,317**	4,473

Notes to the Financial Statements continued

Available for sale financial assets	2008 £m	2007 £m
Equity securities:		
- listed	399	386
- unlisted	7	7
Debt securities:		
- listed	3,594	3,681
- unlisted	46	28
Mutual funds:		
- listed	40	-
- unlisted	106	208
Total available for sale financial assets	4,192	4,310

21 Reinsurers' share of insurance contract liabilities

	2008 £m	2007 £m
Reinsurers' share of provision for claims outstanding and loss adjustment expenses	91	144
	91	144
Reinsurers' share of provision for unearned premiums	19	20
Reinsurers' share of insurance contract liabilities	110	164
Settlement period for reinsurers' share of claims outstanding and long-term insurance contract liabilities		
Less than 12 months	20	14
Greater than 12 months	71	130
	91	144

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

	2008 £m	2007 £m
Balance as at 1 January	144	174
Reinsurers' share of claims payments made in year	(46)	(34)
Increase in recoverables	(15)	7
Exchange and other movements	8	(3)
Balance as at 31 December	91	144

Reinsurers' share of provision for unearned premiums

	2008 £m	2007 £m
Balance as at 1 January	20	24
Premiums written in the year	124	117
Premiums earned in the year	(125)	(121)
Balance as at 31 December	19	20

22 Insurance and reinsurance receivables

	2008 £m	2007 £m
Direct insurance receivables	967	1,027
Reinsurance receivables	89	52
Total insurance and reinsurance receivables due within one year	1,056	1,079

Notes to the Financial Statements continued

23 Other receivables

	2008 £m	2007 £m
Accrued interest	85	76
Prepayments and accrued income	21	22
Amounts due from ultimate parent company	4	2
Loans due from intermediate parent company	517	783
Other amounts due from intermediate parent company	101	84
Amounts due from fellow subsidiary undertakings	28	2
Other receivables	133	108
Total other receivables	**889**	1,077

No interest is charged on intercompany loans.

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

24 Cash and cash equivalents

	2008 £m	2007 £m
Cash at bank and in hand	172	66
Short-term bank deposits	828	672
Cash and cash equivalents	**1,000**	738

The effective interest rate on short-term bank deposits, which have an average maturity of 122 days (2007: 19 days), was 3.0% (2007: 5.6%).

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

	2008 £m	2007 £m
Cash and cash equivalents	1,000	738
Bank overdrafts	(6)	(3)
	994	735

25 Ordinary share capital

	2008		2007	
	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	2008 £m	2007 £m
Balance as at 31 December	523	523

Notes to the Financial Statements continued

26 Reconciliation of movements in equity

2008	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Balance as at 1 January	56	523	343	947	**1,869**
Profit for the year	-	-	-	16	**16**
Actuarial losses on defined benefit schemes	-	-	-	(90)	**(90)**
Fair value losses on available for sale financial assets	-	-	(210)	-	**(210)**
Tax on movements taken directly to equity - current	-	-	-	(1)	**(1)**
- deferred	-	-	59	11	**70**
Exchange on revaluation of subsidiary net assets	-	-	53	-	**53**
Balance as at 31 December	**56**	**523**	**245**	**883**	**1,707**

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**

27 Other Reserves

2008	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	(12)	16	**343**
Fair value losses on available for sale financial assets	-	-	-	(210)	-	**(210)**
Tax on movements taken directly to equity - deferred	-	-	-	59	-	**59**
Exchange on revaluation of subsidiary net assets	-	-	-	-	53	**53**
Balance as at 31 December	**104**	**189**	**46**	**(163)**	**69**	**245**

Notes to the Financial Statements continued

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**

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

The 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 a.

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.

28 Insurance contract liabilities

	2008 £m	2007 £m
Provision for claims outstanding and loss adjustment expenses	**3,965**	4,012
Provision for unearned premiums	**1,593**	1,557
Total insurance contract liabilities	**5,558**	5,569
Settlement period for claims outstanding		
Less than 12 months	**774**	776
Greater than 12 months	**3,191**	3,236
	3,965	4,012

Provision for claims outstanding and loss adjustment expenses

	2008 £m	2007 £m
Balance as at 1 January	**4,012**	3,930
Total claims payments made in the year	**(2,466)**	(2,122)
Increase in liabilities	**2,136**	2,139
Exchange and other movements	**283**	65
Balance as at 31 December	**3,965**	4,012

Notes to the Financial Statements continued

Provision for unearned premiums

	2008 £m	2007 £m
Balance as at 1 January	**1,557**	1,433
Premiums written in the year	**3,454**	3,433
Premiums earned in the year	**(3,457)**	(3,319)
Exchange and other movements	**39**	10
Balance as at 31 December	**1,593**	1,557

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.

Notes to the Financial Statements continued

b) Change in assumptions

No significant changes to assumptions were made in 2008 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**	**2008 £m**	**Total £m**
Estimate of ultimate claims costs:									
- at end of accident year	2,011	2,011	1,958	2,002	1,908	2,040	2,376	2,356	16,662
- one year later	1,951	1,951	1,922	1,949	2,005	2,250	2,608	-	14,636
- two years later	1,991	1,964	1,914	1,901	1,889	2,130	-	-	11,789
- three years later	1,977	1,949	1,804	1,775	1,749	-	-	-	9,254
- four years later	1,974	1,842	1,697	1,655	-	-	-	-	7,168
- five years later	1,912	1,796	1,704	-	-	-	-	-	5,412
- six years later	1,916	1,770	-	-	-	-	-	-	3,686
- seven years later	1,873	-	-	-	-	-	-	-	1,873
Current estimate of cumulative claims	1,873	1,770	1,704	1,655	1,749	2,130	2,608	2,356	15,845
Cumulative payments to date	1,756	1,631	1,512	1,456	1,487	1,682	1,939	1,422	12,885
Liability recognised in the balance sheet	117	139	192	199	262	448	669	934	2,960
Liability in respect of prior years									1,005
Total liability included in the balance sheet									**3,965**

Accident year - Net	**2001 £m**	**2002 £m**	**2003 £m**	**2004 £m**	**2005 £m**	**2006 £m**	**2007 £m**	**2008 £m**	**Total £m**
Estimate of ultimate claims costs:									
- at end of accident year	1,977	1,983	1,923	1,974	1,852	2,001	2,356	2,335	16,401
- one year later	1,911	1,920	1,887	1,918	1,956	2,216	2,584	-	14,392
- two years later	1,958	1,930	1,884	1,847	1,840	2,094	-	-	11,553
- three years later	1,944	1,915	1,775	1,729	1,704	-	-	-	9,067
- four years later	1,938	1,811	1,673	1,614	-	-	-	-	7,036
- five years later	1,880	1,755	1,683	-	-	-	-	-	5,318
- six years later	1,884	1,748	-	-	-	-	-	-	3,632
- seven years later	1,843	-	-	-	-	-	-	-	1,843
Current estimate of cumulative claims	1,843	1,748	1,683	1,614	1,704	2,094	2,584	2,335	15,605
Cumulative payments to date	1,731	1,617	1,492	1,450	1,449	1,660	1,921	1,411	12,731
Liability recognised in the balance sheet	112	131	191	164	255	434	663	924	2,874
Liability in respect of prior years									1,000
Liability net of reinsurance included in the balance sheet									**3,874**

Notes to the Financial Statements continued

29 Insurance and reinsurance liabilities

	2008 £m	2007 £m
Direct insurance liabilities	**261**	252
Reinsurance liabilities	**36**	8
Total insurance and reinsurance liabilities	**297**	260

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

30 Borrowings

	2008 £m	2007 £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	**6**	3
Listed unsecured 6 5/8% Company bonds repayable 2023	**148**	148
Total borrowings	**304**	301
Available less than one year	**6**	3
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	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Subordinated loans	**150**	150	**150**	150
Short-term borrowings	**6**	3	**6**	3
Debentures and other loans	**148**	148	**155**	172
	304	301	**311**	325

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

The bank overdrafts are denominated in Euros, all other borrowings are denominated in sterling.

Notes to the Financial Statements continued

31 Provisions for other liabilities and charges

	MIB provision £m	Vacant space provision £m	Other provisions £m	Total £m
Balance as at 1 January 2008	32	23	45	**100**
Charged to income statement	32	6	5	**43**
Released during the year			(12)	**(12)**
Utilised during year	(28)	(8)	(18)	**(54)**
Balance as at 31 December 2008	**36**	**21**	**20**	**77**

	2008 £m	2007 £m
To be settled within 12 months	**36**	44
To be settled after 12 months	**41**	56
	77	100

a) The **MIB provision** relates to the levy payable in respect of 2008 premiums and covers both the UK Motor Insurers' Bureau and the Motor Insurers' Bureau of Ireland. The levy is assessed on 2008 premiums and information available from the MIB at the time.

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. The latter category at 31 December 2007 included an onerous contract provision following a review of an underperforming contract and a provision to cover a potential dispute with an agent.

32 Other liabilities

	2008 £m	2007 £m
Accruals and deferred income	**166**	160
Amounts due to immediate parent company	**40**	5
Amounts due to fellow subsidiary undertakings	**1**	-
Social security and other tax payments	**27**	18
Other liabilities	**80**	112
Total other liabilities	**314**	295

Estimated fair values are the amounts recorded at year-end.

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

33 Derivative financial instruments

	2008 £m	2007 £m
Derivative financial instruments	7	-
Total Derivative financial instruments	7	-

The Group entered into a number of Credit Default Swap index (CDS iTraxx) contracts during the financial year (*accounting policy XII*). The CDS contracts were fully collateralised on a daily basis under an ISDA Master Agreement between the Group and various counterparties.

The notional principal amounts of the outstanding Credit Default Swaps at 31 December 2008 were £143m.

34 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.

	2008 £m	2007 £m
Balance as at 1 January	160	80
Income statement (charge)/credit (*note 12*)	(8)	52
Tax credit to equity (*note 26*)	70	26
Exchange differences	(2)	2
Balance as at 31 December	220	160

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 31 December 2008 was £220m (2007: £160m).

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 2008	9	177	**186**
Income statement credit (*note 12*)	(3)	36	**33**
Retained earnings	11	-	**11**
Exchange differences	2	-	**2**
Balance as at 31 December 2008	**19**	**213**	**232**

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 2008	(5)	35	(4)	**26**
Income statement credit (*note 12*)	49	6	(14)	**41**
Revaluation reserve	(59)	-	-	**(59)**
Exchange differences	4	-	-	**4**
Balance as at 31 December 2008	**(11)**	**41**	**(18)**	**12**

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

	2008 £m	2007 £m
Retained earnings: retirement obligations	**(11)**	3
Revaluation reserve: financial assets	**(59)**	(29)
	(70)	(26)

35 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.

A full independent valuation by Watson Wyatt of the defined benefit scheme was carried out at 31 March 2006 and an internal actuarial review by qualified actuaries was performed as at 31 December 2008. The next full valuation is scheduled for 31 March 2009. The actuarial review of the defined benefit scheme as at 31 December 2008 revealed an accounting deficit of £320m (£306m as at 31 December 2007) 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 2008. The AXA UK plc Group made additional contributions totalling £26m (2007: £26m) to the Scheme, in accordance with the plan to reduce the deficit. 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:

	2008 £m	2007 £m
Discount rate	**6.6%**	5.9%
Expected return on plan assets	**6.9%**	6.7%
Future salary increases	**3.8%**	5.0%
Future pension increases	**2.8%**	3.5%
Inflation assumption	**2.8%**	3.5%

Notes to the Financial Statements continued

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

	2008 £m	2007 £m
Present value of obligation as at 1 January	**2,905**	3,062
Service cost	**33**	38
Interest cost	**168**	154
Actuarial losses	**(617)**	(240)
Benefits paid	**(119)**	(109)
Present value of obligation as at 31 December	**2,370**	2,905

Changes in the fair value of plan assets are as follows:

	2008 £m	2007 £m
Fair value of plan assets as at 1 January	**2,599**	2,478
Expected return on plan assets	**177**	164
Employer contributions	**51**	50
Employee contributions	**4**	4
Benefits paid	**(119)**	(109)
Actuarial gains	**(662)**	12
Fair value of plan assets as at 31 December	**2,050**	2,599

Analysis of assets by category

	2008 £m	2007 £m
Equities	**1,099**	1,509
Debt securities	**826**	955
Property	**91**	131
Cash	**34**	4
Fair value of plan assets as at 31 December	**2,050**	2,599

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 internal qualified actuary as at 31 December 2008.

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 2008.

Notes to the Financial Statements continued

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:

	2008			2007		
	UK			UK		
	Top-up scheme	Healthcare scheme	Ireland	Top-up scheme	Healthcare scheme	Ireland
Discount rate	**6.6%**	**6.6%**	**5.8%**	5.9%	5.9%	5.5%
Expected return on plan assets	**-**	**-**	**6.2%**	-	-	6.3%
Future salary increases	**3.8%**	**-**	**4.5%**	5.0%	-	4.5%
Future pension increases	**2.8%**	**-**	**2.0%**	3.5%	-	2.3%
Inflation assumption	**2.5%**	**8.0%**	**2.0%**	3.5%	8.0%	2.3%

Mortality tables - UK schemes

For the 2007 and 2008 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 2008:

Pensioners and dependants - 85% of PMA92C15 -2) and 85% of PFA92C15 -2 for male and female members respectively.

For active and deferred members - 85% of PMA92C30 -2 and 85% of PFA92C30 -2 for male and female members respectively.

The following tables were used for 2007:

Pensioners and dependants - 90% of PMA92C10 and 90% of PFA92C10 for male and female members respectively.

For active and deferred members - 90% of PMA92C25 and 90% of PFA92C25 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 8.5% (equities), 4.0% (debt securities), 7.0% (property) and 4.0% (cash). The corresponding 2007 expected returns were 7.75% (equities), 4.5% (debt securities), 7.0% (property) and 4.0% (cash).

Notes to the Financial Statements continued

Pensions and other post-retirement obligations

The amounts recognised in the balance sheet are as follows:

	UK Top-up scheme 2008 £m	UK Healthcare scheme 2008 £m	Ireland 2008 £m	Total 2008 £m	2007 £m
Present value of funded obligations	20	11	354	**385**	271
Fair value of plan assets:	-	-	(242)	**(242)**	(219)
Equities	-	-	(113)	**(113)**	(121)
Debt securities	-	-	(92)	**(92)**	(78)
Property	-	-	(6)	**(6)**	(6)
Cash	-	-	(31)	**(31)**	(14)
Net liability in the balance sheet	20	11	112	143	52

The amounts recognised in the income statement are as follows:

	UK Top-up scheme 2008 £m	UK Healthcare scheme 2008 £m	Ireland 2008 £m	Total 2008 £m	2007 £m
Current service cost	-	-	8	**8**	7
Interest cost	2	1	15	**18**	14
Expected return on plan assets	-	-	(18)	**(18)**	(13)
Past service cost	-	-	-	-	3
Curtailment			7	**7**	
Employee contributions	-	-	(2)	**(2)**	(2)
Total included within employee benefit expenses	2	1	10	13	9

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

	UK Top-up scheme 2008 £m	UK Healthcare scheme 2008 £m	Ireland 2008 £m	Total 2008 £m	2007 £m
Actual return on assets	-	-	(60)	**(60)**	-
less expected return on scheme assets	-	-	(18)	**(18)**	(13)
Actual return on assets in excess of expected	-	-	(78)	**(78)**	(13)
Experience losses on liabilities	1	-	(18)	**(17)**	(4)
Change in actuarial assumptions	5	1	(1)	**5**	40
Actuarial gains/(losses) on pension benefits	6	1	(97)	(90)	23

Notes to the Financial Statements continued

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

	UK Top-up scheme 2008 £m	UK Healthcare scheme 2008 £m	Ireland 2008 £m	Total 2008 £m	2007 £m
Present value of obligation as at 1 January	26	12	233	**271**	271
Exchange	-	-	79	**79**	20
Service cost	-	-	8	**8**	7
Interest cost	2	1	15	**18**	14
Plan amendment	-	-	-	-	3
Curtailment	-	-	7	**7**	-
Actuarial gains	(6)	(1)	19	**12**	(36)
Benefits paid	(2)	(1)	(7)	**(10)**	(8)
Present value of obligation as at 31 December	**20**	**11**	**354**	**385**	**271**

Changes in the fair value of plan assets are as follows:

	UK Top-up scheme 2008 £m	UK Healthcare scheme 2008 £m	Ireland 2008 £m	Total 2008 £m	2007 £m
Fair value of plan assets as at 1 January	-	-	219	**219**	194
Exchange	-	-	67	**67**	17
Expected return on plan assets	-	-	18	**18**	13
Employer contributions	-	-	21	**21**	12
Employee contributions	-	-	2	**2**	2
Benefits paid	-	-	(7)	**(7)**	(6)
Actuarial losses	-	-	(78)	**(78)**	(13)
Fair value of plan assets as at 31 December	**-**	**-**	**242**	**242**	**219**

Additional information for the current annual period and previous four annual periods:

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
As at 31 December					
Present value of funded obligations	**385**	271	271	273	210
Fair value of plan assets	**242**	219	194	175	143
Deficit	**143**	52	77	98	67
Experience adjustments on liabilities	**(17)**	(4)	(3)	(10)	(5)
Experience adjustments on plan assets	**(78)**	(13)	6	21	6

Notes to the Financial Statements continued

History of experience gains and losses

	UK				Ireland	
	Top-up scheme		Healthcare scheme			
	2008	2007	2008	2007	2008	2007
Difference between expected and actual return on scheme assets:						
- amount - (loss)/gain £m	-	-	-	-	**(78)**	(13)
- percentage of scheme assets	-	-	-	-	**(32.2)%**	6.0%
Experience gains and losses on obligations:						
- amount - (loss) £m	-	-	-	-	**(18)**	(4)
- percentage of the present value of the obligations	**3.0%**	0.0%	**0.0%**	0.0%	**(5.1)%**	(1.8)%
Total amount recognised outside income statement:						
- amount - gain/(loss) £m	**6**	2	**1**	2	**(97)**	19
- percentage of the present value of the obligations	**29.5%**	6.7%	**13.5%**	20.9%	**27.4%**	8.2%

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 £38m. A 0.5% increase in the inflation rate assumption would increase the present value of obligation by £19m.

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	
	2008	2007	2008	2007
	£m	£m	£m	£m
Current service cost and interest cost of net periodic post employment medical costs	**0.2**	0.2	**0.1**	0.2
Present value of obligation for post employment medical costs	**2.2**	2.2	**1.2**	1.7

The total pension cost which has been charged to the income statement for the Group is £52m (2007: £43m) which includes £6m (2007: £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 2009 are £51m.

Notes to the Financial Statements continued

36 Cash generated from operations

	2008 £m	2007 £m
Profit before tax and loss on disposal of operations	**20**	232
Depreciation and fixed asset write-offs	**6**	9
Amortisation of intangibles and impairments	**40**	58
Realised and unrealised investment gains	**(7)**	(108)
Amortisation of available for sale investments	**(7)**	4
Impairment charge on available for sale investments	**254**	42
Change in insurance technical provisions	**(264)**	147
Change in other assets and liabilities	**(7)**	(139)
Interest expense	**22**	21
Interest income	**(245)**	(256)
Dividend income	**(37)**	(30)
Cash generated from operations	**(225)**	(20)

37 Related parties

AXA Insurance plc and its subsidiary undertakings paid £8m 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 2008 this subsidiary recharged expenses of £37m to its immediate parent company, AXA UK plc, and £65m to fellow subsidiary undertakings.

A loan of £10m was made by AXA Insurance plc to AXA UK plc and AXA UK plc repaid loans of £370m to AXA Insurance plc.

A loan of £3m was made by AXA PPP healthcare group plc to AXA UK plc.

A loan of £10m was made by Denplan Limited to AXA UK plc.

A loan of £27m was made by AXA Insurance UK plc to AXA UK plc.

A loan of £10m was made by AXA General Insurance Limited to AXA UK plc.

A loan of Euro 100m was made by AXA Insurance Limited to AXA UK plc and AXA UK plc subsequently repaid Euro 40m m to AXA Insurance Limited.

AXA Insurance plc transferred £45,000,000 of fixed rate bonds due in 2017 issued by AXA UK plc to AXA Insurance UK plc.

AXA Insurance plc transferred £10,000,000 of fixed rate bonds due in 2017 issued by AXA UK plc to AXA General Insurance Limited.

AXA Insurance plc transferred £9,000,000 of fixed rate bonds due in 2017 issued by AXA UK plc to AXA PPP healthcare limited.

AXA Insurance plc subscribed for £55,000,000 listed 5 year floating rate bonds issued by its ultimate parent company, AXA SA.

AXA Insurance UK plc subscribed for £65,000,000 listed 5 year floating rate bonds issued by AXA SA.

AXA General Insurance Limited subscribed for £17,000,000 listed 5 year floating rate bonds issued by AXA SA.

AXA PPP healthcare limited subscribed for £13,000,000 listed 5 year floating rate bonds issued by AXA SA.

AXA Insurance UK plc paid commissions of £73m to related insurance intermediaries.

The Group paid reinsurance premiums of £56m to fellow subsidiary undertakings, AXA Cessions and AXA Reinsurance UK plc.

The Group received inwards treaty business premiums of £26m from AXA Cessions.

38 Commitments

Capital commitments

There is no capital expenditure contracted for at the balance sheet date but not yet incurred (2007: £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:

	2008 £m	2007 £m
No later than 1 year	4	4
Later than 1 year and no later than 5 years	9	7
Later than 5 years	11	12
	24	23

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:

	2008 £m	2007 £m
No later than 1 year	8	6
Later than 1 year and no later than 5 years	29	21
Later than 5 years	31	25
	68	52

39 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 Group or from any other company in the AXA Group in respect of services to the Group.

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

Notes to the Financial Statements continued

40 Acquisitions and disposals

There were no acquisitions or disposals during the year.

Summary

	2008 £m	2007 £m
Acquisitions (Goodwill *note 18*)		
a) ICAS International Holdings Limited	-	13
b) Ignition New Business Solutions Limited	-	1
c) SecureHealth (Holdings) Limited	-	-
	-	14
Disposals (Income statement)		
d) PPP lifetime care plc	-	(124)
e) Bluefin Insurance Group Limited	-	-
f) Graywood Investments Limited	-	13
	-	(111)

Cash flow movements	2008 £m	2007 £m
Acquisitions		
Cash consideration	-	29
Cash and cash equivalents acquired	-	(1)
Net outflow	-	28
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.

	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

Notes to the Financial Statements continued

b) Acquisition of Ignition New Business Solutions Limited

On 13 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.

The net assets are minimal and the full consideration is treated as goodwill.

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.

	2007 £m
Cash acquired	-
Other assets acquired	-
Total liabilities acquired	-
Net assets acquired	-
Fair value of intangible assets	5
Assets acquired	5
Consideration	5
Goodwill	-

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 Bluefin Insurance Group Limited (formerly Venture Preference Limited)

On 8 January 2007, the Group's subsidiary, Bluefin Insurance Group Limited (BIG), was transferred from AXA Insurance UK plc to Bluefin Group Limited (formerly 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. BIG already owned 38.9% of Layton Blackham Holdings Limited, the Group's associate undertaking, and so the transfer removed the associate from the Group's influence.

f) Disposal of Graywood Investments Limited

On 4 October 2007 the Group's subsidiary, Graywood Investments Limited, was sold to a French fellow subsidiary, Société 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.

41 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 parent company financial statements of Guardian Royal Exchange plc for the year ended 31 December 2008 which comprise the Balance Sheet, the accounting policies and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of GRE plc for the year ended 31 December 2008.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company 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 parent company financial statements give a true and fair view and whether the parent company 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 parent company 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 parent company 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 parent company 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 parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company 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 parent company 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 parent company financial statements.

Parent Company Auditors' Report continued

Opinion

In our opinion:

- The parent company 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 2008;
- the parent company 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 parent company financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
29 April 2009

Parent Company Balance Sheet

as at 31 December 2008

	Note	2008 £m	2007 £m
Fixed assets			
Shares in subsidiary undertakings	1	**1,747**	1,747
Current assets			
Debtors: amounts falling due within one year	2	**110**	113
Creditors			
Amounts falling due within one year	3	**(627)**	(621)
Net current liabilities		**(517)**	(508)
Total assets less current liabilities		**1,230**	1,239
Creditors			
Amounts falling due after more than one year	4	**(148)**	(148)
Net assets		**1,082**	1,091
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	**268**	277
Total equity shareholders' funds	6	**1,082**	1,091

The separate financial statements on pages 66 to 70 were approved by the Board of Directors on 29 April 2009 and were signed on its behalf by:

I. Robinson
Director
29 April 2009

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.

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

	2008 £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 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.

2 Debtors

	2008 £m	2007 £m
Amounts due from intermediate parent company	106	104
Amounts due from subsidiary undertaking	-	3
Amounts due from fellow subsidiary undertaking	-	2
Taxation	4	4
Total amounts falling due within one year	110	113

3 Creditors – amounts falling due within one year

	2008 £m	2007 £m
Amounts due to intermediate parent company	19	16
Amounts due to subsidiary undertakings	604	601
Other creditors	4	4
Total amounts falling due within one year	627	621

Parent Company – Notes to the Financial Statements continued

4 Creditors – amounts falling due after more than one year

	2008 £m	2007 £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

	2008		2007	
	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	2008 £m	2007 £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 2008	56	523	189	46	277	**1,091**
Loss for year	-	-	-	-	(9)	**(9)**
Balance as at 31 December 2008	**56**	**523**	**189**	**46**	**268**	**1,082**

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.

7 Capital commitments

At 31 December 2008 contracts placed for future capital expenditure not provided in the financial statements amounted to £nil (2007: £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.