

Guardian Royal Exchange plc

2003 Report and Accounts

Registered Office: 107 Cheapside, London, EC2V 6DU

Registered Number: 1821312



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Directors' Report

Directors

D. Holt

P. J. Hubbard

P. L. H. Maso y Guell Rivet

I. D. Richardson

Secretary

I. D. Richardson

Auditors

PricewaterhouseCoopers LLP

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2003.

REVIEW OF ACTIVITIES

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

The pre-tax profit for the year has benefited from a much improved underwriting result with continuing improvement from general insurance business and a strong performance from healthcare activities together with the increase in stock market levels generating net investment gains for the year.

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

CAPITAL CONTRIBUTIONS

During the year the Company received capital contributions of £46 million from its parent company, AXA UK plc.

GOING CONCERN

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

DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2003 (2002 - £100,910,934 interim dividend; nil final dividend).

DIRECTORS

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

Mr. I. D. Richardson and Mr. P. L. H. Maso y Guell Rivet were appointed directors on 12 August 2003 on which date, Mr. P. J. Evans resigned as a director.

APPOINTMENT OF DIRECTORS

In accordance with Article 86 of the Articles of Association of the Company, Mr. P. L. H. Maso y Guell Rivet and Mr. I. D. Richardson will retire at the forthcoming Annual General Meeting, having been appointed by the directors since the last Annual General Meeting. Being eligible, they offer themselves for re-appointment.

Directors' Report continued

In accordance with Article 87 of the Articles of Association of the Company, Mr. D. Holt will retire by rotation at the forthcoming Annual General Meeting. Being eligible, he offers himself for re-appointment.

DIRECTORS' INTERESTS

According to the register of directors' interests, the interests of directors in the share capital and debentures of the Company, its ultimate holding company (AXA) or subsidiaries of the ultimate holding company are as follows:

Interests in Shares and Units

	AXA	
	Shares of €2.29 each	
	at 1 January 2003 (or date of appointment, if later)	at 31 December 2003
I.D. Richardson (appointed 12.08.2003)	1,176	1,176

	Units in AXA Global Fund		AXA Units in AXA Actionnariat II Fund	
	At 1 January 2003	At 31 December 2003	At 1 January 2003	At 31 December 2003
	(or date of appointment, if later)			
I.D. Richardson (appointed 12.08.2003)	112.1989	112.1989	-	-

Interest in Options

	AXA			
	At 1 January 2003 (or date of appointment, if later)	During Year		At 31 December 2003
	Options to subscribe for Shares	Options granted	Options exercised	Options to subscribe for Shares
I.D. Richardson (appointed 12.08.2003)	28,400	122	-	-
				28,522

The options outstanding at 31 December 2003 are exercisable at various times between 1 January 2004 and 13 March 2013 at prices between €10.96 and €40.86 per share.

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

* D. Holt)	
* P. J. Hubbard)	reported by AXA UK plc
* P. L. H. Maso y Guell Rivet)	

Save as stated above, none of the directors at 31 December 2003 have interests in the share capital of the Company, its ultimate holding company (AXA) or subsidiaries of the ultimate holding company.

Directors' Report continued

EMPLOYEES

The AXA UK group, through each of its employing subsidiary companies, is committed to a policy of equal opportunity in recruitment, training, 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 are used. Regular consultation is maintained with independent and certified trade unions on the complete range of employment and business issues.

Many businesses within the Group have Investors in People accreditation.

PAYMENT OF CREDITORS

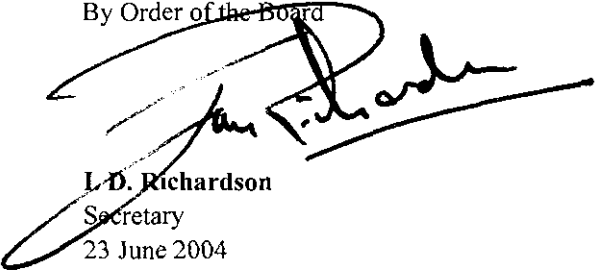
The Company's policy on the payment of creditors is to agree terms of payment when orders for goods and services are placed and to pay in accordance with those terms.

Balances outstanding for the Company at 31 December 2003 represented a credit period of 26 days (2002 - 25 days).

AUDITORS

A Resolution to reappoint the auditors, PricewaterhouseCoopers LLP, and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board



I. D. Richardson
Secretary
23 June 2004

Directors' Responsibilities for the Financial Statements

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

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

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

make judgements and estimates that are reasonable and prudent;

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

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

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

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

Independent Auditors' Report

Auditors' report to the members of Guardian Royal Exchange plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes which have been prepared in accordance with the accounting policies set out on pages 16 to 22.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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

Basis of audit opinion

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

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

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amount set aside at 31 December 2003, and the effect of the movement in those reserves during the year on the general business technical result and loss before tax, are disclosed in the accounting policy II (h) and note 1 (c) of the financial statements.

Independent Auditors' Report cont..

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2003 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

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

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Southwark Towers

32 London Bridge Street

London SE1 9SY

23 June 2004

Consolidated Profit and Loss Account

for the year ended 31 December 2003

General business technical account	2003		2002	
	£m	£m	£m	£m
Gross written premiums		2,772		2,683
Outward reinsurance premiums		(118)		(101)
Net written premiums (<i>note: 1a & 1b</i>)		2,654		2,582
Change in provision for unearned premiums				
- gross amount	(5)		(58)	
- reinsurers' share	5		(1)	
		-		(59)
Earned premiums, net of reinsurance		2,654		2,523
Other technical income		35		40
Total technical income		2,689		2,563
Claims paid				
- gross	(1,907)		(1,878)	
- reinsurers' share	53		53	
	(1,854)		(1,825)	
Change in outstanding claims provision				
- gross	(96)		(233)	
- reinsurers' share	(24)		36	
	(120)		(197)	
Claims incurred, net of reinsurance		(1,974)		(2,022)
Change in other technical provisions net of reinsurance		3		2
Net operating expenses (<i>note: 1d</i>)		(756)		(756)
Amortisation of goodwill in acquired claims provisions (<i>note: 14</i>)		(5)		(5)
Change in equalisation reserves		(17)		(13)
Total technical charges		(2,749)		(2,794)
Balance on the general business technical account		(60)		(231)

The general business technical account result represents:

Operating result		
- continuing operations	(59)	(233)
- discontinued operations	(1)	2
	(60)	(231)

Consolidated Profit and Loss Account continued

for the year ended 31 December 2003

Long term business technical account	£m	2003	£m	£m	2002	£m
Gross written premiums			59			53
Outward reinsurance premiums			(9)			(9)
Earned premiums, net of reinsurance (<i>note: 2a & 2b</i>)			<u>50</u>			<u>44</u>
Investment income (<i>note: 2c</i>)			10			7
Unrealised investment gains			4			2
Claims paid						
- gross			(25)			(19)
- reinsurers' share			4			3
			(21)			(16)
Change in the provision for claims						
- gross			-			-
- reinsurers' share			-			-
			-			-
Claims incurred, net of reinsurance				(21)		(16)
Change in other technical provisions						
Long term business provision:						
- gross			(56)			(35)
- reinsurers' share			28			14
			(28)			(21)
Other technical provisions, net of reinsurance			(32)			(22)
				(60)		(43)
Net operating expenses (<i>note: 2d</i>)				(12)		(8)
Other technical charges, net of reinsurance:						
Amortisation of present value of acquired in-force business (<i>note: 14</i>)				(1)		(1)
Tax attributable to the long term business (<i>note: 4</i>)				9		4
Balance on the long term business technical account			<u>(21)</u>			<u>(11)</u>

Consolidated Profit and Loss Account continued

for the year ended 31 December 2003

	2003		2002	
Non-technical account	£m	£m	£m	£m
Balance on the general business technical account		(60)		(231)
Balance on the long term business technical account	(21)		(11)	
Tax credit attributable to the balance on the long term business technical account	(9)		(4)	
		(30)		(15)
Investment income				
Income from participating interest:				
Fellow subsidiary undertaking (note: 3a)	101		101	
Other investment income (note: 3a)	226		224	
		327		325
Unrealised investment gains	139		-	
Investment expenses and charges (note: 3b)	(120)		(27)	
Unrealised investment losses	-		(279)	
Amortisation of goodwill (note: 14)	(6)		(6)	
Other (expenses)/income	(2)		1	
		11		(311)
Operating profit/(loss) comprising:				
Continuing business		266		(221)
Discontinued business		(1)		2
Movement in claims equalisation reserves		(17)		(13)
		248		(232)
Tax on profit and loss on ordinary activities (note: 4)		20		88
Profit/(loss) for the financial year		268		(144)
Dividends (note: 23c)		-		(101)
Retained profit/(loss) for the financial year		268		(245)
Earnings per ordinary share		25.3p		(13.6)p
Fully diluted earnings per ordinary share		25.3p		(13.6)p

The calculation of earnings per ordinary share is based on a profit of £268m (2002: loss £144m) and on a weighted average of 1,059,785,981 (2002: 1,059,785,981) ordinary shares.

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

Consolidated Balance Sheet

for the year ended 31 December 2003

	2003		2002	
Assets	£m	£m	£m	£m
Intangible assets				
Goodwill (note: 14a)	88		99	
Other (note: 14b)	20		-	
		108		99
Present value of acquired in-force business (note: 14c)		4		5
Investments				
Land and buildings (note: 5)	49		47	
Investments in group undertakings and participating interests (notes: 5 & 7)				
Interest in fellow subsidiary undertaking (note: 7)	1,682		1,682	
Interest in associated undertakings (notes: 7 & 20)	10		15	
Other financial investments (notes: 5 & 7)	4,734		4,207	
Deposits with ceding companies	14		13	
		6,489		5,964
Assets held to cover linked liabilities		135		102
Reinsurers' share of technical provisions				
Provision for unearned premiums	19		14	
Long term business provision	96		68	
Technical provision for unit linked liabilities	35		14	
Claims outstanding	245		282	
		395		378
Debtors				
Debtors arising out of direct insurance operations (note: 8a)	720		730	
Debtors arising out of reinsurance operations (note: 8b)	63		39	
Other debtors (note: 8c)	399		539	
		1,182		1,308
Other assets				
Tangible fixed assets (note: 6)	34		40	
Stocks	4		1	
Cash at bank and in hand	167		291	
		205		332
Prepayments and accrued income				
Accrued interest and rent	53		49	
Deferred acquisition costs	228		208	
Other prepayments and accrued income (note: 8d)	212		114	
		493		371
Total assets		9,011		8,559

Consolidated Balance Sheet

for the year ended 31 December 2003

	2003		2002	
	£m	£m	£m	£m
Liabilities and reserves				
Capital and reserves				
Called up share capital (<i>note: 16a</i>)		56		56
Share premium account (<i>note: 16b</i>)		523		523
Other reserves (<i>note: 17a</i>)	321		264	
Profit and loss account (<i>note: 17a</i>)	1,970		1,707	
		2,291		1,971
Equity shareholders' funds		2,870		2,550
Subordinated loans (<i>note: 11</i>)		150		150
Technical provisions				
Provision for unearned premiums	1,279		1,260	
Long term business provision	223		167	
Claims outstanding	3,572		3,532	
Equalisation provision	44		27	
Other technical provisions	8		11	
		5,126		4,997
Technical provisions for linked liabilities		169		116
Provisions for other risks and charges (<i>note: 9</i>)		110		112
Deposits received from reinsurers		2		-
Creditors				
Creditors arising out of direct insurance operations	114		107	
Creditors arising out of reinsurance operations	20		13	
Amounts owed to credit institutions (<i>note: 11</i>)	3		8	
Non-convertible debenture loans (<i>note: 11</i>)	148		148	
Other creditors including taxation and social security (<i>note: 10</i>)	194		254	
		479		530
Accruals and deferred income		86		88
Total liabilities and reserves excluding pension liability		8,992		8,543
Pension liability		19		16
Total liabilities and reserves including pension liability		9,011		8,559

Parent Company Balance Sheet

for the year ended 31 December 2003

	2003		2002	
	£m	£m	£m	£m
Fixed assets				
Investments				
Shares in subsidiary undertakings (note: 23b)	1,748		1,638	
Other financial investments	<u>1</u>		<u>115</u>	
		1,749		1,753
Current assets				
Debtors				
Amount due from immediate parent company	14		37	
Amounts due from fellow subsidiary undertakings	5		4	
Other debtors	<u>1</u>		<u>-</u>	
	<u>20</u>		<u>41</u>	
Creditors: amounts falling due within one year				
Amount due to immediate parent company	-		47	
Amounts due to subsidiary undertakings	500		481	
Other creditors including tax and social security	<u>8</u>		<u>5</u>	
	<u>508</u>		<u>533</u>	
Net current liabilities		(488)		(492)
Total assets less current liabilities		<u>1,261</u>		<u>1,261</u>
Creditors: amounts falling due after more than one year				
Debenture loan (note: 11)		148		148
Provisions for liabilities and charges				
Deferred taxation		-		30
Net assets		<u>1,113</u>		<u>1,083</u>
Representing:				
Share capital (note: 16a)		56		56
Share premium (note: 16b)		523		523
Capital redemption reserve (note: 17b)		189		189
Capital contribution reserve (note: 17b)		46		-
Profit and loss account (note: 17b)		<u>299</u>		<u>315</u>
Equity shareholders' funds		<u>1,113</u>		<u>1,083</u>

The accounts on pages 8 to 42 were approved by the directors and signed on 23 June 2004.

Philippe Nougé Côté Rint

Director
23 June 2004

Cash Flow Statement - General Insurance and Corporate

for the year ended 31 December 2003

	2003		2002	
	£m	£m	£m	£m
Operating activities (note: 21a)				
General insurance	407		458	
Shareholders' cash outflow to life insurance funds	<u>-</u>	407	<u>(8)</u>	450
Integration and restructuring costs paid		-		(2)
Returns on investments and servicing of finance				
Interest paid		(20)		(21)
Taxation (paid)/recovered		(27)		26
Capital expenditure				
Purchases less sales of fixed assets		(14)		(10)
Acquisitions and disposals				
Acquisition of subsidiary undertakings	-		(1)	
Disposal of subsidiary undertakings	<u>6</u>	6	<u>-</u>	(1)
Equity dividends paid		-		(101)
Financing				
Capital contribution from immediate parent		46		-
Cash available for investment		<u>398</u>		<u>341</u>
Invested as follows:				
Decrease in cash balances		(120)		(34)
Portfolio investments (note: 21b)				
Ordinary and preference shares	(215)		(374)	
Fixed income securities	280		133	
Property	1		1	
Deposits with credit institutions	<u>452</u>	518	<u>615</u>	375
Net cash invested		<u>398</u>		<u>341</u>

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

Statement of Total Recognised Gains and Losses

for the year ended 31 December 2003

	2003 £m	2002 £m
Profit/(loss) for the financial year	268	(144)
Exchange gains on translation of overseas net assets not in profit and loss account	11	10
Actuarial losses on retirement benefits	(7)	(37)
Deferred tax on actuarial losses (<i>Note: 4c</i>)	2	4
Total profits/(losses) relating to the year	274	(167)
Prior period adjustment arising on implementation of FRS 19	-	(38)
Total profits/(losses) recognised in the year	274	(205)

Reconciliation of Movements in Group Shareholders' Funds

for the year ended 31 December 2003

	2003 £m	2002 £m
Profit/(loss) for the financial year	268	(144)
Dividends	-	(101)
Profit and loss account transfer to/(from) reserves	268	(245)
Actuarial losses on retirement benefits, net of tax	(5)	(33)
Exchange gains on translation of overseas net assets	11	10
Capital contribution	46	-
	320	(268)
Shareholders' funds at beginning of year	2,550	2,818
Shareholders' funds at end of year	2,870	2,550

Accounting Policies

I Basis of accounting and consolidation

- a) The accounting policies adopted are in accordance with applicable United Kingdom accounting standards to the extent that they are appropriate to insurance companies and are in accordance with the Statement of Recommended Practice on accounting for insurance business issued by the Association of British Insurers (ABI SORP) in December 1998.
- b) The consolidated accounts are prepared in accordance with the requirements of Section 255A of, and Schedule 9A to, the Companies Act 1985 relating to insurance groups. The consolidated financial statements incorporate the assets, liabilities and results of the company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiary undertakings acquired or sold during the period are included in the consolidated results from the date of acquisition or up to the date of disposal. On acquisition of a subsidiary undertaking, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.
- c) The balance sheet of the Company has been prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985. As permitted by section 230 of the Companies Act 1985, a separate profit and loss account for the Company is not presented.
- d) Investments in principal associated companies and joint ventures are accounted for in accordance with the equity basis of accounting and the gross equity basis, respectively.

II General Business

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 Company.

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

b) Claims incurred

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

c) Claims provisions and related reinsurance recoveries

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened.

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.

Accounting Policies continued

In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

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

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

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

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

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

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

Property, aviation and accident business

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

Motor claims are made up of short-tail property damage claims and longer tail personal injury claims. For the former type of claim, the total costs of claims incurred and/or paid by the Group at the balance sheet date is used to project the ultimate expected total cost of claims incurred. This is done by reference to statistics that show how the total cost of claims incurred or paid in previous periods has developed over time. In a minority of cases reference will be made to the historic development of claims incurred. In all cases adjustments are made 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 methods as used for liability claims described below.

Liability and marine claims

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

1. A combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio, based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort.
2. Using the costs of claims notified to the Group 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 subject to the emergence of new types of latent claims but no allowance is included for this as at the balance sheet date.

Disease-related and pollution claims

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

Reinsurance recoveries

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

Accounting Policies continued

d) Salvage and subrogation

Estimated recoveries are included within debtors.

e) Deferred acquisition expenses

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

f) Unexpired risks provision

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

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

g) Underwriting results

Underwriting results are recognised on an annual accounting basis.

h) Claims equalisation reserve

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

i) Investment return

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

III Long term business

a) Premiums

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

b) Claims and surrenders

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

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

Surrenders and medical insurance claims are accounted for when paid.

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

c) Deferred acquisition expenses

The direct and indirect costs of acquiring new business which relate to subsequent accounting periods are deferred to the extent that they are recoverable out of future revenue margins and are amortised in accordance with the pattern of revenue margins on the associated contracts.

Accounting Policies continued

The unamortised balance of deferred acquisition costs is shown as an asset gross of tax on the balance sheet.

d) Long term business provision

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

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

The terms of certain policies allow for the periodic review of premium rates and levels of benefits. Changes to premium rates that are expected to arise as a result of future such reviews are taken into account in calculating the long-term business provision.

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

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

e) Investment return

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

IV Investments

a) Investment income

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

b) Realised and unrealised investment gains and losses

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

c) Valuation

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

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

Accounting Policies continued

d) Group occupied properties

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

V Land for development and work in progress

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

VI Acquisition accounting

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

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

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

VII Other intangible assets

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

VIII Foreign exchange

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

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

IX Taxation

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

X Tangible assets and depreciation

Major items of equipment are capitalised and depreciated over their expected useful lives after taking into account their anticipated residual value. All other items of equipment are written off in the year of purchase.

Accounting Policies continued

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

XI Staff post retirement benefit costs

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

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

XII Derivatives

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

Notes on the Financial Statements

1 General insurance business

a) Geographical analysis

	2003		2002	
	Net written premiums	Underwriting result	Net written premiums	Underwriting result
	£m	£m	£m	£m
United Kingdom	2,274	(93)	2,241	(219)
Republic of Ireland	372	58	332	13
Continental Europe - disposed business	-	(1)	1	1
Asia - disposed business	-	-	-	1
Other, including central reinsurance	8	(2)	8	(9)
	<u>2,654</u>	<u>(38)</u>	<u>2,582</u>	<u>(213)</u>

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

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

	2003		2002	
	Net written premiums	Underwriting result	Net written premiums	Underwriting result
	£m	£m	£m	£m
Republic of Ireland	-	-	-	(1)
	-	-	-	(1)

b) Class of business analysis

	2003		2002	
	Net written premiums	Underwriting result	Net written premiums	Underwriting result
	£m	£m	£m	£m
Property	714	110	669	-
Motor	736	(61)	789	(77)
Liability	324	(99)	268	(176)
Other	195	(38)	160	(13)
Total excluding healthcare	<u>1,969</u>	<u>(88)</u>	<u>1,886</u>	<u>(266)</u>
Short term healthcare	685	50	696	53
Total general business	<u>2,654</u>	<u>(38)</u>	<u>2,582</u>	<u>(213)</u>

c) Claims equalisation reserve

Equalisation provisions are established in accordance with the requirements of the Insurance Prudential Sourcebook Chapter 6. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within the technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date. At 31 December 2003 claims equalisation reserves were £44m (2002: £27m). The increase in the provision during the year had the effect of reducing the balance on the technical account for general business and the profit on ordinary activities before taxation by £17m (2002: £13m).

Notes on the Financial Statements continued

d) Analysis of net operating expenses

	2003 £m	2002 £m
Acquisition costs	521	496
(Increase)/Decrease in deferred acquisition costs	(21)	2
Administrative expenses	255	256
Reinsurance commissions and profit participation	1	2
	<u>756</u>	<u>756</u>

e) Prior years' claims incurred (gross)

	2003 £m	2002 £m
Property	(46)	(35)
Motor	44	79
Liability	108	119
Other	15	26
Total excluding healthcare	<u>121</u>	<u>189</u>
Short term healthcare	28	33
Total general business	<u>149</u>	<u>222</u>

The prior year reserve strengthening reflects the results of reviews of large loss claims reserves to bring them into line with a new large loss estimating methodology. This is based on refining the existing claims estimation technique to achieve a more accurate estimate of ultimate cost at an earlier stage than in prior years. The third party liability increase includes strengthening of the asbestos-related diseases reserve following a detailed review of potential exposure to ongoing claims. The improvement in property comes from better underlying claims experience, primarily from the 2002 accident year.

2 Long term business

a) Geographical analysis

	Net written premiums £m	2003 Pre-tax result £m	Net written premiums £m	2002 Pre-tax result £m
United Kingdom and Republic of Ireland				
Continuing business	<u>50</u>	<u>(30)</u>	<u>44</u>	<u>(15)</u>
	<u>50</u>	<u>(30)</u>	<u>44</u>	<u>(15)</u>

b) Class of business analysis

	2003 £m	2002 £m
Individual business:		
Single premiums	48	40
Regular premiums	<u>11</u>	<u>13</u>
Total gross written premiums	<u>59</u>	<u>53</u>

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

	2003 £m	2002 £m
Individual business:		
Single premiums	48	40
Regular premiums	1	1

Outward reinsurance premiums of £9m (2002: £9m) have been charged to the long term business account.

Notes on the Financial Statements continued

c) Investment income

	2003 £m	2002 £m
Income from other investments	9	7
Realised investment and foreign exchange gains	1	-
	<u>10</u>	<u>7</u>

Income from other investments includes £9m (2002: £7m) in respect of listed investments.

d) Net operating expenses

	2003 £m	2002 £m
Acquisition costs	7	7
Decrease/(increase) in deferred acquisition costs	3	(1)
Administrative expenses	2	2
	<u>12</u>	<u>8</u>

e) Tax attributable to shareholders

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

f) Long term business provision

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

Global Assumptions

Expense inflation	3.50% (2002: 3.50%)
Inflation	2.50% (2002: 2.50%)

Long Term Care Plans

Morbidity - inception rates (revised base rates)	Internal table based on the company's experience data
- termination rates (revised base rates)	(revised during 2003)

Mortality (healthy base rate unchanged)	Internal table based on the company's experience data (revised during 2003)
-----------------------------------------	--------------------------------------------------------------------------------

Morbidity and mortality assumptions underlying the lifetime care plans have been reviewed during the year in the light of actual experience. Changes implemented have increased reserves by around £26 million.

Valuation rate of interest	3.80% - regular premiums (2002: 3.45%) 4.60% - single premiums (2002 : 4.25%) 1.70% - regular premiums index linked (2002: 1.70%) 1.70% - single premiums index linked (2002 : 1.75%)
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Renewal expenses	£62.72 regular premium in deferment (2002: £60.55) £59.33 single premium in deferment (2002: £57.28)
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Immediate Care Plans

Mortality	Based on IM80/IF80
Valuation rate of interest	3.95% - single premiums (2002: 3.75%) 1.60% - single premium index-linked (2002: 0.90%)
Maintenance expense	£118.66 (2002: £114.55)

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

Notes on the Financial Statements continued

3 Investment

a) Other investment income

	2003 £m	2002 £m
Net (expense)/income from property	(1)	1
Income from other investments	227	218
Realised investment gains	-	5
	<u>226</u>	<u>224</u>

The income of £101m (2002:£101m) from fellow subsidiary undertaking relates to a preference shareholding in AXA GRE Europe Investments Limited.

Realised investment gains include foreign exchange profits and losses of £nil (2002: loss £13m).

Income from other investments includes £163m (2002: £175m) from listed investments.

b) Other expenses and charges

	2003 £m	2002 £m
Interest expense (note: 3c)	20	21
Investment management expenses	5	6
Realised investment losses	95	-
	<u>120</u>	<u>27</u>

Realised investment losses include foreign exchange losses of £1m (2002: nil).

c) Interest expense

	General insurance and corporate		Life	
	2003 £m	2002 £m	2003 £m	2002 £m
On loans repayable within five years:				
Other loans	1	2	-	-
On loans repayable beyond five years:				
Non-bank loans	10	10	-	-
Other loans	9	9	-	-
	<u>20</u>	<u>21</u>	<u>-</u>	<u>-</u>

4 Taxation

a) Tax attributable to the long term business

(i) Analysis of credit in period

	2003 £m	2002 £m
Current tax:		
UK Corporation Tax on losses of the period	9	4
Total current tax (note 4a(ii))	<u>9</u>	<u>4</u>
Tax on loss on ordinary activities	<u>9</u>	<u>4</u>

Notes on the Financial Statements continued

ii) Factors affecting tax credit for the period

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

The analysis is shown below:

	2003 £m	2002 £m
Balance on long term technical account before tax	(30)	(15)
Balance on long term technical account before tax multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	9	4
Current tax credit for period (note 4a(i))	9	4

b) Tax on profit on ordinary activities

(i) Analysis of credit in period

	£m	2003 £m	£m	2002 £m
Current tax:				
UK Corporation Tax on profits of the period	(14)		(39)	
Adjustments in respect of previous periods	28		6	
		14		(33)
Foreign tax		(12)		(9)
Tax attributable to balance on long term technical account		9		4
Total current tax (note 4b(ii))		11		(38)
Deferred tax:				
Origination and reversal of timing differences	14		99	
Adjustment to deferred tax (liabilities)/assets arising in previous periods	(5)		27	
Total deferred tax (note 4d)		9		126
Tax on profit and loss on ordinary activities		20		88

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

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

The tax charge assessed for the period differs from the standard rate of corporation tax in the UK (30%).

The differences are explained below:

	2003 £m	2002 £m
Profit/(loss) on ordinary activities before tax	248	(232)
(Profit)/loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	(74)	70
Effects of:		
Expenses not deductible for tax purposes (Primarily goodwill written off)	(11)	(5)
Income not taxable (Primarily UK Equity income)	37	42
Other timing differences, principally tax losses carried forward	11	(156)
Lower tax rates on overseas earnings	20	5
Adjustment to tax charge in respect of previous periods	28	6
Current tax credit/(charge) for period (note 4b(i))	11	(38)

Notes on the Financial Statements continued

(iii) Factors that may affect future tax charges

The Group has substantial trading losses carried forward as at 31 December 2003. These will significantly reduce tax payable in future accounting periods.

c) Tax in STRGL

(i) Analysis of credit in period

	2003 £m	2002 £m
Deferred tax:		
Origination and reversal of timing differences	2	4
Total deferred tax (note 4d)	<u>2</u>	<u>4</u>
Tax on loss on ordinary activities	<u>2</u>	<u>4</u>

(ii) Factors affecting current tax for the period

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

The differences are explained below:

	2003 £m	2002 £m
Losses recognised before tax		
Actuarial losses on retirement benefits	(7)	(37)
Losses recognised multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	2	11
Effects of:		
Expenses not deductible for tax purposes	(2)	(11)
Current tax for period	<u>-</u>	<u>-</u>

d) Provision for deferred Tax

	2003 £m	2002 £m
Accelerated capital allowances	10	12
Tax losses carried forward	171	167
Unrealised losses	(68)	(83)
Other timing differences	7	(16)
Undiscounted asset for deferred tax	<u>120</u>	<u>80</u>
Asset/(provision) at start of period	80	(47)
Deferred tax credit in Profit and Loss account for period (note 4b)	9	126
Deferred tax credit in STRGL (note 4c)	2	4
Tax disclosed with asset	-	(5)
Deferred tax on loan notes transferred to intermediate parent undertaking	30	-
Exchange and other movements	(1)	2
Asset at end of period	<u>120</u>	<u>80</u>

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

A deferred tax asset of £4m (2002: £18m) arising from tax losses carried forward has not been recognised in the accounts. This asset will be recoverable against future tax profits.

Notes on the Financial Statements continued

5 Consolidated balance sheet as at 31 December 2003

	General and Corporate		Life		Consolidated	
	2003	2002	2003	2002	2003	2002
	£m	£m	£m	£m	£m	£m
Intangible assets	108	99	-	-	108	99
Present value of acquired in-force business	4	5	-	-	4	5
Land and buildings						
Company occupied	30	30	-	-	30	30
Other	19	17	-	-	19	17
	49	47	-	-	49	47
Investment in fellow subsidiary undertaking	1,682	1,682	-	-	1,682	1,682
Associated undertakings	10	15	-	-	10	15
Other financial investments						
British Government Securities	592	630	55	43	647	673
Overseas Government, municipal and public boards	753	654	2	2	755	656
Debentures and debenture stocks	1,293	1,071	63	43	1,356	1,114
	2,638	2,355	120	88	2,758	2,443
Preference and guaranteed stocks and shares	29	33	-	-	29	33
Ordinary stocks and shares	603	729	-	-	603	729
	632	762	-	-	632	762
Mortgages and loans	7	122	-	-	7	122
Deposits with credit institutions	1,324	872	13	8	1,337	880
Deposits with ceding companies	14	13	-	-	14	13
Total Investments	6,356	5,868	133	96	6,489	5,964
Assets held to cover linked liabilities	-	-	135	102	135	102
Reinsurers' share of technical provisions	263	296	132	82	395	378
Debtors	1,190	1,313	5	4	1,182	1,308
Other assets	201	328	4	4	205	332
Prepayments and accrued income	490	365	3	6	493	371
TOTAL ASSETS	8,612	8,274	412	294	9,011	8,559
Capital and reserves						
Share capital	56	56	-	-	56	56
Share premium	523	523	-	-	523	523
Other reserves	2,291	1,971	-	-	2,291	1,971
Equity shareholders' funds	2,870	2,550	-	-	2,870	2,550
Technical provisions	4,903	4,829	223	168	5,126	4,997
Technical provisions for linked liabilities	-	-	169	116	169	116
Other liabilities and provisions	820	879	20	10	827	880
Pension liability	19	16	-	-	19	16
Total liabilities and shareholders' funds	8,612	8,274	412	294	9,011	8,559

Notes on the Financial Statements continued

6 Fixed assets

	Cost £m	Depreciation £m	Net book value £m
At 1 January 2003	76	(36)	40
Exchange	1	-	1
Purchases	17	-	17
Sales	(33)	30	(3)
Depreciation charge for the year	-	(21)	(21)
At 31 December 2003	61	(27)	34

Fixed assets are primarily computer equipment, fixtures and fittings.

7 Investments

The cost of investments held at 31 December 2003 was £3,465m (2002: £3,404m). The cost of investments held to cover linked liabilities was £125m (2002: £100m).

Investments totalling £3,498m (2002: £3,269m) are listed on a recognised stock exchange. Of these £1,973m (2002: £1,945m) are listed on the London Stock Exchange.

Land and buildings includes £4m (2002: £4m) in respect of leasehold properties of which £2m (2002: £1m) related to land held on short lease.

All properties in the UK and Ireland were valued by independent chartered surveyors, Nelson Bakewell and Sherry Fitzgerald respectively, at 31 December 2003 on an open market existing use basis.

Principal interests in associated undertakings at 31 December 2003 were as follows:

	Share Capital	Holding	Country
Earlyweigh Limited	Equity	39%	United Kingdom

The country shown is that of incorporation and principal operation.

Earlyweigh Limited is the holding company of Layton Blackham insurance brokers. During 2003 a capital restructuring took place and details can be found in note 20.

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

8 a) Debtors arising out of direct insurance operations

	General and Corporate		Life		Consolidated	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Due from policyholders	442	450	-	1	442	451
Due from intermediaries	278	279	-	-	278	279
	720	729	-	1	720	730

b) Debtors arising out of reinsurance operations

Included within debtors arising out of reinsurance operations are amounts due from ultimate parent undertaking of £5m (2002: nil) and amounts due from fellow subsidiary undertakings of £8m (2002:nil).

c) Other debtors

Included within other debtors are amounts due from an intermediate parent undertaking of £137m (2002:£176m) and amounts due from fellow subsidiary undertakings of £12m (2002:£16m).

d) Other prepayments and accrued income

Included within other prepayments and accrued income are amounts due from fellow subsidiary undertakings of £202m (2002: £101m).

Notes on the Financial Statements continued

9 Provisions for other risks and charges

	Pensions £m	Other £m	Total £m
At 1 January 2003	31	81	112
Utilised	(2)	(32)	(34)
Profit and loss account	2	26	28
STRGL	4	-	4
At 31 December 2003	35	75	110

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

10 Other creditors

	General and Corporate		Life		Consolidated	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Amounts due to intermediate parent undertaking	4	60	-	-	4	60
Amounts due to fellow subsidiary undertakings	15	7	-	-	15	7
Taxation	56	70	-	-	56	70
Other creditors	119	118	-	8	119	117
	194	255	-	8	194	254

11 Loans

	Consolidated	
	2003 £m	2002 £m
Loans from intermediate parent company		
15 year subordinated loan repayable 2016	100	100
Perpetual subordinated loan	50	50
Subordinated loans	150	150
Unsecured loan repayable 2004 - included in amounts due to intermediate parent undertaking	-	38
Non-bank loans		
Listed unsecured 6 5/8% Company bonds repayable 2023	148	148
Loans from bankers		
Unsecured	3	8
	301	344

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

Repayment periods

Loans from intermediate parent company		
Between 1 and 2 years	-	38
Over 5 years	150	150
Loans other than from bankers		
Over 5 years	148	148
Loans from bankers		
1 year or less	3	8
	301	344

Notes on the Financial Statements continued

12 Capital expenditure commitments

At 31 December 2003, capital expenditure on equipment amounting to £nil (2002: £0.5m) had been authorised but had not been provided for in the accounts. Contracts had been placed for £nil (2002: £nil) of the authorised expenditure.

13 Auditors' remuneration

2003	2002
£000	£000

Remuneration, including expenses, of the auditors of the Company and its subsidiaries for statutory work. This includes £nil (2002: £nil) in respect of the audit of the Company, which was borne by its intermediate parent company, AXA UK plc.

1,038	982
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Remuneration for regulatory and taxation advice and other non audit services provided by the Company's auditors to the Company and its United Kingdom subsidiaries amounted to £153,000 (2002: £826,000).

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

a) Goodwill

	Goodwill	Negative goodwill	Goodwill in acquired claims provisions	Total
	£m	£m	£m	£m
Cost				
At 1 January 2003	170	(76)	44	138
At 31 December 2003	170	(76)	44	138
Amortisation				
At 1 January 2003	48	(33)	24	39
Charged/(credited) in year	8	(2)	5	11
At 31 December 2003	56	(35)	29	50
Net book value at 31 December 2003	114	(41)	15	88
Net book value at 31 December 2002	122	(43)	20	99

b) Other

	£m
Cost	
At 1 January 2003	-
Additions	23
At 31 December 2003	23
Amortisation	
At 1 January 2003	-
Charged in year	3
At 31 December 2003	3
Net book value at 31 December 2003	20
Net book value at 31 December 2002	-

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

Notes on the Financial Statements continued

c) Present value of acquired in-force business

	£m
Cost	
At 1 January 2003	8
At 31 December 2003	8
Amortisation	
At 1 January 2003	3
Charged in year	1
At 31 December 2003	4
Net book value at 31 December 2003	4
Net book value at 31 December 2002	5

15 Staff

a) Staff pensions costs

Company pension scheme - UK

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

An independent actuarial review by Watson Wyatt of the defined benefit scheme revealed a deficit of £396m as at 31 December 2003 (deficit of £429m as at 31 December 2002) before taking account of any tax relief. This represents a snapshot of the present cost of meeting pension obligations that will crystallize over a period of many years. The scheme invests in a wide range of assets, including equities, which over the long term, are expected by the Directors to produce higher returns than those underlying the assessment of the deficit as at 31 December 2002.

The total pension cost which has been charged to the profit and loss account of the Group is £19m (2002 - £19m). There are no outstanding contributions as at 31 December 2003 (2002: - £nil).

Company pension scheme - Ireland

The company operates a defined benefit scheme. A full actuarial valuation was carried out at 31 March 2002 by a qualified independent actuary and updated to 31 December 2003. The major assumptions used by the actuary were:

	At 31/12/2003	At 31/12/2002
Rate of increase in salaries	4.0%	4.0%
Rate of increase in pensions in payment	2.25%	2.25%
Discount rate	5.25%	5.5%
Inflation assumption	2.25%	2.25%

Notes on the Financial Statements continued

15 Staff

a) Staff pensions costs (cont)

Company pension scheme - Ireland (cont)

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

	Long-term rate of return expected at 31/12/2003	Value at 31/12/2003 £m	Long-term rate of return expected at 31/12/2002	Value at 31/12/2002 £m
Equities	7.75%	73	7.75%	58
Bonds	4.75%	35	4.75%	30
Property	5.75%	2	5.75%	10
Other	3.0%	13	4.0%	4
Total market value of assets		123		102
Present value of scheme liabilities		(145)		(121)
Deficit in the scheme		(22)		(19)
Related deferred tax asset		3		3
Net pension liability		(19)		(16)

Analysis of the amount charged to operating loss:

	2003 £m	2002 £m
Current service cost	5	4
Total operating charge	5	4

Analysis of the amount credited to other income:

	2003 £m	2002 £m
Expected return on pension scheme assets	7	10
Interest on pension scheme liabilities	(7)	(7)
Net return	-	3

Analysis of amount recognised in STRGL:

	2003 £m	2002 £m
Actual return less expected return on pension scheme assets	3	(38)
Experience losses arising on the scheme liabilities	1	(5)
Changes in assumptions	(7)	3
Actuarial loss recognised in STRGL	(3)	(40)

Notes on the Financial Statements continued

15 Staff

a) Staff pensions costs (cont)

Company pension scheme - Ireland (cont)

Movement in (deficit)/surplus during the year:

	2003 £m	2002 £m
(Deficit)/surplus in scheme at beginning of year	(19)	17
Exchange (losses)/gains	(1)	1
Movement in year:		
Current service cost	(5)	(4)
Contributions	6	4
Other income	-	3
Actuarial loss	(3)	(40)
Deficit in scheme at end of the year	<u>(22)</u>	<u>(19)</u>

The actuarial valuation at 31 December 2003 showed an increase in the deficit from £19m to a deficit of £22m.

History of experience gains and losses:

	2003 £m	2002 £m	2001 £m
Difference between the expected and actual return on scheme assets:			
amount (£m)	3	(38)	(18)
percentage of scheme assets	2%	(37%)	(15)%
Experience gains and losses on scheme liabilities:			
amount (£m)	1	(5)	(2)
percentage of the present value of the scheme liabilities	1%	(4%)	(2%)
Total amount recognised in STRGL:			
amount (£m)	(3)	(40)	(20)
percentage of the present value of the scheme liabilities	(2%)	(33%)	(19%)

Other post-retirement benefits

A subsidiary of the Group offers certain healthcare benefits, on a non-contributory basis, to substantially all employees who were employed prior to June 1989, upon retirement. The expected costs of this benefit have been assessed in accordance with the advice of an independent qualified actuary as at 31 December 2003 and based on the latest actuarial valuation dated 31 December 2001.

The assumptions, which have the most significant effect on the results of the valuation are those relating to the discount rate, at 5.5% per annum (2002: 5.5%), and medical inflation which has been assumed at 8% over the next five years.

The cost of the scheme was £1m for 2003 (2002 - £1m). A related provision of £10m (2002 - £10m) is held at the balance sheet date.

Notes on the Financial Statements continued

15 Staff

a) Staff pensions costs (cont)

Analysis of the amount charged to operating loss:

	2003 £m	2002 £m
Current service cost	-	-

Analysis of the amount charged to other income:

	2003 £m	2002 £m
Interest on post-retirement scheme liabilities	1	1

Analysis of amount recognised in STRGL:

	2003 £m	2002 £m
Gain on change of assumptions	1	3
Actuarial gain recognised in STRGL	1	3

History of experience gains and losses:

	2003 £m	2002 £m
Total amount recognised in STRGL:		
amount	1	3
percentage of the present value of the scheme liabilities	4%	26%

Movement in deficit during the year:

	2003 £m	2002 £m
Deficit in scheme at beginning of year	(10)	(12)
Other income	(1)	(1)
Actuarial gain	1	3
Deficit in scheme at end of the year	(10)	(10)

Notes on the Financial Statements continued

b) Staff numbers and costs

	2003 £m	2002 £m
Wages and salaries	194	187
Social security costs	19	16
Other pension costs	19	19
	<u>232</u>	<u>222</u>

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

	2003	2002
United Kingdom insurance operations	6,622	6,899
Ireland	799	791
Asia	625	389
	<u>8,046</u>	<u>8,079</u>

16 Share capital and share premium

a) Share capital

		2003 Authorised £m	2003 Paid-up £m	2002 Authorised £m	2002 Paid-up £m
Authorised	1,142,859,044 ordinary shares of 5.25p each and 931,707,318 non-cumulative redeemable preference shares of 20.5p each	60		60	
		<u>191</u>		<u>191</u>	
		<u>251</u>		<u>251</u>	
Issued	1,059,785,981 (2002: 1,059,785,981) ordinary shares of 5.25p		56		56

b) Share premium

	£m
Balance at 1 January 2003 and 31 December 2003	<u>523</u>

Notes on the Financial Statements continued

17 a) Reserves

	Profit and loss account £m	Capital reserve £m	Capital contribution reserve £m	Other reserves £m	Total £m
Balance at 31 December 2001	1,985	104	-	150	2,239
Transfer to profit and loss account	(245)	-	-	-	(245)
Exchange on translation of overseas net assets	-	-	-	10	10
Actuarial gains and losses - Retirement benefits	(33)	-	-	-	(33)
Balance at 31 December 2002	1,707	104	-	160	1,971
Transfer to profit and loss account	268	-	-	-	268
Capital contribution	-	-	46	-	46
Exchange on translation of overseas net assets	-	-	-	11	11
Actuarial gains and losses - Retirement benefits	(5)	-	-	-	(5)
Balance at 31 December 2003	1,970	104	46	171	2,291

	2003	2002
Profit and loss reserve excluding pension (liability)/asset	1,989	1,723
Pension reserve	(19)	(16)
Profit and loss reserve	1,970	1,707

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

During the year the Company received capital contributions of £46m from its parent company, AXA UK plc.

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

The cumulative amount of goodwill written off against reserves is £199m (2002: £199m).

b) Company

	Profit and loss account £m	Capital redemption reserve £m	Capital contribution reserve £m	Total £m
Balance at 1 January 2003	315	189	-	504
Capital contribution	-	-	46	46
Transfer from profit and loss account	(16)	-	-	(16)
Balance at 31 December 2003	299	189	46	534

Profit and loss reserves are all distributable.

Notes on the Financial Statements continued

18 Geographical analysis of net assets

	2003	2002
	£m	£m
United Kingdom	874	800
Republic of Ireland	246	146
	<u>1,120</u>	<u>946</u>
Asia	5	4
Others, including corporate centre	1,622	1,481
	<u>2,747</u>	<u>2,431</u>
Net assets of joint venture and associates	10	15
Intangible assets and present value of acquired in-force business	113	104
	<u>2,870</u>	<u>2,550</u>

19 a) Contingent liabilities

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

b) Financial services compensation scheme

The Financial Services Compensation Scheme ("FSCS") was established under the Financial Services Market Act 2000 to indemnify policyholders against insurance companies that are unable to meet their obligation under the policies issued by them. The FSCS is authorised to impose a levy up to a maximum of 0.8%, if applicable, of net premium income.

As at 31 December 2003, no levy has been called for by the FSCS in respect of the 2002 and 2003 premiums. The FSCS in its latest publication confirmed that no levy will be made in respect of the 2003/4 scheme year (which would be based on 2002 premium income) but that it is likely to make a call on the levy in respect of the 2004/5 scheme year (which would be based on 2003 premium income). However, in accordance with Financial Reporting Standard 12 (Provisions, Contingent Liabilities and Contingent Assets) the Company has not provided for the 2004/5 levy as it is unable to reliably estimate the potential liability based on information currently available. As a consequence at the year end there remains a maximum contingent liability of £15,800,000 on the 2003 net written premium.

20 Acquisitions & disposals

a) Acquisition of Earlyweigh Limited ordinary shares

On 12 November 2003 the Group's subsidiary, Venture Preference Limited completed an agreement to restructure its investment in Earlyweigh Limited. Under the terms of the agreement, Earlyweigh Limited declared a dividend on its preference shares of £2m and issued ordinary shares in respect of the dividend. Venture Preference Limited agreed to surrender its preference shares and was issued with deferred shares. Following the restructuring Venture Preference Limited holds 39% of the ordinary share capital of Earlyweigh Limited.

	2003
	£m
Net assets acquired	<u>nil</u>
Consideration	<u>10</u>
Goodwill	<u>10</u>

b) Disposal of Aviation and General Insurance Company Limited

On 3 October 2003 the Group's subsidiary, AXA General Insurance Limited disposed of its ordinary shareholding in Aviation and General Insurance Company Limited, an associated company. The consideration received was £6m and there was no profit or loss on disposal. The company was sold to Ruxley Ventures Limited.

Notes on the Financial Statements continued

21 Notes on cash flow statements

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

	2003 £m	2002 £m
Operating profit/(loss)	248	(232)
Exclude:		
Interest expense	20	21
Investment (gains)/losses	(21)	292
Profit before taxation (excluding investment gains and interest)	247	81
Increase in insurance funds, net of reinsurance	26	260
Increase in equalisation reserves	17	13
Goodwill written off	11	11
Net increase in debtors and creditors	85	77
Depreciation and fixed asset write offs	21	8
Net cash inflow from operations	407	450

b) Purchases and sales of portfolio investments

	2003 £m	2002 £m
Purchases of ordinary and preference shares	145	350
Sales of ordinary and preference shares	(360)	(724)
	(215)	(374)
Purchases of fixed income securities	1,633	1,150
Sales of fixed income securities	(1,353)	(1,017)
	280	133
Purchases of properties	4	3
Sales of properties	(3)	(2)
	1	1
Net sales of portfolio investments	66	(240)
Increase in deposits with credit institutions	452	615
Movements in portfolio investments arising from cash flows	518	375

c) Movement in portfolio investments, net of financing

	2003 £m	2002 £m
Decrease in cash balances	(120)	(34)
Cash flow:		
Increase in portfolio investments	518	375
Movement arising from cash flows	398	341
Changes in market values and impact of exchange rate movements	12	(246)
Movement in life business balances	37	20
Acquisitions and disposals of subsidiary undertakings	-	1
Movement in portfolio investments, net of financing	447	116
Portfolio investments, net of financing, at 1 January	4,201	4,085
Portfolio investments, net of financing, at 31 December	4,648	4,201

Notes on the Financial Statements continued

d) Movement in cash, portfolio investments and financing

	At 1 Jan 2003 £m	Acquired and disposed operations £m	Cash Flow £m	Changes in Life Business £m	Changes in market values and currencies £m	At 31 Dec 2003 £m
Cash	283	-	(120)	-	-	163
Ordinary and preference shares	762	-	(215)	-	85	632
Fixed income securities	2,565	-	280	32	(112)	2,765
Properties	47	-	1	-	1	49
Deposits with credit institutions	880	-	452	5	-	1,337
Loans due later than one year	(336)	-	-	-	38	(298)
	<u>4,201</u>	<u>-</u>	<u>398</u>	<u>37</u>	<u>12</u>	<u>4,648</u>

22 Fully diluted earnings per share

The fully diluted earnings per share is based on a profit of £268m (2002: loss of £144m) and on a weighted average of 1,059,785,981 ordinary shares (2002: 1,059,785,981).

23 Guardian Royal Exchange plc

a) Loss for the year

The loss attributable to shareholders which was dealt with in the profit and loss account of Guardian Royal Exchange plc for the year ended 31 December 2003, including paid and proposed dividends from subsidiaries, was £16m (2002: profit £99m). As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not included in these accounts.

b) Investments

Shares in subsidiary undertakings	£m
Balance at 1 January 2003	1,638
Additions represent:	
Cost of acquisition of shares in AXA Insurance plc	110
Balance at 31 December 2003	<u>1,748</u>

c) Dividends

	2003 £m	2002 £m
Interim paid	<u>-</u>	<u>101</u>

24 Directors emoluments

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

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

Notes on the Financial Statements continued

25 Ultimate parent

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

26 Related parties

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

27 Principal group companies

	Country of incorporation	Holdings of ordinary shares	
Insurance Companies			
AXA Insurance plc	England	100%	(Parent)
AXA Insurance UK plc	England	100%	
The Royal Exchange Assurance	England	100%	
AXA General Insurance Limited	England	100%	
AXA PPP healthcare Limited	England	100%	
PPP lifetime care plc	England	100%	
AXA Insurance Limited	Ireland	100%	
Other Companies			
Denplan Limited	England	100%	(Parent)
AXA Services Limited	England	100%	
AXA PPP healthcare group plc	England	100%	
AXA PPP healthcare Administration Services Limited	England	100%	
AXA Holdings Ireland Limited	Ireland	100%	
AXA Ireland Limited	Ireland	100%	
Guardian Royal Exchange International (Holdings) B.V.	Netherlands	100%	

Notes:

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