



AXA Sun Life Plc (ASL)

Report by the Board to policyholders on compliance with Principles and Practices of Financial Management

Introduction

Since 2004, the Financial Services Authority (FSA) has required firms selling With Profits assurance business to publish a document entitled 'Principles and Practices of Financial Management' (PPFM). The PPFM sets out Principles which we consider when dealing with With Profits business and Practices we have established to help ensure the Principles are attained. The version of the PPFM currently in force is dated December 2007 and is available at http://www.axa.co.uk/aboutus/corporate_publications/ppfm_docs/ASLPPFM.pdf.

Further, the FSA requires firms to report to policyholders on their compliance with the Principles and Practices set out in the PPFM. Therefore, we have produced this document, which states whether we believe we have complied with the obligations relating to the PPFM during the period 1 January 2007 to 31 December 2007 and sets out our reasons for that belief. In order to achieve this aim, the report has been split into the following sections:

- Governance Arrangements for With Profits Business;
- Management of With Profits Business in 2007;
- Changes to the PPFM; and
- Conclusion.

We, the Board of Directors of AXA Sun Life Plc (the Board) believe that ASL complied with its obligations relating to the PPFM during the year 2007. The reasons for this belief are set out below.

Governance Arrangements for With Profits Business

We have a With Profits Committee in order to monitor our compliance with the PPFM. In November 2007, we changed the composition of the Committee to consist of members who are neither AXA executives nor Directors of ASL. The current members of the Committee are:

- Duncan Kerr; formerly Chief Actuary of Equity & Law Life Assurance Society plc (which has since become part of the AXA Group).
- Ian Brimecome; Non-executive Director of AXA UK plc and formerly Non-executive Director of Winterthur UK Financial Services Group Ltd. He has over 30 years' experience in the financial services industry and has advised on more than eighty merger and acquisition transactions in the insurance and asset management industries.



- Robin Monro-Davies; Non-executive Director of AXA UK plc and formerly Chief Executive Officer of Fitch Ratings. He is also Director of a number of companies, including HSBC Bank plc.

In addition, our With Profits Actuary, appointed in accordance with regulations applicable to insurance companies selling With Profits business, has a number of responsibilities relating to the operation of the With Profits Funds, the discretion exercised by the company and the PPFM.

From 1 April 2001, AXA Sun Life's business was reorganised under a scheme approved by the High Court. This is known as the Reorganisation Scheme. At this time the existing With Profits Fund was renamed as the 'Old With Profits Fund' and a new With Profits Fund was set up called the 'New With Profits Fund'. Policyholders in the Old With Profits Fund were allowed to move existing policies into the New With Profits Fund if they wished. In accordance with the provisions of the Reorganisation Scheme, a board (the Monitoring Board), which monitors our compliance with aspects of the Reorganisation Scheme, exists.

Management of With Profits Business in 2007

The management of the With Profits Business is discussed under the following headings:

- Reorganisation Scheme;
- Setting of regular bonus rates;
- Determining payouts under With Profits policies;
- Investment strategy; and
- Other matters.

Each of these sections is covered in detail in the PPFM itself. We have, therefore, avoided putting detailed explanations in this report.

Reorganisation Scheme

Our compliance with the rules set out in the Reorganisation Scheme is assessed by the Monitoring Board. A Monitoring Actuary, currently Duncan Kerr, advises the Monitoring Board on these matters. During 2007 the Monitoring Board met three times, in March, July and December. In March each year, the Monitoring Board is required to provide a certificate confirming that the Old With Profits Fund has been managed in accordance with the rules set out in the Reorganisation Scheme. A copy of this certificate is issued to the FSA. In March 2008, the Monitoring Board provided the 2007 certificate.



Setting of regular bonus rates

We formally considered the regular bonus rates in February and September 2007 and February 2008 (for rates applying to 2007).

We determined regular bonus rates after considering evidence that showed the proposed rates to be compliant with the PPFM. The same information was also considered by the With Profits Actuary and the With Profits Committee.

In particular, the Board, With Profits Actuary and With Profits Committee considered:

- Details of the financial background to the bonus declaration, and the methods used in arriving at the bonus rates;
- A list of each type of policy and the regular bonus rates which were proposed for use; and
- Evidence that where regular bonus rates were lower than supportable bonus rates this was appropriate and consistent with the PPFM.

Following advice from the With Profits Actuary, the proposed rates were approved by the Board.

Further, the Board, the With Profits Actuary and the With Profits Committee considered evidence that the methods and assumptions used to decide the regular bonus rates were in compliance with the Practices described in the PPFM.

Determining payouts under With Profits policies

Final bonus rates and Market Value Reduction (MVR) rates were reviewed in February and September 2007. As with regular bonus rates, we determined final bonus and MVR rates after considering evidence that showed the proposed rates to be compliant with the PPFM. The same information was also considered by the With Profits Actuary and the With Profits Committee.

The Board accepted the proposed rates and, in particular, the following points should be noted regarding payouts:

- Our Practices regarding investment returns; charging of tax; charging of expenses; profits and losses from mortality and critical illness claims; transfers to shareholders and cost of guarantees and capital, in the calculation of asset shares, have remained unchanged and comply with the PPFM;
- The PPFM govern our treatment of payout smoothing. During 2007 maturity payouts for similar policies (in force for the same period) did not change by more than 15%;
- The target ranges in the PPFM were considered when setting final bonus rates; and



- Reorganisation Bonuses (ReBs), where they applied, were declared as a percentage of the final payout. ReBs were reviewed in February 2007. These rates were calculated to give an additional final payment on existing policies, where projections show this amount to be sustainable in the future.

Investment strategy

In accordance with the Investment Management Strategies set out in the PPFM, our asset allocation strategy was approved by the AXA UK Investment Committee.

The approximate mix of assets deemed to be backing With Profits policies at the beginning and end of 2007 is shown below.

Investment type	Percentage split as at 01/01/2007	Percentage split as at 31/12/2007
UK Equities	39%	42%
Overseas Equities	15%	15%
Property	16%	14%
UK Fixed-Interest Securities	27%	26%
Overseas Fixed-Interest Securities	1%	1%
Cash Deposits & Index-Linked Securities	2%	2%

Other matters

The With Profits Fund stayed open to new business during 2007, though the volumes of business written in the fund remained low.

During 2007, our liabilities, including cost of guarantees and options, were more than covered by the capital set aside.

During 2007, policyholders continued to receive 90% of the profits in the With Profits Fund, the remaining 10% being transferred to the shareholders' fund. This is in agreement with the PPFM Principles and Practices detailed in section 10.



Changes to PPFM

The PPFM was first published in April 2004. Two new versions of the PPFM came into effect during 2007:

- **Effective from July:**
 - We clarified that we would not currently expect to increase regular bonus rates by more than 1% from one year to the next (e.g. from 1.5% to more than 2.5%) except in favourable circumstances where the value of policies including bonuses declared to date has become significantly less than the value of asset shares (section 3.2.5).
 - We removed the statement that we normally expect uplifts to be higher on pension policies than on life policies (section 4.2.3).
 - We added AXA Rosenberg and Alliance Capital to the list of fund managers of the New and Old With Profits Funds (section 5.2.1).
 - We stated that a special bonus has been declared on policies that were invested in the Old With Profits Fund on 31 December 2005, in accordance with the Reorganisation Scheme (section 8.2.4).
- **Effective from December:**
 - We stated that the With Profits Committee consists entirely of members who are neither AXA executives nor Directors of ASL (section 1.6).
 - We clarified that uplifts on Bonds are concentrated on those Bonds which have been in force for 10 years or more (section 4.2.3).



Conclusion

We believe that ASL complied with its obligations relating to the PPFM during 2007.

The FSA regulations require that the With Profits Actuary produce a report to the With Profits policyholders, detailing his views on whether the discretion exercised by us in 2007 has taken into account the interests of With Profits policyholders in a reasonable and proportionate manner. This report is included below.

The With Profits Committee is required to report to the Board on its views regarding a firm's compliance with its PPFM. The With Profits Committee reported that to the best of its knowledge and belief, there have been no incidents of material non-compliance with the PPFM, nor of any inappropriate treatment of any competing or conflicting rights and interests of policyholders and shareholders.

**The Board of Directors of AXA Sun Life plc
June 2008**



Report from the With Profits Actuary to the With Profits Policyholders of AXA Sun Life Plc

As With Profits Actuary I advise the Board of AXA Sun Life plc on key aspects of the discretion that it exercises in relation to the company's With Profits business.

In my opinion, based on the information and explanations provided to me by the company including its annual report to With Profits policyholders for 2007, the discretion exercised by the company during 2007 has taken into account the interests of With Profits policyholders in a reasonable and proportionate manner.

In reaching my opinion I have taken into account, where relevant, the rules and guidance contained in the Financial Services Authority's New Conduct of Business Sourcebook 20.2 on treating With Profits policyholders fairly.

Peter Shelley
With Profits Actuary
AXA Sun Life plc
June 2008