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1. Introduction

Since 2004, the Financial Services Authority (FSA) has required firms managing With Profits funds 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 met. The version of the PPFM currently in force is dated December 2008 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 PPFM. This document is confirmation that we, the Board of Directors of AXA Sun Life plc (ASL), believe that ASL complied with its obligations relating to the PPFM during 2008. The reasons for this belief are set out below.

2. Governance arrangements

We have a With Profits Committee set up to monitor our compliance with the PPFM. The Committee consists of members who are neither AXA executives nor directors of ASL. The members of the Committee during 2008 were:

- Duncan Kerr – Chief Actuary of Equity & Law Life Assurance Society plc (latterly AXA Equity & Law) from 1985-1997 and Appointed Actuary 1985-2001;
- Ian Brimecome – Non-Executive Director of AXA UK plc and formerly Non-Executive Director of Winterthur UK Financial Services Group Ltd. He is also Chairman of the Advisory Board of Fox-Pitt Kelton Ltd and is a Non-Executive Director of The Equitable Life Assurance Society; and
- 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.

Please note that Mr Monro-Davies left the With Profits Committee in April 2009 to be replaced by Jonathan Asquith.

In addition, Peter Shelley, our With Profits Actuary, appointed in accordance with regulations applicable to insurance companies managing With Profits funds, has a number of responsibilities relating to the operation of the With Profits Funds, the discretion exercised by the Company and the PPFM.

On 1 April 2001, AXA Sun Life's business was reorganised under a scheme approved by the High Court (the 'Reorganisation Scheme'). At that 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, we have a board known as the Monitoring Board to monitor our compliance with aspects of the Reorganisation Scheme.

3. The exercise of discretion in 2008

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

3.1 AXA Sun Life and the Reorganisation Scheme (PPFM section 2)

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 2008 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 2009, the Monitoring Board provided the 2008 certificate.

3.2 Regular bonus rates (PPFM section 3)

We formally considered regular bonus rates in February and September 2008 and in February 2009 (for rates applying to 2008).

We determined regular bonus rates bearing in mind the opinion of the With Profits Actuary and the With Profits Committee, having considered evidence that showed the proposed rates were compliant with the PPFM.

In particular, the Board, the With Profits Actuary and the 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;
- Evidence that where regular bonus rates were lower than supportable bonus rates, this was appropriate and consistent with the PPFM; and
- Evidence that the methods and assumptions used to decide the regular bonus rates were in compliance with the PPFM.

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

3.3 Payouts under With Profits policies (PPFM section 4)

Final bonus and Market Value Reduction (MVR) rates were reviewed in February, September, October and December 2008. 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:

- In the calculation of asset shares, our Practices have remained unchanged;
- The PPFM governs our treatment of smoothing payouts. During 2008, maturity payouts for similar policies (in force for the same period) did in some cases reduce by more than 15%. In all such cases, the average expected payout ratio for the group of policies in question was higher than 120% both before and after the changes were made;
- The target ranges in the PPFM were considered when setting final bonus and MVR rates; and
- Reorganisation Bonuses (ReBs), where they applied, were declared as a percentage of the final payout.

ReBs were reviewed in February 2008. These rates were calculated to give an additional final payment on existing policies, where projections show this amount to be sustainable in future.

3.4 Investment strategy (PPFM section 5)

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 2008 is shown in the following table.

Investment type	Percentage split as at 1 January 2008	Percentage split as at 31 December 2008
UK equities	42%	43%
Overseas equities	15%	14%
Property	14%	14%
UK fixed interest securities	26%	24%
Overseas fixed interest securities	1%	1%
Money market investments	2%	4%

3.5 Other matters

The With Profits Fund stayed open to new business during 2008, though the volumes of business remained low.

During 2008, our liabilities – including the cost of guarantees and options – were more than covered by the capital set aside.

During 2008, 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 section 10 of the PPFM.

4. Changes to PPFM in 2008

The PPFM was updated in 2008 to reflect certain changes in practice, as follows.

- We amended Practice 4.2.1 to increase the top end of the target range from 140% to 150% for maturing policies and from 125% to 135% for surrendering policies; and
- We amended Practice 10.2.1 to reflect the fact that shareholders must share in MVRs as well as in regular and final bonuses. This is to maintain fairness in the way profits are divided between policyholders and shareholders.

We also made minor clarifications to other Practices. There were no changes to Principles in 2008.

5. Conclusion

We believe that ASL complied with its obligations relating to the PPFM during 2008.

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 during the year 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.

AXA Sun Life plc

Report from the With Profits Actuary to policyholders on compliance with Principles and Practices of Financial Management

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 2008, the discretion exercised by the Company during 2008 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 2009