Registered Number: 00078950

AXA INSURANCE UK PLC

2012 Annual Report and Financial Statements

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

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Directors' Report

Directors

P J Evans (Chairman)
A J Blanc
P L Burrows
R G Dench
J P D L Drouffe
K G Gibbs
W U Malik
J O'Neill
E C Waks
Y Masson
R Wilton

Company Secretary

J P Small

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

The directors present their report and financial statements of AXA Insurance UK plc ("the Company") for the year ended 31 December 2012

PRINCIPAL ACTIVITY

The Company's principal and ongoing activity is the writing of general insurance business in the United Kingdom The business conducted is principally property and motor in both commercial and personal lines, together with liability insurance and other commercial lines insurance products (commercial) and travel and other personal lines insurance products (personal)

BUSINESS REVIEW

Results and performance

The profit before tax in 2012 has increased by £280 9m, to £127 5m, compared to the 2011 result comprising of £254m improvement in the investment result and £27m improvement in general business underwriting

The underwriting loss for the year is £150 1m (2011 £176 8m loss) The improvement is driven by increased gross written premiums and an improved combined operating ratio

During the year, gross premiums written have increased by £22 8m, or 1%, to £2,137 4m (2011 £2,114 6m)

- Personal Lines saw reduced premiums compared to 2011 with Personal Lines Motor business seeing a reduction in volumes during 2012 due to strategic planning in underwriting and pricing activity to improve profitability This has been slightly offset by increased Household business written due to the positive impact of an improved pricing model
- Commercial Lines business written showed significant growth during 2012 across the portfolio, primarily as a result of new business growth and improved premium retention on existing portfolio

The combined operating ratio has improved by 1 5%, compared with 2011

- The improvement in the loss ratio is driven by the positive impact of rating actions which have had a positive effect on the loss ratio Business mix improvements have also helped following a reduction in exposure on loss making classes, plus favourable damage claim experience

Directors' Report (continued)

particularly on Motor This has been partially offset by several large weather events during the year

- Commission ratios have improved due to a change in the business mix and expense ratios have remained largely in line with the prior year

The investment return for the year, recorded within the Income Statement, is a profit of £277 6m (2011 £23 4m), further analysis is provided in notes 3 and 4 The rise in return compared to prior year is driven by the positive fair value movement of the derivatives portfolio In addition, the adoption of hedge accounting over 2012 transferred fair value movements of the hedged asset portfolio to the Income Statement, thus aligning to derivative changes in fair value

The total investment return, including the revaluation of available for sale financial assets through the Statement of Other Comprehensive Income, has risen by £331 8m In addition to the aforementioned derivative and hedge accounting there is a fall in the impairment charge on financial assets

The procedures put in place by the Company identified all the significant exposures to risk arising out of the current financial market conditions The valuation of financial instruments, where the market liquidity was negatively affected or where no active market exists, was considered specifically, and all credit events that have occurred prior to 31 December 2012 have been considered

Business environment

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

Strategy

The Company has in place a variety of methodologies to monitor and manage the risks it accepts and to plan for increasing its involvement in its chosen markets A number of initiatives are in place to deliver profitable growth in these markets and distribution channels The Company's strategy is consistent with Ambition AXA, which is the group's global strategy to become the 'preferred company' for customers and employees

Solid progress has been made in 2012 towards the strategic targets with the growth in newer products and continued control over operational costs as well as maintaining the customer focused programmes for employees and improving IT stability

Principal risks and uncertainties

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

Financial risk management, including the impact of risk on economic capital, is discussed in the management of financial risks note on page 28

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

Directors' Report (continued)

Future outlook

The Company has a clear strategic business model focusing on traditional insurance and has maintained a strong Statement of Financial Position Careful financial risk management strategies, along with well established liquidity management practices, will ensure this is maintained in the future

In 2013, we aim to remain competitive by controlling costs and improving efficiency At the same time we will continue to invest for the long term to support our vision of being 'Trusted Market Leader', this will ensure we are building a strong foundation for our future

Key performance indicators (KPIs)

The Company is the principal UK underwriter for AXA Insurance plc, its parent Company The board monitors the progress of the Company and its subsidiaries together using a variety of KPIs therefore it is not considered meaningful to provide Company specific KPIs except as noted below

	2012 £m	2011 £m
Premium written in the year (note 2)	£2,137 4	£2,114 6
Profit before tax	£127 5	£(153 4)
Net asset value (shareholders' funds)	£1,495 8	£1,283 4

Part VII transfer

As reported in the notes to the financial statements for the year ended 31 December 2011, on 31 March 2011, following final court approval, a Part VII scheme was implemented The purpose of the Part VII scheme was to simplify the corporate structure of the AXA UK plc group This resulted in £751m of outstanding claims, £19m of associated reinsurance outstanding claims and investments of £1,003m being transferred into the Company from fellow subsidiary undertakings, The Royal Exchange Assurance and AXA General Insurance Limited, and its immediate parent company AXA Insurance plc

The Company also entered into an agreement, with AXA General Insurance Limited, under which all AXA General Insurance Limited's remaining assets and liabilities, with the exception of the dormant subsidiaries, were transferred to the Company This included the transfer of AXA General Insurance Limited's principal subsidiary AXA PPP healthcare limited for a consideration of £355m The transfer had no effect on the net assets of the Company

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Review of Activities The ability to cope with unexpected risks to the financial position is shown within management of financial risks on pages 28 to 37

The Company has considerable financial resources and detailed budgets, plans and forecasts have been prepared and reviewed setting out the continued financial position of the Company for the next 12 months and a strategic plan to 2016 As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook

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

DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2012 (2011 nil)

Directors' Report (continued)

DIRECTORS

The directors of the Company who were in office and up to the date of approval of the financial statements are shown on page 1, with the following exceptions

Mr S N Hardy resigned as a director of the Company on 19 June 2012
Mr F de Menéval resigned as a director of the Company on 30 May 2012
Mrs R Wilton was appointed as a director of the Company on 8 June 2012
Mr Y Masson was appointed as a director of the Company on 27 February 2013
Ms Sophie Resplandy-Bernard was appointed as a director of the Company on 22 February 2012 and resigned on 1 March 2012

INDEMNIFICATION OF DIRECTORS

The Company is party to a group-wide indemnity policy, which benefits all of its current directors and is a qualifying third party indemnity provision for the purpose of the Companies Act 2006

The indemnification was in force during the year and at the date of signing

EXERCISE OF DIRECTORS' AXA SA OPTIONS

During the year three directors of the Company exercised share options (2011 None)

EMPLOYEES

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

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

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

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

PAYMENT OF CREDITORS

All trade purchases are dealt with through AXA Services Limited, a fellow subsidiary undertaking Insurance creditors are settled in accordance with agreed terms

FINANCIAL RISK MANAGEMENT

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in the Management of Financial Risk note on page 28 In particular, the Company's exposures to market risk, credit risk and liquidity risk are separately disclosed in that note

DISCLOSURE OF INFORMATION TO AUDITORS

Each director in office at the date of approval of this report confirms that

- so far as he/she is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Directors' Report (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

On behalf of the Board

Waseem Malik

W. U. Malik
Director
27 March 2013

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Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AXA INSURANCE UK PLC

We have audited the financial statements of AXA Insurance UK plc for the year ended 31 December 2012 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, the Accounting Policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent Auditors' Report (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Philip Calnan (Senior Statutory Auditor)
For and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 March 2013

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Income Statement

	Note	Year ended 31 December 2012 £m	2011 £m
Insurance revenue			
Insurance premium revenue	2	2,106 9	2,057 7
Insurance premium ceded to reinsurers	2	(125 9)	(163 5)
Net insurance premium revenue	2	**1,981.0**	1,894 2
Other Income			
Investment income	3	296 6	296 2
Net fair value gains on financial assets at fair value through income	3	68 1	-
Other operating income	5	46 0	41 3
Total income		**2,391.7**	2,231 7
Policyholder claims			
Insurance claims and loss adjustment expenses	7	(1,462 5)	(1,477 3)
Insurance claims and loss adjustment expenses recoverable from reinsurers	7	(3 3)	72 9
Net insurance claims	7	**(1,465.8)**	(1,404 4)
Other expenses			
Net realised losses on financial assets	4	(53 9)	(185 2)
Net fair value losses on financial assets at fair value through income	3	-	(76 0)
Insurance contract acquisition expenses	8	(541 8)	(535 8)
Marketing and administration expenses	8	(159 0)	(162 2)
Cost of asset management services	3	(7 5)	(1 2)
Other operating expenses	6	(10 5)	(9 9)
Expenses		**(772.7)**	(970 3)
Operating result		**153 2**	(143 0)
Finance costs	9	(25 7)	(10 4)
Profit/(loss) before tax		**127.5**	(153 4)
Income tax expense	10	(10 4)	35 7
Profit/(loss) for the year attributable to equity shareholders of the Company		**117.1**	(117 7)

All transactions relate to continuing operations

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Statement of Other Comprehensive Income

	Note	Year ended 31 December 2012 £m	2011 £m
Profit/(loss) for the financial year after tax		**117.1**	(117 7)
Other comprehensive income			
Revaluation gains/(losses) of available for sale financial assets		123 8	46 2
Tax effect of items not recognised in income statement and taken directly to equity – deferred tax	30	(28 5)	(11 5)
Other comprehensive income net of tax		**95.3**	34 7
Total comprehensive income for the year		**212.4**	(83 0)

All gains and losses in Other Comprehensive Income are recyclable through the Income Statement

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Statement of Financial Position

	Note	As at 31 December 2012 £m	2011 £m
ASSETS			
Intangible assets	**14**	34 6	36 4
Property, plant and equipment	**12**	22 8	21 2
Investment property	**13**	104 0	115 2
Investment in financial assets	**17**	3,793 1	3,717 2
Investment in subsidiary undertakings	**16**	970 9	971 5
Reinsurers' share of insurance contract liabilities	**19**	114 8	125 0
Deferred acquisition costs	**15**	244 7	212 6
Insurance and reinsurance receivables	**20**	828 5	789 3
Deferred taxation	**30**	166 8	178 5
Current taxation		-	10 5
Other receivables	**21**	400 4	211 1
Cash and cash equivalents	**22**	119 8	71 3
Total assets		**6,800 4**	6,459 8
EQUITY			
Ordinary share capital	**23**	122 3	122 3
Share premium	**23**	798 7	798 7
Other reserves	**24**	565 7	470 4
Retained earnings		9 1	(108 0)
Total equity		**1,495 8**	1,283 4
LIABILITIES			
Technical provisions - insurance contract liabilities	**25**	3,985 3	3,817 3
Borrowings	**27**	22 4	24 0
Insurance and reinsurance liabilities	**26**	169 4	140 0
Provisions for other liabilities and charges	**28**	54 0	58 1
Other liabilities	**29**	964 4	1,004 3
Derivative financial instruments	**18**	93 5	132 7
Current income tax liabilities		15 6	-
Total liabilities		**5,304 6**	5,176 4
Total equity and liabilities		**6,800.4**	6,459 8

The financial statements on pages 8 to 60 were approved by the Board of Directors on 27 March 2013 and were signed on its behalf by

W. U. Malik
Director
27 March 2013

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Statement of Changes in Equity

2012	Ordinary share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Balance as at 1 January	122 3	798 7	470 4	(108 0)	**1,283.4**
Profit for the year	-	-	-	117 1	**117.1**
Fair value gains on available for sale financial assets	-	-	123 8	-	**123.8**
Tax on movements in Statement of Comprehensive Income – deferred tax	-	-	(28 5)	-	**(28.5)**
Balance as at 31 December	**122.3**	**798 7**	**565.7**	**9.1**	**1,495.8**

2011	Ordinary share capital £m	Share premium £m	Other reserves £m	Retained Earnings £m	Total £m
Balance as at 1 January	122 3	798 7	319 7	9 7	1,250 4
Loss for the year	-	-	-	(117 7)	(117 7)
Fair value gains on available for sale financial assets	-	-	46 2	-	46 2
Dividends paid on equity shares	-	-	116 0	-	116 0
Tax on movements in Statement of Comprehensive Income – deferred tax	-	-	(11 5)	-	(11 5)
Balance as at 31 December	**122.3**	**798.7**	**470.4**	**(108.0)**	**1,283.4**

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Statement of Cash flows

	Note	Year ended 31 December 2012 £m	2011 £m
Cash flows from operating activities			
Cash generated from operations	32	(7 1)	218 9
Income taxes paid		(1 0)	(5 3)
Interest paid		(6 3)	(4 6)
Interest received		139 5	104 9
Dividends and other income from financial assets received		78 6	30 1
Net cash generated from operating activities		**203.7**	344 0
Cash flows from investing activities			
Proceeds from sale of			
Investments		1,871 4	1,069 9
Purchase of			
Investments		(1,831 0)	(1,365 6)
Loans		(166 0)	
Property, plant and equipment		(0 8)	(6 4)
Investment properties		(2 5)	-
Intangible assets		(9 7)	(9 2)
Net cash from investing activities		**(138.6)**	(311 3)
Cash flows from financing activities			
Repayment of debt		(15 0)	-
Net cash from financing debt		**(15.0)**	-
Net increase in cash and cash equivalents		**50.1**	32 7
Cash and bank overdrafts at 1 January		47 3	14 6
Cash and bank overdrafts at 31 December	22	**97.4**	47 3

Dividends received are a combination of cash and settlements of amounts owed to subsidiary undertaking

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Accounting Policies

General Information

AXA Insurance UK plc is registered in England The principal activity of the Company is the writing of general insurance business in the United Kingdom The business conducted is principally property and motor in both commercial and personal lines, together with liability insurance (commercial) and travel and creditor insurance (personal)

AXA Insurance UK plc is a public limited company, with the entire share capital held by its parent AXA Insurance plc and is incorporated and domiciled in the UK The address of its registered office is 5 Old Broad Street, London, EC2N 1AD

Principal Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

I. Basis of presentation

The Company's financial statements have been prepared in accordance with IFRS as adopted by the European Union, International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 2006 applicable to Companies reporting under IFRS They are prepared on the going concern basis, under the historical cost convention as modified by the revaluation of available for sale financial investments and financial instruments at fair value through profit or loss

An exception to the above basis concerns insurance contracts, which in compliance with IFRS4 'Insurance Contracts' continue to be reported, during phase I, in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005, as amended in December 2006

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

As recommended by International Accounting Standard (IAS) 1, assets and liabilities are generally classified on the Statement of Financial Position in increasing order of liquidity, which is more relevant for financial institutions than a classification between current and non-current items As for most insurance companies, expenses are classified by destination in the income statement

The Company has taken advantage of section 400 of the Companies Act 2006 and has not produced consolidated financial statements on the basis that it is a subsidiary undertaking of Guardian Royal Exchange plc which prepares consolidated financial statements and is established under the laws of an EEA State

Accounting Policies (continued)

a) *Changes in presentation*

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

IFRS 7 (amendment) 'Financial Instruments Disclosure'
The amendment is intended to enhance the derecognition disclosure requirements for transactions involving the transfer of financial assets, providing users of the financial statements with a better understanding of the implications of transferred assets that could expose the entity to risk The amendment will require the disclosure by class of asset, nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's Statement of Financial Position The Company adopted the amendment with effect from 1 January 2012 It has had no material impact on the financial statements

IAS 1 (amendment) 'Presentation of financial statements'
The amendment changes how items within Other Comprehensive Income ("OCI") are presented, by distinguishing between those amounts recorded within OCI that are expected to be recycled to profit & loss and those that are not expected to be recycled to profit & loss The Company adopted the amendment with effect from 1 July 2012 It has had no material impact on the financial statements

IAS 24 (amendment) 'Related Parties'
The amendment focuses on the disclosure of commitments with related parties, including executor contracts (recognised and unrecognised) Such disclosure would potentially have been omitted in the past on the grounds there was no accounting impact until the event occurs Types of arrangement that would be covered by this amendment include, an entity's commitments to members of key management, such as long-term incentive schemes or commitments to provide loans, would need to be disclosed The Company adopted the amendment with effect from 1 January 2012 It has had no material impact on the financial statements

Company Law amendment - *Disclosure of auditor remuneration*
In accordance with the requirements of the Companies Act 2006, two changes have been made to the disclosure requirements of auditors' remuneration, as noted below

1) The first change reduces the level of disclosure required for non-audit fees, whilst at the same time increasing the level of disclosure required for other services, such as tax advisory and internal audit
2) The second change requires the separate disclosure of fees paid to auditors' associates

The Company adopted the amendment with effect from 1 January 2012 It has had no material impact on the financial statements

b) *Issued accounting pronouncements*

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

Published accounting standards and interpretations that are not yet effective and have not been early adopted by the Company

IFRS 9 (new standard) Financial Instruments – Classification and Measurement
In 2009 the IASB issued IFRS 9 representing the first part of a project to replace IAS 39 'Financial Instruments Recognition and Measurement' Mandatory application is for accounting periods commencing 1 January 2015, with early adoption permitted, although the EU has yet to endorse the standard Upon adoption a review of our investments will be required in line with revised classifications

Accounting Policies (continued)

IAS 19 (amendment) 'Employee Benefits'
Actuarial gains and measurements are renamed 're-measurements' and recognised immediately in OCI Consequently gains and losses will no longer be deferred using the corridor approach or recognised in the profit or loss Effective for annual periods beginning on or after 1 January 2013, with early adoption permitted, the EU has endorsed the standard Once adopted this standard is not expected to have a material effect on the financial statements

IFRS 13 (amendment) 'Fair Value Measurement'
The objective of IFRS 13 is to provide a single source of guidance and clarify the definition and related guidance associated with the reporting of all fair values Effective for annual periods beginning on or after 1 January 2013, with early adoption permitted, the EU has endorsed the standard Once adopted this standard is not expected to have a material effect on the financial statements

IAS 27 (amended and retitled standard) 'Separate Financial Statements'
The scope of the standard has been revised to only make reference to the preparation of separate financial statements, following the issue of IFRSs 10, 11 and 12 Effective for annual periods beginning on or after 1 January 2013, with early adoption permitted, the EU has endorsed the standard Once adopted this standard is not expected to have a material effect on the financial statements

IAS 28 (amended and retitled standard) 'Investment in Associates and Joint Ventures'
Issued as a consequence of the publication of IFRSs 10, 11 and 12, the amended standard incorporates revised references to the new standards and joint ventures Effective for annual periods beginning on or after 1 January 2013, with early adoption permitted, the EU has endorsed the standard Once adopted this standard is not expected to have a material effect on the financial statements

IAS 32 (amendment) 'Financial instruments presentation' and IFRS 7 (amendment) 'Financial instruments Disclosures'
The amendment does not amend the existing offsetting rules regarding financial assets and financial liabilities within IAS 32, but instead clarifies that the right of set off must be available today and not dependant on a future event It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy Effective for annual periods beginning on or after 1 January 2014, the amendment has been endorsed by the EU Once adopted the standard is not expected to have a material effect on the financial statements

Annual improvements to IFRS standards
A process set up to identify and make necessary amendments to existing standards Annual improvements 2011 addresses six issues in the 2009-2011 reporting cycle that have led to the amendment of five accounting standards Each of the improvements is effective for accounting periods beginning on or after 1 January 2013, the amendments have yet to be endorsed by the EU

Accounting Policies (continued)

Insurance Contracts (IFRS Phase II) and Solvency II
The Company will be affected by these two long-term projects

- IFRS Phase II is intended to address accounting for insurance contracts and is based around a framework of three building blocks to measure insurance liabilities (best estimate of future cash flows, discounted to reflect the time value of money, with margins for bearing risk and providing other services) Whilst the IASB Board published an exposure draft in August 2010, the final standard is expected to be published in 2014
- Solvency II is a European initiative to address regulatory reporting and incorporates its own requirement for measuring insurance liabilities Its primary objective is to strengthen policyholder protection by aligning capital requirements more closely with the risk profile of the entity Assets and liabilities will be valued on an 'economic' market-consistent basis The Group plans to use an internal risk management model that is Solvency II compliant The Solvency II Directive has been delayed and is now expected to be effective from 1 January 2016 at the earliest

II. Divisional reporting

As the Company is not listed on a public market, it is not within the scope of IFRS 8, consequently the requirements of the Companies Act 2006 continue to be applied

Business is reported on by both class of business and geographical divisions Class of business represents the main classes of insurance that are subject to risks and returns that are distinct from those applying to other classes A geographical segment groups risk and return by geographic area

III. Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency) The financial statements are presented in sterling, which is the Company's functional and presentational currency

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

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

IV. Product classification

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

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

V General insurance contracts - recognition and measurement

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

Accounting Policies (continued)

(a) *Insurance Premiums*

Premiums written relate to business incepted during the year, together with any differences 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 Statement of Financial Position date, calculated on a time apportionment basis or having regard to the incidence of risk

(b) *Insurance claims*

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

(c) *Technical provisions*

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

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available

Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claims has happened Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility However, large claims notified quickly may still display significant volatility In calculating the estimated cost of unpaid claims the Company 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 Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods,
- changes in the legal environment,
- the effects of inflation,
- changes in the mix of business,
- the impact of large losses, and
- movements in industry benchmarks

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims In estimating the cost of such claims, the Company 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

Accounting Policies (continued)

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

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

Property, aviation and accident business

Property, aviation and accident business is "short tail", that is there is not generally a significant delay between the occurrence of the claim and the claim being reported to the Company The costs of claims notified to the Company at the Statement of Financial Position 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

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 Company at the Statement of Financial Position 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 years has developed over time In all cases adjustments are made to allow for movements in the variables described above

The personal injury element of motor claims costs is estimated using the same methods as used for liability claims described below

Liability and marine business

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 Company's liability and marine 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 Company at the Statement of Financial Position 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 As per method 2 above but splitting the total case-by-case cost of notified claims into the cost of each and every claim capped at £100k and the excess amount over £100k
4 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

Accounting Policies (continued)

by reference to the projected number of claims (based on statistics showing how the number of notified claims has developed over time) and the anticipated average final cost of notified and IBNR claims (based on historical levels adjusted to allow for movements in the variables described above)

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

Disease-related and pollution claims arising from liability business

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 notified and 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 may 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 may change 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

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the Statement of Financial Position date, including the cost of claims IBNR to the Company The estimated cost of these claims is assessed on a consistent basis with gross of reinsurance claims allowing for the reinsurance retention or proportion recoverable, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time

An assessment is also made of the recoverability of reinsurance recoveries, having regard to market data on the financial strength of each of the reinsurance companies

(d) *Salvage and subrogation*

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

(e) *Deferred acquisition expenses*

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

(f) *Liability adequacy test*

At each reporting date, the Company evaluates its unexpired risks to assess whether there are sufficient unearned premiums, after taking account of future investment income on the investments, to cover expected future claims and expenses of business in force at the end of the year If following these assessments a deficiency is identified, the DAC asset for the associated grouping is initially reduced, and where this is insufficient a provision is set up within the statement of financial position, with a corresponding entry in the income statement

(g) *Receivables and other liabilities related to insurance and reinsurance contracts*

Receivables and other liabilities are recognised when due These include amounts due to and from agents, brokers and insurance contract holders The Company assesses at each Statement of Financial Position date whether there is objective evidence that the insurance receivable is impaired Where such evidence exists, the Company reduces the carrying

Accounting Policies (continued)

amount of the insurance receivable and recognises the impairment loss in the income statement

VI. Intangible assets

a) *Software development*

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

b) *Advanced Commissions*

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

VII. Property, plant and equipment

a) *Land and buildings*

This consists principally of properties occupied by the Company and is stated at cost less accumulated depreciation and an allowance for impairment, where appropriate Buildings are depreciated using the straight line method on the basis of their expected useful lives, up to a maximum of 50 years

b) *Plant and equipment*

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

The expected useful economic life of plant and equipment is 8 years

c) *Leasehold improvements*

Leasehold improvements relate to refurbishment and fit out of operational property The expected useful life will vary in accordance with the term of the lease up to a maximum of 50 years, depreciated using the straight line method

VIII. Investment property

Investment property is freehold property which is held for the primary purpose of rental yield, capital appreciation or both and is not occupied by the Company Stated at cost less accumulated depreciation, where the depreciation method used is straight line over their expected useful lives, up to a maximum of 50 years

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

IX. Financial assets

Financial assets are designated on initial recognition into the following categories

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

Accounting Policies (continued)

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

a) *Fair value through income*

Financial assets are classified as fair value through income either at inception, where they are acquired principally for the purpose of selling in the short term, or when designated by management, where they are held in internal funds to match insurance and investment contracts liabilities that are linked to the changes in fair value of these assets This designation eliminates, or significantly reduces, an accounting mismatch that would otherwise arise from measuring assets and liabilities, or recognising the gains and losses on them, on different bases They are initially measured at cost and transaction costs are expensed in the income statement On subsequent measurement, assets are stated at fair value with movements taken through the income statement

b) *Available for sale*

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

c) *Held to maturity*

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

d) *Loans and receivables*

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

Private loans are carried at cost less impairment Impairment is recognised as the difference between the carrying value of the loan and the associated fair value

e) *General*

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

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

OTC derivatives are priced using counterparty valuations If a counterparty valuation is unavailable, prices are derived from an external proprietary model (Sophis) or from internal models Internal models are subject to AXA IM Risk Management validation

Accounting Policies (continued)

Asset backed securities are valued on a mark to market basis If no market price is available or if prices received from contributors are inconsistent, proxies or model valuation may be used, subject to AXA Risk Management valuation

AXA Private Equity assets (2012 £18 1m) are valued by the relevant manager in accordance with the guidelines from the European Venture Capital Association (EVCA), Association Française des Investisseurs en Capital (AFIC) and the British Venture Capital Association (BVCA)

The AXA SA 5 750% Floating Rate note (2012 £138 8m) is valued using a standard valuation method namely a "Swap Curve Model" and employs a pricing tool called Arpson The swap curve is sourced from Reuters to determine the forwards for 6-month GBP LIBOR which is the benchmark for this bond The credit spread curves are received from 3 different banks and the model calculates an average credit spread curve from these indications

Fund of Hedge Funds (2012 £0 4m) are valued using estimated fund prices which are received directly from the fund manager

The 787 Holdings, LLC US secured mortgage loan (2012 £108 8m) is valued using mark to model techniques The model is a discounted cash-flow methodology which includes a risk rating determined by objective and subjective factors, a spread determined by consideration of market intelligence and outlook and a discount rate determined by adding the spread to the yield of an appropriate US Treasury bond

There can be no assurance that valuations on the basis of these models and methodologies represent the price for which a security may ultimately be sold or for which it could be sold at any specific point in time

X. Investment in group and participating interests

Investments in group undertakings and participating interests are recorded at cost within the statement of financial position At each reporting date the investments are assessed for any evidence of impairment

XI. Impairment of assets

a) *Available for sale financial assets*

The Company assesses at each Statement of Financial Position date whether there is objective evidence that the value of an available for sale financial asset has been impaired In the case of equity instruments, this includes a review as to whether there has been a significant or prolonged decline in the fair value of the asset below its cost Where such evidence exists, the cumulative loss is removed from equity and charged to the income statement

The cumulative loss is calculated as the difference between the acquisition cost and the current fair value, less any impairment previously recognised in the income statement An impairment loss of an equity instrument is not reversed An impairment loss on a debt instrument is reversed through the income statement if the fair value of the instrument increases in a subsequent period and such increase can objectively be related to an event which occurred after the impairment loss was originally recognised

b) *Financial assets carried at amortised cost*

The Company assesses at each Statement of Financial Position date whether there is objective evidence that the value of an asset has been impaired Where evidence of a loss is found to exist, the loss is calculated as the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate An allowance account is used to adjust the carrying value of the asset and the loss is included in the income statement

Accounting Policies (continued)

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

c) *Non-financial assets*

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

XII. Derivative financial instruments

Derivative transactions are used for the purposes of efficient portfolio management and/or reduction of investment risk The portfolio has investment guidelines which govern how the fund managers should use derivatives, including the types of derivative permitted and the circumstances in which these may be used All derivative positions are monitored and reported regularly

Financial instruments utilised include futures, options, forward foreign exchange contracts, interest rate swaps, credit default swaps and currency swaps They are classified as held for trading at fair value through profit and loss Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value If the fair value is positive they are carried as assets, otherwise as liabilities

Changes in the fair value of derivative financial instruments are recognised immediately in the income statement, within either other income or other expenses depending on whether the movement is an unrealised gain or loss

The fair value of derivatives that are not traded in an active market (for example, over-the-counter) are determined by using valuation techniques The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period The Company has used discounted cash flow analysis and counter party quotations, external and internal models for valuing derivatives that are not traded in an active market

Hedge accounting

The Company designates certain derivatives as being held for the purpose of hedging the fair value of recognised assets or liabilities (fair value hedge) The Company documents, at inception, the hedge relationship, as well as its risk management hedging objectives and strategy The Company also documents the hedge effectiveness, both at inception and on an ongoing basis, indicating the actual or expected effectiveness level of the derivatives used in hedging transactions in offsetting changes in the fair values of the hedged underlying items

The Hedged items consist of debt securities and asset backed securities Where a hedge is determined to be effective, changes in the fair value, attributable to interest rate risk, are recognised in the income statement, within either other income or other expenses depending on whether the movement is an unrealised gain or loss

Fair Value Hedge

The fair value hedge is intended to hedge the interest rate risk of designated fixed income securities Changes in the fair value of derivatives designated and qualifying as fair value hedges are recorded in the income statement, together with any changes in the fair value, associated with the interest rate risk of the hedged asset

The purpose and condition of the use of derivatives by the Company are detailed in Note 18

Ineffective Hedge

At the end of each month the hedge relationship is assessed using a retrospective effectiveness test In those instance where it is determined that a hedge relationship is no longer effective, hedge

Accounting Policies (continued)

accounting ceases to be applied from that point, with the accounting treatment reverting back to that applied for equivalent non-hedged items

XIII. Cash and cash equivalents

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

XIV. Share capital

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

XV. Borrowings

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

XVI. Offsetting

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

XVII. Taxation

The tax expense for the period comprises current and deferred tax Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the Statement of Financial Position date in the countries where the Company and its subsidiaries operate and generate taxable income Management periodically evaluates positions substantively taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax is determined using tax rates (and laws) that have been enacted by the Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

XVIII Employee benefits

Pension obligations

The Company's ultimate parent, AXA, operates a number of pension schemes around the world to which contributions, determined in accordance with actuarial advice, are made by group undertakings in respect of their employees The charge for pension costs principally represents the costs of providing pension benefits to staff in respect of their service during the year The staff are employed by AXA Services Limited, which recharges the costs of providing pensions, as the contributions become payable in accordance with the rules of the relevant scheme

The Company has taken advantage of IAS 19 'Employee Benefits' which allows limited reporting by individual companies who participate in multi-employer plans that do not enable individual companies to identify their share of the underlying assets and liabilities In such cases, IAS 19

Accounting Policies (continued)

allows for a defined benefit plan to be treated by the participating company as if it were a defined contribution plan

XIX. Provisions

Provisions are recognised in the Statement of Financial Position when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the Statement of Financial Position date

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced to those affected Future operating costs are not provided for

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract

XX. Leases

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

XXI. Dividend distributions

Interim dividends are recognised when paid and final dividends are booked as a liability when they are approved by the members passing a written resolution

XXII. Revenue recognition

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

a) *Premiums*

Premiums from insurance contracts represent the primary source of revenue for the Company Additional information is contained within paragraph V(a) of accounting policies

b) *Services*

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

c) *Interest income*

Income from government and other fixed interest securities, loans and deposits is recognised on an accruals basis Interest income on assets not classified as fair value through profit or loss is recognised in the income statement using the effective interest method

d) *Rental income*

Income received from investment properties is recognised when due to be received

e) *Interest charges made to policyholders*

Other operating income includes charges made to policyholders under the Consumer Credit Act where premiums are paid by instalments The income is recognised in the income statement as it is earned, using effective interest rates of up to 13% The deferred portion of this can be found in accruals and deferred income (note 29)

Accounting Policies (continued)

f) Dividend income

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

XXIII. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Details on the process used to decide on assumptions for non-life insurance contracts and sensitivity analyses are included in note 25 to the financial statements

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

Item	Accounting policy
Claims provisions and related reinsurance recoveries	V(c)
Intangible assets	VI
Fair values of financial investments	IX
Impairment of financial investments	XI
Fair value of derivative financial instruments	XII
Deferred income taxes	XVII

Further details on the fair value hierarchy used in assessing the values of the Company's financial investments are given in the management of financial risks note

Notes to the Financial Statements

MANAGEMENT OF FINANCIAL RISK

Financial risk management objectives and policies

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

The Company is part of the AXA UK plc group which has established a groupwide financial risk management framework including a set of risk policies This is designed to ensure that financial risks are adequately controlled and monitored through Risk Committees advising the Group Chief Executive and individual business unit Chief Executives A dedicated financial risk management function supports the individual business units by ensuring that a full understanding and control of financial risks is incorporated into management decision making and procedures

Financial risks are considered from both a shareholder and a policyholder liability perspective with the adoption of the appropriate risk policies to cover different situations, such as insurance contracts, where the principal technique is to match assets to liabilities, non-investment credit risk and liquidity risk Each financial risk policy outlines the Company's objectives for identifying, measuring, monitoring and controlling financial risk

The notes below explain how financial risks are managed

Market risk

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

For an insurance company, market risk appetite is required to optimise investment performance while reflecting the aim of retaining prudent margins to avoid insolvency In order to control market risk, assets are chosen where relevant to match a range of underlying liability characteristics such as their mean duration, inflation and currency factors In addition, an investment risk appetite framework is in place to monitor and control exposure to the different types of market risk within the appropriate investment risk budgets

The AXA UK Investment Committee is responsible for reviewing and monitoring the strategic asset allocation in respect of the invested assets of AXA UK group companies Investment guidelines detail the constraints to which the invested assets must be managed by the fund managers The strategic asset allocation takes into account the interaction between assets and liabilities Regular risk monitoring and reporting is in place to mitigate the potential adverse impact of market risks on the invested assets A concentration risk framework is in place to manage the counterparty risk exposure

Derivative contracts are used for the purposes of efficient portfolio management and / or the reduction of market risk For example, interest rate swaps are used for the purpose of managing interest rate risk and cross currency swaps and currency forward contracts are used for the purpose of managing exchange rate risk

During the year the Company has adopted hedge accounting, using two types of fair value hedge, a macro hedge (portfolio basis) and a micro hedge (individual basis), as part of its risk management strategy to reduce the company's exposure to interest rate fluctuations of designated fixed income securities

(a) *Interest rate*

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date An increase of 100 basis points in interest rates would result in reduced profit for the period of £29 7m (2011 £3 4m increased profit) plus unrealised losses in the statement of other comprehensive income of £64 4m (2011 £117 4m) A decrease of 100 basis points in interest

Notes to the Financial Statements (continued)

rates would result in increased profit for the period of £32 1m (2011 £3 4m reduced profit) plus unrealised gains in the statement of other comprehensive income of £70 8m (2011 £127 6m)

An increase/decrease of 100 basis points in interest rates would increase/decrease the fair value of derivatives by £38 6m (2011 £52 8m)

The fair value of debt securities is exposed to future interest rate fluctuations Included in debt securities of £2,852 8m (2011 £2,877 9m) is £502 4m (2011 £452 6m) in respect of variable rate debentures and £342 4m (2011 £543 9m) in respect of index linked debentures Debt securities with fixed interest rate are exposed to fair value interest rate risk but not cash flow interest rate risk Debt securities with variable interest rates are exposed to cash flow interest rate risk but not fair value interest rate risk

(b) *Equity price risk*

Listed equity securities represent 41% (2011 38%) of total equity investments, including mutual funds

If equity valuations had increased by 10%, with all other variables constant, the operating result for the year would remain unchanged (2011 £3 5m) Realised gains are assumed to remain unchanged, as a retrospective analysis is not deemed beneficial (2011 impact £3 5m increase) Unrealised gains recorded through the statement of other comprehensive income would increase by £23 6m (2011 £20 2m)

If equity valuations had decreased by 10%, with all other variables constant, the operating result for the year would decrease by £11 8m (2011 £3 5m) Realised gains are assumed to remain unchanged, as a retrospective analysis is not deemed beneficial (2011 impact £3 5m decrease) Unrealised gains recorded through the statement of other comprehensive income would decrease by £11 8m (2011 £20 2m)

An increase/decrease of 10% in the relevant market indices would increase/decrease the fair value of equity hedging derivatives by £1 3m (2011 £nil)

(c) *Currency risk*

The Company is exposed to currency risk in respect of portfolios denominated in other currencies, principally the US dollar and euro At 31 December 2012, if the pound had weakened by 1%, with all other variables constant, the operating result for the year would have been £0 9m (2011 £2 4m) higher, and if the pound had strengthened by 1%, with all other variables constant, the operating result for the year would have been £0 8m (2011 £2 4m) lower

(d) *Industry Analysis*

Debt securities analysis by industry	**2012 £m**	**%**	**2011 £m**	**%**
Financial	1,222 1	42 8%	1,367 4	47 4%
Consumer	235 3	8 2%	181 7	6 3%
Energy	88 5	3 1%	59 7	2 1%
Manufacturing & Pharmaceuticals	104 6	3 7%	83 2	2 9%
Utilities	228 8	8 0%	218 9	7 6%
Basic materials	55 9	2 0%	28 2	1 0%
Technology & Telecommunications	178 9	6 2%	173 0	6 0%
Government securities	563 2	19 7%	718 1	25 0%
Others	175 5	6 3%	47 7	1 7%
Total	**2,852.8**	**100.0%**	2,877 9	100 0%

Notes to the Financial Statements (continued)

Equity analysis by industry *	2012 £m	%	2011 £m	%
Financial	75 9	10 0%	166 1	25 4%
Consumer	42 1	5 5%	39 6	6 1%
Energy	24 1	3 2%	26 0	4 0%
Manufacturing & Pharmaceuticals	6 6	0 9%	5 9	0 9%
Utilities	24 3	3 2%	23 7	3 6%
Basic materials	14 1	1 9%	12 0	1 8%
Technology & Telecommunications	17 7	2 3%	17 7	2 7%
Others	554 0	73 0%	362 4	55 5%
Total	**758.8**	**100.0%**	653 4	100 0%

* Includes mutual funds

Currency analysis of investment in financial assets
2012

	AUD £m	%	EURO £m	%	GBP £m	%	JPY £m	%	USD £m	%	Other £m	%	Total £m	%
AFS equities	1 8	0 2	85 8	11 3	639 3	84 3	3 0	0 4	23 0	3 0	5 9	0 8	**758 8**	**100.0**
AFS debt securities	10 8	0 4	165 7	5 8	2,174 8	76 2	-	-	469 5	16 5	32 0	1 1	**2,852.8**	**100.0**
FVTPL derivatives	-	-	30 0	49 1	16 2	26 5	3 6	5 9	11 3	18 5	-	-	**61.1**	**100.0**
Loans	-	-	-	-	120 4	100 0	-	-	-	-	-	-	**120.4**	**100.0**
Deposits with credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	12.6	**0 3**	**281.5**	**7.4**	**2,950.7**	**77 8**	**6.6**	**0.2**	**503 8**	**13.3**	**37.9**	**1.0**	**3,793.1**	**100.0**

Currency analysis of investment in financial assets
2011

	AUD £m	%	EURO £m	%	GBP £m	%	JPY £m	%	USD £m	%	Other £m	%	Total £m	%
AFS equities	1 6	0 2	61 5	9 4	532 0	81 4	3 0	0 5	50 7	7 8	4 6	0 7	**653.4**	**100.0**
AFS debt securities	10 1	0 4	271 0	9 4	2,367 5	82 2	5 0	0 2	191 1	6 6	33 2	1 2	**2,877.9**	**100.0**
FVTPL derivatives	-	-	8 2	34 3	15 3	64 0	-	-	0 4	1 7	-	-	**23.9**	**100.0**
Loans	-	-	-	-	161 9	100 0	-	-	-	-	-	-	**161.9**	**100.0**
Deposits with credit institutions	-	-	-	-	-	-	-	-	-	-	0 1	100 0	**0.1**	**100.0**
	11.7	**0.3**	**340.7**	**9.2**	**3,076.7**	**82.8**	**8.0**	**0.2**	**242.2**	**6 5**	**37.9**	**1.0**	**3,717.2**	**100.0**

Capital management

The Company is regulated by the FSA and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities The Company manages capital in accordance with these rules and has embedded in its processes the necessary tests to ensure continuous and full compliance with such regulations Given the variability of the many inflows and outflows which are subject to price and other combinations of risk, regular

Notes to the Financial Statements (continued)

monitoring of liability and asset profiles is undertaken to establish the implications for supporting capital requirements

The Company is subject to the FSA's capital adequacy requirements (which are based on EU Directive requirements) At 31 December 2012 the total capital available to meet its adjusted solo basis Solvency I requirement is £721m (2011 £803m) which exceeds the General Insurance Capital Requirement by 34% (2011 51%)

The Company is also subject to self-assessed risk-based capital requirements under the FSA's individual capital adequacy regime and carries out an Individual Capital Assessment (ICA) on a regular basis This risk-based capital assessment takes into account all the risks within the Company and determines the appropriate level of capital required to cover these risks under extreme conditions An ICA report is sent to the FSA on a regular basis The Company has complied with all regulatory capital requirements throughout the year

Fair value estimation

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable
Level 1 – Listed quoted prices (unadjusted) in active markets and external broker quotes which are publicly, readily and regularly available on an active market
Level 2 – Inputs other than quoted prices included within Level 1 that are observable, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Assets measured at fair value

Description	2012 £m	Fair value measurement at the end of the reporting period based on Level 1 £m	Level 2 £m	Level 3 £m
Available for sale financial assets				
- Equity securities	**205.0**	174 1	30 9	-
- Debt securities	**2,852 8**	1,420 3	1,232 7	199 8
- Mutual funds	**553.8**	341 3	194 4	18 1
Fair value through income	**61.1**	14 2	46 9	-
Total	**3,672.7**	**1,949.9**	**1,504 9**	**217.9**

Description	2011 £m	Fair value measurement at the end of the reporting period based on Level 1 £m	Level 2 £m	Level 3 £m
Available for sale financial assets				
- Equity securities	202 0	168 2	33 8	-
- Debt securities	2,877 9	1,475 4	1,286 0	116 5
- Mutual funds	451 4	271 0	114 5	65 9
Fair value through income	23 9	0 8	23 1	-
Total	3,555 2	1,915 4	1,457 4	182 4

The fair value of financial instruments traded in active markets is based on quoted bid market prices at the date of the statement of financial position as described in the accounting policy IX, and these investments are included in level 1 Instruments included in level 1 comprise primarily FTSE listed equity investments, government debt securities and corporate debt securities which meet the level 1 criteria above If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2 There were no transfers between level 1 and 2 in the period

Notes to the Financial Statements (continued)

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3 The following table presents the changes to level 3 instruments for the year ended 31 December 2012

Assets measured at fair value based on level 3 – 31 December 2012

	Fair value measurement at reporting date			
	Available for sale			
Description	**Equity investments £m**	**Debt securities £m**	**Mutual funds £m**	**Total £m**
Opening balance	-	116 5	65 9	**182.4**
Total gains or losses in other comprehensive income	-	(2 2)	1 0	**(1.2)**
Losses recognised through the income statement	-	-	-	-
Transfers in	-	91 0	-	**91.0**
Transfers out	-	(4 5)	(52 0)	**(56.5)**
Purchases	-	-	3 2	**3.2**
Settlements	-	(1 0)	-	**(1.0)**
Closing balance	-	**199.8**	**18.1**	**217.9**

Assets measured at fair value based on level 3 – 31 December 2011

	Fair value measurement at reporting date			
	Available for sale			
Description	**Equity investments £m**	**Debt securities £m**	**Mutual funds £m**	**Total £m**
Opening balance	1 6	112 4	42 8	156 8
Total gains or losses in other comprehensive income	-	(0 4)	0 1	(0 3)
Losses recognised through the income statement	0 4	-	-	0 4
Transfers in	-	4 5	52 0	56 5
Transfers out	-	-	(33 7)	(33 7)
Purchases	-	-	7 0	7 0
Settlements	(2 0)	-	(2 3)	(4 3)
Closing balance	-	116 5	65 9	182 4

Included in level 3 debt securities is a US secured mortgage loan for £108 8m (2011 £112 0m) A key component of the valuation model is interest rates, through use of a discounted cash flow An increase in interest rates by 100 basis points would cause the model valuation to decrease by £5 9m A decrease in interest rates by 100 basis points would cause the model valuation to increase by £6 2m Movements in the valuation would be reflected in other comprehensive income

Insurance and reinsurance risk

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

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities This could occur because the frequency

Notes to the Financial Statements (continued)

or severity of claims and benefits are greater than estimated Insurance events are unpredictable and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques

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

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered The concentration of insurance risk by geographical area is disclosed in the divisional information (note 1)

The UK Property & Casualty segment includes direct commercial employee liability claims outstanding of £914m (2011 £851m) and other liability claims outstanding of £244m (2011 £277m) within the total Insurance liabilities of £3,985m (2011 £3,817m)

Short term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing However, due to the time value of money and the impact of interest rates on the level of bodily injury and asbestos-related claims incurred by the Company's insurance contract holders (where reduction of interest rates would normally produce a higher insurance liability), the Company matches the cash flows of assets and liabilities in this portfolio by estimating their mean duration

Asbestos claims reserves, £458 7m (2011 £431 6m) net of reinsurance, are highly sensitive to the assumptions used in the projection methodology In particular, the inflation rate adopted impacts significantly on the final reserves and timing of future cash flows The other main sensitivities are around peak year, which could shift the timing of future notifications between years and the ultimate dismissal rate Changes in the average cost of claims settlements used will also feed directly through to the ultimate liability figure

General insurance contracts – assumptions, change in assumptions and sensitivity

a) *Process used to decide on assumptions*

In addition to controlling upstream risks and analysing the reinsurance strategy the Company specifically monitors reserve risks

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

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

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

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

- Methods based on the development of claims (paid or incurred) using triangulation methods (e g chain ladder and link ratio) for which past experience is applied to each loss occurrence or underwriting year, in order to make reserves projections until their estimated final development
- The average cost per claim method which applies an estimated average cost to the final number of claims expected to be notified in each loss occurrence or underwriting year

Notes to the Financial Statements (continued)

- Methods based on claims ratios (such as the ultimate claims ratio or the additional claims ratio)
- Hybrid methods (such as Bornhuetter-Ferguson and Cape Cod)
- For asbestos-related diseases (mesothelioma claims), models released by The Health and Safety Executive and an Actuarial Working Party as well as high level projections available from Professor Sir Richard Peto, an epidemiology expert
- Methods based on frequency and severity estimates
- For claims settled by means of periodical payment orders, an annuity certain approach over the period of expected payments for each individual claim

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

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

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

b) Change in assumptions

No significant changes to assumptions were made in 2012 for the estimation of general insurance claims other than for claims settled by means of periodical payment orders as noted above

Credit risk

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

For investment related items credit risk is actively accepted in anticipation of the potential returns to be made but within closely controlled limits set and monitored as part of the concentration risk framework and the investment risk appetite framework The purpose of the concentration risk framework is to limit the exposure to an individual counterparty

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

The source of the credit rating where available is Bloomberg composite rating, representing the averages of the Moody's, Standard and Poor's and Fitch credit ratings

Notes to the Financial Statements (continued)

The maximum exposure for the Company's assets bearing credit risk are summarised below

	2012 (carrying value) £m	2011 (carrying value) £m
Investment in financial assets – debt securities (note 17)	2,852 8	2,877 9
Investment in financial assets – loans (note 17)	120 4	161 9
Reinsurers' share of insurance contract liabilities (note 19)	114 8	125 0
Insurance and reinsurance receivables (note 20)	828 5	789 3
Other receivables – other (note 21)	82 6	96 6
Other receivables from related parties (note 21)	317 8	112 8
Cash and cash equivalents (note 22)	119 8	71 3
Maximum credit risk	**4,436.7**	4,234 8

An analysis of credit risk assets by economic exposure is shown below

Ratings	2012 £m	%	2011 £m	%
AAA	770 4	17 3%	895 2	21 1%
AA	324 1	7 3%	288 6	6 8%
A	996 5	22 4%	1,104 2	26 1%
BBB	826 5	18 6%	755 7	17 9%
BB	51 9	1 2%	21 1	0 5%
B	5 9	0 1%	1 9	-
CCC	0 2	-	-	-
Not rated	1,461 2	33 1%	1,168 1	27 6%
Total	**4,436 7**	**100 0%**	4,234 8	100 0%

The following table provides the ageing of insurance and reinsurance receivables

	Not past due or impaired	Overdue less than 6 months	Overdue 6 - 12 months	Overdue over 1 year	Provided for	Carrying value £m
2012						
Direct insurance operations	**745.2**	**23.2**	**4 4**	**0.4**	**-**	**773 2**
Reinsurance operations	**50.6**	**0.3**	**0.2**	**9.9**	**(5.7)**	**55.3**
2011						
Direct insurance operations	709 0	21 0	3 6	-	(1 1)	732 5
Reinsurance operations	43 9	0 2	0 5	19 5	(7 3)	56 8

Liquidity risk

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

Liquidity risk could arise from illiquid asset holdings, inappropriate asset/liability matching or inexact forecast operating liquidity requirements resulting in insufficient short-term (including intra-day) and longer-term liquidity This is controlled via regular liquidity risk monitoring and reporting in addition to

Notes to the Financial Statements (continued)

regular short-term cash flow forecasting A robust capital management framework is in place to ensure there are appropriate loan and overdraft facilities in place

The table below analyses the maturity of the Company's financial assets and financial liabilities based on the remaining period at the Statement of Financial Position date to the contractual maturity date

The table indicates that liabilities due within one year exceed financial assets maturing within one year However, the majority of financial assets, which have a contractual maturity date of more than one year, are traded on active markets and could be readily liquidated if necessary In addition a positive cash flow is expected to be generated from operations for the foreseeable future

2012	Less than 1 year £m	1-2 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
Financial assets						
Equities and Mutual funds	-	-	-	-	758 8	**758.8**
Debt Securities	229 0	186 2	913 0	1,524 6	-	**2,852.8**
Fair value through income	22 7	0 4	8 5	29 5	-	**61.1**
Loans	10 9	6 2	96 3	7 0	-	**120.4**
Other receivables	400 4	-	-	-	-	**400.4**
Deposits with credit institutions	119 8	-	-	-	-	**119.8**
Total financial assets (note 17, 21 & 22)	**782.8**	**192 8**	**1,017.8**	**1,561.1**	**758.8**	**4,313.3**

2012	Less than 1 year £m	1- 5 Years £m	Over 5 years £m	Total £m
Financial liabilities				
Fair value through income (note 18)	20 6	33 5	39 4	**93 5**
Unsecured bank loan (note 27)	22 4	-	-	**22.4**
Claims outstanding (note 25)	973 6	1,180 2	804 8	**2,958.6**
Direct insurance operations (note 26)	155 8	-	-	**155.8**
Reinsurance operations (note 26)	13 6	-	-	**13.6**
Other liabilities (note 29)	964 4	-	-	**964.4**
Total financial liabilities	**2,150.4**	**1,213.7**	**844.2**	**4,208.3**

2011	Less than 1 year £m	1-2 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
Financial assets						
Equities and Mutual funds	-	-	-	-	653 4	653 4
Debt Securities	88 3	265 1	917 4	1,607 1	-	2,877 9
Fair value through income	16 0	-	1 1	6 8	-	23 9
Loans	-	21 5	79 3	61 1	-	161 9
Other receivables	211 1	-	-	-	-	211 1
Deposits with credit institutions	71 4	-	-	-	-	71 4
Total financial assets (note 17, 21 & 22)	386 8	286 6	997 8	1,675 0	653 4	3,999 6

Notes to the Financial Statements (continued)

2011	Less than 1 year £m	1-5 Years £m	Over 5 years £m	Total £m
Financial liabilities				
Fair value through income (note 18)	16 7	53 5	62 5	132 7
Unsecured bank loan (note 27)	24 0	-	-	24 0
Claims outstanding (note 25)	1,022 2	1,085 5	713 4	2,821 1
Direct insurance operations (note 26)	124 7	-	-	124 7
Reinsurance operations (note 26)	15 3	-	-	15 3
Other liabilities (note 29)	1,004 3	-	-	1,004 3
Total financial liabilities	2,207 2	1,139 0	775 9	4,122 1

1. Divisional Information – Business divisions

1 1 Geographical analysis

Substantially all gross written premiums in respect of direct and reinsurance business are written in the United Kingdom

1.2 Class of business analysis

	Gross written premiums		Gross earned premiums	
	2012 £m	2011 £m	2012 £m	2011 £m
Direct and reinsurance accepted				
Motor - third party	16 6	50 5	22 6	53 1
- other	730 1	777 2	722 7	762 4
Accident and health	154 4	142 6	155 3	143 6
Third party liability	214 1	199 0	205 6	200 6
Fire and other damage to property	903 6	831 5	880 7	772 9
Marine, aviation and transport	8 5	9 8	9 1	16 6
Miscellaneous	110 1	104 0	110 9	108 5
Total	**2,137.4**	2,114 6	**2,106.9**	2,057 7

	Gross claims incurred		Gross operating expenses	
	2012 £m	2011 £m	2012 £m	2011 £m
Direct and reinsurance accepted				
Motor - third party	(28 3)	(47 9)	(1 4)	(10 7)
- other	(610 0)	(756 8)	(140 4)	(172 4)
Accident and health	(90 4)	(108 2)	(67 3)	(42 0)
Third party liability	(211 3)	(145 3)	(83 4)	(82 2)
Fire and other damage to property	(443 4)	(356 8)	(350 3)	(322 8)
Marine, aviation and transport	(5 4)	(2 1)	(6 9)	(6 9)
Miscellaneous	(73 7)	(60 2)	(51 1)	(59 8)
Total	**(1,462.5)**	(1,477 3)	**(700.8)**	(696 8)

Notes to the Financial Statements (continued)

	2012 £m	2011 £m
Reinsurance outwards		
Motor - third party	(0 4)	0 4
- other	(16 6)	6 7
Accident and health	(1 4)	(0 7)
Third party liability	(6 6)	0 9
Fire and other damage to property	(102 1)	(101 4)
Marine, aviation and transport	(1 9)	2 4
Miscellaneous	(0 1)	(0 1)
Total	**(129.1)**	(91 8)

2 Net premium revenue

	2012 £m	2011 £m
Short-term insurance contracts		
- premium receivables	2,137 4	2,114 6
- change in unearned premium provision	(30 5)	(56 9)
Premium revenue arising from contracts issued	**2,106.9**	2,057 7
Short-term reinsurance contracts		
- premium payables	126 0	165 2
- change in unearned premium provision	(0 1)	(1 7)
Premium revenue ceded to reinsurers on insurance contracts issued	**125 9**	163 5
Net premium revenue	**1,981.0**	1,894 2

3 Investment income

	2012 £m	2011 £m
Available for sale		
- dividend income	149 5	155 3
- interest income	123 6	118 5
- other income	19 8	10 7
Real estate income	2 4	3 3
Cash and cash equivalents interest income	0 1	0 2
Foreign exchange gains	-	0 8
Other investment income	1 2	7 4
Total investment income	**296.6**	296 2

	2012 £m	2011 £m
Investment income	296 6	296 2
Net realised losses on available for sale financial assets	(53 9)	(185 2)
Net fair value gains/(losses) on financial assets at fair value through income	68 1	(76 0)
Cost of asset management services	(7 5)	(1 2)
Finance costs	(25 7)	(10 4)
Total investment return	**277.6**	23 4

Notes to the Financial Statements (continued)

4 Net realised losses on financial assets

	2012 £m	2011 £m
Realised gains and losses on financial assets		
- debt securities	8 3	(5 0)
- equities	9 0	(7 4)
- derivatives	(65 4)	(5 2)
Impairment of financial assets		
- release		
Investment Properties	2 7	-
Debt securities (note 24)	-	11 9
Equity securities (note 24)	6 0	7 7
Mutual funds (note 24)	0 7	0 7
- charge		
Investment properties	(5 6)	1 3
Debt securities	-	-
Equity securities (note 24)	(9 0)	(53 1)
Mutual funds (note 24)	-	(0 6)
Subsidiaries	(0 6)	(135 5)
Total net realised losses on financial assets	**(53 9)**	(185 2)

5 Other operating income

	2012 £m	2011 £m
Other income	42 8	40 8
Foreign exchange gains	3 2	0 5
Other operating income	**46.0**	41 3

6 Other operating expenses

	2012 £m	2011 £m
Other expenses	(9 1)	(9 1)
Foreign exchange losses	(1 4)	(0 8)
Other operating expenses	**(10.5)**	(9 9)

7 Policyholder claims and benefits

	2012 £m	2011 £m
Insurance claims and loss adjustment expenses		
Gross claims paid	(1,317 6)	(1,345 8)
Gross changes in insurance contract liabilities for claims	(144 9)	(131 5)
	(1,462.5)	(1,477 3)
Insurance claims and loss adjustment expenses recoverable		
Reinsurers' share of		
- claims paid	6 6	(3 9)
- change in insurance contract liabilities for claims	(9 9)	76 8
	(3 3)	72 9
Net policyholder claims and benefits	**(1,465 8)**	(1,404 4)

Notes to the Financial Statements (continued)

8 Other expenses by nature

8 1 Expenses for the acquisition of insurance contracts

	2012 £m	2011 £m
Movement in advanced commission payments (note 14)	(4 4)	(5 6)
Movement of deferred acquisition costs (note 15)	32 1	(16 1)
Costs incurred for the acquisition of insurance contracts		
- Expensed in the year	(570 7)	(512 9)
- Attributable to reinsurers	1 2	(1 2)
Total expenses for the acquisition of insurance contracts	**(541.8)**	(535 8)

8 2 Marketing and administrative expenses

	2012 £m	2011 £m
Marketing and administrative expenses	(152 7)	(150 8)
Depreciation of property, plant and equipment	(1 5)	(1 1)
Amortisation of software development costs	(4 8)	(10 3)
Total administrative expenses	**(159.0)**	(162 2)

The operating lease payments recognised as an expense during the year were £12 0m (2011 £12 7m)

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

	2012 £m	2011 £m
Audit services:		
Fees payable to the Company's auditor for the audit of the statutory accounts	(0 7)	(0 7)
Non-audit services		
Fees payable to the Company's auditors and its associates for other services		
Audit related assurance services	(0 1)	(0 1)
	(0.8)	(0 8)

Other services principally include fees relating to group and regulatory reporting, and other services pursuant to the review of internal financial controls

9 Finance costs

	2012 £m	2011 £m
Interest expense		
- Non-bank borrowings	-	(2 5)
Foreign exchange losses	(25 7)	(7 9)
Finance costs	**(25.7)**	(10 4)

Notes to the Financial Statements (continued)

10 Income tax

	2012 £m	2011 £m
Current Tax		
Current tax on profits for the year	(7 4)	-
Adjustments in respect of previous years	(19 6)	7 0
Foreign tax	(0 2)	(0 1)
Total current tax	**(27.2)**	6 9
Deferred Tax (note 30)		
Origination and reversal of temporary differences	(7 6)	31 0
Adjustments to deferred tax assets arising in previous periods	24 4	(2 2)
Total deferred tax	**16.8**	28 8
Income tax (expense)/credit	**(10.4)**	35 7

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the Company as follows

	2012 £m	2011 £m
Profit/(loss) before tax	**127.5**	(153 4)
Tax calculated at UK tax rates applicable to profits 24 5% (2011 26 5%)	(31 3)	40 7
Tax effects of		
- Income not subject to tax	35 2	39 6
- Expenses not deductible for tax purposes	(0 4)	(34 5)
- Tax losses for which no deferred income tax asset was recognised	(1 3)	(0 1)
Re-measurement of deferred tax - change in the UK tax rate	(17 2)	(14 7)
Higher tax rates on overseas earnings	(0 2)	(0 1)
Adjustments in respect of prior years	4 8	4 8
Income tax (expense)/credit	**(10 4)**	35 7

During the year, as a result of the change in the UK corporation tax rate from 25% to 24% (effective from 1 April 2012) and from 24% to 23% (effective from 1 April 2013) that were enacted in the Finance Act 2012, the relevant deferred tax balances have been re-measured The impact included in the tax charge for the year is a charge of £17 2m

In the Budget announcement on 20 March 2013, the Government proposed an additional reduction in the UK corporation tax rate which will bring the rate to 20% by 1 April 2015 The impact of this 3% rate change on the deferred tax asset on the Statement of Financial Position would be £21 8m The changes had not been substantively enacted at the Statement of Financial Position date and, therefore, are not recognised in these financial statements

The tax (expense)/credit relating to components of other comprehensive income is as follows

	Current Year			Prior Year		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Fair value gains						
- Available-for-sale financial assets	123 8	(28 5)	95 3	46 2	(11 5)	34 7
Other comprehensive income	**123.8**	**(28.5)**	**95.3**	46 2	(11 5)	34 7
Deferred Tax		**(28.5)**			(11 5)	

Notes to the Financial Statements (continued)

11 Dividends

No dividends (2011 £nil) were paid to AXA Insurance plc during the year ended 31 December 2012

12 Property, plant and equipment

	Land and buildings £m	Leasehold Improvements £m	Plant and equipment £m	Total £m
Cost				
Balance as at 1 January 2012	16 3	7 3	3 9	27 5
Additions at cost	-	-	0 8	0 8
Transfers	-	-	2 3	2 3
Balance as at 31 December 2012	**16.3**	**7.3**	**7 0**	**30.6**
Accumulated depreciation				
Balance as at 1 January 2011	1 5	3 3	1 5	6 3
Charge for the year	0 3	0 5	0 7	1 5
Balance as at 31 December 2012	**1 8**	**3.8**	**2.2**	**7.8**
Net book value as at 31 December 2012	**14 5**	**3.5**	**4.8**	**22.8**
Cost				
Balance as at 1 January 2011	10 9	7 3	5 0	23 2
Additions at cost	5 4	-	1 0	6 4
Disposals	-	-	(2 1)	(2 1)
Balance as at 31 December 2011	**16 3**	**7.3**	**3 9**	**27.5**
Accumulated depreciation				
Balance as at 1 January 2011	1 3	2 8	3 2	7 3
Charge for the year	0 2	0 5	0 4	1 1
Disposals	-	-	(2 1)	(2 1)
Balance as at 31 December 2011	**1 5**	**3.3**	**1.5**	**6.3**
Net book value as at 31 December 2011	**14.8**	**4.0**	**2.4**	**21.2**

Depreciation expense of £1 5m (2011 £1 1m) has been charged to marketing and administration expenses (note 8)

The transfers value of £2 3m included within the above note relates to a reclassification of assets from software development

Notes to the Financial Statements (continued)

13 Investment property

	2012 £m	2011 £m
Cost		
Balance as at 1 January	127 4	121 1
Additions at cost	2 5	5 0
Disposals	(8 8)	-
Impairment movement	(2 9)	1 3
Balance as at 31 December	**118.2**	127 4
Accumulated depreciation		
Balance as at 1 January	12 2	8 7
Charge for the year	3 3	3 5
Disposals	(1 3)	-
Balance as at 31 December	**14.2**	12 2
Net book value as at 31 December	**104.0**	115 2

The properties were valued at £114 1m (2011 £125 3m) on an open market existing use basis by Lambert Smith Hampton or by CB Richard Ellis, who are external chartered surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors

The rental income arising from investment properties amounted to £9m (2011 £9m), whilst the associated operating expenses were £1 1m (2011 £0 9m) Both amounts are recorded in the income statement within investment income

Notes to the Financial Statements (continued)

14 Intangible assets

	Software development £m	Advanced commissions £m	Total £m
Cost			
Balance as at 1 January 2012	33 6	182 0	215 6
Additions at cost	9 7	1 0	10 7
Transfers	(2 3)	-	(2 3)
Balance as at 31 December 2012	**41.0**	**183.0**	**224.0**
Accumulated amortisation			
Balance as at 1 January 2012	17 2	162 0	179 2
Charge for the year	4 8	5 4	10 2
Balance as at 31 December 2012	**22.0**	**167.4**	**189.4**
Net book value as at 31 December 2012	**19.0**	**15.6**	**34.6**
Cost			
Balance as at 1 January 2011	64 4	181 0	245 4
Additions at cost	9 2	1 0	10 2
Disposals	(40 0)	-	(40 0)
Balance as at 31 December 2011	**33.6**	**182.0**	**215.6**
Accumulated amortisation			
Balance as at 1 January 2011	46 9	155 4	202 3
Charge for the year	10 3	6 6	16 9
Disposals	(40 0)	-	(40 0)
Balance as at 31 December 2011	**17.2**	**162.0**	**179.2**
Net book value as at 31 December 2011	**16.4**	**20.0**	**36.4**

The transfers value of £2 3m included within the above note relates to a reclassification of assets to Plant & Equipment

a) **Software development** is all internally developed, with a useful life ranging from one to five years An annual impairment review resulted in no impairment being required (2011 £nil)
b) **Advanced commissions** are all acquired separately and externally generated, with useful lives ranging from within one year to seven years, in respect of future business An annual impairment review resulted in no impairment being required (2011 £nil)

15 Deferred acquisition costs

	2012 £m	2011 £m
Deferred acquisition costs as at 1 January	212 6	228 7
Charge to income statement in the year		
- Acquisition costs deferred during the year	565 8	552 2
- Amortisation charged during the year	(533 7)	(568 3)
Credit/(charge) to income statement in the year	32 1	(16 1)
Deferred acquisition costs as at 31 December	**244.7**	212 6

Notes to the Financial Statements (continued)

16 Investments in group and participating interests

16.1 Particulars of principal subsidiary undertakings

Insurance companies	Country of incorporation or registration	Holding of ordinary shares
AXA General Insurance Limited	England	100%
AXA PPP healthcare limited	England	100%

The Company has taken advantage of the exemption under Section 410(2) of the Companies Act 2006 by providing information only in relation to subsidiary and associate undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements

A complete list of subsidiary and associated undertakings will be attached to the Company's next annual return to the Registrar of Companies

16.2 Investment in subsidiary undertakings

	2012 £m	2011 £m
Carrying value as at 1 January	971 5	749 4
Additions during the year	-	357 6
Impairment charge	(0 6)	(135 5)
Total investment in subsidiary undertakings	**970.9**	971 5

Following an assessment of the investments for impairment, it was determined that the carrying amount of certain subsidiaries was more than their recoverable amount, as such it was necessary to impair the affected investments to their recoverable value

In the opinion of the directors, the value of the investment of the Company in its subsidiary undertakings is not less than the amount at which it is stated in the Statement of Financial Position

Notes to the Financial Statements (continued)

17 Investment in financial assets

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

	2012 £m	2011 £m
Available for sale	3,611 6	3,531 3
Fair value through income	61 1	23 9
Loans	120 4	161 9
Deposits with credit institutions	-	0 1
Total financial assets	**3,793.1**	3,717 2

Available for sale financial assets	2012 £m	2011 £m
Equity securities		
- listed	205 0	202 0
- unlisted	-	-
Debt securities		
- listed	2,653 0	2,674 9
- unlisted	199 8	203 0
Mutual funds		
- listed	108 0	46 6
- unlisted	445 8	404 8
Total available for sale financial assets	**3,611.6**	3,531 3

Loans	2012 £m	2011 £m
Broker loans	7 1	13 0
Real estate private loans	113 3	148 9
Total loans	**120 4**	161 9

Notes to the Financial Statements (continued)

18 Derivative financial instruments and Hedging

Whilst only a small number of derivative instruments, namely interest rate swaps, qualify for hedge accounting, the primary objective for holding derivative instruments is to provide economic hedging of a risk

Economic hedging strategies include (i) managing interest rate exposures on fixed maturity investments, (ii) managing exchange rate risk on foreign-currency denominated investments and (iii) managing liquidity positions in connection with asset-liability management and local regulatory requirements for insurance operations

In the narrative and tables below, both notional and fair value amounts are shown The notional amount is the most commonly used measure of volume in the derivatives market, however, it is not used as a measure of risk because the notional amount greatly exceeds the possible credit market loss that could arise from such transactions, as it does not represent the amounts actually exchanged by the parties The Company is exposed to credit risk in respect of its counterparties to the derivative instruments, but is not exposed to credit risk on the entire notional amounts

As of 31 December 2012, the notional amount of all derivative instruments totalled £5,563 1m (2011 £2 874 3m) Their net fair value as of 31 December 2012 totalled £(32 4)m (£(108 8)m at the end of 2011)

Instruments qualifying for hedge accounting

During the year the Company has used two types of fair value hedge, a macro hedge (portfolio basis) and a micro hedge (individual basis), as part of its risk management strategy to reduce its exposure to interest rate fluctuations of fixed income securities

The portfolio hedge represents a portfolio of fixed income securities with similar risk profiles, which are hedged using a number of interest rate swaps and interest rate swap forwards A portfolio hedge allows the designation of the whole, or part, of a portfolio of assets with similar risk exposures The hedged item is designated based on interest rate sensitivities, taking into account the expected maturity, to match the hedging derivative

The micro hedge represents individual securities whose cash flow and risk profiles are matched to an interest rate swap and, where applicable, an inflation rate swap, enabling the specific risks to be hedged

Further details of these derivative instruments are provided in the below table

Derivative financial instruments	2012 Contractual/ Notional Amount £m	2012 Asset £m	2012 Liability £m	2011 Contractual/ Notional Amount £m	2011 Asset £m	2011 Liability £m
Interest Rate Swaps	733 5	-	(22 7)	-	-	-
Inflation Swaps	223 9	-	(6 8)	-	-	-
Total	**957.4**	**-**	**(29.5)**	-	-	-

Gains/(losses) on fair value hedges

	2012 £m	2011 £m
Hedged items attributable to interest rate risk	**22.5**	-
Hedging instruments – macro	**(14.9)**	-
Hedging instruments – micro	**(9.6)**	-
	(2.0)	-

Notes to the Financial Statements (continued)

Instruments not qualifying for hedge accounting

A number of derivative instruments either do not qualify for hedge accounting as set out by IAS 39 'Financial instruments Recognition and Measurement', or the Company has taken the decision not to adopt hedge accounting in respect of these instruments

Further details of these derivative instruments are provided in the table below

Fair value through income	2012			2011		
Derivative financial instruments	Contractual/ Notional Amount £m	Asset £m	Liability £m	Contractual/ Notional Amount £m	Asset £m	Liability £m
Foreign Exchange Forwards	713 1	5 8	(3 0)	475 2	0 9	(0 4)
Credit Default Swaps	2,390 9	20 4	(24 4)	245 0	0 7	(4 5)
Currency Swaps	127 6	2 7	(3 3)	327 8	1 2	(41 8)
Interest Rate Swaps	177 6	-	(3 3)	728 3	3 6	(52 6)
Inflation swaps	216 5	13 1	(10 2)	485 0	2 5	(18 2)
Options	579 6	17 3	(18 1)	613 0	15 0	(15 2)
OTC Equities	137 0	-	(0 1)	-	-	-
Swaptions	6 2	0 4	-	-	-	-
Futures	214 4	0 3	(0 7)	-	-	-
Currency Volatility Swaps	1 6	1 0	(0 3)	-	-	-
Return Swaps	41 2	0 1	(0 6)	-	-	-
Total derivative financial instruments	**4,605.7**	**61 1**	**(64 0)**	2,874 3	23 9	(132 7)

19 Reinsurers' share of insurance contract liabilities

	2012 £m	2011 £m
Reinsurers' share of provision for claims outstanding and loss adjustment expenses	102 1	112 4
Reinsurers' share of provision for unearned premiums	12 7	12 6
Reinsurers' share of insurance contract liabilities	**114 8**	125 0

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

Settlement period for reinsurers' share of claims outstanding and long-term insurance contract liabilities		
Less than 12 months	16 8	23 4
Greater than 12 months	85 3	89 0
Balance as at 31 December	**102.1**	112 4

	2012 £m	2011 £m
Balance as at 1 January	112 4	35 3
Reinsurers' share of claims payments made in year	(6 6)	3 9
(Decrease)/Increase in recoverables	(3 3)	72 9
Exchange and other movements	(0 4)	0 3
Balance as at 31 December	**102.1**	112 4

Notes to the Financial Statements (continued)

Reinsurers' share of provision for unearned premiums

	2012 £m	2011 £m
Balance as at 1 January	12 6	10 9
Premiums written in the year	126 0	165 2
Premiums earned in the year	(125 9)	(163 5)
Balance as at 31 December	**12.7**	12 6

20 Insurance and reinsurance receivables

	2012 £m	2011 £m
Direct insurance receivables	773 2	732 5
Reinsurance receivables	55 3	56 8
Total insurance and reinsurance receivables	**828.5**	789 3

An analysis of the maturity of these receivables is included within the Management of Financial Risk section on page 35

21 Other receivables

	2012 £m	2011 £m
Accrued interest	45 0	55 4
Prepayments and accrued income	2 8	1 7
Amounts owed from intermediate parent companies	106 5	60 2
Amounts owed from immediate parent company	130 9	-
Amounts owed from subsidiary undertakings	2 3	2 3
Amounts owed from fellow subsidiary undertakings	77 9	50 1
Amounts owed from associated group company	0 2	0 2
Other	34 8	41 2
Total other receivables	**400.4**	211 1

All amounts are recoverable in less than one year

22 Cash and cash equivalents

	2012 £m	2011 £m
Cash at bank and in hand	109 9	68 0
Short-term bank deposits	9 9	3 3
Cash and cash equivalents	**119.8**	71 3

The effective interest rate on short-term bank deposits, which have a maturity of 31 days (2011 31 days), was 0 25% (2011 0 25%)

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

	2012 £m	2011 £m
Cash and cash equivalents	119 8	71 3
Bank overdrafts (note 27)	(22 4)	(24 0)
Cash and bank overdrafts	**97.4**	47 3

Notes to the Financial Statements (continued)

23 Ordinary share capital

	2012 Shares	£m	2011 Shares	£m
Issued and fully paid Ordinary shares, par value 25p, at 31 December	489,056,602	**122.3**	489,056,602	122 3

Share premium account	2012 £m	2011 £m
Balance as at 31 December	**798.7**	798 7

24 Other Reserves

2012	Capital contribution reserve £m	Revaluation reserve £m	Total other reserves £m
Balance as at 1 January	361 2	109 2	**470 4**
Fair value gains on available for sale financial assets	-	123 8	**123 8**
Tax on movements taken directly to equity - deferred	-	(28 5)	**(28.5)**
Balance as at 31 December	**361.2**	**204.5**	**565.7**

2011	Capital contribution reserve £m	Revaluation reserve £m	Total other reserves £m
Balance as at 1 January	245 2	74 5	319 7
Fair value gains on available for sale financial assets	-	46 2	46 2
Tax on movements taken directly to equity - deferred	-	(11 5)	(11 5)
Capital Contribution	116 0	-	116 0
Balance as at 31 December	**361.2**	**109.2**	**470.4**

The brought forward capital contributions were received in 2003 from the immediate parent, AXA Insurance plc Additional capital contribution was received in 2011, also from AXA Insurance plc The revaluation reserve represents the movement in the financial assets as disclosed in accounting policy IX b

In addition to the retained earnings balance, as shown on page 11, an equalisation reserve of £153 9m (2011 £149 7m), which is not distributable, must be kept in compliance with the solvency capital regulations The amounts in the equalisation reserve cease to be an adjustment to the amount available for distribution when the Company has suffered insurance losses in excess of levels set out in the relevant solvency capital regulations A reconciliation of the movement in retained earnings is shown within the primary statement 'Statement of changes in equity'

Notes to the Financial Statements (continued)

Movements in revaluation reserve for available for sale investments

	2012 £m	2011 £m
Balance as at 1 January	109 2	74 5
Amortisation charge	1 1	(1 6)
Amortisation release	(5 1)	8 6
Impairment charge	9 0	53 7
Impairment release	(6 7)	(20 3)
Net realised losses	(54 2)	3 8
Fair value gains	179 7	2 0
Tax	(28 5)	(11 5)
Balance as at 31 December	**204.5**	109 2

25 Insurance contract liabilities

	2012 £m	2011 £m
Provision for claims outstanding and loss adjustment expenses	2,958 6	2,821 1
Provision for unearned premiums	1,026 7	996 2
Total insurance contract liabilities	**3,985.3**	3,817 3
Settlement period for claims outstanding		
Less than 12 months	973 6	1,022 2
Greater than 12 months	1,985 0	1,798 9
	2,958.6	2,821 1

Provision for claims outstanding and loss adjustment expenses

	2012 £m	2011 £m
Balance as at 1 January	2,821 1	1,944 8
Total claims payments made in the year	(1,317 7)	(1,345 8)
Increase in liabilities	1,462 5	1,477 3
Transferred in from other group companies (Part VII)	-	747 0
Exchange and other movements	(7 3)	(2 2)
Balance as at 31 December	**2,958.6**	2,821 1

Provision for unearned premiums

	2012 £m	2011 £m
Balance as at 1 January	996 2	939 3
Premiums written in the year	2,137 4	2,114 6
Premiums earned in the year	(2,106 9)	(2,057 7)
Balance as at 31 December	**1,026.7**	996 2

Discounting

Outstanding claims provisions are based on undiscounted estimates of future claim payments, except for the following claims settled on a periodic payment basis, for which discounted provisions are held

	Rate		Mean term of liabilities	
	2012 %pa	2011 %pa	**2012 Years**	2011 Years
Periodic Payment Orders	**5.3**	-	**29**	-

Notes to the Financial Statements (continued)

The discount rate that has been applied is based on a risk free rate (UK treasury bonds) having regard to the duration of the liabilities The rate has remained consistent throughout the year Any change in discount rates between the start and the end of the accounting period is reflected within finance costs (note 9) after the operating result, as a change in economic assumption

Total outstanding claims provision before discounting was £3,078 3m (2011 £2,821m) The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims The asset held in respect of reinsurers share of insurance contract liabilities has also been discounted in respect of periodic payment order claims

Claims development tables

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

Accident year - Gross	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	Total £m
Estimate of ultimate claims costs							
- at end of accident year	1,409 5	1,281 7	1,382 0	1,437 6	1,369 6	1,401 3	8,281 7
- one year later	1,587 7	1,476 9	1,586 0	1,583 7	1,436 6	-	7,670 9
- two years later	1,464 6	1,351 2	1,548 4	1,501 0	-	-	5,865 2
- three years later	1,431 4	1,345 4	1,542 1	-	-	-	4,318 9
- four years later	1,421 0	1,347 2	-	-	-	-	2,768 2
- five years later	1,424 5	-	-	-	-	-	1,424 5
Current estimate of cumulative claims	1,424 5	1,347 2	1,542 1	1,501 0	1,436 6	1,401 3	8,652 7
Cumulative payments to date	1,365 2	1,264 9	1,374 2	1,182 9	955 0	627 0	6,769 2
Liability recognised in the Statement of Financial Position	59 3	82 3	167 9	318 1	481 6	774 3	1,883 5
Liability in respect of prior years							1,075 1
Total liability included in the Statement of Financial Position							2,958 6

Accident year - Net	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	Total £m
Estimate of ultimate claims costs							
- at end of accident year	1,398 4	1,271 5	1,353 8	1,430 9	1,358 0	1,389 0	8,201 6
- one year later	1,574 0	1,468 4	1,558 0	1,577 2	1,432 0	-	7,609 6
- two years later	1,443 3	1,345 2	1,518 0	1,494 6	-	-	5,801 1
- three years later	1,410 7	1,339 9	1,512 8	-	-	-	4,263 4
- four years later	1,400 3	1,342 0	-	-	-	-	2,742 3
- five years later	1,404 1	-	-	-	-	-	1,404 1
Current estimate of cumulative claims	1,404 1	1,342 0	1,512 8	1,494 6	1,432 0	1,389 0	8,574 5
Cumulative payments to date	1,355 8	1,257 6	1,351 2	1,174 9	953 5	626 2	6,719 2
Liability recognised in the Statement of Financial Position	48 3	84 4	161 6	319 7	478 5	762 8	1,855 3
Liability in respect of prior years							1,001 2
Total liability included in the Statement of Financial Position							2,856 5

Notes to the Financial Statements (continued)

26 Insurance and reinsurance liabilities

	2012 £m	2011 £m
Direct insurance liabilities	155 8	124 7
Reinsurance liabilities	13 6	15 3
Total insurance and reinsurance liabilities	**169.4**	140 0

All amounts are payable within one year of the Statement of Financial Position date

27 Borrowings

	2012 £m	2011 £m
Bank overdrafts	22 4	24 0
Total borrowings	**22 4**	24 0
Payable less than one year	22 4	24 0
Payable more than one year	-	-

The fair value of current borrowings equals their carrying amounts

28 Provisions for other liabilities and charges

	MIB provision £m	Vacant space provision £m	Other provisions £m	Total £m
Balance as at 1 January 2012	21 5	21 9	14 7	**58.1**
Charged to income statement	19 4	3 4	11 7	**34 5**
Utilised during year	(21 5)	(4 0)	(13 1)	**(38.6)**
Balance as at 31 December 2012	**19.4**	**21 3**	**13.3**	**54.0**

	2012 £m	2011 £m
To be settled within 12 months	38 9	42 3
To be settled after 12 months	15 1	15 8
	54 0	58 1

a) Motor Insurers' Bureau (MIB) provision

The MIB provision relates to the levy payable in respect of 2012 premiums The provision is assessed on 2012 premiums and information available from the MIB at the time

b) Vacant space provision

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

Notes to the Financial Statements (continued)

c) Other provisions

Included ın other provısıons are

Fıre Brıgade levy, £3 6m
The cumulatıve posıtıon represents the accrual for the estımated 2012 charge of £2 3m and a balance of £1 3m for potentıal prıor year charges followıng an ındustry wıde audıt by the London Metropolıtan Fıre Brıgade ın 2005

Redundancy, £7 8m
At the end of 2011, a provısıon of £9 8m was held for redundancy payments An addıtıonal £6 0m has been provıded for durıng the year, and £8 0m has been utılısed

29 Other lıabılities

	2012 £m	2011 £m
Accruals and deferred ıncome	24 9	19 7
Amounts due to ımmedıate parent company	-	2 5
Amounts owed to subsıdıary undertakıng	827 7	916 9
Amounts owed to fellow subsıdıary undertakıngs	3 2	5 0
Other tax payables	36 4	36 1
Other lıabılıtıes	72 2	24 1
Total other lıabılıtıes	**964.4**	1,004 3

All amounts are payable wıthın one year of the Statement of Fınancıal Posıtıon date

30 Deferred taxation

The gross movement on the deferred ıncome tax account ıs as follows

	2012 £m	2011 £m
Balance as at 1 January	178 5	159 1
Transferred from other group companıes	-	2 1
Income statement credıt	16 8	28 8
Charge to other comprehensıve ıncome	(28 5)	(11 5)
Balance as at 31 December	**166.8**	178 5

The net deferred tax asset of £166 8m (2011 £178 5m) arıses prımarıly from trade tax losses carrıed forward for utılısatıon ın future accountıng perıods totallıng £827m (2011 £827m)

It ıs expected that these tax losses wıll be fully utılısed durıng 2017, thıs assessment beıng based on the followıng factors

a) Management approved forecasts for the perıod 2013 to 2015 ıdentıfy profıts suffıcıent to utılıse approxımately 63% of the losses,
b) Profıts consıstent wıth the average earned over the forecast perıod wıll arıse ın 2016/7, beıng suffıcıent to utılıse the resıdual 25% of losses ın those years,
c) The ıncıdence of a sıgnıfıcant catastrophıc event ın any of these years ıs not forecast to push full recovery beyond the end of 2017

Notes to the Financial Statements (continued)

Deferred tax assets

	Unrealised appreciation of investments £m	Property, plant and equipment £m	Tax losses carried forward £m	Other £m	Total £m
Balance as at 1 January 2012	-	10 4	205 0	1 6	**217.0**
Credited to the income statement	-	1 9	13 0	-	**14.9**
Charged to other comprehensive income	-	-	(28 5)	-	**(28.5)**
Balance as at 31 December 2012	-	**12.3**	**189.5**	**1.6**	**203 4**

Deferred tax liabilities

	Equalisation reserve £m	Other £m	Total £m
Balance as at 1 January 2012	(37 4)	(1 1)	**(38.5)**
Credited/(charged) to the income statement	2 0	(0 1)	**1.9**
Balance as at 31 December 2012	**(35.4)**	**(1.2)**	**(36.6)**

31 Retirement benefit obligations

AXA UK Pension Scheme

Staff engaged in the Company's activities 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 Company is unable accurately to identify its share of the underlying assets and liabilities of the defined benefit section Accordingly, the Company has accounted for its contribution to the defined benefit section as if it were a defined contribution arrangement

An independent actuarial review by Towers Watson of the defined benefit scheme evaluated a deficit of £562m as at 31 December 2012 (£792m as at 31 December 2011) before taking account of any tax relief This represents a snapshot of the present cost of meeting pension obligations that will crystallise over a period of many years The Scheme invests in a wide range of assets, including equities, which over the long term, are expected by the Directors to produce higher returns than those underlying the assessment of the deficit as at 31 December 2012

The total pension cost which has been charged to the Income Statement of the Company is £47 9m (2011 £43 8m) There were no outstanding contributions as at 31 December 2012 (2011 £nil)

The AXA UK Group made additional contributions totalling £67m (2011 £68m) to the Scheme, in accordance with the ten year plan to reduce the deficit

Although the scheme is being accounted for as a defined contribution scheme, the following disclosures are required to be shown in respect of the Scheme

The principal assumptions used by the actuaries were

	2012	2011
Discount rate	4 6%	4 7%
Expected return on plan assets	6 1%	6 6%
Future salary increases	2 7%	2 7%
Future pension increases	2 5%	2 9%
Inflation assumption	2 7%	2 9%

Notes to the Financial Statements (continued)

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

	2012 £m	2011 £m
Present value of obligation as at 1 January	3,935	3,472
Merger of Winterthur Life UK Limited pension scheme	-	185
Current service cost	25	26
Past service credit	(8)	(6)
Interest cost	182	195
Actuarial losses / (gains)	(114)	203
Benefits paid	(176)	(140)
Present value of obligation as at 31 December	**3,844**	3,935

The past service credits relate to a Pensions Increase Exchange offer made to pensioner members These members were offered the opportunity to exchange future non-statutory increases to their pre 1997 pension for an immediate one off uplift to their pension The resulting reduction in liabilities, for those members who had accepted the offer at 31 December, is treated as a change to benefits with a gain reported in the period

Changes in the fair value of plan assets are as follows

	2012 £m	2011 £m
Fair value of plan assets as at 1 January	3,143	2,771
Merger of Winterthur Life UK Limited pension scheme	-	184
Expected return on plan assets	190	192
Employer contributions	93	111
Employee contributions	1	1
Benefits paid	(176)	(140)
Actuarial gains	31	24
Fair value of plan assets as at 31 December	**3,282**	3,143

Analysis of assets by category

	2012 £m	2011 £m
Equities	941	849
Debt securities	1,521	1,509
Property	144	94
Other assets	676	691
Fair value of plan assets as at 31 December	**3,282**	3,143

Notes to the Financial Statements (continued)

32 Cash generated from operations

	2012 £m	2011 £m
Profit/(loss) before tax	127 5	(153 4)
Depreciation and fixed asset write-offs	1 5	1 1
Movements in intangible assets	(22 9)	32 0
Realised and unrealised investment gains	(27 7)	82 0
Amortisation of financial assets	1 3	(2 2)
Amortisation of investment properties	3 3	-
Impairment charge on available for sale investments	5 2	52 3
Impairment charge on subsidiaries	0 6	135 5
Change in insurance technical provisions	168 0	107 4
Change in other assets and liabilities	30 3	255 1
Interest expense	-	2 3
Interest income	(124 9)	(127 1)
Dividend and other income from financial assets	(169 3)	(166 1)
Cash generated from operations	**(7.1)**	218 9

33 Related parties

The following transactions were carried out with related parties

	Related Party	2012 £m	2011 £m
Income			
Gross written premiums	Fellow subsidiaries	27 9	29 0
Income on loans and debt instruments	Ultimate parent	5 0	4 7
	Intermediate parent	5 3	3 1
	Fellow subsidiary	7 4	7 4
Total		**45.6**	44 2
Expenses			
Claims handling	Fellow subsidiaries	15 7	18 4
Reinsurance premiums paid	Fellow subsidiaries	99 9	82 2
Commissions paid	Fellow subsidiaries	81 5	85 0
Business services	Fellow subsidiaries	303 7	307 8
Interest on borrowings	Immediate parent	-	2 3
Total		**500.8**	495 7
Net settlement of prior years tax	Immediate parent	-	-
	Intermediate parent	0 5	7 8
	Fellow subsidiaries	0 2	5 1

Notes to the Financial Statements (continued)

Related party service companies employ significantly all the staff and provide the IT and data processing services on behalf of AXA Insurance UK plc Services are negotiated with related parties on a cost basis Investment properties and investment asset portfolios are managed by related party companies

	Related party	2012 £m	2011 £m
Loans and bonds to related parties			
Investment bonds	Parent	138 8	138 2
	Intermediate parent	91 0	91 0
	Fellow subsidiary	108 8	112 0
Non-interest bearing	Immediate parent	131 9	-
loans	Intermediate parent	106 5	71 5
	Fellow subsidiary	3 3	3 2
Loans from related parties			
Non interest bearing	Subsidiary	-	(100 0)
loans	Fellow subsidiary	(5 0)	(5 0)
Total		**575.3**	310 9

	2012 £m	2011 £m
Summary of movements on loans and bonds		
Opening balance	310 9	578 8
Additions during year	164 4	39 8
Repayments	100 0	(307 7)
Closing balance	**575.3**	310 9
Assets managed by fellow subsidiaries		
Available for sale investments	3,601 5	3,500 1
Investment property	103 9	115 1
Total	**3,705.4**	3,615 2

In 2011, in addition to the above there were transfers into the Company in relation to the Part VII arrangement and the accompanying transfer agreement discussed in the Directors' Report, page 1

The loans and receivables are unsecured and bear no interest No provisions are held against receivables from related parties (2011 £nil) Related party receivables and payables are disclosed in notes 21 and 29

Key management compensation

Key management personnel are classified as employees and directors who have authority and responsibility for planning and controlling the Company's activities, directly or indirectly, and is defined as the entire board of directors of the Company, which includes the Chief Executive Officer and Group Finance, Risk and Strategy Director of AXA UK plc, who would have been included as non-board key management had they not served as directors of the Company during the year For 2012, key management is defined as the entire board of directors of the Company, plus those executive directors of AXA UK plc who are not also directors of the Company The directors receive compensation by virtue of their employment with the AXA Group and this is paid by companies within the AXA Group The total compensation to those employees classified as key management who have authority and responsibility for planning and controlling the activities of the Group, directly or indirectly, is as follows

	2012 £m	2011 £m
Salary and other short-term benefits	6 3	5 2
Post-employment benefits	0 3	0 3
Share-based payments	0 2	0 4
Termination benefits	0 3	3 1
Total	**7.1**	9 0

Notes to the Financial Statements (continued)

34 Commitments

(a) Capital commitments

The Company had no capital expenditure commitments as at 31 December 2012 (2011 £nil)

(b) Financial commitments

As at 31 December 2012, the Company had outstanding commitments of $nil (2011 $4m) into an American Public-Private Investment Programme and £20m (2011 £27m) into a Mezzanine debt fund

(c) Leases

Operating lease commitments – where the Company is the lessee

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

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

Expiry Date	2012 £m	2011 £m
No later than 1 year	11 2	10 4
Later than 1 year and no later than 5 years	18 5	22 7
Later than 5 years	21 8	23 0
	51.5	56 1

Operating lease commitments – where the Company is the lessor

The commitments relate to investment properties and are subject to rent reviews The carrying amount of the associated assets is £104 0m (2011 £115 2m) shown within note 13

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

Expiry Date	2012 £m	2011 £m
No later than 1 year	9 0	9 1
Later than 1 year and no later than 5 years	25 3	26 6
Later than 5 years	29 8	20 4
	64.1	56 1

35 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

Ms A J Blanc, Mr P L Burrows, Mr D de Meneval, Mr R G Dench, Mr J P D L Drouffe, Mr P J Evans, Mr K G Gibbs, Mr S N Hardy, Mr J O'Neill, Ms S Resplandy-Bernard and Mrs R Wilton 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

Mr W U Malik was also a director of Guardian Royal Exchange plc during the year and his emoluments, which relate to his services to the AXA group as a whole, are disclosed in the financial statements of that company

Notes to the Financial Statements (continued)

Mr E C Waks was also a director of AXA Insurance plc during the year and his emoluments, which relate to his services to the AXA group as a whole, are disclosed in the financial statements of that company

36 Contingent liabilities

With the approval of the FSA, the Company, its immediate parent, AXA Insurance plc, and one of its subsidiaries, AXA PPP healthcare limited, have entered into a mutual guarantee whereby each company guarantees payment of all liabilities incurred by the others in respect of general insurance business AXA Insurance plc receives no benefit from the guarantee

37 Guarantees with Related Companies

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

38 Events occurring after the reporting period

There are no material events to report

39 Ultimate parent

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

The parent undertaking of the smallest group which includes the Company and for which group financial statements are prepared is Guardian Royal Exchange plc, a company registered in England Copies of the Guardian Royal Exchange plc financial statements can be obtained from 5 Old Broad Street, London EC2N 1AD