

AXA INSURANCE UK PLC

2014 Annual Reports and Financial Statements

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Directors and Auditor

Directors

P. J. Evans (Chairman)
A. J. Blanc
R. G. Dench
K. G. Gibbs
P. F. Hazell
W. U. Malik
Y. Masson
J. O'Neill
R. C. W. Organ
B. Poupart-Lafarge
R. Wilton

Company Secretary

J. P. Small

Independent Auditor

Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Strategic Report

The directors present their Strategic Report on AXA Insurance UK plc ("the Company") for the year ended 31 December 2014.

REVIEW OF THE BUSINESS

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).

Results and performance

The profit before tax in 2014 is £338.9m, an increase of £202.6m from the 2013 result. This comprises of a £156.6m increase in the investment result and £46.0m improvement in general business underwriting.

The underwriting loss for the year is £40.3m (2013: £86.3m loss.) The improvement is driven by a fall in the loss ratio reflecting rating activity, and lower expense ratio in accordance with the continued strategy to control costs and improve efficiencies resulting in a decrease in expenses.

During the year, gross written premiums have increased by £54.2m, or 2.6%, to £2,099.8m (2013: £2,045.6m).

- Personal Lines saw decreased premiums compared to 2013 with Personal Lines Household and Pet business seeing a reduction in volumes during 2014 due to strategic planning in exiting the Pet business and the exit of a key household partner.
- Commercial Lines business written showed significant growth during 2014 across the portfolio, primarily as a result of new business growth and improved premium retention on existing portfolio.
- Direct Lines saw an increase in premiums compared to 2013 with the Motor business seeing an increase in renewals and improved cancellations.

The combined operating ratio has improved by 2.4%, compared with 2013.

- The improvement in the loss ratio is driven by the 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. This has been offset by a number of large weather events during the year.

The investment return for the year, recorded within the Statement of Profit or Loss, is a profit of £379.2m (2013: £222.6m), further analysis is provided in note 3.

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 2014 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.

Strategic Report (continued)

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 the AXA Group global strategy of being the preferred company for customers, employees and shareholders.

Solid progress has been made in 2014 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.

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.

	2014	2013	
Gross written premium	£2,099.8m	£2,045.6m	
Profit before tax	£338.9m	£136.3m	Reflected in the Statement of Profit or Loss
Loss ratio	(66.5%)	(67.1%)	Ratio of net insurance claims and benefits to net insurance premium
Underwriting result	(£40.3m)	(£86.3m)	Result of insurance activities
Investment result	£379.2m	£222.6m	Result of investment activities

PRINCIPAL RISKS AND UNCERTAINTIES

The AXA UK Group has an established process for risk acceptance and risk management, which is 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. Line management is responsible for maintaining an internal control framework to manage financial and operational risks, which is monitored regularly to ensure the completeness, accuracy and integrity of the Company's financial information.

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 expectations. Underwriting, reserving and reinsurance strategies may also give rise to risk and uncertainty through inaccurate pricing, inadequate reinsurance protection and inadequate reserving; these are largely within management's control and strategies are communicated clearly throughout the business through policy statements and guidelines.

Financial risk management, including the impact of risk on economic capital, is discussed in the management of financial risk note set out on pages 30 to 40 of the financial statements.

Strategic Report (continued)

FUTURE DEVELOPMENTS

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 2015, we aim to remain competitive by controlling costs and improving efficiency. The Personal Lines business will focus on profitable growth in the core lines of Motor and Household whilst actively managing exposure in non-core lines. There will also be a strong focus on use of data for developing customer propositions and enhancing the claims experience. 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. Commercial Lines will continue to target growth while keeping costs flat and thereby further improving profitability in line with the strategy.

Corporate Reorganisation

An ongoing project to simplify the corporate structure of the AXA UK Group is currently underway. On 1 September 2014 the Company acquired 100% of Eaton Kaye Limited from subsidiary undertaking Swiftcover Insurance Services Limited, changing the holding from indirect to direct. As part of an internal reorganisation, the trade and assets of subsidiary undertakings AXA General Insurance and Eaton Kaye Limited were transferred to the Company.

Signed on behalf of the Board by



B. Poupart-Lafarge
Director
25 March 2015

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2014.

FUTURE DEVELOPMENTS

Future developments are discussed in the Strategic Report.

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 Strategic Report. The ability to cope with unexpected risks to the financial position is shown within the management of financial risk note set out on pages 30 to 40 of the financial statements.

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 2020. There are no material uncertainties relating to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Consequently, 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 2014 (2013: nil).

DIRECTORS

The directors of the Company who were in office during the year and up to the date of approval of the financial statements are shown on page 1. The directors who have served for part of the year are given below:

P. L. Burrows (resigned 29 May 2014)

Directors' qualifying third party and pension scheme indemnity provisions

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 approval of the financial statements.

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 set out on pages 30 to 40 of the financial statements. In particular the Company's exposure to market risk, credit risk and liquidity risk are separately disclosed in that note.

BRANCHES OUTSIDE THE UK

The Company does not operate branches outside the UK.

Directors' Report (continued)

RESEARCH AND DEVELOPMENT

The AXA UK Group has a significant in-house IT function and, in line with the Group strategy, a key focus is on design and development of new and improved IT processes and platforms, elements of this work constitute research and development.

POLITICAL DONATIONS

The Company made no donations for political purposes.

EVENTS OCCURRING AFTER THE REPORTING PERIOD

The Company has no post balance sheet events which require disclosure.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITOR

Each director in office at the date the Directors' Report is approved confirms that:

- a) so far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- b) 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 auditor is aware of that information.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, 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 these 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 IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

Signed on behalf of the Board by



B. Poupart-Lafarge
Director
25 March 2015

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF AXA INSURANCE UK PLC

We have audited the financial statements of AXA Insurance UK plc (the 'Company') for the year ended 31 December 2014 which comprise the Statement of Profit or Loss, 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, 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 is made solely to the Company's member in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on the 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 2014 and of its profit 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 the other matter prescribed by the Companies Act 2006

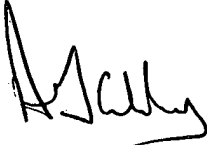
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's 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.



Andrew Goldsworthy (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

Tower Bridge House
St Katharine's Way
London E1W 1DD

25 March 2015

Statement of Profit or Loss

Year ended 31 December			
	Note	2014 £m	2013 £m
Insurance revenue			
Insurance premium revenue	2	2,107.5	2,097.1
Insurance premium ceded to reinsurers	2	(115.0)	(115.1)
Net insurance premium revenue	2	1,992.5	1,982.0
Other income			
Investment income	3	1,069.6	195.9
Net realised gains and losses relating to investments at cost and at fair value through shareholders' equity	3	(636.2)	29.5
Net realised gains and losses and change in fair value of investments at fair value through profit or loss	3	(8.2)	31.5
Change in investment impairments	3	(36.0)	(2.2)
Other operating income	4	63.8	56.0
Total income		2,445.5	2,292.7
Policyholder claims			
Insurance claims and loss adjustment expenses	6	(1,401.0)	(1,395.7)
Insurance claims and loss adjustment expenses recoverable from reinsurers	6	12.2	9.0
Net insurance claims	6	(1,388.8)	(1,386.7)
Other expenses			
Insurance contract acquisition expenses	7	(516.5)	(563.4)
Marketing and administration expenses	7	(174.3)	(160.2)
Cost of asset management services	3	(10.0)	(9.2)
Other operating expenses	5	(17.0)	(14.0)
Expenses		(717.8)	(746.8)
Operating result		338.9	159.2
Finance costs	9	-	(22.9)
Profit before tax		338.9	136.3
Income tax expense	10	(26.6)	(41.5)
Profit for the year attributable to the equity shareholders of the Company		312.3	94.8

All transactions relate to continuing operations.

The information on pages 14 to 65 forms an integral part of these financial statements.

Statement of Other Comprehensive Income

		Year ended 31 December	
		2014	2013
	Note	£m	£m
Profit for the financial year after tax		312.3	94.8
Other Comprehensive Income:			
Items that may be subsequently reclassified to the Statement of Profit or Loss			
Revaluation gains/(losses) of available for sale financial assets		7.6	(26.4)
Tax effect of items recognised in other comprehensive income – deferred tax	28	(1.5)	5.4
Other Comprehensive Income net of tax		6.1	(21.0)
Total comprehensive income for the year attributable to the equity shareholders of the Company		318.4	73.8

The information on pages 14 to 65 forms an integral part of these financial statements.

Statement of Financial Position

		As at 31 December	
	Note	2014 £m	2013 £m
ASSETS			
Goodwill and Intangible assets	13	220.1	231.9
Property, plant and equipment	11	21.2	26.6
Investment properties	12	111.4	107.0
Investment in subsidiary companies	15	354.7	1,019.4
Investment in financial assets	16	4,465.6	4,029.3
Reinsurers' share of insurance contract liabilities	18	150.1	155.6
Deferred acquisition costs	14	196.9	205.3
Deferred taxation	28	130.2	148.7
Insurance and reinsurance receivables	19	721.8	688.5
Other receivables	20	464.0	387.6
Cash and cash equivalents	21	137.1	147.4
Total assets		6,973.1	7,147.3
EQUITY			
Ordinary share capital	22	122.3	122.3
Share premium	22	798.7	798.7
Other reserves	23	1,064.8	769.3
Retained earnings		417.6	104.4
Total equity		2,403.4	1,794.7
LIABILITIES			
Technical provisions - insurance contract liabilities	24	4,075.4	4,008.7
Insurance and reinsurance liabilities	25	236.0	237.1
Provisions for other liabilities and charges	26	50.6	52.5
Other liabilities	27	98.3	979.8
Derivative financial instruments	17	84.0	56.1
Current income tax liabilities		25.4	18.4
Total liabilities		4,569.7	5,352.6
Total equity and liabilities		6,973.1	7,147.3

The financial statements on pages 9 to 65 were approved and authorised for issue by the Board of Directors on 25 March 2015 and were signed on behalf of the board by:



B. Poupart-Lafarge
Director

Statement of Changes in Equity

	Ordinary share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
2014					
Balance as at 1 January	122.3	798.7	769.3	104.4	1,794.7
Profit for the year	-	-	-	312.3	312.3
Fair value gains on available for sale financial assets	-	-	7.6	-	7.6
Tax on movements in Statement of Comprehensive Income – deferred tax	-	-	(1.5)	-	(1.5)
Total comprehensive income for the year	122.3	798.7	775.4	416.7	2,113.1
Transactions with owners					
Share based payments	-	-	-	0.9	0.9
Capital contribution	-	-	289.4	-	289.4
Balance as at 31 December	122.3	798.7	1064.8	417.6	2,403.4

	Ordinary share capital £m	Share premium £m	Other reserves £m	Retained Earnings £m	Total £m
2013					
Balance as at 1 January	122.3	798.7	565.7	9.1	1,495.8
Profit for the year	-	-	-	94.8	94.8
Fair value gains on available for sale financial assets	-	-	(26.4)	-	(26.4)
Tax on movements in Statement of Comprehensive Income – deferred tax	-	-	5.4	-	5.4
Total comprehensive income for the year	122.3	798.7	544.7	103.9	1,569.6
Transactions with owners					
Share based payments	-	-	-	0.5	0.5
Capital contribution	-	-	224.6	-	224.6
Balance as at 31 December	122.3	798.7	769.3	104.4	1,794.7

The information on pages 14 to 65 forms an integral part of these financial statements.

Statement of Cash Flows

		Year ended 31 December	
	Note	2014 £m	2013 £m
Cash flows from operating activities			
Cash generated from operations	30	94.0	122.2
Income taxes paid		(1.1)	(20.6)
Interest received		152.7	145.4
Dividend and other income received		36.8	30.4
Net cash generated from operating activities		282.4	277.4
Cash flows from investing activities			
Proceeds from sale of:			
Investments		2,387.0	2,005.1
Purchase of:			
Investments		(2,676.1)	(2,210.3)
Loans		-	-
Property, plant and equipment		-	(7.6)
Investment properties	12	(0.1)	(2.0)
Intangible assets	13	(3.5)	(12.6)
Net cash from investing activities		(292.7)	(227.4)
Net cash from financing activities		-	-
Net (decrease)/increase in cash and cash equivalents		(10.3)	50.0
Cash and bank overdrafts at 1 January		147.4	97.4
Cash and bank overdrafts at 31 December	21	137.1	147.4

The information on pages 14 to 65 forms an integral part of these financial statements.

Accounting Policies

General Information

AXA Insurance UK plc ("the Company") underwrites general insurance business in the United Kingdom ("UK"). The business undertaken is principally property and motor in both commercial and personal lines, together with liability insurance (commercial) and travel and creditor insurance (personal).

The Company is a public limited company under the Companies Act 2006, 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 years presented, unless otherwise stated.

1. Basis of presentation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations of the IFRS Interpretations Committee ("IFRS IC") as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a 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.

In compliance with IFRS 4 'Insurance contracts' Phase I, the Company continues to apply the recommendations of 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 preparation of financial statements in compliance with 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 to the financial statements are set out on pages 28 and 29.

As recommended by International Accounting Standard ("IAS") 1 'Presentation of Financial Statements', assets and liabilities are generally classified in 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. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the respective notes. As for most insurance companies, expenses are classified by destination in the Statement of Profit or Loss.

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.

Certain prior year balances have been reclassified to conform with current year presentation. The principle change is the reclassification of the prior year cashflow to correctly reflect the cash and non-cash nature of dividends, resulting in an impact of £30m on cash generated from operations. The directors believe that the current year presentation is appropriate and has no impact on the results or net assets of the Company.

a) Changes in presentation

The accounting policies adopted are consistent with those of the previous financial year. The following standards have been adopted by the Company for the first time.

IAS 27 (revised 2011) 'Separate financial statements'

IAS 27 is renamed 'Separate financial statements' and continues to deal with the requirements for preparing and presenting separate financial statements for investments in subsidiaries, joint ventures and associates. The Company adopted the amendment with effect from 1 January 2014, with no material impact on the financial statements.

Accounting Policies (continued)

IAS 32 (amendment) 'Financial instruments: presentation'

The amendment does not change the current offsetting rules in IAS 32 surrounding financial assets and financial liabilities, but clarifies that the right of setoff must be available today and not contingent 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. The Company adopted the amendment with effect from 1 January 2014, with no material impact on the financial statements.

IAS 36 (amendment) 'Impairment of assets'

The amendment clarifies the disclosure requirements in respect of the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The Company adopted the amendment with effect from 1 January 2014, with no material impact on the financial statements.

IAS 39 (amendment) 'Financial instruments: recognition and measurement'

IAS 39 required discontinuation of hedge accounting for a derivative that has been designated as a hedging instrument where the derivative is novated to a central counterparty. The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Company adopted the amendment with effect from 1 January 2014, with no material impact on the financial statements.

IFRIC 21 (interpretation) 'Levies'

This is an interpretation on IAS 37 'Provisions, contingent liabilities and contingent assets' and provides guidance on what the obligating event is that gave rise to pay a levy and when a liability should be recognised. The Company adopted the amendment with effect from 1 January 2014, with no material impact on the financial statements.

IFRS 12 (new standard) 'Disclosure of interest in other entities'

The standard addresses the disclosure requirements for an entity that has an interest in subsidiaries, joint arrangements, associates or structured entities. The Company adopted this standard with effect from 1 January 2014, with no material impact on the financial statements.

b) Issued accounting pronouncements

There are a number of new standards and amendments to standards and interpretations relevant to the Company's future financial reporting periods which are listed below.

IAS 27 (amendments) 'Separate Financial Statements'

These amendments to IAS 27, 'Separate financial statements' on the equity method in separate financial statements, allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements." The amendments become effective for annual periods beginning on after 1 Jan 2016 subject to EU endorsement. It is not expected the amendment will have a material impact on the financial statements.

IFRS 15 (new standard) 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. Companies using IFRS will be required to apply the revenue standard for reporting periods beginning on or after 1 January 2017, subject to EU endorsement. The amendments are effective for annual periods beginning on or after 1 January 2017 subject to EU endorsement. The Company is assessing the impact of IFRS 15.

Accounting Policies (continued)

IAS 16 and IAS 38 (Amendment) 'Property, Plant and Equipment and Intangible Assets'

The amendments provide additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. They are effective for annual periods beginning on or after 1 January 2016 subject to EU endorsement. It is not expected the amendment will have a material impact on the financial statements.

IAS 19 (Amendment) 'Employee Benefits (revised 2011)'

These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendment will be effective for annual periods beginning on or after 1 July 2014 subject to EU endorsement. It is not expected the amendment will have a material impact on the financial statements.

IFRS 9 (new standard) 'Financial Instruments'

IFRS 9 for financial assets was published in November 2009 and updated in October 2010 to include financial liabilities. Amendments issued in November 2013 remove the mandatory effective date of 1 January 2015 as the IASB have reached a decision to defer the effective date of the standard until the IFRS 9 project is closer to completion. The project aims to replace IAS 39 'Financial instruments: recognition and measurement' through three phases: the classification and measurement of financial instruments, impairment of financial instruments and hedge accounting. The Company is assessing the impact of IFRS 9.

IAS 1 (Amendment) 'Presentation of Financial Statements'

The amendment clarifies guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form a part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendment is effective for annual periods beginning on or after 1 January 2016. It is not expected the amendment will have a material impact on the financial statements.

Annual improvements 2012, 2013, 2014 (amendments)

The IASB's annual improvements process addresses a series of narrow scope amendments to existing standards. The annual improvements for the 2010 to 2012, 2011 to 2013 and 2012 to 2014 reporting cycles amended fifteen standards which are pending endorsement by the EU and effective for annual periods beginning on or after 1 July 2014, 1 July 2015 and 1 January 2016. The amendments will not have a material impact on the financial statements.

The Company will be affected by the following long term projects:

IFRS 4 'Insurance contracts'

Phase I of the project primarily enhanced disclosures surrounding the amount, timing and uncertainty of future cash flows from insurance contracts. Phase II is aimed at providing a single principle based standard on accounting for all types of insurance contracts and addresses recognition, measurement, presentation and disclosure.

The initial exposure draft on IFRS 4 Phase II issued in July 2010 introduced a current measurement model based on a building block approach; and the revised exposure draft issued in June 2013 maintained the current measurement model but introduced alternate methods to address earnings volatility.

The IASB expects to allow a period of approximately three years after issuance of a final standard as the effective date; a final standard is expected to be published in 2015.

Accounting Policies (continued)

Solvency II

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 Company plans to use an internal risk management model that is Solvency II compliant. Discussions on the Omnibus II Directive may amend certain provisions of the Solvency II Directive, which has an implementation date of the 1 January 2016.

II. Divisional reporting

The Company does not apply the requirements of IFRS 8 'Operating segments', as its shares are not publicly traded. This disclosure is voluntarily provided, on the basis through which the business is reported, by class of business and geographic region. 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 region.

III. Foreign currency translation

a) Functional and presentation currency

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.

b) Transactions and balances

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 non-investment related activities denominated in foreign currencies are recognised in the Statement of Profit or Loss in either 'other operating income' or 'other operating expenses' depending on the net position calculated at the year end. Foreign exchange gains and losses resulting from the settlement of investment related activities denominated in foreign currencies are recognised in the Statement of Profit or Loss within investment income.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in the Statement of Profit or Loss, and other changes in carrying amount are recognised in Other Comprehensive Income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the statement of profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in Other Comprehensive Income.

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. An insurance contract is a contract under which the Company (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Investment contracts are contracts that carry financial risk with no significant insurance risk.

Accounting Policies (continued)

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 cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

a) Insurance premiums

Premiums written comprise the total premiums receivable for the whole period of cover provided by insurance business incepted during the reporting period, recognised on the date on which the policy commences. Premiums include any adjustments arising in the reporting period for premiums receivable in respect of insurance business written in prior reporting periods; and estimates of premiums due but not yet received or notified to the Company.

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in-force at the balance sheet date, calculated on a time apportionment basis or having regard to the incidence of risk. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

b) Insurance claims

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and for claims incurred but not enough reported (IBNR and IBNER respectively) and related expenses, together with any 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, including the cost of IBNR claims and IBNER 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 (that is, the IBNER provision), 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 claim has occurred. 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 reported relatively quickly after the claim event tend to display lower levels of 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.

Accounting Policies (continued)

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

- changes in 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 large claims projected in aggregate, but separately to other losses in order to allow for the possible distortive effect of the development and incidence of these large claims.

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 techniques are selected and combined, 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 balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim.

The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications. Adjustments are made to allow for movements in the variables described above.

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 balance sheet date is used to project the ultimate expected total cost of claims incurred. This is done by reference to statistics that show how the total cost of claims incurred or paid in previous 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.

Accounting Policies (continued)

Liability and marine business

Liability and marine claims are long tail in comparison to those classes of business previously described; in which case a larger element of the claims provision relates to IBNR claims. Claims estimates are derived using one or more of the following methods:

1. A combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio, based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort.
2. Using the costs of claims notified to the Company at the balance sheet date which are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications. Adjustments are made to allow for movements in the variables described above.
3. 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 by reference to the projected number of claims (based on statistics showing how the number of notified claims have been developed over time) and the anticipated average final cost of notified and IBNR claims (based on historical levels adjusted to allow for movements in the variables described above).

The liability class of business is also exposed to the potential emergence of new types of latent claims but no allowance is included until evidence of the existence of such claims is received by the 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, noise-induced hearing loss 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.

Accounting Policies (continued)

Reinsurance recoveries

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims 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

Salvage applies to the proceeds of repaired, recovered, or scrapped property that the Company is permitted to sell; property which is acquired in settling a claim. Subrogation refers to the proceeds recovered through negotiation or legal action against third parties.

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

e) Deferred acquisition costs ("DAC")

Commissions and other acquisition costs that relate to unearned premium are capitalised as an intangible asset and amortised over the terms of the policies as premium is earned. All other acquisition costs are recognised as expenses when incurred.

f) Liability adequacy test

At each balance sheet 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. 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 for losses arising from liability adequacy tests (the unexpired risk provision) is established.

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 balance sheet date whether there is objective evidence that the insurance receivable is impaired. Where such evidence exists, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the Statement of Profit or Loss.

VI. Goodwill and intangible assets

a) Goodwill

Goodwill represents the excess of the consideration transferred over the proportionate interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

Goodwill is initially recognised at cost and is subsequently measured at cost less accumulated impairment losses. Goodwill is reviewed for impairment on an annual basis. Where there is evidence of impairment, the recoverable amount is calculated and compared to the carrying value. The recoverable amount is the greater of the value in use and the fair value less costs of disposal. If the recoverable amount is less than the carrying value, impairment is recognised immediately as an expense and is not subsequently reversed.

Accounting Policies (continued)

b) Software development

Costs associated with major software developments are capitalised where such expenditure is expected to generate future economic benefits and can be reliably measured. The asset is amortised on the straight line basis over its estimated useful life, subject to a maximum period of 5 years. Assets with finite useful lives are reviewed for impairment at least annually.

c) Advanced commissions

Commission advanced to intermediaries in anticipation of the introduction of new business is initially recognised at cost and subsequently amortised over the period over which it is expected that the benefit will be received with useful lives ranging from two to three years. Assets with finite useful lives are reviewed for impairment at least annually.

VII. Property, plant and equipment

a) Land and buildings

Land and buildings comprise mainly property occupied by the Company. Land and buildings are stated at historical cost less accumulated depreciation and an allowance for impairment, where appropriate. Historical cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Buildings are depreciated using the straight line method on the basis of their expected useful lives, up to a maximum of 50 years.

b) Leasehold improvements

Leasehold improvements included 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.

c) Plant and equipment

Plant and equipment comprise mainly computer hardware, furniture and fittings. Plant and equipment are stated at historical cost less accumulated depreciation and an allowance for impairment, where appropriate. Historical cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Plant and equipment are depreciated using the straight line method on the basis of their expected useful lives, after taking into account the estimated residual value. The expected useful economic life of plant and equipment is 5 years.

VIII. Investment properties

Investment properties comprise freehold and long leasehold land and buildings. Investment properties are held for long term rental yield and/or capital appreciation, and are not occupied by the Company.

Investment properties are carried at cost less accumulated depreciation; and are depreciated using the straight line method on the basis of their expected useful lives, up to a maximum of 50 years.

In the event of an unrealised loss over 15%, impairment is recognised for the difference between the net book value of the investment property and the fair value of the asset based on an independent valuation.

IX. Financial assets

Financial assets are classified in the following categories: at fair value through profit or loss; available for sale; held to maturity; and loans and receivables. The classification of financial assets is determined on initial recognition and depends on the purpose for which the financial assets were acquired or originated.

Accounting Policies (continued)

A financial asset is recognised on the date on which the Company enters into a commitment to purchase or sell the asset, the trade date. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. Investments acquired principally for the purpose of selling in the short term are classified as held for trading. Investments are designated at fair value through profit or loss in those instances where the fair value of the asset determines the value of the liabilities arising under insurance and investment contracts, and to do otherwise would result in an accounting mismatch. These financial assets are recognised initially at their fair value, with transaction costs expensed in the Statement of Profit or Loss; and subsequently re-measured at fair value with movements in fair value recognised in profit or loss.

b) Available for sale financial assets

Available for sale financial assets include equity securities, debt securities and mutual funds. Financial assets designated as available for sale are not classified into the categories of loans and receivables, held to maturity investments or financial assets at fair value through profit or loss. These financial assets are recognised initially at their fair value, including transaction costs; and subsequently measured at fair value, with unrealised gains or losses recognised in Other Comprehensive Income in the revaluation reserve. When the asset is disposed or impaired, the accumulated fair value adjustment in the revaluation reserve is transferred to the Statement of Profit or Loss.

c) Held to maturity financial assets

Held to maturity financial assets are non-derivative investments which are not quoted in an active market, with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold until maturity. These investments are initially recognised at cost, which is the fair value of the consideration paid for the acquisition of the investment and transaction costs directly attributable to the acquisition of the investment; and subsequently measured at amortised cost using the effective interest rate method with gains and losses recognised in the Statement of Profit or Loss.

d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are initially recognised at cost, which is the fair value of the consideration paid for the acquisition of the investment and transaction costs directly attributable to the acquisition of the investment; and subsequently measured at amortised cost using the effective interest rate method with gains and losses recognised in the Statement of Profit or Loss. Other assets classified as loans and receivables include 'other receivables' in note 20 and 'cash and cash equivalents' in note 21.

Private loans are carried at amortised cost, less impairment, using the effective interest rate method.

e) Fair value estimation

The fair value of financial assets is best established through quoted prices in an active market. An active market is where 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. If the market for a financial instrument is not active, the Company uses recognised valuation techniques to determine fair value. Valuation techniques include discounted cash flow analysis, option pricing models and, where available, evidence of arm's length transactions in similar assets.

Accounting Policies (continued)

The inputs to these models are largely derived from observable market data; but where observable market data are not available, management judgement is applied to factors including model risks, liquidity risk and counterparty credit risk.

The fair value of over the counter (OTC) derivatives is determined using counterparty valuations. Where counterparty valuations are not available, fair value is derived from an external proprietary model (Sophis) or internal models validated by AXA Investment Managers.

Asset backed securities are valued on a mark to market basis. In the absence of market prices or if there are inconsistencies inherent in the prices received from contributors; proxies or mark to model valuations approved by AXA Investment Managers are used.

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

Fund of hedge funds are valued using estimated fund prices which are received directly from the fund manager.

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

X. Investments in subsidiary companies

Investments in subsidiary companies are recorded at cost; and assessed for impairment at each reporting date.

XI. Impairment of assets

a) Financial assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset has been impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

An impairment loss is the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is the greater of its fair value less costs of disposal and its value in use. Value in use is the present value of estimated future cash flows discounted at the financial asset's current effective interest rate. The carrying amount of the asset is reduced through an allowance account and the amount of the loss is recognised in the Statement of Profit or Loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account and the amount of the reversal is recognised in the Statement of Profit or Loss.

b) Available for sale financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset has been impaired. For debt securities, the Company applies the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is evidence that the assets are impaired.

Accounting Policies (continued)

In the event of such evidence surfacing for available for sale financial assets, the cumulative loss that had been recognised in Other Comprehensive Income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the Statement of Profit or Loss. An impairment loss recognised in the Statement of Profit or Loss on equity instruments classified as available for sale is not reversed through the statement of profit or loss, but recognised in equity.

c) Non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

XII. Derivative financial instruments

Derivative financial instruments include futures, options, forward foreign exchange contracts, interest rate swaps, credit default swaps and currency swaps; these are used to mitigate risk such as forward currency contracts and interest rate swaps are used to hedge foreign currency risks and interest rate risks, respectively. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. All derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Derivative financial instruments are designated as held for trading and measured at fair value, with gains and losses recognised in the statement of profit or loss, unless they are designated and effective hedging instruments.

The best evidence of the fair value of a derivative at initial recognition is the transaction price, that is, the fair value of the consideration given or received. The fair value of a derivative that is not traded in an active market is determined through valuation techniques, whose variables include mostly data from observable markets. Valuation techniques include using recent arm's length market transactions between knowledgeable willing parties, if available; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; and option pricing models.

Embedded derivatives are deemed to be closely related if either the market value or amortised cost of the combined contract is within 10% of the nominal amount. Embedded derivatives that are not closely related to their host contracts and meet the definition of a derivative are separately recorded and measured at fair value through profit or loss if the impact is deemed material.

a) Hedge accounting

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. The Company designates certain derivatives as being held for the purpose of hedging the fair value of recognised assets or liabilities, as a fair value hedge.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking the hedge. 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.

Accounting Policies (continued)

b) Fair value hedge

The Company only applies fair value hedge accounting to hedge the interest rate risk of designated fixed income securities. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Profit or Loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Derivative financial instruments used for hedging purposes and the movements on fair value hedges are disclosed in note 17.

c) Ineffective hedge

At the end of each month the hedge relationship is assessed using a retrospective effectiveness test. In those instances where it is determined that a hedge relationship is no longer effective, hedge 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, bank overdrafts and other cash equivalents within the controlled cash mutual fund investment. Cash equivalents are highly liquid investments which are subject to an insignificant risk of a change in value.

XIV. Share capital

Ordinary shares are treated as equity when the instruments incur no obligation to transfer cash or any other asset to the holder. Incremental costs directly attributable to the issue of equity instruments are deducted from equity.

XV. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest rate method, with movements recognised in the Statement of Profit or Loss.

XVI. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when there is a legally enforceable right to set-off the recognised amounts and when there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

XVII. Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Current and deferred tax is recognised as income or expense and included in the statement of profit or loss for the period. The exception being the current and deferred tax relating to items recognised directly in equity or Other Comprehensive Income, which are recognised in equity or Other Comprehensive Income and not in the Statement of Profit or Loss.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period in the countries in which the Company operates and generates taxable income.

Management periodically evaluates positions substantively taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Accounting Policies (continued)

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. A deferred tax asset is recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same fiscal authority.

XVIII. Employee benefits

Pension obligations

Staff engaged in the Company's activities are members of the AXA UK Pension Scheme ("the Scheme"). The Scheme supports a number of companies in the AXA UK Group, through both defined benefit and defined contribution schemes. The defined benefit schemes share risks between the companies in the AXA UK Group and are not facilitated by a contractual agreement or stated policy to charge the individual companies the net defined benefit cost. As the outcome of various restructuring activities and movement of staff between companies in the AXA UK Group, it is not feasible to allocate the defined benefit scheme assets and liabilities to individual participating companies. Consequently, the Company recognises its contribution payable for the period as permitted by IAS 19 'Employee benefits (revised 2011)' for defined benefit plans that share risks between companies under common control.

The charge for pension costs principally represents the costs of providing pension benefits to the Company's staff in respect of their service during the year. The staff are employed by AXA Services Limited and the associated costs of providing pensions are recharged to the Company, as the contributions become payable in accordance with the rules of the relevant scheme.

XIX. Provisions

Provisions are recognised when the Company has a present legal or constructive obligation 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 end of the reporting period.

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. Provisions are not recognised for future operating losses.

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

XX. Government grants

In accordance with IAS 20 the income approach has been applied, where government grants receivable are recognised in the statement of profit or loss over the period in which the Company recognises expenses for which the grant is intended to compensate, when there is reasonable certainty that the conditions attributable to the grant will be met.

Accounting Policies (continued)

XXI. 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/(credited) to the Statement of Profit or Loss on a straight line basis over the lease term.

XXII. Dividend distributions

Interim dividends are recognised as an expense when paid and final dividends are recognised as a liability when approved by the shareholders through a written resolution.

XXIII. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for services rendered and is recognised as follows:

a) Premiums

Premiums from insurance contracts represent the primary source of revenue for the Company and are detailed in paragraph V(a) of the accounting policies.

b) Services rendered

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 recognised in the Statement of Profit or Loss when it becomes due.

c) Interest income

Interest income is recognised in the Statement of Profit or Loss as it accrues and is calculated by using the effective interest rate method.

d) Rental income

Rental income from investment properties is recognised in the Statement of Profit or Loss when it becomes due.

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 interest income is recognised in the Statement of Profit or Loss as it is earned using the effective interest rate method. The deferred portion is located in the line item 'accruals and deferred income' in note 27.

f) Dividend income

Dividend income on available for sale assets is recognised in the Statement of Profit or Loss when the right to receive payment is established.

XXIV. Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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. The areas that the directors consider particularly susceptible to changes in estimates and assumptions are detailed below:

Accounting Policies (continued)

a) Insurance contract liabilities

The carrying value of insurance contract liabilities at the reporting date is £4,075.4m (2013: £4,008.7m). The judgements, estimates and assumptions employed in the assessment of the adequacy of provisions for unearned premiums and outstanding claims are set out in accounting policy V and note 24.

b) Intangible assets

The carrying value at the reporting date of intangible assets is £220.1m (2013: £231.9m). In accordance with accounting policy VI 'intangible assets', impairment reviews occur at least on an annual basis where the recoverable amounts are determined of the respective specific assets. Details of the key assumptions used in the estimation of the recoverable amounts are contained in note 13.

c) Fair value of financial assets and derivative financial instruments

Where fair value cannot be derived from active markets or quoted prices, it is determined using valuation techniques. The inputs to these valuation techniques are largely derived from observable market data; but where observable market data is not available, management judgement is applied to factors including model risks, liquidity risk and counterparty credit risk. These are set out in accounting policy IX 'financial assets', XI 'impairment of assets' and XII 'derivative financial instruments'; and notes 16 and 17. Sensitivity information for financial assets and derivative financial instruments are set out in the 'management of financial risk' note.

d) Deferred taxation

The carrying value at the reporting date of the net deferred tax asset is £130.2m (2013: £148.7m), further details of which are disclosed in accounting policy XVII and note 28. A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Significant management judgement is applied to determine the deferred tax asset that can be recognised and is based on the probability of future taxable profits.

e) Deferred acquisition costs

The carrying value at the reporting date of deferred acquisition costs is £196.9m (2013: £205.3m), further details of which are disclosed in accounting policy V(e) and note 14.

Notes to the Financial Statements

MANAGEMENT OF FINANCIAL RISK

Financial risk management objectives and policies

The Company is exposed to various financial risks through the inherent uncertainty in undertaking insurance business affecting its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The most important components of these risks are: market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

The Company forms part of the AXA UK Group which has an established risk management framework on how each risk profile is identified, measured, monitored and controlled through Risk Committees advising the individual business unit Chief Executives. A dedicated risk management function supports the individual business units by ensuring that a full understanding and control of 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.

The notes to follow address the individual components of financial risk, capital management employed and insurance risks associated with underwriting, pricing and reserving.

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.

Hedge accounting has been applied 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.

Notes to the Financial Statements (continued)

a) Industry analysis

The concentration of equity securities, including mutual funds, by industry is analysed as follows:

Equity analysis by industry	2014 £m	%	2013 £m	%
Financial	237.6	48.8%	72.3	13.4%
Consumer	41.1	8.4%	44.5	8.3%
Energy	21.5	4.4%	27.8	5.1%
Manufacturing & Pharmaceuticals	7.6	1.6%	7.9	1.5%
Utilities	24.6	5.0%	27.5	5.1%
Basic materials	8.0	1.6%	11.0	2.0%
Technology & Telecommunications	17.9	3.7%	21.5	4.0%
Others	129.4	26.5%	327.4	60.6%
Total	487.7	100.0%	539.9	100.0%

The concentration of debt securities by industry is analysed as follows:

Debt securities analysis by industry	2014 £m	%	2013 £m	%
Financial	1,043.4	32.4%	1,233.2	40.7%
Consumer	425.9	13.2%	316.4	10.4%
Energy	138.8	4.3%	87.5	2.9%
Manufacturing & Pharmaceuticals	172.1	5.3%	120.3	4.0%
Utilities	303.7	9.4%	265.9	8.8%
Basic materials	107.2	3.3%	80.6	2.7%
Technology & Telecommunications	655.7	20.3%	203.7	6.7%
Government securities	245.9	7.6%	700.3	23.1%
Others	134.8	4.2%	22.2	0.7%
Total	3,227.5	100.0%	3,030.1	100.0%

b) Interest rate risk

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 £16.5m (2013: £55.3m reduced profit) plus unrealised losses in the Statement of Other Comprehensive Income of £132.2m (2013: £77.9m). A decrease of 100 basis points in interest rates would result in increased profit for the period of £17.9m (2013: £56.7m increased profit) plus unrealised gains in the Statement of Other Comprehensive Income of £148.1m (2013: £90.7m).

An increase/decrease of 100 basis points in interest rates would increase/decrease the fair value of derivatives through income by £14.1m (2013: £61.2m).

The fair value of debt securities is exposed to future interest rate fluctuations. Included in debt securities of £3,227.5m (2013: £3,030.1m) is £294.0m (2013: £351.6m) in respect of variable rate debentures and £487.0m (2013: £441.5m) 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. Ignoring the credit risk, debt securities with variable interest rates are exposed to cash flow interest rate risk but not fair value interest rate risk.

The interest rate risk is not significant in cash and cash equivalents balances.

Notes to the Financial Statements (continued)

c) Equity price risk

Listed equity securities represent 50% (2013: 57%) 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 (2013: unchanged). Unrealised gains recorded through the Statement of Other Comprehensive Income would increase by £19.4m (2013: £22.3m).

If equity valuations had decreased by 10%, with all other variables constant, the operating result for the year would decrease by £5.7m (2013: £4.2m). Unrealised gains recorded through the Statement of Other Comprehensive Income would decrease by £13.7m (2013: £18.1m).

An increase of 10% in the relevant market indices would decrease the fair value of equity hedging derivatives through income by £2.1m (2013: £2.9m). A decrease of 10% in the relevant market indices would increase the fair value of equity hedging derivatives through income by £5.8m (2013: £4.7m).

d) 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 2014, if the pound had weakened by 1%, with all other variables constant, the operating result for the year would have been £1.6m (2013: £1.0m) higher, and if the pound had strengthened by 1%, with all other variables constant, the operating result for the year would have been £1.5m (2013 : £0.9m) lower.

The concentration of financial assets by currency is analysed as follows:

2014

	CAD		EURO		GBP		JPY		USD		Other		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
AFS equities	1.0	0.2	50.8	10.4	408.1	83.8	2.5	0.5	21.1	4.3	4.1	0.8	487.6	100.0
AFS debt securities	9.3	0.3	190.8	5.9	2,450.4	75.9	-	-	576.2	17.9	0.9	-	3,227.6	100.0
FVTPL derivatives	-	-	41.3	9.1	47.3	10.4	-	-	365.5	80.5	-	-	454.1	100.0
FVTPL funds	-	-	25.9	35.5	42.5	58.3	1.6	2.2	2.9	4.0	-	-	72.9	100.0
Loans	-	-	30.7	13.7	78.9	35.3	-	-	113.8	51.0	-	-	223.4	100.0
	10.3	0.2	339.5	7.6	3,027.2	67.8	4.1	0.1	1,079.5	24.2	5.0	0.1	4,465.6	100.0

The concentration of financial assets by currency is analysed as follows:

2013

	AUD		EURO		GBP		JPY		USD		Other		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
AFS equities	0.9	0.2	90.2	16.7	424.9	78.6	2.5	0.5	17.8	3.3	3.6	0.7	539.9	100.0
AFS debt securities	9.2	0.3	224.0	7.4	2,235.6	73.8	-	-	530.3	17.5	31.0	1.0	3,030.1	100.0
FVTPL derivatives	-	-	21.4	24.2	28.5	32.3	8.2	9.4	30.1	34.0	0.1	0.1	88.3	100.0
FVTPL funds	-	-	46.9	19.3	47.0	19.4	-	-	148.9	61.3	-	-	242.8	100.0
Loans	-	-	-	-	128.1	100.0	-	-	-	-	-	-	128.1	100.0
Deposits with credit institutions	-	-	-	-	0.1	100.0	-	-	-	-	-	-	0.1	100.0
	10.1	0.3	382.4	9.5	2,864.1	71.0	10.8	0.3	727.1	18.0	34.7	0.9	4,029.3	100.0

The exposure of the Company to currency risk on other financial assets and liabilities is not significant.

Notes to the Financial Statements (continued)

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.

Credit risk assets by economic exposure is analysed below; the spread is managed to ensure that there is no significant concentration of credit risk:

Ratings	2014 £m	%	2013 £m	%
AAA	202.6	4.1%	305.4	6.7%
AA	905.5	18.4%	830.4	18.2%
A	981.8	19.9%	748.3	16.4%
BBB	1,113.1	22.5%	1,074.5	23.5%
BB	49.5	1.0%	69.0	1.5%
Not rated	1,685.2	34.1%	1,541.3	33.7%
Total	4,937.7	100.0%	4,568.9	100.0%

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

	2014 (carrying value) £m	2013 (carrying value) £m
Investment in financial assets – debt securities (note 16)	3,227.5	3,030.1
Investment in financial assets – loans (note 16)	223.4	128.1
Investment in financial assets – derivatives (note 17)	72.9	88.3
Reinsurers' share of insurance contract liabilities (note 18)	93.5	100.5
Insurance and reinsurance receivables (note 19)	721.8	688.5
Other receivables – other (note 20)	44.5	43.3
Other receivables from related parties (note 20)	417.0	342.7
Cash and cash equivalents (note 21)	137.1	147.4
Maximum credit risk	4,937.7	4,568.9

Notes to the Financial Statements (continued)

The age analysis of insurance and reinsurance receivables is presented as follows:

	Not past due or impaired	Overdue less than 6 months	Overdue 6 - 12 months	Overdue over 1 year	Provided for	Carrying value £m
2014						
Direct insurance operations	615.1	25.1	4.1	1.7	(2.4)	643.6
Reinsurance operations	53.6	6.5	5.4	14.4	(1.7)	78.2
2013						
Direct insurance operations	594.8	22.4	4.6	2.6	(3.8)	620.6
Reinsurance operations	57.4	2.5	0.1	12.5	(4.6)	67.9

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 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 balance sheet 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.

Notes to the Financial Statements (continued)

	Less than 1 year £m	1-2 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
2014						
Financial assets						
Equities and mutual funds	-	-	-	-	941.8	941.8
Debt Securities	266.6	313.9	840.0	1,807.0	-	3,227.5
Loans and receivables	9.6	31.3	36.6	145.9	-	223.4
Other receivables	464.0	-	-	-	-	464.0
Deposits with credit institutions	137.0	-	-	-	-	137.0
Total non-derivative financial assets	877.2	345.2	876.6	1,952.9	941.8	4,993.7
Derivative financial instruments	20.8	0.8	0.6	50.7	-	72.9
Total financial assets (note 16, 20 & 21)	898.0	346.0	877.2	2,003.6	941.8	5,066.6

	Less than 1 year £m	1- 5 Years £m	Over 5 years £m	Total £m
2014				
Financial liabilities				
Claims outstanding (note 24)	1,034.5	1,300.9	1655.6	3,991.0
Direct insurance operations (note 25)	171.2	-	-	171.2
Reinsurance operations (note 25)	64.8	-	-	64.8
Other liabilities (note 27)	98.3	-	-	98.3
Total non-derivative financial liabilities	1,368.8	1,300.9	1655.6	4,325.3
Derivative financial instruments (note 17)	30.3	8.7	45.0	84.0
Total financial liabilities	1,399.1	1,309.6	1700.6	4,409.3

	Less than 1 year £m	1-2 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
2013						
Financial assets						
Equities and Mutual funds	-	-	-	-	782.7	782.7
Debt Securities	294.2	225.1	834.7	1,676.1	-	3,030.1
Loans and receivables	24.5	29.5	67.1	7.0	-	128.1
Other receivables	387.6	-	-	-	-	387.6
Deposits with credit institutions	147.4	-	-	-	-	147.4
Total non-derivative financial assets	853.7	254.6	901.8	1,683.1	782.7	4,475.9
Derivative financial instruments	33.9	4.1	22.2	28.1	-	88.3
Total financial assets (note 16, 20 & 21)	887.6	258.7	924.0	1,711.2	782.7	4,564.2

Notes to the Financial Statements (continued)

	Less than 1 year £m	1- 5 Years £m	Over 5 years £m	Total £m
2013				
Financial liabilities				
Claims outstanding (note 24)	993.9	1,353.2	797.7	3,144.8
Direct insurance operations (note 25)	184.7	-	-	184.7
Reinsurance operations (note 25)	52.4	-	-	52.4
Other liabilities (note 27)	979.8	-	-	979.8
Total non-derivative financial liabilities	2,210.8	1,353.2	797.7	4,361.7
Derivative financial instruments (note 17)	14.9	15.9	25.3	56.1
Total financial liabilities	2,225.7	1,369.1	823.0	4,417.8

Capital management

The Company is regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA") 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 monitoring of liability and asset profiles is undertaken to establish the implications for supporting capital requirements.

The Company is subject to capital adequacy requirements (which are based on EU Directive requirements). At 31 December 2014 the total capital available to meet its adjusted solo basis Solvency I requirement is £1,138m (2013: £799m) which exceeds the General Insurance Capital Requirement by 108% (2013: 47%).

The Company is also subject to self-assessed risk-based capital requirements under the PRA'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 PRA on a regular basis. The Company has complied with all regulatory capital requirements throughout the year.

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 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.

Notes to the Financial Statements (continued)

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. The UK Property & Casualty segment includes direct commercial employee liability claims outstanding of £992m (2013: £976m) and other liability claims outstanding of £238m (2013: £228m) within the total Insurance liabilities of £4,075m (2013: £4,009m).

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, £452.9m (2013: £438.4m) 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 and change in assumptions

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.
- Methods based on claims ratios (such as the ultimate claims ratio or the additional claims ratio).

Notes to the Financial Statements (continued)

- 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.
- Claims which are reserved on an annuity certain approach over the period of expected payments for each individual claim, are subject to discounting (note 24).

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 2014 for the estimation of general insurance claims other than for claims settled by means of periodical payment orders as disclosed in note 24.

Fair value estimation

The following table provides an analysis of financial instruments carried at fair value, by valuation method; grouped into the levels described below based on the degree to which the fair value is observable.

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, 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).

Notes to the Financial Statements (continued)

Financial assets presented in the fair value measurement hierarchy at 31 December 2014

Description	2014 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets at fair value through income	526.2	9.8	516.4	-
Derivative financial instruments	72.1	9.8	62.3	-
Mutual funds	454.1	-	454.1	-
Available for sale financial assets	3,715.2	2,842.9	748.7	123.6
Equity investments	166.3	161.4	4.9	-
Debt securities	3,227.5	2,526.1	598.1	103.3
Mutual funds	321.4	155.4	145.7	20.3
Derivative financial instruments for hedging	0.8	-	0.8	-
Total financial assets	4,242.2	2,852.7	1,265.9	123.6
Financial liabilities at fair value through income	84.0	17.3	66.7	-
Derivative financial instruments	59.5	17.3	42.2	-
Derivative financial instruments for hedging	24.5	-	24.5	-
Total financial liabilities	84.0	17.3	66.7	-

Financial assets presented in the fair value measurement hierarchy at 31 December 2013

Description	2013 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets at fair value through income	313.8	27.3	286.5	-
Derivative financial instruments	71.0	27.3	43.7	-
Mutual funds	242.8	-	242.8	-
Available for sale financial assets	3,570.0	2,375.5	1,066.3	128.2
Equity securities	212.7	182.8	29.9	-
Debt securities	3,030.1	2,044.5	878.3	107.3
Mutual funds	327.2	148.2	158.1	20.9
Derivative financial instruments for hedging	17.3	-	17.3	-
Total financial assets	3,901.1	2,402.8	1,370.1	128.2
Financial liabilities at fair value through income	56.1	14.7	41.4	-
Derivative financial instruments	48.5	14.7	33.8	-
Derivative financial instruments for hedging	7.6	-	7.6	-
Total financial liabilities	56.1	14.7	41.4	-

£47.5m of debt securities and £0.9m of equities were transferred from Level 1 to Level 2 during the year and £289.1m of debt securities and £0.4m of equities were transferred from Level 2 to Level 1. £0.5m of derivative assets and £0.1m of derivative liabilities were transferred from Level 1 to Level 2 during the year.

Other financial instruments carrying values do not differ significantly from their fair value.

Notes to the Financial Statements (continued)

a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date, as described in the financial assets accounting policy. These instruments comprise primarily FTSE listed equity investments, government debt securities and corporate debt securities which meet the Level 1 criterion.

b) Financial instruments in level 2

The fair value of financial instruments that are not traded in active markets is determined by using recognised valuation techniques, as listed in accounting policy IX(e) 'fair value estimation'. The inputs to the valuation techniques are largely derived from observable market data; and if all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

c) Financial instruments in level 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3. A significant portion of the Level 3 investments comprise the AXA UK Bond, which is valued based on internal models for similar instruments in the AXA Group and the credit risk premium provided by the AXA Group, representing an implied market risk premium for the seniority/maturity profile of AXA related instruments.

The impact on the fair value of the asset and Other Comprehensive Income with and without the risk premium of 58 basis points is £103.3m and £104.6m respectively. An increase or decrease of 10 basis points on the credit risk premium would decrease and increase the fair value of the asset and Other Comprehensive Income to £103.1m and £103.6m respectively.

The following table presents the changes to Level 3 instruments for the year ended 31 December 2014

Description	Available for sale		
	Debt securities	Mutual funds	Total
	£m	£m	£m
Opening balance	107.3	20.9	128.2
Total gains or losses in Other Comprehensive Income	(4.0)	(1.6)	(5.6)
Purchases	-	5.7	5.7
Settlements	-	(4.7)	(4.7)
Closing balance	103.3	20.3	123.6

The following table presents the changes to Level 3 instruments for the year ended 31 December 2013

Description	Available for sale		
	Debt securities	Mutual funds	Total
	£m	£m	£m
Opening balance	204.2	18.1	222.3
Total gains or losses in Other Comprehensive Income	12.2	0.8	13.0
Transfers out	(109.1)	-	(109.1)
Purchases	-	6.8	6.8
Settlements	-	(4.8)	(4.8)
Closing balance	107.3	20.9	128.2

Transfers are as a result of changes in valuation techniques.

Notes to the Financial Statements (continued)

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	
	2014 £m	2013 £m	2014 £m	2013 £m
Direct and reinsurance accepted				
Motor - third party	7.4	7.7	8.3	12.0
- other	785.5	740.6	778.1	747.5
Accident and health	168.1	137.2	164.2	140.3
Third party liability	244.5	228.8	239.7	221.5
Fire and other damage to property	842.7	834.0	848.9	871.3
Marine, aviation and transport	7.8	8.0	7.9	8.2
Miscellaneous	43.8	89.3	60.4	96.3
Total	2,099.8	2,045.6	2,107.5	2,097.1

	Gross claims incurred		Gross operating expenses	
	2014 £m	2013 £m	2014 £m	2013 £m
Direct and reinsurance accepted				
Motor - third party	0.1	(13.0)	(2.3)	(10.4)
- other	(630.6)	(607.9)	(173.8)	(176.7)
Accident and health	(123.5)	(102.7)	(51.0)	(45.1)
Third party liability	(229.5)	(225.7)	(92.0)	(84.7)
Fire and other damage to property	(391.6)	(394.4)	(342.7)	(351.4)
Marine, aviation and transport	(3.5)	(0.9)	3.8	(7.1)
Miscellaneous	(22.4)	(51.1)	(32.8)	(48.2)
Total	(1,401.0)	(1,395.7)	(690.8)	(723.6)

	2014 £m	2013 £m
Reinsurance outwards		
Motor - third party	(0.5)	1.0
- other	(8.7)	(6.8)
Accident and health	(0.2)	(0.4)
Third party liability	(2.7)	(2.8)
Fire and other damage to property	(88.7)	(94.7)
Marine, aviation and transport	(3.2)	(0.9)
Miscellaneous	1.2	(1.5)
Total	(102.8)	(106.1)

Notes to the Financial Statements (continued)

2 Net premium revenue

	2014 £m	2013 £m
Short-term insurance contracts		
- premium receivables	2,099.8	2,045.6
- change in unearned premium provision	7.7	51.5
Premium revenue arising from contracts issued	2,107.5	2,097.1
Short-term reinsurance contracts		
- premium payables	116.6	157.4
- change in unearned premium provision	(1.6)	(42.3)
Premium revenue ceded to reinsurers on insurance contracts issued	115.0	115.1
Net premium revenue	1,992.5	1,982.0

3 Other income

	December 2014				
£m	Net investment income	Net realised gains and losses relating to investments at cost and at fair value through shareholders' equity	Net realised gains and losses and change in fair value of other investments at fair value through profit and loss	Change in investments impairment	Total
Investment in real estate property at amortised cost	3.2	-	-	6.2	9.4
Debt instruments – available for sale	107.6	5.7	-	-	113.3
Debt instruments – available for sale in hedging relationship	-	-	31.0	-	31.0
Equity instruments – available for sale	7.5	8.4	-	(41.9)	(26.0)
Subsidiaries (Note 15)	870.6	(664.7)	-	-	205.9
<i>Non-consolidated investment funds available for sale</i>	29.4	13.7	-	(0.3)	42.8
<i>Non-consolidated investment funds designated as at fair value through profit or loss</i>	10.7	-	18.7	-	29.4
Non-consolidated investment funds	40.1	13.7	18.7	(0.3)	72.2
Loans at cost	17.6	0.7	-	-	18.3
Derivative instruments	6.0	-	(57.9)	-	(51.9)
Cash and cash equivalents	0.2	-	-	-	0.2
Foreign exchange gains	15.6	-	-	-	15.6
Other	1.2	-	-	-	1.2
TOTAL INCOME	1,069.6	(636.2)	(8.2)	(36.0)	389.2
Investment management expenses	(10.0)	-	-	-	(10.0)
Finance costs (note 9)	-	-	-	-	-
NET INVESTMENT RESULT	1,059.6	(636.2)	(8.2)	(36.0)	379.2

Notes to the Financial Statements (continued)

£m	December 2013				
	Net investment income	Net realised gains and losses relating to investments at cost and at fair value through shareholders' equity	Net realised gains and losses and change in fair value of other investments at fair value through profit and loss	Change in investments impairment	Total
Investment in real estate property at amortised cost	(2.9)	-	-	3.0	0.1
Debt instruments – available for sale	117.7	(1.7)	-	-	116.1
Debt instruments – available for sale in hedging relationship	-	-	(41.4)	-	(41.4)
Equity instruments – available for sale	9.4	16.1	-	(3.9)	21.6
Subsidiaries	30.0	-	-	-	30.0
<i>Non-consolidated investment funds available for sale</i>	<i>21.0</i>	<i>15.0</i>	<i>-</i>	<i>(1.3)</i>	<i>34.7</i>
<i>Non-consolidated investment funds designated as at fair value through profit or loss</i>	<i>3.6</i>	<i>-</i>	<i>(10.8)</i>	<i>-</i>	<i>(7.2)</i>
Non-consolidated investment funds	24.6	15.0	(10.8)	(1.3)	27.5
Loans at cost	3.8	0.1	-	-	3.9
Derivative instruments	11.1	-	83.7	-	94.8
Cash and cash equivalents	0.1	-	-	-	0.1
Foreign exchange gains	-	-	-	-	-
Other	2.1	-	-	-	2.1
TOTAL INCOME	195.9	29.5	31.5	(2.2)	254.7
Investment management expenses	(9.2)	-	-	-	(9.2)
Finance costs (note 9)	(22.9)	-	-	-	(22.9)
NET INVESTMENT RESULT	163.8	29.5	31.5	(2.2)	222.6

Dividends totalling £870.6m (2013: £nil) were received by the Company during the year ended 31 December 2014, of these £822.3m was from AXA General Insurance Limited, £21.6m from GBI Holdings Limited, £1.8m from Knight Law Limited, £8.7m from SIMS Claims Services Limited, £9.3m from Supplier and Incident Management Solutions Limited and £6.9m from Swiftcover Insurance Services Limited.

4 Other operating income

	2014 £m	2013 £m
Other income	63.8	50.3
Foreign exchange gains	-	5.7
Other operating income	63.8	56.0

Notes to the Financial Statements (continued)

5 Other operating expenses

	2014 £m	2013 £m
Other expenses	(10.7)	(13.8)
Foreign exchange losses	(6.3)	(0.2)
Other operating expenses	(17.0)	(14.0)

6 Policyholder claims and benefits

	2014 £m	2013 £m
Insurance claims and loss adjustment expenses:		
Gross claims paid	(1,322.5)	(1,322.4)
Gross changes in insurance contract liabilities for claims	(78.5)	(73.3)
	(1,401.0)	(1,395.7)
Insurance claims and loss adjustment expenses recoverable:		
Reinsurers' share of:		
- claims paid	19.5	10.3
- change in insurance contract liabilities for claims	(7.3)	(1.3)
	12.2	9.0
Net policyholder claims and benefits	(1,388.8)	(1,386.7)

7 Other expenses by nature

7.1 Expenses for the acquisition of insurance contracts

	2014 £m	2013 £m
Movement in advanced commission payments (note 13)	(5.1)	(2.8)
Movement of deferred acquisition costs (note 14)	(8.4)	(39.4)
Costs incurred for the acquisition of insurance contracts		
- Expensed in the year	(502.5)	(517.7)
- Attributable to reinsurers	(0.5)	(3.5)
Total expenses for the acquisition of insurance contracts	(516.5)	(563.4)

7.2 Marketing and administrative expenses

	2014 £m	2013 £m
Marketing and administrative expenses	(158.7)	(140.9)
Depreciation of property, plant and equipment (note 11)	(5.5)	(5.5)
Amortisation of software development note 13)	(10.1)	(13.8)
Total administrative expenses	(174.3)	(160.2)

The operating lease payments recognised as an expense during the year were £10.6m (2013: £10.2m).

Notes to the Financial Statements (continued)

8 Audit Fees

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

	2014 £m	2013 £m
Audit services:		
Fees payable to Mazars for the audit of the statutory accounts	(0.5)	(0.5)
Non-audit services:		
Audit related assurance services from Mazars, including the audit of the regulatory return	(0.1)	(0.1)
	(0.6)	(0.6)

Audit service fees to Mazars in respect of the group consolidation are disclosed in the accounts of AXA UK plc.

9 Finance costs

	2014 £m	2013 £m
Foreign exchange losses	-	(22.9)
Finance costs	-	(22.9)

10 Income tax expense

	2014 £m	2013 £m
Current Tax:		
Current tax on profits for the year	(7.1)	(10.2)
Adjustments in respect of previous years	(2.3)	(0.8)
Foreign tax	(0.2)	(0.3)
Total current tax	(9.6)	(11.3)
Deferred Tax (note 28):		
Origination and reversal of temporary differences	(18.3)	(33.0)
Adjustments to deferred tax assets arising in previous periods	1.3	2.8
Total deferred tax	(17.0)	(30.2)
Income tax expense	(26.6)	(41.5)

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:

Notes to the Financial Statements (continued)

	2014 £m	2013 £m
Profit/(loss) before tax	338.9	136.3
Tax calculated at UK tax rates applicable to profits 21.5% (2013: 23.25%)	(72.9)	(31.7)
Tax effects of:		
- Income not subject to tax	179.9	9.2
- Expenses not deductible for tax purposes	(134.1)	(0.2)
- Extra payment for group tax losses	(0.3)	(1.3)
Re-measurement of deferred tax – change in the UK tax rate	2.0	(19.2)
Higher tax rates on overseas earnings	(0.2)	(0.3)
Adjustments in respect of prior years	(1.0)	2.0
Income tax expense	(26.6)	(41.5)

During the previous year deferred tax balances were remeasured as a result of the change in the UK corporation tax rate that were enacted in Finance Act 2013. The UK corporation tax rate was reduced from 23% to 21% with effect from 1 April 2014 and will be further reduced from 21% to 20% with effect from 1 April 2015. The impact included in the tax charge for the year is a credit of £2m (2013: £19.2m charge).

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	7.6	(1.5)	6.1	(26.4)	5.4	(21.0)
Other Comprehensive Income	7.6	(1.5)	6.1	(26.4)	5.4	(21.0)
Deferred Tax		(1.5)			5.4	

Notes to the Financial Statements (continued)

11 Property, plant and equipment

	Land and buildings £m	Leasehold improvements £m	Plant and equipment £m	Total £m
Cost				
Balance as at 1 January 2014	16.3	7.3	16.3	39.9
Additions at cost	-	-	-	-
Transfers	-	-	0.1	0.1
Balance as at 31 December 2014	16.3	7.3	16.4	40.0
Accumulated depreciation				
Balance as at 1 January 2014	2.1	4.2	7.0	13.3
Charge for the year	0.3	2.8	2.4	5.5
Balance as at 31 December 2014	2.4	7.0	9.4	18.8
Net book value as at 31 December 2014	13.9	0.3	7.0	21.2
Cost				
Balance as at 1 January 2013	16.3	7.3	7.0	30.6
Additions at cost	-	-	7.6	7.6
Transfers	-	-	1.7	1.7
Balance as at 31 December 2013	16.3	7.3	16.3	39.9
Accumulated depreciation				
Balance as at 1 January 2013	1.8	3.8	2.2	7.8
Charge for the year	0.3	0.4	4.8	5.5
Balance as at 31 December 2013	2.1	4.2	7.0	13.3
Net book value as at 31 December 2013	14.2	3.1	9.3	26.6

Depreciation expense of £5.5m (2013: £5.5m) has been charged to marketing and administration expenses (note 7).

The transfers value of £0.1m (2013: £1.7m) included within the above note relates to a reclassification of assets from software development.

Notes to the Financial Statements (continued)**12 Investment properties**

	2014	2013
	£m	£m
Cost		
Balance as at 1 January	163.0	161.0
Additions at cost	0.1	2.0
Disposals	-	-
Balance as at 31 December	163.1	163.0
Accumulated depreciation and impairment		
Balance as at 1 January	56.0	57.0
Impairment movement	(6.2)	(2.9)
Charge for the year	1.9	1.9
Disposals	-	-
Balance as at 31 December	51.7	56.0
Net book value as at 31 December	111.4	107.0

The properties were valued at £130.2m (2013: £137.6m) on a fair value basis by Lambert Smith Hampton or by CB Richard Ellis, who are independent 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 £8.0m (2013: £8.0m), whilst the associated operating expenses were £0.7m (2013: £1.1m). Both amounts, including the amortisation charge, are recorded in the Statement of Profit or Loss within investment income.

Notes to the Financial Statements (continued)

13 Goodwill and intangible assets

	Goodwill	Software development	Advanced commissions	Total
	£m	£m	£m	£m
Cost				
Balance as at 1 January 2014	203.0	51.9	173.4	428.3
Additions at cost	-	3.5	-	3.5
Transfers	-	(0.1)	-	(0.1)
Balance as at 31 December 2014	203.0	55.3	173.4	431.7
Accumulated amortisation				
Balance as at 1 January 2014	-	35.8	160.6	196.4
Charge for the year	-	10.1	5.1	15.2
Balance as at 31 December 2014	-	45.9	165.7	211.6
Net book value as at 31 December 2014	203.0	9.4	7.7	220.1
Cost				
Balance as at 1 January 2013	-	41.0	183.0	224.0
Additions at cost	203.0	12.6	1.5	217.1
Transfers	-	(1.7)	-	(1.7)
Other movements	-	-	(11.1)	(11.1)
Balance as at 31 December 2013	203.0	51.9	173.4	428.3
Accumulated amortisation				
Balance as at 1 January 2013	-	22.0	167.4	189.4
Charge for the year	-	13.8	(6.8)	7.0
Balance as at 31 December 2013	-	35.8	160.6	196.4
Net book value as at 31 December 2013	203.0	16.1	12.8	231.9

Amortisation charges of £10.1m (2013: £13.8m) have been charged to marketing and administration expenses (note 7).

Advanced commissions charges of £5.1m (2013: credit of £6.8m) have been charged to marketing and administration expenses (note 7)

The £0.1m transfer in 2014 relates to a reclassification of assets to Plant & Equipment (2013: £1.7m).

- a) **Goodwill** was acquired as part of the hive up assets from GBI (Holdings) Limited and its subsidiary companies through a corporate reorganisation transaction on 1 July 2013. The goodwill has been allocated to the direct business cash generating unit. The recoverable amount was determined using value-in-use calculations. The value-in-use was calculated through cash flow projections based on business plans approved by management covering a three to five year period and a risk-adjusted discount rate of 9%. Cash flows beyond that period were extrapolated using a steady 2% growth rate. The key assumptions used in the cash flow projections are the increases in premiums, claims and expenses. These assumptions were determined based on historical rates.

Impairment testing of this valuation indicated that the carrying value is expected to be fully recoverable and hence no impairment is considered necessary. In addition, no reasonably possible change in any of the key assumptions would result in the goodwill being impaired.

Notes to the Financial Statements (continued)

- b) **Software development** is all internally developed, with a useful life ranging from one to five years. A review of the carrying value of assets identified capitalisation relating to projects which were no longer being actively pursued and which would not support business generation. This resulted in £3.8m of exceptional amortisation being charged within the year (2013: £7.2m).
- c) **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 (2013: £nil). The prior year value has been restated by £11.1m on the basis this represented advance commission attributable to Swiftcover. Following the transfer of the trade and assets of Swiftcover Insurance Services Limited to the Company during 2013, the commission has subsequently been reclassified to deferred acquisition costs (note 14).

14 Deferred acquisition costs

	2014 £m	2013 £m
Deferred acquisition costs as at 1 January	205.3	244.7
Charge to Statement of Profit or Loss in the year:		
- Acquisition costs deferred during the year	479.6	505.2
- Amortisation charged during the year	(488.0)	(544.6)
(Charge) to the Statement of profit or loss	(8.4)	(39.4)
Deferred acquisition costs as at 31 December	196.9	205.3

15 Investments in group and participating interests

15.1 Particulars of principal subsidiary companies

Insurance companies	Country of incorporation or registration	Holding of ordinary shares
AXA General Insurance Limited	England	100%
AXA PPP healthcare Limited	England	100%
Eaton Kaye Limited	England	100%
Knight Law Limited	England	100%
Swiftcover Insurance Services Limited	England	100%

On 1 September 2014 the Company acquired 100% of Eaton Kaye Limited from subsidiary undertaking Swiftcover Insurance Services Limited, changing the holding from indirect to direct.

On the 20 January 2015 GBI (Holdings) Limited, SIMS Claims Services Limited and Supplier & Incident Management Solutions Limited were dissolved and on the 23 January 2015 Stramongate Management Limited was dissolved. As a result the companies no longer exist as legal entities and have subsequently been removed as subsidiary undertakings.

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

Notes to the Financial Statements (continued)

15.2 Investment in subsidiary companies

	2014 £m	2013 £m
Carrying value as at 1 January	1,019.4	970.9
Acquisition of subsidiaries	-	251.5
Transfer of assets and liabilities	-	(203.0)
Change in the carrying value of subsidiary undertakings	(664.7)	-
Total investment in subsidiary undertakings	354.7	1,019.4

Change in the carrying value of subsidiary undertakings were made against holdings in AXA General Insurance Limited, GBI Holdings Limited, Knight Law Limited, SIMS Claims Services Limited, Supplier and Incident Management Solutions Limited and Swiftcover Insurance Services Limited after receiving a dividend that reduced their respective net asset values, in preparation for striking off the companies.

16 Investment in financial assets

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

	2014 £m	2013 £m
Available for sale	3,715.2	3,570.0
Fair value through income	526.2	313.8
- Held for trading	72.1	71.0
- Designated: mutual funds	454.1	242.8
Derivatives in hedge relationships	0.8	17.3
Loans and receivables	223.4	128.1
Deposits with credit institutions	-	0.1
Total financial assets	4,465.6	4,029.3

	2014 £m	2013 £m
Available for sale financial assets		
Equity securities:		
- listed	164.7	212.7
- unlisted	1.6	-
Debt securities:		
- listed	3,124.2	2,818.6
- unlisted	103.3	211.5
Mutual funds:		
- listed	80.0	95.8
- unlisted	241.4	231.4
Total available for sale financial assets	3,715.2	3,570.0

	2014 £m	2013 £m
Loans		
Broker loans	3.8	4.7
Real estate private loans	219.6	105.1
Intercompany loans	-	18.3
Total loans	223.4	128.1

Notes to the Financial Statements (continued)

17 Derivative financial instruments and hedging

Whilst only a small number of derivative instruments, namely interest rate swaps, are designated 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 2014, the notional amount of all derivative instruments totalled £6,234.1m (2013: £8,361.0m). Their net fair value as of 31 December 2014 totalled an £11.1m liability (2013: £32.2m asset).

Instruments designated 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	2014			2013		
	Contractual/ Notional Amount £m	Asset £m	Liability £m	Contractual/ Notional Amount £m	Asset £m	Liability £m
Interest Rate Swaps	583.0	0.8	(24.5)	1,034.8	17.3	(7.6)
Total	583.0	0.8	(24.5)	1,034.8	17.3	(7.6)

Gains/(losses) on fair value hedges

	2014 £m	2013 £m
Hedged items attributable to interest rate risk	31.0	(41.5)
Hedge instruments – macro	(29.9)	31.1
Hedge instruments – micro	(9.0)	6.0
	(7.9)	(4.4)

Notes to the Financial Statements (continued)

Instruments not designated 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	2014			2013		
	Contractual/Notional Amount £m	Asset £m	Liability £m	Contractual/Notional Amount £m	Asset £m	Liability £m
Derivative financial instruments						
Foreign Exchange						
Forwards	1,517.5	8.3	(16.4)	1,188.0	16.5	(2.9)
Credit Default Swaps	153.1	1.1	(1.2)	2,436.0	12.7	(12.3)
Currency Swaps	151.5	1.0	-	740.6	7.3	(2.3)
Interest Rate Swaps	1,041.8	48.4	(26.4)	1,347.2	13.0	(17.9)
Options	51.7	1.0	-	137.6	2.7	-
OTC Equities	359.9	1.7	(3.4)	999.4	12.9	(7.9)
Swaptions	2,365.1	10.6	(10.7)	184.2	2.3	(0.9)
Futures	-	-	-	169.0	2.1	(1.3)
Return Swaps	10.5	-	(1.4)	124.2	1.5	(3.0)
Total derivative financial instruments	5,651.1	72.1	(59.5)	7,326.2	71.0	(48.5)

18 Reinsurers' share of insurance contract liabilities

	2014 £m	2013 £m
Reinsurers' share of provision for claims outstanding and loss adjustment expenses	93.5	100.5
Reinsurers' share of provision for unearned premiums	56.6	55.1
Reinsurers' share of insurance contract liabilities	150.1	155.6

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	17.8	6.0
Greater than 12 months	75.7	94.5
Balance as at 31 December	93.5	100.5

	2014 £m	2013 £m
Balance as at 1 January	100.5	102.1
Reinsurers' share of claims payments made in year	(19.5)	(10.4)
Increase in recoverables	12.2	9.0
Exchange and other movements	0.3	(0.2)
Balance as at 31 December	93.5	100.5

Notes to the Financial Statements (continued)

Reinsurers' share of provision for unearned premiums

	2014 £m	2013 £m
Balance as at 1 January	55.0	12.7
Premiums written in the year	116.6	157.4
Premiums earned in the year	(115.0)	(115.1)
Balance as at 31 December	56.6	55.0

19 Insurance and reinsurance receivables

	2014 £m	2013 £m
Direct insurance receivables	643.6	620.6
Reinsurance receivables	78.2	67.9
Total insurance and reinsurance receivables	721.8	688.5

An analysis of the maturity of these receivables is included within the management of financial risk note on pages 30 to 40.

20 Other receivables

	2014 £m	2013 £m
Prepayments and accrued income	2.5	1.6
Amounts owed from intermediate parent companies	106.5	106.5
Amounts owed from immediate parent company	134.1	130.8
Amounts owed from subsidiary undertakings	-	4.7
Amounts owed from fellow subsidiary undertakings	176.4	100.5
Amounts owed from associated group company	-	0.2
Other	44.5	43.3
Total other receivables	464.0	387.6

All amounts are recoverable in less than one year.

21 Cash and cash equivalents

	2014 £m	2013 £m
Cash at bank and in hand	137.1	147.4
Cash and cash equivalents	137.1	147.4

22 Ordinary share capital

	2014 Shares	£m	2013 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		2014 £m		2013 £m
Balance as at 31 December		798.7		798.7

Notes to the Financial Statements (continued)

23 Other reserves

	Capital contribution reserve £m	Revaluation reserve £m	Total other reserves £m
2014			
Balance as at 1 January	585.8	183.5	769.3
Fair value gains/(losses) on available for sale financial assets	-	7.6	7.6
Tax on movements taken directly to equity - deferred	-	(1.5)	(1.5)
Capital contribution	289.4	-	289.4
Balance as at 31 December	875.2	189.6	1,064.8

	Capital contribution reserve £m	Revaluation reserve £m	Total other reserves £m
2013			
Balance as at 1 January	361.2	204.5	565.7
Fair value gains/(losses) on available for sale financial assets	-	(26.4)	(26.4)
Tax on movements taken directly to equity - deferred	-	5.4	5.4
Capital contribution	224.6	-	224.6
Balance as at 31 December	585.8	183.5	769.3

Capital contributions of £210.0m and £79.4m were provided by the Company's immediate parent, AXA Insurance plc, on the 10 April 2014 and 23 December 2014, respectively. The brought forward balance represents capital contributions that were received in 2003, 2011 and 2013 from the immediate parent, AXA Insurance plc.

The revaluation reserve represents the movement in the financial assets as disclosed in accounting policy IX b.

A reconciliation of the movement in retained earnings is shown in the Statement of Changes in Equity. In addition to the retained earnings balance, as shown on page 12, an equalisation reserve of £147.2m (2013: £149.6m), which is not distributable, must be kept in compliance with the solvency capital regulations.

Notes to the Financial Statements (continued)

Movements in revaluation reserve for available for sale investments

	2014 £m	2013 £m
Balance as at 1 January	183.5	204.5
Amortisation charge	12.9	6.9
Amortisation release	(9.5)	49.4
Impairment charge	42.2	5.3
Impairment release	(14.5)	(16.5)
Net realised losses	(3.9)	(101.1)
Fair value gains	(19.6)	29.6
Tax	(1.5)	5.4
Balance as at 31 December	189.6	183.5

24 Insurance contract liabilities

	2014 £m	2013 £m
Provision for claims outstanding and loss adjustment expenses	3,107.9	3,033.5
Provision for unearned premiums	967.5	975.2
Total insurance contract liabilities	4,075.4	4,008.7
Settlement period for claims outstanding		
Less than 12 months	1,034.5	960.6
Greater than 12 months	2,073.4	2,072.9
	3,107.9	3,033.5

Provision for claims outstanding and loss adjustment expenses

	2014 £m	2013 £m
Balance as at 1 January	3,033.5	2,958.6
Total claims payments made in the year	(1,322.5)	(1,322.3)
Increase in liabilities	1,401.0	1,395.7
Exchange and other movements	(4.1)	1.5
Balance as at 31 December	3,107.9	3,033.5

Provision for unearned premiums

	2014 £m	2013 £m
Balance as at 1 January	975.2	1,026.7
Premiums written in the year	2,099.8	2,045.6
Premiums earned in the year	(2,107.5)	(2,097.1)
Balance as at 31 December	967.5	975.2

Discounting

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

	Rate		Mean term of liabilities	
	2014 %pa	2013 %pa	2014 Years	2013 Years
Periodic Payment basis	4.50	4.25	34	30

Notes to the Financial Statements (continued)

The increase in the discount rate reflects a change in the methodology applied when setting the rate, which considers the quantitative evaluation of financial instruments of similar terms as well as qualitative views of the long-term investment potential over the long duration of the liabilities with due regard to the linked inflation assumption for payment indexation. Any change in discount rates between the start and the end of the accounting period is reflected within the insurance contract liabilities as a change in economic assumption.

Total outstanding claims provision before discounting was £3,991.0m (2013: £3,144.8m). The period of time which will elapse before the liabilities are settled has been estimated by reference to medical experts' reports during claim settlement and Ogden 7 tables view of life expectancy on a claim by claim basis. The assets held in respect of reinsurers' share of insurance contract liabilities have 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	2013 £m	2014 £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	1,333.0	1,376.1	
- one year later	1,587.7	1,476.9	1,586.0	1,583.7	1,436.6	1,515.8	1,451.9		
- two years later	1,464.6	1,351.2	1,548.4	1,501.0	1,371.2	1,470.9			
- three years later	1,431.4	1,345.4	1,542.1	1,489.9	1,334.8				
- four years later	1,421.0	1,347.2	1,539.6	1,454.3					
- five years later	1,424.5	1,331.3	1,523.6						
- six years later	1,415.5	1,325.0							
- seven years later	1,408.8								
Current estimate of cumulative claims	1,408.8	1,325.0	1,523.6	1,454.3	1,334.8	1,470.9	1,451.9	1,376.1	11,345.4
Cumulative payments to date	1,382.7	1,310.8	1,473.2	1,337.7	1,171.4	1,140.8	983.1	605.4	9,405.1
Liability recognised in the balance sheet	26.1	14.2	50.4	116.6	163.4	330.1	468.8	770.7	1,940.3
Liability in respect of prior years									1,167.6
Total liability included in the balance sheet									3,107.9

Accident year - Net	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £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	1,326.7	1,362.5	
- one year later	1,574.0	1,468.4	1,558.0	1,577.2	1,432.0	1,502.7	1,446.4		
- two years later	1,443.3	1,345.2	1,518.0	1,494.6	1,371.4	1,461.0			
- three years later	1,410.7	1,339.9	1,512.8	1,483.6	1,335.1				
- four years later	1,400.3	1,342.0	1,507.1	1,448.4					
- five years later	1,404.1	1,326.1	1,488.1						
- six years later	1,394.4	1,319.8							
- seven years later	1,387.7								
Current estimate of cumulative claims	1,387.7	1,319.8	1,488.1	1,448.4	1,335.1	1,461.0	1,446.4	1,362.5	11,249.0
Cumulative payments to date	1,373.5	1,303.3	1,449.3	1,329.6	1,173.3	1,135.4	978.4	593.9	9,336.7
Liability recognised in the balance sheet	14.2	16.5	38.8	118.8	161.8	325.6	468.0	768.6	1,912.3
Liability in respect of prior years									1,102.1
Liability net of reinsurance included in the balance sheet									3,014.4

Notes to the Financial Statements (continued)

25 Insurance and reinsurance liabilities

	2014 £m	2013 £m
Direct insurance liabilities	171.2	184.7
Reinsurance liabilities	64.8	52.4
Total insurance and reinsurance liabilities	236.0	237.1

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

26 Provisions for other liabilities and charges

	MIB provision £m	Vacant space provision £m	Other provisions £m	Total £m
Balance as at 1 January 2014	13.5	25.2	13.8	52.5
Charged to Statement of Profit or Loss	15.5	0.9	13.7	30.1
Utilised during year	(14.4)	(7.4)	(10.2)	(32.0)
Balance as at 31 December 2014	14.6	18.7	17.3	50.6

	2014 £m	2013 £m
To be settled within 12 months	37.9	41.5
To be settled after 12 months	12.7	11.0
	50.6	52.5

a) Motor Insurers' Bureau (MIB) provision

The MIB provision relates to the levy payable in respect of 2014 premiums. The provision is assessed on 2014 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.

c) Other provisions

Included in other provisions are:

Fire Brigade levy, £3.7m

The cumulative position represents the accrual for the estimated 2014 charge of £1.7m and a balance of £2.0m for potential prior year charges.

Redundancy, £9.2m

At the end of 2013, a provision of £7.2m was held for redundancy payments. An additional £4.9m has been provided for during the year, and £2.9m has been utilised.

Notes to the Financial Statements (continued)

27 Other liabilities

	2014 £m	2013 £m
Accruals and deferred income	31.1	30.7
Amounts due to immediate parent company	-	7.0
Amounts owed to subsidiary undertaking	0.1	818.9
Amounts owed to fellow subsidiary undertakings	-	67.5
Other tax payables	34.9	36.8
Other liabilities	32.2	18.9
Total other liabilities	98.3	979.8

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

28 Deferred taxation

The gross movement on the deferred income tax account is as follows:

	2014 £m	2013 £m
Balance as at 1 January	148.7	166.8
Transferred from other group companies	-	6.7
Statement of Profit or Loss credit	(17.0)	(30.2)
Charge to Other Comprehensive Income	(1.5)	5.4
Balance as at 31 December	130.2	148.7

The net deferred tax asset of £130.2m (2013: £148.7m) arises primarily from trade tax losses carried forward for utilisation in future accounting periods totalling £706m (2013: £782m).

It is expected that these future tax losses will be fully utilised by 2018, this assessment being based on management approved forecasts for the period 2015 to 2020 which identify sufficient profits to utilise 100% of the losses.

Deferred tax assets

The movement in deferred income tax assets and liabilities during the year is as follows:

	Accelerated tax depreciation £m	Tax losses carried forward £m	Other £m	Total £m
Balance as at 1 January 2014	20.1	158.8	1.3	180.2
(Charged)/Credited to the Statement of Profit or Loss	(1.9)	(15.6)	(0.1)	(17.6)
Charged to Other Comprehensive Income		(1.5)		(1.5)
Balance as at 31 December 2014	18.2	141.7	1.2	161.1

Deferred tax liabilities

	Equalisation reserve £m	Other £m	Total £m
Balance as at 1 January 2014	(29.9)	(1.6)	(31.5)
Credited/(charged) to the Statement of Profit or Loss	0.1	0.5	0.6
Balance as at 31 December 2014	(29.8)	(1.1)	(30.9)

Notes to the Financial Statements (continued)

29 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. On 31 August 2013 the AXA UK Pension Scheme closed to future accrual and all remaining active members moved to deferred status.

An independent actuarial review by Towers Watson of the defined benefit scheme revealed an IAS 19 (revised 2011) deficit of £542m as at 31 December 2014 (£540m as at 31 December 2013) 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 2014.

The AXA UK Group made additional contributions totalling £82m (2013: £77m) to the Scheme, in accordance with the ten year plan to reduce the deficit. The expected contributions to be paid for the next annual reporting period under the recovery plan is £102m.

The total pension cost which has been charged to the Statement of Profit or Loss of the Company is £68.7m (2013: £34.4m). There were no outstanding contributions as at 31 December 2014 (2013: £nil).

The principal assumptions used by the actuaries were:

	2014	2013
Discount rate	3.8%	4.6%
Future pension increases	2.7%	3.1%
Inflation assumption for deferred members (CPI)	1.9%	2.3%

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

	2014 £m	2013 £m
Present value of obligation as at 1 January	4,123	3,844
Remeasurements:		
Service cost	6	25
Interest cost	186	174
Curtailment	-	(10)
Actuarial losses/(gains) from changes in financial assumptions	440	260
Benefits paid	(172)	(170)
Present value of obligation as at 31 December	4,583	4,123

The curtailment arises on the closure of the defined benefit sections of the merged pension scheme.

Notes to the Financial Statements (continued)

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

	2014 £m	2013 £m
Fair value of plan assets as at 1 January	3,583	3,282
Remeasurements:		
Return on plan assets	163	150
Employer contributions	89	87
Employee contributions	-	1
Benefits paid	(172)	(170)
Actuarial gains/(losses) from changes in financial assumptions	378	233
Fair value of plan assets as at 31 December	4,041	3,583

Analysis of assets by category:

	2014 £m	2013 £m
Equities	84	87
Debt securities	2,413	1,457
Government	1,480	713
Government related	123	92
Corporate	716	494
Other	94	158
Property	245	103
Other assets	1,299	1,936
Derivatives	31	519
Loans	27	-
Cash	74	304
Investment funds	1,167	1,113
Fair value of plan assets as at 31 December	4,041	3,583

30 Cash generated from operations

	2014 £m	2013 £m
Profit before tax	338.9	136.3
Depreciation and fixed asset write-offs	5.5	5.5
Movements in intangible assets	18.5	39.2
Realised and unrealised investment gains	(20.4)	(50.2)
Amortisation of financial assets	12.9	6.9
Amortisation of investment properties	4.3	0.7
Impairment charge on available for sale investments	42.2	2.3
Change in insurance technical provisions	96.8	(24.7)
Change in other assets and liabilities	(215.2)	182.0
Interest income	(152.7)	(145.4)
Dividend income from financial assets	(36.8)	(30.4)
Cash generated from operations	94.0	122.2

Notes to the Financial Statements (continued)

31 Related parties

The following transactions were carried out with related parties

	Related Party	2014 £m	2013 £m
Income			
Gross written premiums	Fellow subsidiaries	54.8	39.3
Income on loans and debt instruments	Ultimate parent	-	3.9
	Intermediate parent	5.2	5.2
	Fellow subsidiary	7.3	7.4
	Subsidiary	-	0.2
Total		67.3	56.0
Expenses			
Claims handling	Fellow subsidiaries	-	0.5
Reinsurance premiums paid	Fellow subsidiaries	127.6	125.4
Commissions paid	Fellow subsidiaries	12.8	31.6
Business services	Fellow subsidiaries	344.8	308.8
Total		485.2	466.3
Net settlement of prior years' tax			
	Intermediate parent	-	7.0
	Fellow subsidiaries	-	7.7

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	2014 £m	2013 £m
Loans and bonds to related parties			
Investment bonds			
	Intermediate parent	91.0	91.0
	Fellow subsidiary	113.4	122.6
Non-interest bearing	Immediate parent	130.8	130.8
Loans	Intermediate parent	106.5	106.5
Total		441.7	450.9
Summary of movements on loans and bonds:			
Opening balance		450.9	575.3
Additions during year		113.4	18.6
Repayments		(122.6)	(143.0)
Closing balance		441.7	450.9
Assets managed by fellow subsidiaries			
Available for sale investments		3,624.2	3,430.5
Fair value through income		442.2	275.0
Loans and receivables		69.8	104.3
Deposits with credit institutions		-	0.1
Investment properties		111.4	106.9
Total		4,247.6	3,916.8

The Company received a capital contribution from its immediate parent company, AXA Insurance plc, as discussed in note 23. Dividends were received from various subsidiaries during the year as disclosed in note 3.

Notes to the Financial Statements (continued)

The loans and receivables are unsecured and bear no interest. No provisions are held against receivables from related parties (2013: £nil). Related party receivables and payables are disclosed in note 20 and note 27 respectively.

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 Chief Financial Officer 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 2014, 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:

	2014 £m	2013 £m
Salary and other short-term benefits	8.4	9.3
Post-employment benefits	0.1	0.1
Share-based payments	0.2	0.7
Other long-term benefits	2.1	-
Termination benefits	-	-
Total	10.8	10.1

32 Commitments

(a) Capital commitments

The Company had no capital expenditure commitments as at 31 December 2014 (2013: £nil).

(b) Financial commitments

Outstanding commitments at 31 December 2014 are listed in the table. These have been translated at the exchange rates prevailing at year end.

	2014 £m	2013 £m
Alternative credit fund (2014: €nil) (2013: €3.75m)	-	3.1
Debt fund (2014: \$7.8m) (2013: \$18m)	5.0	10.9
Mezzanine debt fund	9.1	37.0
Alternative credit fund (2014: \$106.8m) (2013: \$203.7m)	68.5	123.0
	82.6	174.0

(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	2014 £m	2013 £m
No later than 1 year	7.5	8.2
Later than 1 year and no later than 5 years	19.9	16.4
Later than 5 years	23.2	23.9
	50.6	48.5

Notes to the Financial Statements (continued)

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 £111.4m (2013: £107.0m) shown within note 12.

The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

Expiry Date	2014 £m	2013 £m
No later than 1 year	7.8	9.0
Later than 1 year and no later than 5 years	26.3	25.3
Later than 5 years	19.7	27.5
	53.8	61.8

33 Directors' emoluments

The directors are employed and paid by companies in the AXA group and their directorships are held as part of that employment. The directors did not receive any emoluments or other benefits from the Company or from any other company in the AXA group in respect of services to the Company in the current or prior year.

Mrs. A. J. Blanc, Mr. P. L. Burrows, Mr. R. G. Dench, Mr. P. J. Evans, Mr. K. G. Gibbs, Mr. P. F. Hazell, Mr. Y. Masson, Mr. J. O'Neill, Mr. B. Poupart-Lafarge and Mrs. R. Wilton were also directors of 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 and Mr. R. C. W. Organ were also directors of Guardian Royal Exchange 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.

Two directors of the Company exercised share options or employee sharesave options in AXA UK plc during the year (2013: five).

34 Contingent liabilities

Mutual guarantee

With the approval of the PRA, 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.

Government grant

	2014 £m	2013 £m
At 1 January	0.8	-
Transferred	-	0.8
Total	0.8	0.8

As at 31 December 2014, in the event that the amounts received become repayable to the government, the Company would be liable to the amount of £0.8m

35 Events occurring after the reporting period

There are no material events to report.

Notes to the Financial Statements (continued)

36 Immediate and 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.