

Guardian Royal Exchange plc

2011 Annual Report and Financial Statements



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

Contents

Directors' Report	2
Group Independent Auditors' Report	8
Consolidated Income Statement	10
Consolidated Statement of Comprehensive Income	11
Consolidated Statement of Financial Position	12
Consolidated Statement of Changes in Equity	14
Consolidated Cash Flow Statement	15
Accounting Policies	16
Critical Accounting Estimates and Judgements in Applying Accounting Policies	30
Management of Risks	31
Notes to the Financial Statements	40
Parent Company Financial Statements	71

Directors' Report

Directors

J P D L Drouffe (Group Finance, Risk and Strategy, Director AXA UK plc Group)
W U Malik (Finance Director, AXA Insurance Personal Lines)

Secretary

J P Small

Independent Auditors

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

The directors have pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31 December 2011

PRINCIPAL ACTIVITY

Guardian Royal Exchange plc (the Company) is registered in England and its subsidiaries together form the Guardian Royal Exchange Group (the Group). The principal activity of the Company is to act as a holding company for its subsidiaries which underwrite general insurance and healthcare business mainly in the United Kingdom and the Republic of Ireland.

BUSINESS REVIEW

Results and performance

Profit before tax for the group increased by £15m to £64m (2010 £49m) in 2011 arising from an improvement of £55m in the underwriting result offset by an deterioration of £139m in the investment result and profit of £99m on the disposal of the subsidiary undertaking, Denplan Limited.

The profit on revaluation of available for sale investments decreased by £114m to £40m (2010 £154m) and is included in the consolidated statement of comprehensive income.

During the year, gross income from insurance contracts increased by £107m to £3,594m (2010 £3,487m), as analysed below by business segment.

Healthcare

During the year, gross income from insurance contracts increased by £30m to £1,067m (2010 £1,037m). In a challenging economic environment, the Group has continued to achieve growth in revenue and customer numbers, especially through its international operations.

UK Property & Casualty

During the year, gross income from insurance contracts increased by £39m to £2,092m (2010 £2,053m).

- Personal Lines business saw significant growth during 2011 with Personal Lines Motor, Household and Pet continuing to see increases in the level of premiums written due to a combination of increased sales through direct internet based products and increased marketing activity which positively impacted retention rates and rate increases. These increases have been slightly offset by a decrease in Creditor business written, due to a general reduction in the market, and Travel due to exit from unprofitable business.
- Commercial Lines business written showed a small net increase during 2011 with growth in Commercial Motor premiums offsetting decreases in Commercial Property. The previous trend of difficult market conditions remains.

Directors' Report continued

ROI Property & Casualty

During the year, gross income from insurance contracts increased by £38m to £435m (2010 £397m)

- The growth in written premium in 2011 primarily reflects higher volumes together with necessary increases in some classes and channels in order to restore profitability

The underwriting loss before tax for the year is £90m (2010 loss £145m), as analysed below by business segment

Healthcare

The underwriting profit before tax for the year is £55m (2010 profit £42m) The performance in the year reflects favourable claims experience

UK Property & Casualty

The underwriting loss before tax for the year is £181m (2010 loss £206m)

- The improvement in the loss ratio is driven by the positive impact of rating actions, business mix improvement, favourable damage claim experience and no large weather events during 2011, offset by claims inflation and adverse bodily claims experience
- Commission ratios have improved due to a change in the business mix and expense ratios have remained largely in line with the prior year

ROI Property & Casualty

The underwriting profit before tax for the year is £37m (2010 profit £19m) Property claims costs were again hit by an extreme event, in this case flooding along the East coast in November 2011, however, the impact of this has been significantly reduced through reinsurance

Other

The underwriting loss before tax for the year is £1m (2010 loss £nil)

The net investment return for the year, recorded within the consolidated income statement is a profit of £69m (2010 £208m) The fall in income compared to prior year is driven by the negative fair value movement of the derivative portfolio The derivative portfolio was significantly increased during 2011 to manage the risk exposure of the investment portfolio

The total investment return, including the revaluation of available for sale financial assets through the consolidated statement of other comprehensive income, has fallen by £253m and is driven primarily by the fall in fair values of the derivative and debt security investments

The procedures put in place by the Group identified all 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 occurred prior to 31 December 2011 have been considered

Business environment

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

Directors' Report continued

Part VII transfer

As reported in the financial statements for the year ended 31 December 2010, on 31 March 2011, following final court approval, a Part VII scheme was implemented. The purpose of the Part VII scheme was to simplify the corporate structure of the Group. This resulted in £751m of outstanding claims, £19m of associated reinsurance outstanding claims and investments of £1,003m being transferred into the Group subsidiary undertaking, AXA Insurance UK plc from fellow Group subsidiary undertakings, AXA Insurance plc, The Royal Exchange Assurance and AXA General Insurance Limited. The transfer did not impact the consolidated financial statements.

Strategy

The Group 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 Group's strategy is consistent with Ambition AXA, which is the AXA Group's global strategy to become the 'preferred company' for customers and employees.

Solid progress has been made in 2011 towards the strategic targets with the launch of new products and improved control over operational costs as well as maintaining the customer focused programmes for employees and improving IT stability.

Principal risks and uncertainties

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

Financial risk management, including the impact of risk on economic capital, is discussed in the management of financial risks note on page 31.

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

Future outlook

The Group has a clear strategic business model focusing on traditional insurance and has maintained a strong Statement of financial position despite the current conditions. Careful financial risk management strategies, along with well established liquidity management practices, will ensure this is maintained in the future.

In 2012, we aim to remain competitive by controlling costs and improving efficiency. At the same time we will continue to invest for the long term to support our vision of being 'Trusted Market Leader', this will ensure we are building a strong foundation for our future.

Post Statement of financial position event

On 12 March 2012, the Group's subsidiary company, AXA PPP healthcare group plc acquired 100% of the shares in Health On-line Company UK Limited for a cash consideration of £30.7m. Health On-line Company UK Limited's principal business is the provision of general insurance intermediary services.

Directors' Report continued

Key performance indicators

The board monitors the progress of the Group using a variety of KPIs as noted below -

	2011	2010	
Gross written premiums	£3,879m	£3,525m	
Underwriting result	£(90)m	£(145)m	
Current year loss ratio	72.2%	74.1%	Ratio of net current year claims incurred to net earned premiums
Combined operating ratio	102.6%	104.3%	Ratio of net claims incurred, commissions, expenses and other operating income to net earned premiums
Operating result	£(21)m	£63m	

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review above. The ability to cope with unexpected risks to the financial position is shown within management of risks on pages 31-39.

The Group has considerable financial resources, with large cash deposits in money market funds and long term debenture borrowings (*note 29*). Detailed budgets, plans and forecasts have been prepared and reviewed setting out the continued financial position of the group for the next 12 months and a strategic plan to 2016. As a consequence, the directors believe that the group 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 and the Group have 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

No interim dividends were paid during the year (2010: Interim dividends of £20m and £40m were paid on 25 June 2010 and 26 November 2010 respectively).

The directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: £nil).

DIRECTORS

The directors of the Company at the date of this report and those who have served throughout the year are shown on page 2.

Mr P L H Maso y Guell Rivet resigned as a director of the Company on 2 March 2011.

APPOINTMENT OF DIRECTORS

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

INDEMNIFICATION OF DIRECTORS

Throughout the year and at the date of this report 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.

Directors' Report continued

DIRECTORS' INTERESTS

According to the register of directors' interests, none of the directors had interests in the share capital and debentures of the Company or its subsidiary undertakings

EXERCISE OF DIRECTORS' AXA SA OPTIONS

None of the directors of the Company exercised any share options during the year (2010 none)

EMPLOYEES

The Group, through each of its employing subsidiary companies, is committed to a policy of equal opportunity in recruitment, training, career development and promotion of staff, irrespective of gender, marital status, race or ethnic origin. Full and fair consideration is also given to disabled persons including the rehabilitation and retention of staff who become disabled, having regard to their particular aptitudes and abilities.

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

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

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

PAYMENT OF CREDITORS

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

Balances outstanding for the Group at 31 December 2011 represented a credit period of 27 days (2010 33 days).

Insurance creditors are settled in accordance with agreed terms.

FINANCIAL RISK MANAGEMENT

Information on the use of financial instruments by the Group and its management of financial risk is disclosed in the Management of Financial Risk note on page 31. In particular, the Group's exposures to market risk, credit risk and liquidity risk are separately disclosed in that note.

CHARITABLE & POLITICAL DONATIONS

The Group made contributions of £250,000 to the British Lung Foundation and £101,787 for various other charitable purposes during the year (2010 £175,000 for Mesothelioma research and £111,708 for various other charitable purposes).

No donations were made for political purposes (2010 £nil).

DISCLOSURE OF INFORMATION TO AUDITORS

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

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

Directors' Report continued

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual 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 elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 2006 applicable to Group reporting under IFRS, and the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). 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 Group and the Company and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether IFRS as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively,
- prepare the Group and Parent Company financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the directors, whose names and functions are listed on page 2 confirm that, to the best of each person's knowledge and belief

- The financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company, and
- The directors' report contained in the annual report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

INDEPENDENT AUDITORS

A resolution to re-appoint the auditors, PricewaterhouseCoopers LLP, who have indicated their willingness to continue in office, and to authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board



J P Small
Company Secretary
30 April 2012

Group Independent Auditors' Report

Independent Auditors' Report to the members of Guardian Royal Exchange plc

We have audited the Group financial statements of Guardian Royal Exchange plc for the year ended 31 December 2011, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Accounting Policies, Critical Accounting Estimates and Judgements in Applying Accounting Policies, Management of Risks and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 2011 annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

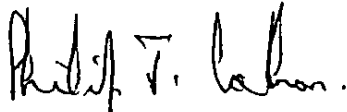
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.

Group Independent Auditors' Report continued

Other matter

We have reported separately on the parent company financial statements of Guardian Royal Exchange plc for the year ended 31 December 2011



Philip J. Calnan (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 April 2012

Consolidated Income Statement

for the year ended 31 December 2011

	Note	2011 £m	2010 £m
Insurance revenue			
Insurance premium revenue		3,594	3,487
Insurance premium ceded to reinsurers		(195)	(135)
Net insurance revenue	3	<u>3,399</u>	<u>3,352</u>
Other income			
Investment income	4	255	227
Net fair value gains on assets at fair value through profit or loss		-	8
Other operating income	6	<u>188</u>	<u>250</u>
Total income		<u>3,842</u>	<u>3,837</u>
Policyholder claims and benefits			
Insurance claims and loss adjustment expenses	8	(2,531)	(2,499)
Insurance claims and loss adjustment expenses recoverable from reinsurers	8	77	15
Other expenses			
Net realised losses on available for sale financial assets	5	(42)	(15)
Net fair value losses on assets at fair value through profit or loss		(135)	-
Insurance contract acquisition expenses	9	(770)	(801)
Marketing and administration expenses	9	(342)	(330)
Cost of asset management services		(9)	(12)
Other operating expenses	7	<u>(111)</u>	<u>(132)</u>
Operating result		<u>(21)</u>	<u>63</u>
Finance costs	11	(14)	(14)
Gains on disposal of operations	38	<u>99</u>	<u>-</u>
Profit before tax		<u>64</u>	<u>49</u>
Income tax expense	12	(3)	7
Profit for the year attributable to equity shareholders of the Company	1	<u>61</u>	<u>56</u>
Earnings per share (pence per share)	13	5.76	5.28
Diluted earnings per share (pence per share)	13	5.76	5.28

All transactions relate to continuing operations except an operating result of £11m (2010: £11m) and profit before tax of £11m (2010: £11m) relating to the discontinued operation, Denplan Limited which was sold on 20 December 2011 (note 38)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Note	2011 £m	2010 £m
Profit for the financial year after tax		61	56
Exchange losses on revaluation of subsidiary net assets		(11)	(10)
Revaluation gains of available for sale financial assets		40	154
Actuarial (losses)/gains on defined benefit schemes	33	(46)	53
		44	253
Tax effect of items not recognised in income statement and taken directly to equity - current	12	1	(1)
- deferred	32	(4)	(46)
Total comprehensive income attributable to equity shareholders of the Company		41	206

Consolidated Statement of Financial Position

as at 31 December 2011

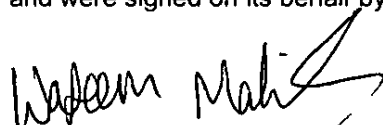
	Note	2011 £m	2010 £m
ASSETS			
Goodwill and intangible assets	17	193	200
Property, plant and equipment	15	62	51
Investment properties	16	136	132
Investment in financial assets	20	5,100	5,152
Reinsurers' share of insurance contract liabilities	21	149	97
Deferred acquisition costs	18	287	301
Insurance and reinsurance receivables	22	1,259	1,115
Deferred taxation	32	197	186
Other receivables	23	741	979
Cash and cash equivalents	24	515	172
Total assets	2	8,639	8,385

Consolidated Statement of Financial Position continued

as at 31 December 2011

	Note	2011 £m	2010 £m
EQUITY			
Ordinary share capital	25	56	56
Share premium	25	523	523
Other reserves	26	539	519
Retained earnings		956	935
Capital and reserves attributable to equity shareholders		2,074	2,033
LIABILITIES			
Technical provisions - insurance contract liabilities	27	5,368	5,235
Borrowings	29	153	307
Insurance and reinsurance liabilities	28	296	279
Provisions for other liabilities and charges	30	89	98
Retirement benefit obligations	33	79	58
Other liabilities	31	387	314
Current taxation		1	46
Derivative financial instruments	20	192	15
Total liabilities		6,565	6,352
Total equity and liabilities		8,639	8,385

The financial statements on pages 10 to 70 were approved by the Board of Directors on 30 April 2012 and were signed on its behalf by



W. U. Malik
Director
30 April 2012

Consolidated Statement of Changes in Equity

2011	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Balance as at 1 January	56	523	519	935	2,033
Profit for the year	-	-	-	61	61
Actuarial gains on defined benefit schemes	-	-	-	(46)	(46)
Fair value gains on available for sale financial assets	-	-	40	-	40
Tax on movements in Statement of Comprehensive Income - current	-	-	-	1	1
- deferred	-	-	(9)	5	(4)
Exchange on revaluation of subsidiary net assets	-	-	(11)	-	(11)
Balance as at 31 December	56	523	539	956	2,074

2010	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Balance as at 1 January	56	523	415	893	1,887
Profit for the year	-	-	-	56	56
Actuarial gains on defined benefit schemes	-	-	-	53	53
Fair value gains on available for sale financial assets	-	-	154	-	154
Tax on movements in Statement of Comprehensive Income - current	-	-	-	(1)	(1)
- deferred	-	-	(40)	(6)	(46)
Dividend	-	-	-	(60)	(60)
Exchange on revaluation of subsidiary net assets	-	-	(10)	-	(10)
Balance as at 31 December	56	523	519	935	2,033

Consolidated Cash Flow Statement

for the year ended 31 December 2011

	Note	2011 £m	2010 £m
Cash flows from operating activities			
Cash generated from operations	34	55	(188)
Income taxes (paid)/received		(61)	16
Interest paid		(16)	(16)
Interest received		233	219
Dividends received		20	15
Net cash generated from operating activities		231	46
Cash flows from investing activities			
Proceeds from			
Sale of investments		2,211	1,792
Loan repayment received from related party		338	-
Sale of Investments in subsidiaries (net of cash transferred)		108	-
Purchases of			
Investments		(2,141)	(1,869)
Property, plant and equipment		(18)	(3)
Intangible assets		(20)	(35)
Investments in subsidiaries (net of cash acquired)		(10)	(6)
Loans granted to related parties		(201)	(18)
Net cash from investing activities		267	(139)
Cash flows from financing activities			
Dividends paid to ordinary shareholders		-	(60)
Repayment of subordinated loans		(150)	-
Net increase (decrease) in cash and cash equivalents		348	(153)
Cash and cash equivalents at 1 January		163	323
Exchange gains on cash and cash equivalents		(1)	(7)
Cash and cash equivalents at 31 December	24	510	163

Accounting Policies

General Information

Guardian Royal Exchange plc (the Company) and its subsidiaries together form the Guardian Royal Exchange Group (the Group). The principal activity of the Company is to act as a holding company for its subsidiaries which underwrite general insurance and healthcare business in the United Kingdom and the Republic of Ireland.

Guardian Royal Exchange plc is a public limited company which has a debenture listed on the London Stock Exchange and is incorporated and domiciled in the UK. The address of its registered office is 5 Old Broad Street, London, EC2N 1AD.

Principal Accounting Policies

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

I Basis of presentation

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

The use of IFRS requires management to monitor and exercise judgement in the selection and application of appropriate accounting policies and in the use of accounting estimates. Those areas which could have a significant impact in the financial statements are set out on page 30.

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

The financial statements of the Parent Company are presented on pages 73 to 77.

The accounting policies adopted are consistent with those of the previous financial year. There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that have had a material impact on the Group.

a) Issued accounting pronouncements

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

- United Kingdom Listing Authority disclosure rules

The Group has taken advantage of a transitional provision whereby the Group need not disclose its half-yearly financial report in accordance with DTR 4.2 until 1 January 2015 as it is an issuer of debt securities which were admitted to the official list before 1 January 2005 pursuant to Chapter 23 of the Listing Rules.

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

IFRS 7 (amendment) 'Financial Instruments: Disclosure'

The amendment is intended to enhance the derecognition disclosure requirements for the transfer transactions of financial assets, providing users of the financial statements with a better understanding of the implications of transferred assets that could expose the entity to risk.

Accounting Policies continued

The amendment will require the disclosure by class of asset, nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's Statement of financial position. Effective for annual periods beginning on or after 1 January 2012. Once adopted, the amendment is not expected to have a material effect on the financial statements.

IFRS 9 (new standard) – 'Financial Instruments – Classification and Measurement'

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

IFRS 10 (new standard) 'Consolidated Financial Statements'

Published on 12 May 2011, this new standard supersedes IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 'Consolidation – Special purpose entities'. Effective for annual periods beginning on or after 1 January 2013, with early adoption permitted, although the EU has yet to endorse the standard. The new standard defines the principle of control and establishes control as the basis for determining which entities should be consolidated. Once issued this standard is not expected to have a material effect on the financial statements.

IFRS 11 (new standard) 'Joint arrangements'

Published on 12 May 2011, this new standard supersedes IAS 31 'Interest in Joint Ventures' and SIC-13 'Jointly Controlled Entities – Non-monetary Contributions by Venturers'. The new standard establishes principles for the financial reporting by parties to a joint arrangement. Effective for annual periods beginning on or after 1 January 2013, with early adoption permitted, although the EU has yet to endorse the standard. Once issued this standard is not expected to have a material effect on the financial statements.

IFRS 12 (new standard) 'Disclosure of Interest in Other Entities'

Published on 12 May 2011, IFRS 12 applies to entities that have an interest in a subsidiary, joint arrangement, an associate or an unconsolidated structured entity. Effective for annual periods beginning on or after 1 January 2013, with early adoption permitted, although the EU has yet to endorse the standard. One of the reasons for issuing the standard was to obtain better information about the subsidiaries that are consolidated. Once issued this standard is not expected to have a material effect on the financial statements.

IFRS 13 (new standard) 'Fair Value Measurement'

Published on 12 May 2011, the objective of IFRS 13 is to provide a single source of guidance and clarify the definition and related guidance associated with all fair values. Effective for annual periods beginning on or after 1 January 2013, with early adoption permitted, although the EU has yet to endorse the standard.

IAS 27 (amended and retitled standard) 'Separate Financial Statements'

Issued as a consequence of the publication of the above new standards, the scope of the standard has been revised to make reference only to the preparation of separate financial statements. Effective for annual periods beginning on or after 1 January 2013, with early adoption permitted, although the EU has yet to endorse the standard. Once issued this standard is not expected to have a material effect on the financial statements.

IAS 28 (amended and retitled standard) 'Investment in Associates and Joint Ventures'

Issued as a consequence of the publication of the above new standards, the amended standard incorporates revised references to the new standards and joint ventures. Effective for annual periods beginning on or after 1 January 2013, with early adoption permitted, although the EU has yet to endorse the standard. Once issued this standard is not expected to have a material effect on the financial statements.

Accounting Policies continued

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group

b) Insurance Contracts (IFRS Phase II) and Solvency II

The Group will be affected by these two long-term projects,

- IFRS Phase II is intended to address accounting for insurance contracts and is based around a framework of three building blocks to measure insurance liabilities (best estimate of future cash flows, discounted to reflect the time value of money, with margins for bearing risk and providing other services). The IASB published an exposure draft in August 2010, with an expectation to issue the final standard in June 2011. This original expectation has subsequently changed with some commentators not expecting a final standard before 1 January 2015.
- Solvency II is a European initiative to address regulatory reporting and incorporates its own requirement for measuring insurance liabilities. Its primary objective is to strengthen policyholder protection by aligning capital requirements more closely with the risk profile of the entity. Assets and liabilities will be valued on an 'economic' market-consistent basis. The Group plans to use an internal risk management model that is Solvency II compliant. The Solvency II directive is due to take effect on 1 January 2014.

II Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries' assets, liabilities, revenues, expenses and cash flows. Subsidiaries are all undertakings whose financial and operating policies are controlled by the Group for its benefit. Subsidiaries are fully consolidated from the date on which the Group obtains control and are de-consolidated from the date on which control ends.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Associates are undertakings in which the Group has significant influence but not control and are accounted for by the equity method of accounting and recognised on the Statement of financial position at cost plus post-acquisition movements in the net assets of the associate less allowances for impairment losses.

The interests of parties, other than the Group, in investment vehicles, such as unit trusts, are classified as liabilities and appear as 'Other liabilities' in the Statement of financial position.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

III Segmental reporting

The segmental analysis provided in the Group annual report and financial statements reflects operating business segments, which is based on four business lines: Healthcare, UK Property & Casualty, Republic of Ireland Property & Casualty and Other Group activities. Other activities comprise the applicable results of service companies, the ROI wealth management company, international property & casualty agencies, central functions and any elimination adjustments.

Accounting Policies continued

IV *Foreign currency translation*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in sterling, which is the Company's functional and the Group's presentation currency.

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

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

The results and financial position of those entities whose functional currency is not Sterling are translated into Sterling as follows:

- a) The assets and liabilities for each presented Statement of financial position are translated at the closing rate ruling on the date of that Statement of financial position.
- b) Income and expenses for each presented income statement are translated at average rates of exchange for the period in question. This represents a reasonable approximation of the use of exchange rates ruling on transaction dates.
- c) Resulting exchange differences are taken to a separate component of equity.
- d) Goodwill and fair value adjustments arising from the acquisition of a foreign operation are treated as an integral part of that operation and translated to Sterling at the closing exchange rate.

V *Product classification*

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

Insurance risk is transferred when an insurer agrees to compensate a policyholder if that policyholder is adversely affected by a specified uncertain future event, other than a change in a financial variable. It is a matter of judgement as to whether the transfer of insurance risk is significant. In making this judgement, the Group considers the scenarios that could give rise to a future loss event, the likely cost that could fall on the Group 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 Group for assuming the risk.

VI *General insurance contracts - recognition and measurement*

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

a) *Insurance Premiums*

Premiums written relate to business inception during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Group.

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the Statement of financial position date, calculated on a time apportionment basis or having regard to the incidence of risk.

Accounting Policies continued

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 (IBNR) 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 at the Statement of financial position date, including the cost of IBNR claims to the Group. 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 Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

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

- changes in Group processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods,
- changes in the legal environment,
- the effects of inflation,
- changes in the mix of business,
- the impact of large losses, 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 these, the Group has regard to the claim circumstances as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

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

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

Accounting Policies continued

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 Group. The costs of claims notified to the Group at the Statement of financial position date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications. Adjustments are made to allow for movements in the variables described above.

- **Healthcare business**

Healthcare business is short tail. The total costs of claims paid by the Group at the Statement of financial position date is used to project the expected total cost for claims incurred by reference to statistics which show how the total cost of claims paid in previous periods have developed over time.

- **Motor business**

Motor claims are made up of short tail property damage claims and longer tail personal injury claims. For the former type of claim, the total costs of claims incurred and/or paid by the Group at the Statement of financial position date is used to project the ultimate expected total cost of claims incurred. This is done by reference to statistics that show how the total cost of claims incurred or paid in previous years has developed over time. In all cases adjustments are made to allow for movements in the variables described above.

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

- **Liability and marine claims**

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

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

Accounting Policies continued

- 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 has been developed over time) and the anticipated average final cost of notified and IBNR claims (based on historical levels adjusted to allow for movements in the variables described above)

The liability class of business is also 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 Group

- Disease-related and pollution claims arising from liability business

The claims provisions include amounts in respect of potential claims relating to diseases including those associated with exposure to asbestos and environmental pollution. Legislative and judicial actions to date have failed to determine the basis of liability to indemnify losses. These claims are not expected to be notified and settled for many years and there is considerable uncertainty as to the amounts at which they will ultimately be settled. The level of the provision has been set on the basis of the information that is currently available including potential outstanding loss advices, experience of development of similar claims and case law.

Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability may vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. In particular, the extent of the cost of claims for asbestos related diseases may change as more information becomes publicly available and claims reserves are updated accordingly. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Reinsurance recoveries

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the Statement of financial position date, including the cost of claims IBNR to the Group. 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 Group's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries, having regard to market data on the financial strength of each of the reinsurance companies.

d) *Salvage and subrogation*

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

e) *Deferred acquisition expenses*

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

f) *Unexpired risks*

Provision is made for unexpired risks when, after taking account of investment income on insurance funds, it is anticipated that unearned premiums will be insufficient to meet the future claims and expenses of business in force at the end of the year. Classes of business which the directors consider are managed together are aggregated for this purpose. Where required the unexpired risks provision is included within 'Other technical provisions'.

Accounting Policies continued

g) Liability adequacy test

At each reporting date, the Group 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 is set up within the Statement of financial position, with a corresponding entry in the income statement.

h) 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 Group assesses at each Statement of financial position date whether there is objective evidence that the insurance receivable is impaired. Where such evidence exists, the Group reduces the carrying amount of the insurance receivable and recognises the impairment loss in the income statement.

VII Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of a business acquisition over the net fair value of the Group's share of identifiable assets and liabilities at the acquisition date and is initially capitalised in the Statement of financial position at cost and is subsequently recognised at cost less accumulated impairment losses. Goodwill is reviewed for impairment annually and, if there is evidence of impairment, the recoverable amount is calculated. An impairment charge is recognised if the recoverable amount is less than the carrying value.

b) Computer software

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

c) Advanced Commissions

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

d) Other intangible assets

Other intangible assets can arise from the fair valuation of assets acquired in business combinations and also from the separate purchase of books of business. In both cases, the asset is amortised over the anticipated useful life, subject to a maximum period of 15 years and is reviewed for impairment on a regular basis, at least annually.

VIII Property, plant and equipment

a) Land and Buildings

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

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.

Accounting Policies continued

b) Motor vehicles and Plant and equipment

Plant and equipment consists principally of computer hardware, fixtures and fittings. Assets are stated at cost less accumulated depreciation and an allowance for impairment, where appropriate. 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.

These assets are depreciated using the straight line method over periods not exceeding their expected useful lives after taking into account the estimated residual value. The expected useful economic life of plant and equipment is 8 years.

IX Investment property

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

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

X Financial assets

Financial assets are designated on initial recognition into the following categories:

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

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

a) Fair value through profit or loss

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

b) Available for sale

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

c) Held to maturity

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

Accounting Policies continued

d) *Loans and receivables*

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

e) *General*

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

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

The Collateralised Debt Obligations (CDOs) are valued using mark to model techniques with market input. The valuation model follows a discounted cash flow methodology with necessary adjustments to the model so that it properly reflects all parameters considered by market participants (credit risk and liquidity premiums) and parameters that are consistent with accepted economic methodologies for pricing CDOs.

Asset backed securities are valued using mark to model due to highly illiquid secondary markets. The model is a discounted cash-flow methodology which includes specific assumptions and takes into consideration all necessary market inputs needed in setting an appropriate price. Inputs and assumptions are adjusted for each individual asset class, market and rating level.

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).

The AXA SA £150 million 5.750% Floating Rate note is valued using a standard valuation method namely a "Swap Curve Model" and employs a pricing tool called Tradix. The swap curve is sourced from Reuters to determine the forwards for 6-month GBP LIBOR which is the benchmark for this bond. The credit spread curves are received from 3 different banks and an average credit spread curve is calculated by the model from these indications.

Private loans are valued using mark to model which breaks down the spread into three parts: default probability, liquidity impact and market performance.

Fund of Hedge Funds are valued using official prices received from the administrators of the underlying funds. The estimated fund prices are received directly from the fund managers.

The 787 Holdings, LLC US secured mortgage loan is valued using mark to model techniques. The model spread is calculated on weighted risk factors, the property type, the prevailing interest rate environment and the current mortgage spread over US Treasuries.

There can be no assurance that valuations on the basis of these models and methodologies represent the price for which a security may ultimately be sold or for which it could be sold at any specific point in time. The use of different models, methodologies and/or assumptions have been considered for appropriateness but would not have a material impact on the estimated fair value amounts.

Accounting Policies continued

XI Impairment of assets

a) Available for sale financial assets

The Group assesses at each Statement of financial position date whether there is objective evidence that the value of an available for sale financial asset has been impaired. In the case of equity instruments, this includes a review as to whether there has been a significant or prolonged decline in the fair value of the asset below its cost. Where such evidence exists, the cumulative loss is removed from equity and charged to the income statement. The cumulative loss is calculated as the difference between the acquisition cost and the current fair value, less any impairment previously recognised in the income statement. An impairment loss of an equity instrument is not reversed. An impairment loss on a debt instrument is reversed through the income statement if the fair value of the instrument increases in a subsequent period and such increase can objectively be related to an event which occurred after the impairment loss was originally recognised.

b) Financial assets carried at amortised cost

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

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

c) Non-financial assets

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

XII Derivative financial instruments

Derivative financial instruments are used for mitigating risk and include futures, forward foreign exchange contracts, credit default swaps, currency swaps and interest rate swaps. They are classified as held for trading at fair value through profit or loss. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. If the fair value is positive they are carried as assets, otherwise as liabilities. Fair values are obtained from quoted market prices in active markets and valuation techniques including discounted cash flow models and options pricing models which have certain inputs not based on observable market data. Changes in the fair value of derivative instruments are recognised immediately in the income statement. No adjustment is made to the classification of existing investments to reflect the effect of the future settlement of these transactions.

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 with maturity of less than 3 months which are subject to an insignificant risk of a change in value.

XIV Share capital

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

Accounting Policies continued

XV Borrowings

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

XVI Offsetting

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

XVII Taxation

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

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

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

XVIII Employee benefits

a) Pension obligations

Contributions to defined contribution schemes are charged to the income statement as they become payable under the rules for the particular scheme.

Staff engaged in the Group's activities, excluding staff of AXA Ireland, which has its own pension scheme, are members of the AXA UK Group Pension Scheme which embraces a number of companies in the AXA UK Group. This Scheme has both defined benefit and defined contribution sections. However, there is no agreement between the participants in the Scheme as to how the net defined benefit costs should be allocated between them. As allowed by IAS 19 the Group therefore treats its contributions to the defined benefit sections as if they were defined contribution arrangements.

For other defined benefit plans the Group recognises a liability being the present value of the defined benefit obligation less the fair value of plan assets at Statement of financial position date. The defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method. The discount rate used to determine the present value of the defined benefit obligation is referenced to the current yield of high quality corporate bonds of an appropriate currency and term to match the liabilities.

For defined benefit plans, other than the AXA UK Group Pension Scheme, the Group recognises the following charges or credits in the income statement:

- Current service cost
- Past service cost
- Interest cost

Accounting Policies continued

- Impact of any curtailments or settlements
- Expected return on scheme assets, where applicable

The current service cost represents the current value of additional benefits accrued to employees during the period. Past service costs can also arise where additional benefits are granted. These costs are recognised in the income statement on a straight line basis over the period remaining until such benefits vest. Past service costs which have already vested are recognised immediately.

The interest cost relates to the increase in the present value of the defined benefit obligations, which arises because the benefits are one period closer to settlement, and is calculated using the discount rate at the beginning of the year.

Where there are curtailments or settlements during the year the changes arising in the present value of defined benefit obligations and fair value of scheme assets are recorded in the income statement.

The expected return on the scheme assets is calculated using the average rate of return, at the beginning of the period, expected on the scheme's assets over the remaining life of the related obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised as a separate component of equity through the Consolidated Statement of Comprehensive Income in the period in which they arise.

b) Other post-retirement obligations

Post-retirement healthcare benefits are provided to retired ex-employees by one Group subsidiary. The liability is valued annually by an independent qualified actuary and accounted for as a defined benefit plan.

Actuarial gains and losses arising from changes in actuarial assumptions are recognised as a separate component of equity through the Consolidated Statement of Comprehensive Income and expense.

c) Termination benefits

Termination benefits arise on termination of employment before the normal retirement date. The Group recognises the cost of providing these benefits when it is either contractually committed to their provision or they relate to the termination of employment of current employees in accordance with a formal plan from which the Group cannot realistically withdraw.

d) Profit sharing and bonuses

Employees benefit from profit sharing arrangements based on a formula which has regard to both personal performance and profitability of the applicable AXA Group companies. The Group recognises a liability for the cost of profit sharing and bonuses when contractually obliged to do so.

XIX Provisions

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

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

Accounting Policies continued

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

XX Leases

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

XXI Dividend distributions

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

XXII Revenue recognition

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

a) Premiums

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

b) Services

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

c) Interest income

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

d) Rental income

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

e) Interest charges made to policyholders

Other operating income includes charges made to policyholders under the Consumer Credit Act where premiums are paid by instalments. The income is recognised in the income statement as it is earned, using the effective interest rate of up to 11%. The deferred portion of this can be found in accruals and deferred income (note 31).

f) Dividend income

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

Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Details on the process used to decide on assumptions for non-life insurance contracts and sensitivity analyses are included in note 27 to the financial statements.

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

Item	Accounting policy
Claims provisions and related reinsurance recoveries	VI
Goodwill and other intangible assets	VII
Fair values of financial investments	X
Impairment of financial investments	XI
Fair value of derivative financial instruments	XII
Deferred income taxes	XVII
Pension obligations	XVIII

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

Management of Risks

Financial risk management objectives and policies

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

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

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

The notes below explain how financial risks are managed.

Market risk

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

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

The AXA UK plc 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. The Group does not use hedge accounting in respect of the derivative contracts held.

a) *Interest rate*

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase of 100 basis points in interest yields would result in additional profit for the period of £2.7m (2010: £5m) plus unrealised losses in the Consolidated Statement of Comprehensive Income of £174m (2010: £162m). A decrease of 100 basis points in interest yields would result in additional loss for the period of £2.7m (2010: £5m) plus unrealised gains in the Consolidated Statement of Comprehensive Income of £188m (2010: £175m).

The fair value of debt securities is exposed to future interest rate fluctuations. Included in debt securities of £4,432m (2010: £4,136m) is £620m (2010: £695m) in respect of variable rate debentures and £579m (2010: £580m) in respect of index linked debentures.

Management of Risks continued

Registered Number 01821312

Debt securities with fixed interest rates are exposed to fair value interest rate risk but not cash flow interest rate risk. Debt securities with variable interest rates are exposed to cash flow interest rate risk but not fair value interest rate risk.

An increase/decrease of 100 basis points in interest rates would increase/decrease the fair value of derivatives by £91m (2010 £21.6m)

b) Industry analysis

Equity analysis by industry ¹	2011		2010	
	£m	%	£m	%
Financial institutions	146	40.0%	366	44.3%
Consumer	57	15.7%	54	6.5%
Energy	34	9.3%	36	4.4%
Manufacturing & Pharmaceuticals	12	3.3%	21	2.5%
Utilities	29	8.0%	28	3.4%
Basic materials	17	4.7%	24	2.9%
Technology & Telecommunications	28	7.7%	30	3.6%
Others	41	11.3%	268	32.4%
Total	364	100.0%	827	100.0%

¹ Includes mutual funds

Debt securities analysis by industry	2011		2010	
	£m	%	£m	%
Financial institutions	1,799	40.7%	1,644	39.7%
Consumer	258	5.8%	218	5.3%
Energy	81	1.8%	41	1.0%
Manufacturing & Pharmaceuticals	111	2.5%	87	2.1%
Utilities	276	6.2%	187	4.5%
Basic materials	47	1.1%	47	1.1%
Technology & Telecommunications	248	5.6%	193	4.7%
Government securities	1,544	34.8%	1,508	36.5%
Others	68	1.5%	211	5.1%
Total	4,432	100.0%	4,136	100.0%

c) Equity price risk

Listed equity securities represent 100% (2010 75%) of total equity investments. If the relevant market indices had increased/decreased by 10%, with all other variables constant, and all the Group's equity investments moving according to the historical correlation with the index, the profit for the year would increase/decrease by £7m (2010 £16m), and unrealised gains recorded through the Consolidated Statement of Comprehensive Income would increase/decrease by £27m (2010 £32m).

d) Currency risk

The Group is exposed to currency risk in respect of portfolios denominated in other currencies, principally the US dollar and Euro. Mitigation of this risk is partly achieved by matching the liabilities with assets in the same currency and the use of derivative financial instruments. The Euro investments shown in the tables below principally relate to financial assets held by the Group's subsidiary undertaking in Ireland. At 31 December 2011, if the pound had weakened/strengthened by 1%, with all other variables constant, the profit before tax for the year would have been £4m (2010 £5m) lower/higher.

Currency analysis of equity shares 1	2011		2010	
	£m	%	£m	%
GBP	173	47.6%	527	63.7%
EURO	132	36.3%	173	20.9%
USD	51	14.0%	118	14.3%
Others	3	0.8%	4	0.5%
JYP	3	0.8%	3	0.4%
AUD	2	0.5%	2	0.2%
Total	364	100.0%	827	100.0%

1 Includes mutual funds

Currency analysis of debt securities	2011		2010	
	£m	%	£m	%
GBP	2,935	66.2%	2,873	69.5%
EURO	1,229	27.7%	993	24.0%
USD	220	5.0%	235	5.7%
Others	48	1.1%	35	0.8%
Total	4,432	100.0%	4,136	100.0%

Capital management

The Group's UK and Irish insurance operations are regulated by the Financial Services Authority (FSA) and The Irish Financial Services Regulatory Authority respectively and are 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 Group 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 individual insurance companies are subject to capital adequacy requirements (which are based on EU Directive requirements). At 31 December 2011 the total capital available to meet the UK Insurance Group's adjusted solo basis Solvency I requirement is £806m (2010: £813m) which exceeds the General Insurance Capital Requirement by £284m (2010: £239m). For Ireland the total regulatory assets available to cover the minimum solvency margin under Solvency I are €321m (2010: €274m) which exceed the required solvency margin by €240m (2010: €197m).

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

Insurance and reinsurance risk

The Group'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.

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 Group 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 segment assets and liabilities (note 1). The UK Property & Casualty segment includes direct commercial employee liability claims outstanding of £851m (2010: £869m) and other liability claims outstanding of £277m (2010: £307m) within the total Insurance liabilities of £5,368m (2010: £5,235m).

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 Group's insurance contract holders (where reduction of interest rates would normally produce a higher insurance liability), the Group matches the cash flows of assets and liabilities in this portfolio by estimating their mean duration.

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

General insurance contracts – assumptions, change in assumptions and sensitivity

a) Process used to decide on assumptions

In addition to controlling upstream risks and analysing the reinsurance strategy the Group 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 Group 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 Group'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)
- 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

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 Group's main portfolios simultaneously

b) Change in assumptions

No significant changes to assumptions were made in 2011 for the estimation of general insurance claims

Liquidity risk

Liquidity risk is defined as the risk that the Group, 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 Group's financial assets and financial liabilities based on the remaining period at the Statement of financial position date to the contractual maturity date

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

Management of Risks continued

Registered Number 01821312

	Less than 1 year £m	1-2 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
2011						
Financial assets						
Equities and mutual funds	-	-	-	-	364	364
Derivatives	16	-	2	7	-	25
Debt securities	146	383	1,595	2,308	-	4,432
Loans/bonds with related parties	-	10	83	186	-	279
Total financial assets (note 20)	162	393	1,680	2,501	364	5,100

	Less than 1 year £m	1-5 years £m	Over 5 years £m	Total £m
2011				
Financial liabilities				
Claims outstanding (note 27)		1,369	830	3,694
Direct insurance operations (note 28)		206	-	206
Reinsurance operations (note 28)		90	-	90
Other liabilities (note 31)		387	-	387
Insurance liabilities		2,052	830	4,377
15 year subordinated loan repayable 2016		-	-	-
Perpetual subordinated loan		-	-	-
Unsecured bank loan		5	-	5
Listed unsecured 6 5/8% Company bonds repayable 2023		-	148	148
Total borrowings (note 29)		5	148	153
Derivatives (note 20)		17	81	192
Total financial liabilities		2,074	1,059	4,722

All other financial assets and financial liabilities are due within one year

	Less than 1 year £m	1-2 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
2010						
Financial assets						
Equities and mutual funds	-	-	-	-	827	827
Derivatives	1	-	4	8	-	13
Debt securities	374	215	1,266	2,281	-	4,136
Loans/bonds with related parties	-	-	-	176	-	176
Total financial assets	375	215	1,270	2,465	827	5,152

	Less than 1 year £m	1-5 years £m	Over 5 years £m	Total £m
2010				
Financial liabilities				
Claims outstanding (note 27)		1,404	649	3,644
Direct insurance operations (note 28)		213	-	213
Reinsurance operations (note 28)		66	-	66
Other liabilities (note 31)		314	-	314
Insurance liabilities		1,997	649	4,237
15 year subordinated loan repayable 2016		-	100	100
Perpetual subordinated loan		-	50	50
Unsecured bank loan		9	-	9
Listed unsecured 6 5/8% Company bonds repayable 2023		-	148	148
Total borrowings (note 29)		9	298	307
Derivatives (note 20)		5	10	15
Total liabilities		2,011	957	4,559

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

Management of Risks continued

Registered Number 01821312

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 Group'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.

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

Ratings	2011		2010	
	£m	%	£m	%
AAA	1,800	24.9%	1,863	45.0%
AA	339	4.7%	410	9.9%
A	1,580	21.9%	1,067	25.8%
BBB	922	12.8%	690	16.7%
BB	157	2.2%	24	0.6%
B	4	0.1%	-	0.0%
C	-	0.0%	3	0.1%
Not rated	2,418	33.4%	79	1.9%
Total	7,220	100.0%	4,136	100.0%

The maximum exposure for the Group's assets bearing credit risk is summarised below.

	2011 (carrying value) £m	2010 (carrying value) £m
Maximum credit risk		
Investment in financial assets (note 20)	4,556	4,656
Reinsurers' share of insurance contract liabilities (note 21)	149	97
Insurance and reinsurance receivables (note 22)	1,259	1,115
Other receivables (note 25)	741	979
Cash and cash equivalents (note 24)	515	172
	7,220	7,019

The following table provides the aging of receivables from insurance and reinsurance operations.

	Not past due or impaired	Overdue less than 6 months	Overdue 6 - 12 months	overdue over 1 year	Provided for	Carrying value £m
2011						
Direct and reinsurance inwards						
insurance receivables	1,175	30	4	7	(19)	1,197
Reinsurance receivables (ceded only)	48	-	2	20	(8)	62
2010						
Direct and reinsurance inwards						
insurance receivables	990	107	10	6	(19)	1,094
Reinsurance receivables (ceded only)	18	1	-	8	(6)	21

Fair value estimation

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable

- Level 1 Listed quoted prices (unadjusted) in active markets and external broker quotes which are publicly, readily and regularly available on an active market
- Level 2 Inputs other than quoted prices included within Level 1 that are observable, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Assets measured at fair value -31 December 2011

Description	Fair value measurement at end of the reporting period based on.			
	2011 £m	Level 1 £m	Level 2 £m	Level 3 £m
Available for sale financial assets				
Equity investments	265	229	36	-
Debt securities	4,432	2,532	1,729	171
Mutual funds	99	-	83	16
Fair value through income	25	2	23	-
Total	4,821	2,763	1,871	187

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The following table presents the changes to level 3 instruments for the year ended 31 December 2011.

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

Description	Fair value measurement at reporting date Available for sale			
	Equity investments £m	Debt securities £m	Mutual funds £m	Total £m
Opening balance	2	144	52	198
Total gains or losses in other comprehensive income	-	-	(1)	(1)
Purchases	-	-	8	8
Settlements	(2)	-	(1)	(3)
Transferred into level 3	-	59	-	59
Transferred out of level 3	-	(32)	(42)	(74)
Closing balance	0	171	16	187

Assets measured at fair value – 31 December 2010

Description	Fair value measurement at end of the reporting period based on:			
	2010 £m	Level 1 £m	Level 2 £m	Level 3 £m
Available for sale financial assets				
Equity investments	427	385	40	2
Debt securities	4,136	3,382	610	144
Mutual funds	400	7	341	52
Total	4,963	3,774	991	198

Assets measured at fair value based on level 3 – 31 December 2010

Description	Fair value measurement at reporting date			
	Available for sale			
	Equity investments £m	Debt securities £m	Mutual funds £m	Total £m
Opening balance	2	110	6	118
Total gains or losses in other comprehensive income	-	16	4	20
Purchases	-	20	42	62
Settlements	-	(2)	-	(2)
Transfers into and/or out of level 3	-	-	-	-
Closing balance	2	144	52	198

Notes to the Financial Statements

1 Segmental information – Business segments

The Group is organised into four operating segments – Healthcare, UK Property & Casualty, Republic of Ireland Property & Casualty and Other Group activities. Each segment incorporates a related proportion of returns from investments.

The activities of these differing operating segments are detailed below -

Healthcare

The principal activities comprise the offering of private medical insurance cover to both individuals and businesses both in the UK and internationally, dental payment plans and occupational health services.

UK Property & Casualty

The principal activities comprise the offering of general insurance products to individuals and businesses through direct, corporate partners and intermediaries channels.

Republic of Ireland Property & Casualty (R of I)

The principal activities comprise the offering of general insurance products, primarily car insurance.

Other Group activities

Other activities comprise the applicable results of service companies, the ROI wealth management company, international property & casualty agencies, central functions and any elimination adjustments.

Basis of Measurement

The accounting policies of the segments are the same as those for the Group as a whole. Any transactions between reportable segments are on normal commercial terms, and are included within the reported segments.

The Group assesses performance of and allocates resources to each of the operating segments on the basis of operating profit before tax attributable to equity holders of the company, with no subsequent adjustments.

Notes to the Financial Statements continued

The segment results for the year ended 31 December 2011 are as follows

	Healthcare £m	Property & Casualty UK £m	Property & Casualty R of I £m	Other £m	Group £m
Insurance revenue					
Insurance premium revenue	1,067	2,092	435	-	3,594
Insurance premium ceded to reinsurers	(11)	(163)	(21)	-	(195)
Net insurance revenue	1,056	1,929	414	-	3,399
Other income					
Investment income	29	179	45	2	255
Other operating income	52	41	-	95	188
Total income	1,137	2,149	459	97	3,842
Policyholders claims and benefits					
Insurance claims and loss adjustment expenses	(795)	(1,468)	(268)	-	(2,531)
Insurance claims and loss adjustment expenses recoverable from reinsurers	7	67	3	-	77
Other expenses					
Net realised (losses)/gains on available for sale financial assets	(2)	(45)	5	-	(42)
Net fair value losses on assets at fair value through income	(19)	(80)	(36)	-	(135)
Insurance contract acquisition expenses	(128)	(569)	(73)	-	(770)
Marketing and administration expenses	(134)	(167)	(39)	(2)	(342)
Cost of asset management services	(2)	(5)	(2)	-	(9)
Other operating expenses	(3)	(14)	-	(94)	(111)
Operating result	61	(132)	49	1	(21)
Underwriting result (footnote1)	55	(181)	37	(1)	(90)
Net investment result (footnote 2)	6	49	12	2	69
Operating result	61	(132)	49	1	(21)
Finance costs	-	-	-	(14)	(14)
Gain on disposal	99	-	-	-	99
Profit/(loss) before tax	160	(132)	49	(13)	64
Income tax expense	(19)	24	(9)	1	(3)
Profit/(loss) for the year attributable to equity shareholders of the Company	141	(108)	40	(12)	61
Other segment items included in the income statement:					
Depreciation and amortisation expenses	6	11	2	-	19

Notes to the Financial Statements continued

The segment results for the year ended 31 December 2010 are as follows

	Healthcare £m	Property & Casualty UK £m	Property & Casualty R of I £m	Other £m	Group £m
Insurance revenue					
Insurance premium revenue	1,037	2,053	397	-	3,487
Insurance premium ceded to reinsurers	(11)	(105)	(19)	-	(135)
Net insurance revenue	1,026	1,948	378	-	3,352
Other income					
Investment income	26	155	41	5	227
Net fair value profits on assets at fair value through income	-	8	-	-	8
Other operating income	54	63	5	128	250
Total income	1,106	2,174	424	133	3,837
Policyholders claims and benefits					
Insurance claims and loss adjustment expenses	(802)	(1,428)	(269)	-	(2,499)
Insurance claims and loss adjustment expenses recoverable from reinsurers	7	3	5	-	15
Other expenses					
Net realised (losses)/gains on available for sale financial assets	10	(27)	5	(3)	(15)
Insurance contract acquisition expenses	(122)	(626)	(53)	-	(801)
Marketing and administration expenses	(121)	(160)	(47)	(2)	(330)
Cost of asset management services	(2)	(10)	-	-	(12)
Other operating expenses	-	(6)	-	(126)	(132)
Operating result	76	(80)	65	2	63
Underwriting result (footnote 1)	42	(206)	19	-	(145)
Net investment result (footnote 2)	34	126	46	2	208
Operating result	76	(80)	65	2	63
Finance costs	-	-	-	(14)	(14)
Profit/(loss) before tax	76	(80)	65	(12)	49
Income tax expense	(22)	28	(8)	9	7
Profit/(loss) for the year attributable to equity shareholders of the Company	54	(52)	57	(3)	56
Other segment items included in the income statement					
Depreciation and amortisation expenses	5	11	2	-	18

Notes to tables

- Underwriting result comprises net insurance revenues, other operating income and other operating expenses, policyholder claims and benefits, insurance contract acquisition expenses, and marketing and administration expenses, excluding exchange gains and losses, and non-insurance related income and expenses
- Net investment result comprises investment income, net realised gains on available for sale financial asset investments, net fair value gains and losses on assets at fair value through income and expenses, and cost of asset management services, including exchange gains and losses, and non-insurance related income and expenses

Notes to the Financial Statements continued

The segment assets and liabilities at 31 December 2011 and capital expenditure for the year then ended are as follows

	Healthcare	Property & Casualty UK	Property & Casualty R of I	Other	Group
	£m	£m	£m	£m	£m
Reinsurance assets	5	122	18	4	149
Other assets	1,442	5,367	1,399	282	8,490
Total assets	1,447	5,489	1,417	286	8,639
Insurance liabilities	591	3,820	952	5	5,368
Other liabilities	313	424	135	325	1,197
Total liabilities	904	4,244	1,087	330	6,565
Capital expenditure	21	19	2	-	42

The segment assets and liabilities at 31 December 2010 and capital expenditure for the year then ended are as follows

	Healthcare	Property & Casualty UK	Property & Casualty R of I	Other	Group
	£m	£m	£m	£m	£m
Reinsurance assets	6	65	23	3	97
Other assets	1,237	4,962	1,420	669	8,288
Total assets	1,243	5,027	1,443	672	8,385
Insurance liabilities	561	3,653	1,017	4	5,235
Other liabilities	292	305	99	421	1,117
Total liabilities	853	3,958	1,116	425	6,352
Capital expenditure	6	13	3	-	22

2 Segmental information – Geographical segments

The Group's business segments are managed as a single group operating in the following main geographical areas

	2011 £m	2010 £m
Net insurance revenue		
UK	2,985	2,974
Republic of Ireland	414	378
Total income from insurance contracts	3,399	3,352
Total assets	2011 £m	2010 £m
UK	7,218	6,948
Republic of Ireland	1,421	1,437
Total assets	8,639	8,385

Notes to the Financial Statements continued

	2011 £m	2010 £m
Capital expenditure		
UK	40	19
Republic of Ireland	2	3
Total capital expenditure	<u>42</u>	<u>22</u>

3 Net premium revenue

	2011 £m	2010 £m
Short-term insurance contracts		
- premium receivables	3,679	3,525
- change in unearned premium provision	(85)	(38)
Premium revenue arising from contracts issued	<u>3,594</u>	<u>3,487</u>
Short-term reinsurance contracts		
- premium payables	(195)	(129)
- change in unearned premium provision	-	(6)
Premium revenue ceded to reinsurers on insurance contracts issued	<u>(195)</u>	<u>(135)</u>
Net premium revenue	<u>3,399</u>	<u>3,352</u>

4 Investment income

	2011 £m	2010 £m
Available for sale		
- dividend income	19	15
- interest income	206	190
Real estate income	8	8
Cash and cash equivalents interest income	11	3
Other investment income	11	11
Total investment income	<u>255</u>	<u>227</u>

	2011 £m	2010 £m
Investment income	255	227
Net fair value gains on assets at fair value through profit or loss	-	8
Net realised losses on available for sale financial assets	(42)	(15)
Net fair value losses on assets at fair value through expenses through income	(135)	-
Cost of asset management services	(9)	(12)
Total investment return	<u>69</u>	<u>208</u>

Notes to the Financial Statements continued

5 Net realised losses on available for sale financial assets

	2011 £m	2010 £m
Realised losses on financial assets		
- debt securities	(3)	(43)
- equities	(8)	10
Impairment of financial assets		
- release		
Investment properties	-	5
Debt securities	14	28
Equity securities	8	23
Mutual funds	1	-
- allowance		
Investment properties	2	(1)
Debt securities	-	(10)
Equity securities	(55)	(26)
Mutual funds	(1)	(1)
Total net realised losses on available for sale financial assets	(42)	(15)

6 Other operating income

	2011 £m	2010 £m
Other income from non-insurance business	93	122
Foreign exchange gains	-	2
Recharge of expenses to immediate parent company	81	55
Recharge of expenses to fellow subsidiary undertakings	14	71
Other operating income	188	250

7 Other operating expenses

	2011 £m	2010 £m
Other expenses from non-insurance business	6	6
Foreign exchange losses	10	-
Expenses incurred by Service Company	95	126
Other operating expenses	111	132

8 Policyholder claims and benefits

	2011 £m	2010 £m
Insurance claims and loss adjustment expenses		
Gross claims paid	2,454	2,557
Gross changes in insurance contract liabilities for claims	82	(58)
Change in unexpired risks provision	(5)	-
	2,531	2,499
Insurance claims and loss adjustment expenses recoverable		
Reinsurers' share of		
claims paid	(19)	(32)
change in insurance contract liabilities for claims	(58)	17
	(77)	(15)
Net policyholder claims and benefits	2,454	2,484

Notes to the Financial Statements continued

9 Other expenses by destination

	2011 £m	2010 £m
Movement in advanced commission payments (note 17)	2	(12)
Amortisation of deferred acquisition costs (note 18)	13	60
Costs incurred for the acquisition of insurance contracts expensed in the year	756	760
Attributable to reinsurers	(1)	(7)
Total expenses for the acquisition of insurance contracts	770	801

	2011 £m	2010 £m
Marketing and administrative expenses	323	312
Depreciation of property, plant and equipment	5	6
Amortisation of software development costs	12	10
Amortisation of intangible assets	2	2
Total marketing and administrative expenses	342	330

The operating lease payments recognised as an expense during the year were £10m (2010 £11m)

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

	2011 £000's	2010 £000's
Audit services		
- Fees payable to the Company's auditor for the audit of the statutory accounts	49	50
- Fees payable to the Company's auditor for the audit of its subsidiaries	988	1,115
- Other services pursuant to legislation	96	131
	1,133	1,296

Other services pursuant to legislation, includes the audit of the regulatory returns

10 Employee benefit expense

	2011 No	2010 No
Average number of employees in the year were		
- Healthcare	2,516	2,798
- Property & Casualty UK	3,184	3,306
- Property & Casualty R of I	952	957
	6,652	7,061

	2011 £m	2010 £m
Wages and salaries	268	266
Social security costs	25	27
Pension costs - defined contribution plans (note 33)	15	16
Pension costs - defined benefit plans (note 33)	59	63
	367	372

Notes to the Financial Statements continued

11 Finance costs

	2011 £m	2010 £m
Interest expense		
- non-bank borrowings	4	4
- unsecured company bonds	10	10
Finance costs	14	14

12 Income tax expense

	2011 £m	2010 £m
Current tax	23	49
Deferred tax (note 32)	(20)	(56)
Income tax charge/(credit)	3	(7)

Tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows

	2011 £m	2010 £m
Profit before tax	64	49
Tax at the UK rate of 26.5% (2010 28.0%)	17	14
Effects of		
- tax calculated at domestic tax rates applicable to profits in the respective countries	(4)	(9)
- income not subject to tax	(16)	(6)
- change in UK tax rate to 25% (2010 27%)	8	10
- adjustments to tax charge in respect of previous periods	(2)	(16)
Tax charge/(credit) for the period	3	(7)

As the Group has overseas subsidiaries it is subject to income taxes in different tax jurisdictions. Taxation for these is calculated at the rates prevailing in those jurisdictions.

During the year, as a result of the change in the UK corporation tax rate from 27% to 25% that was enacted in Finance Act 2011 and will be effective from 1 April 2012, the relevant deferred tax balances have been re-measured. The impact included in the tax charge for the year is a charge of £8m. In the Budget announcement on 21 March 2012, the Government proposed an additional reduction in the UK corporation tax rate to 24% with effect from 1 April 2012. This is expected to be followed by further 1% per annum annual reductions which will bring the rate to 22% by 1 April 2014. The impact of the 3% rate change on the deferred tax asset/liability on the Statement of financial position would be £24m. The changes had not been substantively enacted at the Statement of financial position date and, therefore, are not recognised in these financial statements.

The tax charge relating to components of other comprehensive income is as follows

	2011			2010		
	Before tax	Tax credit	After tax	Before tax	Tax charge	After tax
	£m	£m	£m	£m	£m	£m
Actuarial (losses)/ gains on defined benefit schemes	(46)	(1)	(45)	53	1	52
Other comprehensive income	(46)	(1)	(45)	53	1	52
Current tax (credit)/charge		(1)			1	

Notes to the Financial Statements continued

13 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year

	2011	2010
Profit/(Loss) attributable to the Company's equity holders (£m)	61	56
Weighted average number of ordinary shares in issue (thousands)	1,059,786	1,059,786
Basic earnings per share (pence per share)	5.76	5.28

Diluted

The Company has no dilutive potential ordinary shares and so diluted earnings per share does not differ from the basic earnings per share

14 Dividends

No interim dividends were paid during the year (2010 Interim dividends of £20m and £40m were paid on 25 June 2010 and 26 November 2010 respectively)

The directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010 £nil)

15 Property, plant and equipment

	Land and buildings £m	Motor vehicles £m	Plant and Equipment £m	Total £m
Cost				
Balance as at 1 January 2011	67	2	26	95
Additions at cost	12	1	5	18
Disposals	(1)	(1)	(5)	(7)
Balance as at 31 December 2011	78	2	26	106
Accumulated depreciation				
Balance as at 1 January 2011	28	-	16	44
Charge for the year	3	-	2	5
Disposals	-	-	(5)	(5)
Balance as at 31 December 2011	31	-	13	44
Net book value as at 31 December 2011	47	2	13	62

Notes to the Financial Statements continued

	Land and buildings £m	Motor vehicles £m	Equipment £m	Total £m
Cost				
Balance as at 1 January 2010	68	2	24	94
Additions at cost	-	1	2	3
Disposals	-	(1)	-	(1)
Exchange and other movements	(1)	-	-	(1)
Balance as at 31 December 2010	67	2	26	95
Accumulated depreciation				
Balance as at 1 January 2010	25	-	14	39
Charge for the year	3	-	3	6
Disposals	-	-	(1)	(1)
Balance as at 31 December 2010	28	-	16	44
Net book value as at 31 December 2010	39	2	10	51

Depreciation expense of £5m (2010 £6m) has been charged to marketing and administration expenses

The expected useful economic lives of Land and buildings is the period of the lease to a maximum of 50 years, Motor vehicles are 4 to 5 years, and Equipment is 8 years

The freehold properties were valued at £53m as at 31 December 2011 (2010 £48m) on an open market existing use basis by Lambert Smith Hampton, who are external chartered surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors

16 Investment properties

	2011 £m	2010 £m
Cost		
Balance as at 1 January	142	119
Additions at cost	6	19
Impairment movement	2	4
Balance as at 31 December	150	142
Accumulated depreciation		
Balance as at 1 January	10	6
Charge for the year	4	4
Balance as at 31 December	14	10
Net book value as at 31 December	136	132

The properties were valued at £147m (£142m at 31 December 2010) on an open market existing use basis by Lambert Smith Hampton or by CB Richard Ellis, who are external chartered surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors

The rental income arising from investment properties amounted to £10m (2010 £10m), whilst the associated operating expenses were £2m (2010 £2m). Both amounts are recorded in the income statement within investment income

Notes to the Financial Statements continued

17 Goodwill and intangible assets

	Goodwill £m	Software development £m	Advance commissions £m	Other intangibles £m	Total £m
Balance as at 1 January 2011					
Cost	147	107	152	15	421
Impairment	-	-	-	(2)	(2)
Accumulated amortisation	-	(85)	(126)	(8)	(219)
Net book value as at 1 January 2011	147	22	26	5	200
Additions	8	12	5	3	28
Disposals at cost	(14)	(40)	-	-	(54)
Amortisation charge	-	(12)	(7)	(2)	(21)
Amortisation charge on disposals	-	40	-	-	40
Net book value as at 31 December 2011	141	22	24	6	193
Balance as at 31 December 2011					
Cost	141	79	157	18	395
Impairment	-	-	-	(2)	(2)
Accumulated amortisation	-	(57)	(133)	(10)	(200)
Net book value as at 31 December 2011	141	22	24	6	193
Balance as at 1 January 2010					
Cost	142	94	130	15	381
Accumulated amortisation	-	(75)	(116)	(6)	(197)
Net book value as at 1 January 2010	142	19	14	9	184
Additions	5	13	22	-	40
Impairment	-	-	-	(2)	(2)
Amortisation charge	-	(10)	(10)	(2)	(22)
Net book value as at 31 December 2010	147	22	26	5	200
Balance as at 31 December 2010					
Cost	147	107	152	15	421
Impairment	-	-	-	(2)	(2)
Accumulated amortisation	-	(85)	(126)	(8)	(219)
Net book value as at 31 December 2010	147	22	26	5	200

- a) **Goodwill** relates to the acquisitions of the AXA PPP healthcare group plc, SecureHealth (Holdings) Limited, ICAS International Holdings Limited and the £8m addition in 2011 of Independent Sales Force Solutions Limited (note 38) which form part of the Healthcare segment. The disposal of £14m relates to Denplan Limited which formed part of the AXA PPP healthcare group plc (note 38). For the cash generating unit the calculation of value in use uses 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 have been extrapolated using a steady 2% growth rate and terminal value. The carrying value is considered to be fully recoverable and no impairment is considered necessary.
- b) **Software development** is all internally developed. An annual impairment review resulted in no impairment being required (2010: £nil).
- c) **Advance commissions** represent separate payments to intermediaries, with useful lives ranging from within one year to 7 years, in respect of future business. An annual impairment review resulted in no impairment being required (2010: £nil).

Notes to the Financial Statements continued

- d) **Other intangibles** arise mainly from the fair valuation of the assets acquired on acquisition together with some new books of business acquired. The addition of £3m relates to the acquisition of Independent Sales Force Solutions Limited (note 38). The annual impairment review resulted in an impairment of £nil (2010: £2m)

18 Deferred acquisition costs

	2011 £m	2010 £m
Deferred acquisition costs as at 1 January	301	364
Exchange and other movements	(1)	(3)
(Charge)/credit to income statement in the year	(13)	(60)
Acquisition costs deferred during the year	618	617
Amortisation charged during the year	(631)	(677)
Deferred acquisition costs as at 31 December	287	301

19 Investments in subsidiaries**Particulars of principal subsidiary undertakings**

	Country of incorporation or registration	Holdings of ordinary shares
Insurance companies		
AXA Insurance UK plc	England	100%
AXA PPP healthcare limited	England	100%
AXA Insurance Limited	Ireland	100%
Other companies		
AXA Insurance plc	England	100% (Parent)
AXA General Insurance Limited	England	100%
AXA Holdings Ireland Limited	Ireland	100%
AXA PPP healthcare group plc	England	100% (Parent)
AXA Services Limited	England	100% (Parent)
Guardian Royal Exchange International (Holdings) BV	Netherlands	100%
ICAS International Holdings Limited	England	100%
SecureHealth (Holdings) Limited	England	100%
The Royal Exchange Assurance	England	100%

Notes

- The country of principal operation for each of the above companies is the country of incorporation, with the exception of Guardian Royal Exchange International (Holdings) BV where the company transacts UK-based financing activities, and The Royal Exchange Assurance whose principal countries of operation were Cyprus and Greece prior to the Part VII transfer of its business on 31 March 2011 to AXA Insurance UK Plc
- All holdings of ordinary shares are held by a subsidiary unless stated parent

Notes to the Financial Statements continued

20 Investment in financial assets

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

	2011 £m	2010 £m
Available for sale	4,796	4,963
Fair value through income	25	13
Held to maturity - AXA UK plc 2017 5 75% bonds	100	100
Loans	179	76
Total financial assets	5,100	5,152
Available for sale financial assets	2011 £m	2010 £m
Equity securities		
- listed	265	320
- unlisted	-	107
Debt securities		
- listed	4,211	3,911
- unlisted	221	225
Mutual funds		
- listed	54	58
- unlisted	45	342
Total available for sale financial assets	4,796	4,963

Fair value through income derivative financial instruments are summarised by type in the table below

	2011			2010		
	Contractual/ Notional Amount £m	Asset £m	Liability £m	Contractual/ Notional Amount £m	Asset £m	Liability £m
Foreign Exchange Forwards	506	1	(1)	276	1	(4)
Credit Default Swaps	484	1	(6)	122	-	(1)
Currency Swaps	505	1	(51)	98	-	(10)
Interest Rate Swaps	1,545	4	(101)	450	12	-
Inflation swaps	485	3	(18)	-	-	-
Options	613	15	(15)	-	-	-
Total	4,138	25	(192)	946	13	(15)

The Group entered into a number of derivative contracts during the financial year Over the Counter (OTC) cross currency swap and currency forward contracts, OTC fixed payer and floating receiver interest rate swap contracts, OTC single name and index credit default swap contracts, OTC inflation swap contracts, exchange traded and OTC equity derivatives, exchange traded option on futures contracts, exchange traded and OTC volatility-based derivative contracts (*accounting policy XII*)

The derivative contracts were fully collateralised on a daily basis under ISDA Master Agreements between the Group and various counterparties

	2011 £m	2010 £m
Loans		
Broker loans	27	24
Real estate and other private loans	152	52
Total loans	179	76

Notes to the Financial Statements continued

21 Reinsurers' share of insurance contract liabilities*

	2011 £m	2010 £m
Reinsurers' share of provision for claims outstanding and loss adjustment expenses	131	81
	<u>131</u>	<u>81</u>
Reinsurers' share of provision for unearned premiums	18	16
Reinsurers' share of insurance contract liabilities	<u>149</u>	<u>97</u>
Settlement period for reinsurers' share of claims outstanding and loss adjustment expenses		
Less than 12 months	30	24
Greater than 12 months	101	57
	<u>131</u>	<u>81</u>

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

	2011 £m	2010 £m
Balance as at 1 January	81	91
Reinsurers' share of claims payments made in year	(19)	(32)
Increase in recoverables	77	15
Exchange and other movements	(8)	7
Balance as at 31 December	<u>131</u>	<u>81</u>

Reinsurers' share of provision for unearned premiums

	2011 £m	2010 £m
Balance as at 1 January	16	23
Premiums written in the year	197	128
Premiums earned in the year	(195)	(135)
Balance as at 31 December	<u>18</u>	<u>16</u>

22 Insurance and reinsurance receivables

	2011 £m	2010 £m
Direct and reinsurance inwards insurance receivables	1,197	1,094
Reinsurance receivables (ceded only)	62	21
Total insurance and reinsurance receivables due within one year	<u>1,259</u>	<u>1,115</u>

Notes to the Financial Statements continued

23 Other receivables

	2011 £m	2010 £m
Accrued interest	90	81
Prepayments and accrued income	18	28
Amounts due from ultimate parent company	4	4
Loans due from intermediate parent company	455	601
Other amounts due from intermediate parent company	49	147
Amounts due from fellow subsidiary undertakings	31	35
Other receivables	94	83
Total other receivables	741	979
Expected to be recovered in less than one year	699	936
Expected to be recovered in more than one year	42	43

Amounts expected in more than one year are comprised of a two year term loan Euro 50m (2010 Euro nil) 3 2% fixed rate loan maturing in 2013 and five year term Euro 50m (2010 Euro 50m) 4 44% fixed rate loan maturing in 2013 between the Group and an intermediate parent company, AXA UK plc No interest is charged on other inter company loans

24 Cash and cash equivalents

	2011 £m	2010 £m
Cash at bank and in hand	148	136
Short-term deposits	367	36
Cash and cash equivalents	515	172

The principal balance within the short-term deposits is a controlled sterling cash mutual fund investment, which has an average maturity of 50 days The fund invests in Certificates of deposit, Commercial paper, Medium term notes, Time deposits and United Kingdom Treasury bills

The effective interest rate on other short-term deposits, which have an average maturity of 32 days (2010 51 days), was 0 6% (2010 0 3%)

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

	2011 £m	2010 £m
Cash and cash equivalents	515	172
Bank overdrafts	(5)	(9)
	510	163

25 Ordinary share capital

	2011		2010	
	Shares	£m	Shares	£m
Issued and fully paid ordinary shares of 5 25p each	1,059,785,981	56	1,059,785,981	56
Share premium account				
Balance as at 31 December		523		523

Notes to the Financial Statements continued

26 Other Reserves

	Capital reserve £m	Capital redemption reserve £m	Capital contribution reserve £m	Revaluation reserve £m	Translation reserve £m	Total £m
2011						
Balance as at 1 January	104	189	46	151	29	519
Fair value gains on available for sale financial assets	-	-	-	40	-	40
Tax on movements taken directly to equity - deferred	-	-	-	(9)	-	(9)
Exchange on revaluation of subsidiary net assets	-	-	-	-	(11)	(11)
Balance as at 31 December	104	189	46	182	18	539
	Capital reserve £m	Capital redemption reserve £m	Capital contribution reserve £m	Revaluation reserve £m	Translation reserve £m	Total £m
2010						
Balance as at 1 January	104	189	46	37	39	415
Fair value losses on available for sale financial assets	-	-	-	154	-	154
Tax on movements taken directly to equity - deferred	-	-	-	(40)	-	(40)
Exchange on revaluation of subsidiary net assets	-	-	-	-	(10)	(10)
Balance as at 31 December	104	189	46	151	29	519

The capital redemption reserve is non-distributable and was created in 1998 on the redemption of B shares

The capital contributions were received in 2003 from the immediate parent, AXA UK plc

The revaluation reserve represents the movement in the financial assets as disclosed in accounting policy X a

The translation reserve represents exchange differences on the translation into Sterling of the results and financial position of those entities whose functional currency is not Sterling

Movements in revaluation reserve for available for sale investments

	2011 £m	2010 £m
Balance as at 1 January	151	37
Investments purchased in prior accounting periods		
Transfer to income statement following sale	(12)	20
Transfer to income statement following increase in impairment	65	48
Transfer to income statement following changes in premium/discount	15	(2)
Adjustments in current accounting period	(24)	81
Adjustments to investments purchased in the current accounting period	(4)	7
Tax	(9)	(40)
Balance as at 31 December	182	151

Notes to the Financial Statements continued

27 Insurance contract liabilities

	2011 £m	2010 £m
Provision for claims outstanding and loss adjustment expenses	3,694	3,644
Provision for unearned premiums	1,674	1,591
Total insurance contract liabilities	5,368	5,235
Settlement period for claims outstanding		
Less than 12 months	986	1,013
Greater than 12 months	2,708	2,631
	3,694	3,644

Provision for claims outstanding and loss adjustment expenses

	2011 £m	2010 £m
Balance as at 1 January	3,644	3,716
Total claims payments made in the year	(2,454)	(2,557)
Increase in liabilities	2,536	2,499
Exchange and other movements	(32)	(14)
Balance as at 31 December	3,694	3,644

Provision for unearned premiums

	2011 £m	2010 £m
Balance as at 1 January	1,591	1,559
Premiums written in the year	3,679	3,525
Premiums earned in the year	(3,594)	(3,487)
Exchange and other movements	(2)	(6)
Balance as at 31 December	1,674	1,591

Claims development tables

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims and the top half of each table below illustrates how the Group'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 Group.

Notes to the Financial Statements continued

Accident year - Gross	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	Total £m
Estimate of ultimate claims costs											
- at end of accident year	1,960	1,908	1,954	1,862	1,994	2,335	2,313	2,476	2,535	2,450	21,787
- one year later	1,903	1,881	1,907	1,961	2,204	2,560	2,569	2,727	2,700		
- two years later	1,918	1,874	1,860	1,847	2,085	2,415	2,429	2,673			
- three years later	1,903	1,766	1,734	1,708	2,023	2,364	2,421	-			
- four years later	1,797	1,659	1,622	1,687	1,982	2,340	-	-			
- five years later	1,752	1,663	1,599	1,641	1,970	-	-	-			
- six years later	1,727	1,620	1,582	1,614	-	-	-	-			
- seven years later	1,703	1,610	1,575	-	-	-	-	-			
- eight years later	1,676	1,607	-	-	-	-	-	-	-	-	
- nine years later	1,673	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims	1,673	1,607	1,575	1,614	1,970	2,340	2,421	2,673	2,700	2,450	21,023
Cumulative payments to date	1,626	1,528	1,500	1,522	1,843	2,228	2,209	2,292	2,008	1,430	18,186
Liability recognised in the balance sheet	47	79	75	92	127	112	212	381	692	1,020	2,837
Liability in respect of prior years											857
Total liability included in the balance sheet											3,694

Accident year - Net	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	Total £m
Estimate of ultimate claims costs											
- at end of accident year	1,932	1,874	1,926	1,805	1,956	2,316	2,293	2,438	2,511	2,423	21,474
- one year later	1,872	1,846	1,877	1,913	2,171	2,538	2,550	2,687	2,681	-	
- two years later	1,883	1,844	1,806	1,797	2,049	2,385	2,414	2,635	-	-	
- three years later	1,871	1,737	1,688	1,663	1,945	2,335	2,408	-	-	-	
- four years later	1,766	1,635	1,581	1,627	1,904	2,312	-	-	-	-	
- five years later	1,712	1,642	1,549	1,602	1,896	-	-	-	-	-	
- six years later	1,705	1,599	1,529	1,576	-	-	-	-	-	-	
- seven years later	1,685	1,589	1,522	-	-	-	-	-	-	-	
- eight years later	1,659	1,584	-	-	-	-	-	-	-	-	
- nine years later	1,656	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims	1,656	1,584	1,522	1,576	1,896	2,312	2,408	2,635	2,681	2,423	20,693
Cumulative payments to date	1,613	1,507	1,493	1,499	1,821	2,212	2,194	2,263	1,992	1,424	18,018
Liability recognised in the balance sheet	43	77	29	77	75	100	214	372	689	999	2,675
Liability in respect of prior years											888
Liability net of reinsurance included in the balance sheet											3,563

Notes to the Financial Statements continued

28 Insurance and reinsurance liabilities

	2011 £m	2010 £m
Direct and reinsurance inwards insurance liabilities	272	261
Reinsurance liabilities (ceded only)	24	18
Total insurance and reinsurance liabilities	296	279

All amounts are payable within one year of the Statement of financial position date

29 Borrowings

	2011 £m	2010 £m
Loans from immediate parent company		
15 year subordinated loan repayable 2016	-	100
Perpetual subordinated loan	-	50
Subordinated loans	-	150
Bank overdrafts	5	9
Listed unsecured 6 5/8% Company bonds repayable 2023	148	148
Total borrowings	153	307
Available less than one year	5	9
Available more than one year	148	298

The subordinated loans bore interest at rates of six months deposit London Inter-Bank Offered Rate plus a margin ranging from 170 to 220 basis points. The loans were redeemed by the lender in 2011.

The carrying amounts and fair value of the non-current borrowings are as follows

	Carrying value		Fair value	
	2011 £m	2010 £m	2011 £m	2010 £m
Subordinated loans	-	150	-	150
Short-term borrowings	5	9	5	9
Debentures and other loans	148	148	164	170
	153	307	169	329

The carrying amounts of subordinated loans and short-term borrowings approximate their fair value

The bank overdrafts include £5m (2010 nil) denominated in Euros, all other borrowings are denominated in sterling

Notes to the Financial Statements continued

30 Provisions for other liabilities and charges

	MIB provision £m	Vacant space provision £m	Other provisions £m	Total £m
Balance as at 1 January 2011	39	24	35	98
Charged to income statement	37	-	23	60
Utilised during year	(38)	(4)	(27)	(69)
Balance as at 31 December 2011	38	20	31	89

	2011 £m	2010 £m
To be settled within 12 months	61	67
To be settled after 12 months	28	31
	89	98

- a) The **MIB provision** relates to the levy payable in respect of 2011 premiums and covers both the UK Motor Insurers' Bureau and the Motor Insurers' Bureau of Ireland. The levy is assessed on 2011 premiums and information available from the MIB at the time.
- b) 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 periods of the leases.
- c) **Other provisions** include provisions for liabilities arising from the reorganisation of the business and a levy relating to the London Metropolitan Fire Brigade.

31 Other liabilities

	2011 £m	2010 £m
Accruals and deferred income	173	186
Amounts due to immediate parent company	-	5
Amounts due to fellow subsidiary undertakings	7	2
Social security and other tax payments	14	28
Other liabilities	134	93
Net asset value attributable to unit holders	59	-
Total other liabilities	387	314

Estimated fair values are the amounts recorded at year-end and are payable within one year of the Statement of financial position date. Amounts attributable to unit holders of the sterling cash mutual fund are repayable on demand and the Group is responsible for ensuring there is sufficient liquidity within the corresponding asset portfolio to enable the liability to be met as it falls due.

32 Deferred income tax

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

	2011 £m	2010 £m
Balance as at 1 January	186	174
Income statement credit (<i>note 12</i>)	20	56
Statement of Comprehensive Income debit	(4)	(46)
Exchange differences	(5)	2
Balance as at 31 December	197	186

Notes to the Financial Statements continued

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 31 December 2011 was £197m (2010 £186m)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows

Deferred tax assets

	Retirement obligations	Tax losses carried forward	Total
	£m	£m	£m
Balance as at 1 January 2011	13	191	204
Income statement (charge)/credit (<i>note 12</i>)	(4)	15	11
Retained earnings	5	-	5
Balance as at 31 December 2011	14	206	220

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefits through future taxable profits is probable. The Group did not recognise deferred income tax assets of £28m (2010 £36m) in respect of losses amounting to £112m (2010 £133m) that can be carried forward against specific categories of future taxable income

Deferred tax liabilities

	Unrealised appreciation of investments	Equalisation reserve	Other short-term timing differences	Total
	£m	£m	£m	£m
Balance as at 1 January 2011	(10)	43	(15)	18
Income statement (charge)/credit (<i>note 12</i>)	(11)	(6)	8	(9)
Revaluation reserve	9	-	-	9
Exchange differences	1	1	3	5
Balance as at 31 December 2011	(11)	38	(4)	23

The deferred income tax charged or (credited) to equity during the year gross of transfers to retained earnings is as follows

	2011 £m	2010 £m
Retained earnings retirement obligations	(5)	6
Revaluation reserve financial assets	9	40
	4	46

33 Retirement benefit obligations

AXA UK Pension Scheme

Staff engaged in the Group's activities, excluding employees of AXA Ireland which has its own pension scheme, are members of the AXA UK Pension Scheme which embraces a number of companies in the AXA UK Group. The Scheme has both defined benefit and defined contribution sections but the Group is unable accurately to identify its share of the underlying assets and liabilities of the defined benefit section and there is no stated policy for charging the net defined benefit cost between scheme participants. Accordingly, the Group has accounted for its contribution to the defined benefit section as if it were a defined contribution arrangement.

Notes to the Financial Statements continued

An independent actuarial review by Towers Watson of the defined benefit scheme evaluated a deficit of £792m as at 31 December 2011 (£701m as at 31 December 2010) 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 2011. The AXA UK Group made additional contributions totalling £68m (2010: £65m) to the Scheme, in accordance with the ten year plan to reduce the deficit. These contributions have been charged to the underlying operating companies based on a management allocation. Companies within this consolidation paid £35m (2010: £34m) of this amount.

Although the scheme is being accounted for as a defined contribution scheme, the following disclosures are required to be shown in respect of the Scheme. The principal assumptions used by the actuaries were:

	2011	2010
Discount rate	4.7%	5.4%
Expected return on plan assets	6.6%	6.8%
Future salary increases	2.7%	3.1%
Future pension increases	2.9%	3.3%
Inflation assumption	2.9%	3.3%

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

	2011 £m	2010 £m
Present value of obligation as at 1 January	3,472	3,041
Merger of Winterthur Life UK Limited pension scheme	185	-
Merger of AXA Re and AXA Global Risks Pension Schemes	-	29
Service cost	26	21
Past service credit	(6)	-
Interest cost	195	179
Curtailment gain/ (loss)	-	2
Actuarial gains	203	327
Benefits paid	(140)	(127)
Present value of obligation as at 31 December	3,935	3,472

The past service credit in 2011 relates to a Pensions Increase Exchange offer made to pensioner members. These members were offered the opportunity to exchange future non-statutory increases to their pre 1997 pension for an immediate one off uplift to their pension. The resulting reduction in liabilities, for those members who had accepted the offer at 31 December, is treated as a change to benefits with a gain reported in the period.

The curtailment loss of £2m in 2010 relates to the disposal by AXA UK plc of part of its Life Insurance business which resulted in active members employed by the Life business becoming deferred members of the Pension Scheme. The higher salary growth rate used for deferred members increased the defined benefit obligation and generated a loss in the period.

Notes to the Financial Statements continued

Changes in the fair value of plan assets are as follows

	2011 £m	2010 £m
Fair value of plan assets as at 1 January	2,771	2,151
Merger of Winterthur Life UK Limited pension scheme	184	-
Merger of AXA Re and AXA Global Risks Pension Schemes	-	24
Expected return on plan assets	192	145
Employer contributions	111	488
Employee contributions	1	-
Benefits paid	(140)	(127)
Actuarial gains	24	90
Fair value of plan assets as at 31 December	3,143	2,771

Analysis of assets by category

	2011 £m	2010 £m
Equities	849	982
Debt securities	1,509	1,258
Property	94	94
Cash	691	437
Fair value of plan assets as at 31 December	3,143	2,771

Other pension schemes

- a) The Group operates the AXA Unapproved Top-up Scheme which is a defined benefit scheme. The scheme is an unfunded arrangement and therefore no company contributions were paid during the accounting period or are to be paid in the future. However, the Group has paid the current pensions in payment over the year of £2m. The AXA Unapproved Top-up Scheme has been closed to new members since 1999.
- b) A subsidiary of the Group offers certain healthcare benefits, on a non-contributory basis, to substantially all employees who were employed prior to June 1999, upon retirement. The expected costs of this benefit have been assessed in accordance with the advice of an independent qualified actuary as at 31 December 2011.
- c) The Group's subsidiary in Ireland operates a defined benefit scheme. An independent actuarial review by Mercers, on which the amounts recognised in the financial statements are based, was carried out at 31 December 2011.

Full details of the AXA Unapproved Top-up Scheme, Healthcare benefit scheme and the Irish pension scheme can be seen in the following tables

The principal assumptions used by the actuaries were

	2011			2010		
	UK		Ireland	UK		Ireland
	Top-up scheme	Healthcare scheme		Top-up scheme	Healthcare scheme	
Discount rate	4.7%	4.7%	5.2%	5.4%	5.4%	5.5%
Expected return on plan assets	-	-	5.5%	-	-	5.8%
Future salary increases	-	-	3.3%	-	-	3.3%
Future pension increases	2.9%	-	2.0%	3.3%	-	2.0%
Inflation assumption	2.9%	8.0%	2.0%	3.3%	8.0%	2.0%

Notes to the Financial Statements continued

Mortality tables - UK schemes

The following tables were used for the actuarial review

All male members - S1PMA_L with medium cohort mortality improvements to 2009 and medium cohort mortality improvements subject to a 1.25% floor thereafter

All female members - S1PFA_L with medium cohort mortality improvements to 2009 and medium cohort mortality improvements subject to a 1% floor thereafter

Mortality tables – Ireland scheme

The following tables were used for the actuarial review

All male members - 62% of PNML00 with CSO mortality improvements from 2008 to the year of retirement and a -2 year age rating

All female members - 70% of PMFLOO with CSO mortality improvements from 2008 to the year of retirement and a -2 year age rating

Expected return on plan assets

There are no assets in the AXA Unapproved Top-up and healthcare schemes

The expected return on plan assets for the pension scheme in Ireland is based on market expectation at the beginning of the period and derived by taking the weighted average of the long-term expected return for each class of investment held by the fund. The expected individual rates of return were 7.5% (equities), 3.5% (debt securities), 7% (property) and 2% (cash). The corresponding 2010 expected returns were 7.5% (equities), 4% (debt securities), 7% (property) and 4% (cash).

Pensions and other post-retirement obligations

The amounts recognised in the Statement of financial position are as follows

	UK		Ireland 2011 £m	Total 2011 £m	2010 £m
	Top-up scheme 2011 £m	Healthcare scheme 2011 £m			
Present value of funded obligations	25	10	314	349	318
Fair value of plan assets	-	-	(270)	(270)	(260)
Equities	-	-	(108)	(108)	(131)
Debt securities	-	-	(156)	(156)	(124)
Property	-	-	(3)	(3)	(2)
Cash	-	-	(3)	(3)	(3)
Net liability in the balance sheet	25	10	44	79	58

Notes to the Financial Statements continued

The amounts recognised in the income statement are as follows

	UK		Ireland	Total	2010
	Top-up	Healthcare			
	scheme	scheme			
	2011	2011		2011	
	£m	£m	£m	£m	£m
Current service cost	-	-	5	5	5
Interest cost	1	1	16	18	20
Expected return on plan assets	-	-	(15)	(15)	(14)
Curtailment	-	-	2	2	-
Employee contributions	-	-	(2)	(2)	(2)
Total included within employee benefit expenses	1	1	6	8	9

The amounts recognised in the statement of comprehensive income are as follows

	UK		Ireland	Total	2010
	Top-up	Healthcare			
	scheme	scheme			
	2011	2011		2011	
	£m	£m	£m	£m	£m
Actual return on assets	-	-	(3)	(3)	20
less expected return on scheme assets	-	-	(15)	(15)	(14)
Actual return on assets in excess of expected	-	-	(18)	(18)	6
Experience (losses)/gains on liabilities	-	-	(8)	(8)	23
Change in actuarial assumptions	-	(3)	(17)	(20)	24
Actuarial gains/(losses) on pension benefits	-	(3)	(43)	(46)	53

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

	UK		Ireland	Total	2010
	Top-up	Healthcare			
	scheme	scheme			
	2011	2011		2011	
	£m	£m	£m	£m	£m
Present value of obligation as at 1 January	26	7	285	318	364
Exchange	-	-	(8)	(8)	(12)
Service cost	-	-	5	5	5
Interest cost	1	1	16	18	20
Curtailment	-	-	2	2	-
Actuarial losses / (gains)	-	3	25	28	(47)
Benefits paid	(2)	(1)	(11)	(14)	(12)
Present value of obligation as at 31 December	25	10	314	349	318

Notes to the Financial Statements continued

Changes in the fair value of plan assets are as follows

	UK		Ireland	Total	2010
	Top-up	Healthcare			
	scheme	scheme			
	2011	2011	2011	2011	2010
	£m	£m	£m	£m	£m
Fair value of plan assets as at 1 January	-	-	260	260	241
Exchange	-	-	(7)	(7)	(8)
Expected return on plan assets	-	-	15	15	14
Employer contributions	-	-	29	29	16
Employee contributions	-	-	2	2	2
Benefits paid	-	-	(11)	(11)	(11)
Actuarial (losses)/gains	-	-	(18)	(18)	6
Fair value of plan assets as at 31 December	-	-	270	270	260

Additional information for the current annual period and previous five annual periods

	2011	2010	2009	2008	2007	2006
	£m		£m	£m	£m	£m
As at 31 December						
Present value of funded obligations	349	318	364	385	271	271
Fair value of plan assets	270	260	241	242	219	194
Deficit	79	58	123	143	52	77
Experience adjustments on liabilities	(8)	23	(11)	(17)	(4)	(3)
Experience adjustments on plan assets	(18)	6	7	(78)	(13)	6

History of experience gains and losses

	UK				Ireland	
	Top-up scheme		Healthcare scheme		2011	2010
	2011	2010	2011	2010		
Difference between expected and actual return on scheme assets						
- amount - (loss)/gain £m	-	-	-	-	(18)	6
- percentage of scheme assets	-	-	-	-	(6.7)%	2.2%
Experience gains and losses on obligations						
- amount - (loss) / gain £m	-	(2)	-	2	(8)	23
- percentage of the present value of the obligations	-	(7.7)%	-	34.4%	(2.5)%	8.0%
Total amount recognised outside income statement						
- amount - (loss) / gain £m	-	(3)	(3)	6	(43)	50
- percentage of the present value of the obligations	-	(12.0)%	(30.0)%	96.0%	(13.7)%	17.3%

Sensitivity analysis

The discount rate and the assumed inflation rate both have a significant effect in the IFRS accounting valuation. For the schemes recognised on the Statement of financial position a 0.5% increase in the discount rate would reduce the present value of obligation by £27m (2010: £25m). A 0.5% increase in the inflation rate assumption would increase the present value of obligation by £5m (2010: £4m).

Notes to the Financial Statements continued

The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend on the following is set out below

	1 % increase		1 % decrease	
	2011	2010	2011	2010
	£m	£m	£m	£m
Current service cost and interest cost of net periodic post employment medical costs	0.1	0.1	0.1	0.1
Present value of obligation for post employment medical costs	1.1	0.9	1.1	0.9

The total pension cost which has been charged to the income statement for the Group is £74m (2010 £79m) which includes £15m (2010 £16m) costs for defined contribution schemes. The contributions payable by the Group are determined by the pension scheme trustees after consulting the scheme actuaries, and in the case of the Irish scheme after consultation with the Company. The estimated contributions to be paid by the Group in 2012 are £75m.

34 Cash generated from operations

	2011	2010
	£m	£m
(Loss)/profit before tax and profit on disposal of operations	(35)	49
Depreciation and fixed asset write-offs	9	10
Amortisation of intangibles and impairments	21	24
Realised and unrealised investment gains/(losses)	122	(51)
Amortisation of available for sale investments	(3)	-
Impairment charge on available for sale investments	61	38
Change in insurance technical provisions	108	10
Change in other assets and liabilities	10	(50)
Interest expense	14	16
Interest income	(233)	(219)
Dividend income	(19)	(15)
Cash generated from operations	55	(188)

Notes to the Financial Statements continued

35 Related parties

AXA Insurance plc and its subsidiary undertakings paid £5m (2010 £7m) to a fellow subsidiary undertaking, GIE AXA Group Solutions, under a service agreement to share costs

AXA Insurance plc and its subsidiary undertakings paid £3m (2010 £5m) investment management fees to fellow subsidiary undertakings, AXA Real Estate Investment Managers Limited and AXA Investment Managers Limited

AXA Insurance plc and its subsidiary undertakings paid £4m (2010 £4m) fees for managing run off business to fellow subsidiary undertaking, AXA Liabilities Managers

AXA Insurance UK plc and its subsidiary undertaking, AXA PPP healthcare limited paid administrative expenses of £11m (2010 £9m) to a fellow subsidiary undertaking, Inter Partner Assistance

AXA Services Limited and its fellow subsidiary undertaking, AXA PPP healthcare limited paid IT expenses of £52m (2010 £75m) to a fellow subsidiary undertaking, AXA Technology Services UK Limited

AXA Services Limited and its fellow subsidiary undertaking, AXA PPP healthcare limited paid administrative expenses of £9m (2010 £10m) to a fellow subsidiary undertaking, AXA Business Services Limited

AXA Insurance UK plc paid commissions of £85m (2010 £74m) to fellow subsidiary undertakings, Swiftcover Insurance Services Limited and Bluefin Insurance Group Limited subsidiaries

AXA Insurance UK plc and its subsidiary undertaking, AXA PPP healthcare limited paid reinsurance premiums of £84m (2010 £70m) to a fellow subsidiary undertaking, AXA Global P&C SA

AXA Insurance UK plc and its subsidiary undertaking, AXA PPP healthcare limited received inwards treaty business premiums of £87m (2010 £72m) from fellow subsidiary undertakings, AXA Global P&C SA, AXA Insurance (Gulf), AXA Insurance Singapore Pte Limited, AXA Affin General Insurance Berhad, AXA Insurance Public Company Limited, AXA General Insurance HK, AXA Polska S A and PT Asuransi AXA Indonesia

AXA Services Limited recovers its costs and related expenses from other group companies. During 2011 this subsidiary recharged expenses of £81m (2010 £55m) to its immediate parent company, AXA UK plc, and £14m (2010 £71m) to fellow subsidiary undertakings in the AXA UK plc group

The immediate parent company, AXA UK plc made a net £146m loan repayment to Group companies during the year (note 23). Amounts due from and to group undertakings are disclosed in note 23 Other receivables, note 29 Borrowings and note 31 Other liabilities. The loans and receivables are unsecured

No provisions are held against receivables from related parties (2010 nil)

The Group's investment in financial assets note 20 includes

- US\$149.4m (2010 US\$149.4m) nominal in a participation agreement with a fellow subsidiary undertaking, AXA Equitable Life Insurance Limited giving AXA Insurance UK plc rights to a proportion of a secured mortgage loan AXA Equitable Life Insurance Limited has made with, 787 Holdings, LLC
- £150m (2010 £150m) nominal listed 5 year floating rate bonds issued by its ultimate parent company, AXA SA
- £100m (2010 £100m) nominal of fixed rate bonds due in 2017 issued by its intermediate parent company AXA UK plc

Key management compensation

Notes to the Financial Statements continued

Key management personnel are classified as employees and directors who have authority and responsibility for planning and controlling the Group's activities. Key management is defined as the key management of AXA Insurance UK plc and AXA PPP healthcare limited, which includes the Chief Executive Officer and Group Finance, Risk and Strategy director of AXA UK plc, who would have been included had they not been included in the definition of key management for both AXA Insurance UK plc and AXA PPP healthcare limited. For 2010, 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:

	2011 £'000	2010 £'000
Salary and other short-term benefits	7,115	4,481
Post-employment benefits	440	31
Share-based payments	526	342
Termination benefits	3,118	-
Total	<u>11,199</u>	<u>4,854</u>

36 Commitments

Capital commitments

There is no capital expenditure contracted for at the Statement of financial position date but not yet incurred (2010: £nil).

Financial commitments

As at 31 December 2011, Group subsidiaries, AXA Insurance UK plc and AXA PPP healthcare limited had outstanding commitments of \$4m into an American Public-Private Investment Programme and £28m into a Mezzanine debt fund.

Operating lease commitments – where a Group company is the lessee

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

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

	2011 £m	2010 £m
No later than 1 year	12	12
Later than 1 year and no later than 5 years	27	38
Later than 5 years	26	38
	<u>65</u>	<u>88</u>

Operating lease commitments – where a Group company is the lessor

The commitments relate to investment properties and are subject to rent reviews. The carrying amount of the associated assets is £136m (2010: £132m) shown within note 16.

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

Notes to the Financial Statements continued

	2011 £m	2010 £m
No later than 1 year	11	11
Later than 1 year and no later than 5 years	31	37
Later than 5 years	24	32
	<u>66</u>	<u>79</u>

37 Directors' emoluments

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

	2011 £'000	2010 £'000
Aggregate emoluments excluding amounts receivable under long-term incentive schemes	263	51
Amounts receivable (excluding gains on exercise of share options and value of shares received) under long-term incentive schemes	18	-
Aggregate pension contributions		
Defined benefit	-	-
Defined contribution	26	5
Amounts attributable to highest paid director		
Aggregate emoluments	281	51
Defined contribution scheme pension		
Pension contributions during the year	26	5

Retirement benefits are accruing to one director (2010: one) under a defined contribution pension scheme.

Directors' Interests in Transactions

No contract in which a director was interested and which was material to the Group or its subsidiaries or to the other transacting party existed during the year.

Loans to Directors and Connected Persons

No loans or quasi-loans exceeding £5,000 to directors and connected persons were made or subsisted during the year.

None of the directors exercised share options or employee share save options in AXA UK plc during the year.

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

38 Acquisitions and disposals

On 20 January 2011, the Group's subsidiary company, SecureHealth (Holdings) Limited acquired 100% of the shares in Independent Sales Force Solutions Limited from a fellow subsidiary undertaking, Bluefin Insurance Group Limited for a cash consideration of £11.8m. The consideration was split: assets £0.7m, goodwill £8.3m and other intangible assets of £2.8m. Independent Sales Force Solutions Limited's principal business is the provision of general insurance intermediary services.

Notes to the Financial Statements continued

On 20 December 2011, the Group's subsidiary company, Priplan Investments Limited disposed of 100% of the shares in Denplan Limited for a cash consideration of £115m on a debt free cash free basis. The net liabilities transferred were £4m (of which £10m was cash asset) resulting in a gain of £99m net of a goodwill write off of £14m and associated expenses. Denplan Limited's principal business is to provide an independent capitation plan to the dental profession and its patients.

39 Contingent liabilities

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

40 Post Statement of financial position event

On 12 March 2012, the Group's subsidiary company, AXA PPP healthcare group plc acquired 100% of the shares in Health On-line Company UK Limited for a cash consideration of £30.7m. Health On-line Company UK Limited's principal business is the provision of general insurance intermediary services.

Parent Company Independent Auditors' Report

Independent Auditors' Report to the members of Guardian Royal Exchange plc

We have audited the parent company financial statements of Guardian Royal Exchange plc for the year ended 31 December 2011 which comprise the Parent Company Balance Sheet, the Parent Company Accounting Policies and the supporting notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement on page 7, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 2011 Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

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:

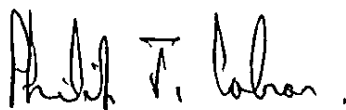
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or

Parent Company Independent Auditors' Report continued

- the parent company 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

Other matter

We have reported separately on the Group financial statements of Guardian Royal Exchange plc for the year ended 31 December 2011



Philip J Calnan (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 April 2012

Parent Company Balance Sheet

as at 31 December 2011

	Note	2011 £m	2010 £m
Fixed assets			
Shares in subsidiary undertakings	1	<u>1,728</u>	<u>1,747</u>
Current assets			
Debtors amounts falling due within one year	2	71	110
Creditors			
Amounts falling due within one year	3	(346)	(619)
Net current liabilities		<u>(275)</u>	<u>(509)</u>
Total assets less current liabilities		1,453	1,238
Creditors			
Amounts falling due after more than one year	4	(148)	(148)
Net assets		<u>1,305</u>	<u>1,090</u>
Capital and reserves			
Called up share capital	5, 6	56	56
Share premium account	5, 6	523	523
Capital redemption reserve	6	189	189
Capital contribution reserve	6	46	46
Profit and loss account	6	491	276
Total shareholders' funds	6	<u>1,305</u>	<u>1,090</u>

The separate financial statements on pages 73 to 77 were approved by the Board of Directors on 30 April 2012 and were signed on its behalf by



W. U. Malik
Director
30 April 2012

Parent Company Accounting Policies

I Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 and have been prepared on a going concern basis in accordance with applicable UK accounting standards which have been consistently applied and law. As permitted by section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements.

II Investment income

Investment income consists of interest, dividends and realised gains. Dividend income is recognised when the right to receive payment is established. Other investment income is recognised when due to be received.

Interest payable and expenses incurred in the management of investments are accounted for on an accruals basis.

III Realised and unrealised investment gains and losses

Realised investment gains and losses are calculated by reference to the net sales proceeds and the original purchase cost. Unrealised gains and losses on investments represent the difference between the valuation of the investment at the balance sheet date and their original cost or if they have been previously valued, their valuation at the last balance sheet date.

IV Valuation of investments

Investments in subsidiary undertakings are stated at cost unless their value has been impaired, in which case they are valued at their realisable value or value in use as appropriate. The investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The reviews use discounted cash flow projections under different scenarios.

V Deferred tax

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at current tax rates. Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. Deferred tax balances are not discounted. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

VI Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. Exchange gains and losses are treated as part of the investment return in the profit and loss account.

Parent Company – Notes to the Financial Statements

1 Shares in subsidiary undertakings

	2011 £m	2010 £m
Carrying value at 1 January	1,747	1,747
Additions at cost	7	-
Capital contribution	3	-
Provision for impairment in value	(29)	-
Carrying value at 31 December	1,728	1,747

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

A complete list of subsidiary undertakings will be attached to the next Guardian Royal Exchange plc annual return to the Registrar of Companies

	Country of incorporation or registration	Holdings of ordinary shares	
Insurance companies			
AXA Insurance UK plc	England	100%	
AXA PPP healthcare limited	England	100%	
AXA Insurance Limited	Ireland	100%	
Other companies			
AXA Insurance plc	England	100%	(Parent)
AXA General Insurance Limited	England	100%	
AXA Holdings Ireland Limited	Ireland	100%	
AXA PPP healthcare group plc	England	100%	(Parent)
AXA Services Limited	England	100%	(Parent)
Guardian Royal Exchange International (Holdings) BV	Netherlands	100%	
ICAS International Holdings Limited	England	100%	
SecureHealth (Holdings) Limited	England	100%	
The Royal Exchange Assurance	England	100%	

Notes

- 1 The Company purchased Bruton Estates Limited from its subsidiary undertaking, Bruton Property Holdings Limited, and Guardian Asset Management Limited, Guardian Properties Limited and RETBU Nominees Limited from its subsidiary undertaking, Guardian Investment Holdings Limited for a total consideration of £7m
- 2 The Company made a capital contribution of £3m to its dormant subsidiary undertaking, Guardian Insurance Services (UK) limited on 7 September 2011 prior to the proposed strike off of the company
- 3 An impairment of £29m was made against the holdings in its dormant subsidiary undertakings, Bruton Property Holdings Limited, Guardian Investment Holdings Limited, Guardian Insurance Services (UK) limited and Guardian Asset Management Limited following the receipts of dividends prior to the proposed strike off of the companies
- 4 The country of principal operation for each of the above companies is the country of incorporation, with the exception of Guardian Royal Exchange International (Holdings) BV where the company transacts UK-based financing activities, and The Royal Exchange Assurance whose principal countries of operation were Cyprus and Greece prior to the Part VII transfer of its business on 31 March 2011 to AXA Insurance UK plc
- 5 All holdings of ordinary shares are held by a subsidiary unless stated parent as above

Parent Company – Notes to the Financial Statements continued

2 Debtors

	2011 £m	2010 £m
Amounts owed by intermediate parent company	66	106
Amounts owed by subsidiary undertakings	2	1
Taxation	3	3
Total amounts falling due within one year	71	110

The above amounts owed by intermediate parent company and subsidiary undertakings are unsecured, payable on demand and interest free

3 Creditors – amounts falling due within one year

	2011 £m	2010 £m
Amounts owed to intermediate parent company	19	7
Amounts owed to subsidiary undertakings	323	608
Other creditors	4	4
Total amounts falling due within one year	346	619

The above amounts owed to intermediate parent company and subsidiary undertakings are unsecured, payable on demand and interest free

4 Creditors – amounts falling due after more than one year

	2011 £m	2010 £m
Non-bank loans over 5 years listed unsecured 6 5/8%		
Company bonds repayable in 2023	148	148
Total amounts falling due after more than one year	148	148

5 Called up share capital

	2011		2010	
	Shares	£m	Shares	£m
Issued and fully paid ordinary shares of 5.25p each	1,059,785,981	56	1,059,785,981	56
Share premium account				
Balance as at 31 December		523		523

6 Reconciliation of movements in shareholders' funds

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Capital contribution reserve £m	Profit and loss account £m	Total £m
Balance as at 1 January 2010	56	523	189	46	259	1,073
Profit for year	-	-	-	-	77	77
Dividends	-	-	-	-	(60)	(60)
Balance as at 31 December 2010	56	523	189	46	276	1,090
Profit for year	-	-	-	-	215	215
Balance as at 31 December 2011	56	523	189	46	474	1,288

The capital redemption reserve is non-distributable and was created in 1998 on the redemption of B shares

Parent Company – Notes to the Financial Statements continued

The capital contribution reserve represents capital contributions received in 2003 from its immediate parent, AXA UK plc

7 Capital commitments

At 31 December 2011 contracts placed for future capital expenditure not provided in the financial statements amounted to £nil (2010 £nil)

8 Immediate and ultimate parent

The Company is an immediate subsidiary of AXA UK plc, a company registered in England. In the opinion of the directors, the Company's ultimate parent and controlling company is AXA, a company incorporated in France.

The parent undertaking of the 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.

9 Related parties

The Company has taken advantage of the exemption granted under FRS 8 (Related Party Disclosures) which exempts it from disclosing related party transactions where the related party is part of the intermediate parent company, AXA UK plc group.

No transactions arose with other companies in the ultimate parent company, AXA group (2010 £nil)

10 Cash flow statement

Under FRS 1 (Cash Flow Statements (revised 1996)), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a subsidiary undertaking of a parent undertaking which produces a consolidated cash flow statement. The cash flow of the Company is consolidated in the Group financial statements.