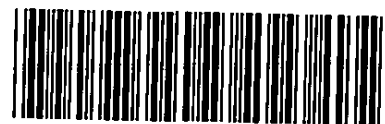


Guardian Royal Exchange plc

2010 Annual Report and Financial Statements

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

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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

Auditors

PricewaterhouseCoopers LLP
London

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2010

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 £60m to £49m (2009 loss of £11m) in 2010 arising from a deterioration of £9m in the underwriting result offset by an improvement of £67m in the investment result and £2m decrease in Finance costs.

The profit on revaluation of available for sale investments decreased by £115m to £154m (2009 profit £269m) and is included in the statement of comprehensive income.

During the year, gross income from insurance contracts increased by £32m to £3,487m (2009 £3,455m), as analysed below by business segment.

Healthcare

During the year, gross income from insurance contracts increased by £7m to £1,037m (2009 £1,030m). The private medical insurance market remains challenging in the short term given current economic conditions.

UK Property & Casualty

During the year, gross income from insurance contracts increased by £1m to £2,053m (2009 £2,052m).

- Personal Lines Motor grew significantly due to a further increase in sales of direct internet based products.
- Personal Lines Household has also seen increases in the level of premiums written due to a combination of increased sales through direct internet based products and corporate partners, and increased marketing activity which impacted retention rates and rate increases.
- Commercial Lines Property and Casualty business written continued to fall during 2010. The previous trend of difficult market conditions remains and the Company continues to focus on writing profitable business rather than growing business written. The focus has firmly remained to exit unprofitable schemes and maintain strong competitive pricing strategies.

ROI Property & Casualty

During the year, gross income from insurance contracts increased by £24m to £397m (2009 £373m).

Directors' Report continued

- The growth in written premium in 2010 reflects a combination of increased rates together with higher volumes. The correction in the motor insurance premium rates that commenced in 2009 continued into the early part of 2010, however there was market softening as the year progressed
- This growth was offset by adverse currency movements

The underwriting loss before tax for the year is £145m (2009 loss £136m), as analysed below by business segment

Healthcare

The underwriting profit before tax for the year is £42m (2009 profit £32m). The improved result arose from modest growth in earned premiums, and reduction in claims incurred.

UK Property & Casualty

The underwriting loss before tax for the year is £206m (2009 loss £163m)

- The deterioration in the combined operating ratio is primarily driven by an increase in the loss ratio. Commission ratios have improved and expense ratios have remained broadly in line.
- The deterioration in the loss ratio is driven by a number of factors during 2010. Private Motor has been impacted by adverse bodily injury claims, which has been seen across the market, as well as the adverse weather in January, February, November and December. The growing Household account has also been impacted by the freeze in November and December. Partially offsetting this deterioration is Commercial Property business which has improved over the prior year due to better large claim experience and the removal of poor performing schemes although this was also impacted by the freeze.
- Commission ratios have improved due to a change in the mix of business with increasing direct internet based products written and a reduction in business written through partners and Managing General Agents which attract a higher level of commission. They have also improved due to the exit or renegotiation of previously unprofitable deals.

ROI Property & Casualty

The underwriting profit before tax for the year is £19m (2009 loss £2m). Claims costs were hit by another year of extreme weather events following the freeze events in January, November and December, however the impact of this has been significantly reduced through reinsurance.

Other

The underwriting loss before tax for the year is £nil (2009 loss £3m)

The net investment return for the year is a profit of £208m (2009 profit £141m). The improvement is driven by the general improvement in the equity financial markets resulting in lower impairment charges and improvement in property and derivative fair values. The reduction in investment income is primarily due to a reduction in interest income and the realisation of gains.

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 have occurred prior to 31 December 2010 have been considered.

Business environment

The UK insurance market is highly competitive and we have endeavoured to maintain strong positions in our selected markets through developing a far greater customer understanding and focus while ensuring we continue to write profitable and sustainable business. We have increased our use of e-enabled systems which allow brokers to interact directly with our systems and improve the overall broker experience plus allow direct customers to receive exceptional customer service through internet platforms. We continue to look at ways of improving claims management within an overall risk management approach.

Directors' Report continued

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. We continued to pursue the Group's target of becoming the 'preferred company' for customers and employees throughout 2010 and have made significant progress on this journey with the launch of new products as well as maintaining the customer focused programmes for employees and improving IT systems.

The momentum of this progress will be continued and monitored through the group's AXA Ambition targets which define new milestones up to 2015.

Principal risks and uncertainties

The Group has established groupwide 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.

The principal risks from the general insurance business arise mainly from events outside of our control, such as fluctuations in the timing, frequency and severity of claims compared to our 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 our 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 balance sheet 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 2011, 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.

To support both of these priorities we are restructuring the UK P&C business into two distinct units, being Personal Lines and Commercial Lines. This will facilitate the development of a culture of personal ownership ensuring that we are focused on the needs of our business and we continue to deliver trust for our customers.

On 31 March 2011, there was an internal restructure of the Group non life operations in the United Kingdom. The insurance and reinsurance business written by subsidiary undertakings, AXA Insurance plc, The Royal Exchange Assurance and AXA General Insurance Limited, was transferred to AXA Insurance UK plc pursuant to a Court order issued under Part VII of the Financial Services and Markets Act 2000 dated 24 March 2011.

Directors' Report continued

Key performance indicators

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

	2010	2009	
Gross written premiums	£3,525m	£3,432m	
Underwriting result	£(145)m	£(136)m	
Current year loss ratio	74 1%	70 2%	Ratio of net current year claims incurred to net earned premiums
Combined operating ratio	104 3%	104 1%	Ratio of net claims incurred, commissions and expenses to net earned premiums
Operating result	£63m	£5m	

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 directors' report Business Review. The ability to cope with unexpected risks to the financial position is shown within management of risks on pages 32-39, where specifically, credit risk shows that 45% (2009 42 2%) of all debt based instruments are rated in the highest band and in terms of liquidity risk, 96% (2009 96%) of financial assets are classified as available for sale (note 20)

The group has considerable financial resources, with large cash deposits in money market funds and long term subordinated and 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 2015. 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

Interim dividends of £20m and £40m were paid on 25 June 2010 and 26 November 2010 respectively (2009 nil).

The directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009 £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 I Robinson resigned as a director of the Company on 22 July 2010.

Mr J P D L Drouffe was appointed as a director of the Company on 1 September 2010.

Mr N J-M D Moreau resigned as a director of the Company on 30 September 2010.

Mr W U Malik was appointed as a director of the Company on 26 November 2010.

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 86 of the Articles of Association of the Company, Mr J P D L Drouffe and Mr W U Malik will retire by rotation at the forthcoming Annual General Meeting. Being eligible, they will offer themselves for re-appointment.

Directors' Report continued

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' 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 (2009 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

Many businesses within the Group have Investors in People accreditation

PAYMENT OF CREDITORS

The Company'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 Company at 31 December 2010 represented a credit period of 33 days (2009 32 days)

Insurance creditors are settled in accordance with agreed terms

FINANCIAL RISK MANAGEMENT

The Group applies a number of techniques to manage and mitigate its risks. Details are provided on pages 32 to 39

CHARITABLE & POLITICAL DONATIONS

The Group made contributions of £175,000 for Mesothelioma research and £111,708 for other charitable purposes during the year (2009 £90,908)

No donations were made for political purposes (2009 £nil)

Directors' Report continued

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' 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 (IFRSs) as adopted by the European Union, 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 IFRSs 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.

DIRECTORS' STATEMENT PURSUANT TO THE DISCLOSURE AND TRANSPARENCY RULES

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

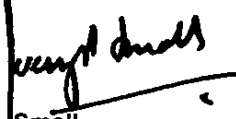
- The financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group and company, and
- The directors' report contained in the annual report includes a fair review of the development and performance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

Directors' Report continued

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
Secretary
28th April 2011

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 2010, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, 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' Report, 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.

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 2010 and of 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

Other matter

We have reported separately on the parent company financial statements of Guardian Royal Exchange plc for the year ended 31 December 2010



Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
28th April 2011

Consolidated Income Statement

for the year ended 31 December 2010

	Note	2010 £m	2009 £m
Insurance revenue			
Income from insurance contracts		3,487	3,455
Revenue ceded to reinsurers		(135)	(126)
Net insurance revenue	3	3,352	3,329
Other income			
Investment income	4	227	216
Net fair value gains on assets at fair value through profit or loss		8	-
Other operating income	6	250	221
Total income		3,837	3,766
Policyholder claims and benefits			
Insurance claims and loss adjustment expenses	8	(2,499)	(2,347)
Insurance claims and loss adjustment expenses recoverable from reinsurers	8	15	9
Other expenses			
Net realised (losses) on available for sale financial assets	5	(15)	(69)
Insurance contract acquisition expenses	9	(801)	(902)
Marketing and administration expenses	9	(330)	(280)
Cost of asset management services		(12)	(6)
Other operating expenses	7	(132)	(166)
Operating result		63	5
Finance costs	11	(14)	(16)
Profit/(loss) before tax		49	(11)
Income tax expense	12	7	10
Profit/(loss) for the year attributable to equity holders of the Company	1	56	(1)
Earnings per share (pence per share)	13	5 28	(0 09)
Diluted earnings per share (pence per share)	13	5 28	(0 09)

All transactions relate to continuing operations

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Note	2010 £m	2009 £m
Profit/(loss) for the financial year after tax		56	(1)
Exchange (losses) on revaluation of subsidiary net assets		(10)	(13)
Revaluation gains of available for sale financial assets		154	269
Actuarial gains on defined benefit schemes	33	53	12
		<u>253</u>	<u>267</u>
Tax effect of items not recognised in income statement and taken directly to equity - current		(1)	(17)
- deferred	32	(46)	(70)
Total comprehensive income attributable to equity shareholders		<u>206</u>	<u>180</u>

Consolidated Balance Sheet

as at 31 December 2010

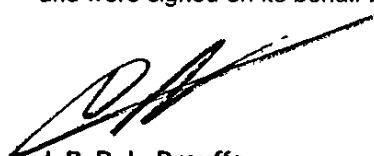
	Note	2010 £m	2009 £m
ASSETS			
Goodwill and intangible assets	17	200	184
Property, plant and equipment	15	51	55
Investment property	16	132	113
Investment in financial assets	20	5,152	4,971
Reinsurers' share of insurance contract liabilities	21	97	114
Insurance and reinsurance receivables	22	1,115	1,055
Current taxation		-	22
Deferred taxation	32	186	174
Deferred acquisition costs	18	301	364
Other receivables	23	979	918
Cash and cash equivalents	24	172	341
Total assets	2	8,385	8,311

Consolidated Balance Sheet continued

as at 31 December 2010

	Note	2010 £m	2009 £m
EQUITY			
Share capital	25	56	56
Share premium	25	523	523
Other reserves	26	519	415
Retained earnings		935	893
Capital and reserves attributable to ordinary shareholders		2,033	1,887
LIABILITIES			
Technical provisions - insurance contract liabilities	27	5,235	5,275
Borrowings	29	307	316
Insurance and reinsurance liabilities	28	279	299
Provisions for other liabilities and charges	30	98	97
Retirement benefit obligations	33	58	123
Other liabilities	31	314	307
Current taxation		46	-
Derivative financial instruments	20	15	7
Total liabilities		6,352	6,424
Total equity and liabilities		8,385	8,311

The financial statements on pages 11 to 68 were approved by the Board of Directors on 28th April 2011 and were signed on its behalf by



J. P. D. L. Drouffe
Director
28th April 2011

Consolidated Statement of Changes in Equity

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
2010					
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

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
2009					
Balance as at 1 January	56	523	245	883	1,707
Loss for the year	-	-	-	(1)	(1)
Actuarial gains on defined benefit schemes	-	-	-	12	12
Fair value gains on available for sale financial assets	-	-	269	-	269
Tax on movements in Statement of Comprehensive Income - current	-	-	(17)	-	(17)
- deferred	-	-	(69)	(1)	(70)
Exchange on revaluation of subsidiary net assets	-	-	(13)	-	(13)
Balance as at 31 December	56	523	415	893	1,887

Consolidated Cash Flow Statement

for the year ended 31 December 2010

	Note	2010 £m	2009 £m
Cash flows from operating activities			
Cash generated from operations	34	(188)	(226)
Income taxes received/(paid)		16	(5)
Interest paid		(16)	(29)
Interest received		219	213
Dividends received		15	17
Net cash generated from operating activities		46	(30)
Cash flows from investing activities			
Proceeds from sale of			
Investments		1,792	2,064
Loan repayment received from related party		-	46
Purchase of			
Investments		(1,869)	(2,624)
Bonds/loans granted to related parties		(18)	(98)
Property, plant and equipment		(3)	(3)
Intangible assets		(35)	(14)
Investments in subsidiaries (net of cash acquired)		(6)	-
Net cash from investing activities		(139)	(629)
Cash flows from financing activities			
Dividends paid to ordinary shareholders		(60)	-
Net (decrease) in cash and cash equivalents		(153)	(659)
Cash and cash equivalents at 1 January		323	994
Exchange gains on cash and cash equivalents		(7)	(12)
Cash and cash equivalents at 31 December	24	163	323

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.

Significant Accounting Policies

1 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 31.

As recommended by International Accounting Standard (IAS) 1, assets and liabilities are generally classified on the balance sheet 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 69 to 75.

a) Changes in presentation

- The accounting policies adopted are consistent with those of the previous financial year except for the following:

IFRS 3 (revised) - *Business Combinations* and IAS 27 (revised) – *Consolidated and Separate Financial Statements*

This revised standard changes existing accounting practice in the treatment and presentation of minority interests (to be renamed non-controlling interests), and in the treatment of consideration in business combinations. Consequently an amendment to IAS 27 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. The EU has subsequently endorsed both of these amendments. The Group adopted the amendment with effect from 1 July 2009, it is not expected to have a material impact on the financial statements.

IFRS 2 (amendment) – *Share-based payments*

The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share based payment transactions in the separate financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award. The amendment incorporates IFRIC 8, defining the scope of IFRS 2 and IFRIC 11, expanding on the guidance previously given in IFRIC 11. The Group adopted the amendment with effect from 1 January 2010, it is not expected to have a material impact on the financial statements.

Accounting Policies continued

IFRS 7 (amendment) – *Financial Instruments Disclosure – Improving disclosures about financial instruments*

The amendment particularly specifies the inclusion of enhanced disclosures for fair value measurement and liquidity risk. In particular for 2010 is the requirement to disclose prior year comparatives of a maturity analysis of financial assets held for managing liquidity risk. The inclusion of maturity table comparatives has already been adopted, consequently this amendment is not expected to have a material impact on the financial statements.

IAS 39 (amendment) – *Financial Instruments Recognition and Measurement' – Eligible Hedged Items*

The amendment clarifies how the existing principles underlying hedge accounting should be applied in two particular situations, which are, a one-sided risk in a hedged item, and inflation in a financial hedged item. This amendment is effective for accounting periods beginning on or after 1 July 2009, but has no impact as the Group has not yet adopted hedge accounting.

IFRIC 17 – 'Distributions of Non-Cash Assets to Owners'

This interpretation clarifies specific aspects concerning dividends payable, including the point of recognition, measurement basis and circumstances when further disclosure is required. The Group adopted the amendment with effect from 1 January 2010.

Annual improvements to IFRS standards

A process set up to identify and make necessary amendments to existing standards. In 2009 the number of improvements amounted to 12, each with an effective date of 1 January 2010. The application of these amendments has not had any material impact on the financial statements.

- Interpretations to published accounting standards that are effective in 2010 but not relevant to the Group's operations are

IFRS 1 (amendment) – 'First time adoption'

IFRIC 15 – 'Agreements for Construction of Real Estates'

IFRIC 12 – 'Service Concession Arrangements'

IFRIC 18 – 'Transfers of Assets from Customers'

b) *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 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 2013, with early adoption permitted, although the EU has yet to endorse the standard. Upon adoption a review of our investments will be required in line with revised classifications.

- During 2010 the IASB also issued amendments to the standards below, once adopted they are not expected to have a material impact on the financial statements.

Accounting Policies continued

IAS 32 (amendment) – 'Financial Instruments Presentation' – classification of rights issues
 IFRS 1 (amendment) – 'First time adoption' – financial instrument disclosures
 IAS 24 (amendment) – 'Related party disclosures'
 IFRS 7 (amendment) – 'Financial Instruments Disclosures' on derecognition

Interpretations published by the IASB in 2010 are shown below. In both of these cases the impact upon adoption is not expected to have a material impact on the Group's financial statements.

IFRIC 19 – 'Extinguishing financial liabilities with equity instruments'
 IFRIC 14 (amendment) – 'Prepayments of a minimum funding requirement'

Insurance Contracts (IFRS Phase II) and Solvency II

The Group will be affected by these two long-term projects through its insurance subsidiaries.

- 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 Board aims to publish a final standard in 2014.
- Solvency II is a European initiative to address regulatory reporting and incorporates its own requirement for measuring insurance liabilities. Its primary objective is to strengthen policyholder protection by aligning capital requirements more closely with the risk profile of the entity. Assets and liabilities will be valued on an 'economic' market-consistent basis. The Group plans to use an internal risk management model that is solvency II compliant. The solvency II directive is due to take effect in October 2012.

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, plus costs directly attributable to the acquisition. 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 (note 17). 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 balance sheet at cost plus post-acquisition movements in the net assets of the associate less allowances for impairment losses.

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.

Accounting Policies continued

III Segmental reporting

The Group has identified its segments in accordance with the sectors in which it operates. This represents the management structure where regular internal reports about each segment are reviewed by the chief executive, also known as the chief operating decision maker of that segment, who is accountable to the executive committee for the operating segment for which they are responsible.

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 presentational currency.

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

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

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 balance sheet are translated at the closing rate ruling on the date of that balance sheet.
- 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) 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.

Accounting Policies continued

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

b) Claims incurred

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) Claims provisions and related reinsurance recoveries

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

Accounting Policies continued

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.

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

- **Healthcare business**

Healthcare business is short tail. The total costs of claims paid by the Group at the balance sheet 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**

The estimated cost of motor claims excluding the cost of personal injury claims is calculated 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 cost per claim, based on historical levels adjusted to allow for movements in the variables described above.

The personal injury element of motor claims costs is estimated using the same method as used for liability claims described below. In addition, the estimate is assessed in the context of the historical development of paid and incurred claims and the implied loss ratios for each accident year.

- **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.

Accounting Policies continued

- 2 Using the costs of claims notified to the Company at the balance sheet date which are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications. Adjustments are made to allow for movements in the variables described above.
- 3 By splitting the total case by case cost of notified claims into three band sizes (attributional, 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

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of business. As a result it is not possible to estimate the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims, particularly in periods when theories of law are in flux. Consequently, traditional techniques for estimating claims provisions cannot wholly be relied upon and the Group employs specialised techniques to determine provisions using the extensive knowledge of both internal asbestos and environmental pollution experts and external legal and professional advisors. Factors contributing to this higher degree of uncertainty include:

- Plaintiffs' expanding theories of liability, compounded by inconsistent court decisions and judicial interpretations
- A few large claims, accompanied by a very large number of small claims or claims made with no subsequent payment, often driven by intensive advertising by lawyers seeking claimants
- The tendency for speculative, inflated and/or unsupported claims to be made to insurers, with the aim of securing a settlement on advantageous terms
- The long delay in reporting claims and exposures, since the onset of illness and disability arising from exposure to harmful conditions, may only become apparent many years later (for example, cases of mesothelioma can have a latent period of up to 40 years)
- Inadequate development patterns
- Difficult issues of allocation of responsibility among potentially responsible parties and insurers
- Complex technical issues that may give rise to delays in notification arising from unresolved legal issues on policy coverage and the identity of the insured
- The tendency for social trends and factors to influence jury verdicts
- Developments pertaining to the Group's ability to recover reinsurance for claims of this nature

Accounting Policies continued

- Reinsurance recoveries

Reinsurance recoveries in respect of estimated IBNR claims are assumed to be consistent with the historical pattern of such recoveries, 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, net of any associated deferred acquisition costs, 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. The future claims are calculated having regard to events that have occurred prior to the balance sheet date.

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 initially capitalised in the balance sheet 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.

- c) *Commission advances*

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.

- 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 and is reviewed for impairment on a regular basis.

VIII Property, plant and equipment

- a) *Property*

This consists principally of properties occupied by the Group 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.

Accounting Policies continued

b) *Plant and equipment*

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

IX *Investment property*

Investment property are 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.

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 in those instances where the fair value of the asset determines the value of liabilities arising under insurance contracts and to do otherwise would result in an accounting mismatch. 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.

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.

Accounting Policies continued

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 Collateralized 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, 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 "Curve Swap 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 calculates an average credit spread curve 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.

The listed leveraged loans collective investment scheme is valued using official prices received from the administrator of the fund.

There can be no assurance that our 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 balance sheet 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 balance sheet 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 and bank overdrafts. Cash equivalents are highly liquid investments which are subject to an insignificant risk of a change in value.

XIV Share capital

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

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

Taxation charged or credited in the income statement is based on profits determined in accordance with relevant taxation legislation, adjusted by movements in provisions relating to prior years. UK tax in respect of profits generated by non-UK subsidiaries is recognised in the income statement in the period for which the profits arise except where the Group is able to control the remittance of earnings and it is probable that no such remittance is expected in the foreseeable future, in which case UK tax is provided on dividends received. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and the values at which those assets and liabilities are carried in the Group financial statements. Deferred tax is calculated by reference to tax rates and tax legislation that is in force or has been substantially enacted at the balance sheet date and which is expected to apply when the deferred tax asset or liability crystallises.

Deferred tax assets are recognised only to the extent that it is expected that future taxable profits will become available against which the temporary differences can be utilised.

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 balance sheet 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 obligation, 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

The Group recognises a provision when it has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle that obligation, and the obligation can be reliably estimated.

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.

Accounting Policies continued

XXI Dividend distributions

Dividend distributions are recognised as a liability when they have been approved by the Company's shareholders. Interim dividends are recognised in the financial statements when paid.

XXII Revenue recognition

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

a) 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.

b) Interest income

Interest income on assets not classified as fair value through profit or loss is recognised in the income statement using the effective interest method.

c) 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.

d) 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 and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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

Item	Accounting policy
Claims provisions and related reinsurance recoveries	VI
Deferred acquisition costs	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 our financial investments are given in note X(e) to these financial statements.

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 Group which has established a group-wide financial risk management framework and associated set of policies. These are designed to ensure that financial risks are adequately controlled and monitored through risk and other committees advising the Group Chief Executive and individual business unit Chief Executives. A dedicated 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 perspective with the adoption of appropriate risk policies to cover different situations, such as insurance contracts, where the principal technique is to match assets to liabilities, and non-investment credit risk. The Group does not use hedge accounting.

The Group has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed.

Market risk

Market risk can be defined as the risk that movements in market factors (such as pricing of equities or bonds), interest rates and currency rates 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 group, market risk appetite is required to reflect the aim of retaining prudent margins to avoid insolvency whilst balancing the desire to optimise investment performance. 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.

The Chief Investment Officer ("CIO") is responsible for strategy for the invested assets of AXA UK plc group companies by setting investment guidelines, within the risk appetite approved by the AXA UK plc Board. The CIO defines and documents the range of strategic asset allocation by class of asset taking into account the interaction between assets and liabilities. Concentration limits are defined as part of the risk appetite. Together, these controls are monitored monthly for each portfolio to help control the impact of market risks on the portfolio.

a) Interest rate

The fair value of debt securities is exposed to future interest rate fluctuations. Included in debt securities is £597m (2009 £791m) in respect of variable rate debentures. 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.

Debt securities (yield)	2010				2009			
	0% to 1%	1% to 4%	> 4%	Total	0% to 1%	1% to 4%	> 4%	Total
Debt securities £m	179	1,609	2,348	4,136	239	1,328	2,399	3,966
Interest rate - average	1	2.5%	6.0%	5.1%	-	2.6%	6.0%	4.5%

Management of Risks continued

Registered Number 01821312

Equity analysis by industry ¹	2010		2009	
	£m	%	£m	%
Financial institutions	366	44.3%	206	25.3%
Consumer	54	6.5%	63	7.7%
Energy	36	4.4%	27	3.3%
Manufacturing & Pharmaceuticals	21	2.5%	18	2.2%
Utilities	28	3.4%	25	3.1%
Basic materials	24	2.9%	23	2.8%
Technology & Telecommunications	30	3.6%	33	4.1%
Others	268	32.4%	419	51.5%
Total	827	100.0%	814	100.0%

¹ Includes mutual funds

Debt securities analysis by industry	2010		2009	
	£m	%	£m	%
Financial institutions	1,644	39.7%	1,847	46.6%
Consumer	218	5.3%	153	3.9%
Energy	41	1.0%	51	1.3%
Manufacturing & Pharmaceuticals	87	2.1%	58	1.5%
Utilities	187	4.5%	178	4.5%
Basic materials	47	1.1%	35	0.9%
Technology & Telecommunications	193	4.7%	199	5.0%
Government securities	1,508	36.5%	1,296	32.7%
Others	211	5.1%	149	3.8%
Total	4,136	100.0%	3,966	100.0%

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 £5m (2009 £3m) plus unrealised losses in the Consolidated Statement of Comprehensive Income of £162m (2009 £152m). A decrease of 100 basis points in interest yields would result in additional loss for the period of £5m (2009 £3m) plus unrealised gains in the Consolidated Statement of Comprehensive Income of £175m (2009 £164m).

b) Equity price risk

Listed equity securities represent 75% (2009 89%) 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 £16m (2009 £12m), and unrealised gains recorded through the Consolidated Statement of Comprehensive Income would increase/decrease by £32m (2009 £42m).

c) 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. 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 2010, if the pound had weakened/strengthened by 1%, with all other variables constant, the profit before tax for the year would have been £5m (2009 £3m) lower/higher and unrealised gains recorded through the Consolidated Statement of Comprehensive Income would increase/decrease by £5m (2009 £2m).

Currency analysis of equity shares 1	2010		2009	
	£m	%	£m	%
GBP	527	63.7%	471	57.9%
EURO	173	20.9%	250	30.7%
USD	118	14.3%	85	10.4%
Others	4	0.5%	4	0.5%
JYP	3	0.4%	3	0.4%
AUD	2	0.2%	1	0.1%
Total	827	100.0%	814	100.0%

1 Includes mutual funds

Currency analysis of debt securities	2010		2009	
	£m	%	£m	%
GBP	2,873	69.5%	2,868	72.3%
EURO	993	24.0%	854	21.5%
USD	235	5.7%	213	5.4%
Others	35	0.8%	31	0.8%
Total	4,136	100.0%	3,966	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. Accordingly, the Group is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. The 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 market 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 2010 the total capital available to meet the UK Insurance Group's adjusted solo basis Solvency I requirement is £813m (2009 £871m) which exceeds the General Insurance Capital Requirement by £239m (2009 £300m). For Ireland the total regulatory assets available to cover the minimum solvency margin under Solvency I are €274m (2009 €231m) which exceed the required solvency margin of €77m (2009 €72m).

For the UK, the AXA Insurance 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), taking into account the variability of these risks, to ensure that there are sufficient assets to back the liabilities, under extreme scenarios. The ICA is established at levels of security defined by the AXA Group and the FSA to whom regular reports are made. The Group has complied with all regulatory capital requirements throughout the year.

Insurance and reinsurance risk

The Group's insurance risk strategy 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 random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group 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 random 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 £869m (2009 £895m) and other liability claims outstanding of £307m (2009 £359m) within the total Insurance liabilities of £3,653m (2009 £3,647m).

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 the higher level requirements of AXA UK plc for annual liquidity reviews including stress testing to ensure that sufficient liquidity exists in the business. In addition, a robust working capital management environment is encouraged by ensuring there are appropriate loan and overdraft facilities, backed up by shorter-term, regular cash flow forecasting.

The tables below provide an analysis of the maturity periods of the Group's financial assets and liabilities bearing liquidity risk.

	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
Deposits with credit institutions	-	-	-	-	-	-
Total financial assets (note 20)	375	215	1,270	2,465	827	5,152

	Less than 1 year £m	Over 5 years £m	Total £m
2010			
Financial liabilities			
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	14	308	322

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

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
2009						
Financial assets						
Equities and mutual funds	-	-	-	-	814	814
Debt securities	229	691	771	2,275	-	3,966
Loans/bonds with related parties	-	-	-	141	-	141
Deposit with credit institutions	50	-	-	-	-	50
Total financial assets	279	691	771	2,416	814	4,971
				Less than 1 year £m	Over 5 years £m	Total £m
2009						
Financial liabilities						
15 year subordinated loan repayable 2016				-	100	100
Perpetual subordinated loan				-	50	50
Unsecured bank loan				18	-	18
Listed unsecured 6 5/8% Company bonds repayable 2023				-	148	148
Total borrowings				18	298	316
Derivatives				3	4	7
Total liabilities				21	302	323

Credit risk

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

For investment related items credit risk is actively accepted in anticipation of the potential returns to be made but within closely controlled limits set and monitored by the AXA UK plc Board as part of the risk appetite. The exposure to credit risk is controlled by the application of concentration limits to limit the exposure to any one counterparty and by restrictions on investment below certain credit ratings

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, specifically

- Due diligence checks over the choice of partners,
- Controls to ensure timely invoicing and receipt of monies owed,
- Structuring policies and contracts to mitigate risks, and
- Ensuring loans and advances receive appropriate authorisation

The AXA UK plc P&C Insurance Risk Committee is responsible for consideration and agreement of reinsurance issues for AXA UK Group companies. The Committee determines and approves the annual reinsurance strategy, with reference to insurance risk and risk appetite including

- Reinsurance exposures and balances with external party reinsurers,
- Compliance with the credit policy applied to reinsurers, and
- The credit exposure of the portfolio

An analysis of credit risk assets (debt securities) by economic exposure is shown in the table below. The source of the credit rating where available is Bloomberg composite rating, representing the averages of Moody's, Standard and Poor's and Fitch credit rating agencies

Management of Risks continued

Registered Number 01821312

Ratings	2010		2009	
	£m	%	£m	%
AAA	1,863	45.0%	1,674	42.2%
AA	410	9.9%	452	11.4%
A	1,067	25.8%	1,184	29.9%
BBB	690	16.7%	514	13.0%
BB	24	0.6%	83	2.1%
C	3	0.1%	10	0.3%
Not rated	79	1.9%	49	1.2%
Total	4,136	100.0%	3,966	100.0%

The maximum exposure for the Group to credit risk is shown in the table below

	2010 (carrying value) £m	2009 (carrying value) £m
Maximum credit risk		
Investment in financial assets	4,656	4,514
Reinsurers' share of insurance contract liabilities	97	114
Insurance and reinsurance receivables	1,115	1,055
Other receivables	979	918
Cash and cash equivalents	172	341
	7,019	6,942

The following table provides the aging of debtors 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
2010						
Direct Insurance operations	88%	9%	1%	0%	2%	1021
Reinsurance operations	92%	0%	0%	0%	8%	94
2009						
Direct Insurance operations	88%	9%	1%	0%	2%	903
Reinsurance operations	96%	0%	0%	0%	4%	152

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 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Assets measured at fair value

Description	31/12/2010	Fair value measurement at end of the reporting period based on		
		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

Description	31/12/2009	Fair value measurement at end of the reporting period based on:		
		Level 1 £m	Level 2 £m	Level 3 £m
Available for sale financial assets				
Equity investments	455	354	99	2
Debt securities	3,966	2,711	1,145	110
Mutual funds	359	-	353	6
Total	4,780	3,065	1,597	118

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date, as described in the 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. Improvements in the liquidity of debt instruments during 2010, evidenced by the narrowing of bid ask spreads, led to transfers between levels 1 and 2.

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 2010.

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

	Fair value measurement at reporting date			Total
	Available for sale			
	Equity investments	Debt securities	Mutual funds	
Description	£m	£m	£m	£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

Assets measured at fair value based on level 3 – 31 December 2009

Description	Fair value measurement at reporting date			Total
	Available for sale			
	Equity	Debt	Mutual funds	
	investments	securities		
	£m	£m	£m	£m
Opening balance	2	14	5	21
Total gains or losses				
in other comprehensive income	-	5	1	6
Purchases	-	91	-	91
Transfers into and/or out of level 3	-	-	-	-
Closing balance	2	110	6	118

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 Registered Number 01821312

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					
Income from insurance contracts	1,037	2,053	397	-	3,487
Revenue 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 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 (footnote1)	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 holders 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 the Financial Statements continued Registered Number 01821312

The segment results for the year ended 31 December 2009 are as follows

	Healthcare £m	Property & Casualty UK £m	Property & Casualty R of I £m	Other £m	Group £m
Insurance revenue					
Income from insurance contracts	1,030	2,052	373	-	3,455
Revenue ceded to reinsurers	(10)	(102)	(14)	-	(126)
Net insurance revenue	1,020	1,950	359	-	3,329
Other income					
Investment income	26	138	48	4	216
Other operating income	35	30	5	151	221
Total income	1,081	2,118	412	155	3,766
Policyholders claims and benefits					
Insurance claims and loss adjustment expenses	(812)	(1,263)	(272)	-	(2,347)
Insurance claims and loss adjustment expenses recoverable from reinsurers	4	(1)	6	-	9
Other expenses					
Net fair value losses on assets at value through expenses	1	(1)	-	-	-
Net realised (losses)/gains on available for sale financial assets	(8)	(61)	-	-	(69)
Insurance contract acquisition expenses	(127)	(723)	(52)	-	(902)
Marketing and administration expenses	(88)	(141)	(48)	(3)	(280)
Cost of asset management services	(1)	(5)	-	-	(6)
Other operating expenses	(1)	(14)	-	(151)	(166)
Operating result	49	(91)	46	1	5
Underwriting result (footnote 1)	32	(163)	(2)	(3)	(136)
Net investment result (footnote 2)	17	72	48	4	141
Operating result	49	(91)	46	1	5
Finance costs	-	-	-	(16)	(16)
(Loss)/Profit before tax	49	(91)	46	(15)	(11)
Income tax expense	(15)	27	(5)	3	10
(Loss)/Profit for the year attributable to equity holders of the Company	34	(64)	41	(12)	(1)
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 Registered Number 01821312

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

The segment assets and liabilities at 31 December 2009 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	4	93	14	3	114
Other assets	1,344	4,783	1,430	640	8,197
Total assets	1,348	4,876	1,444	643	8,311
Insurance liabilities	559	3,647	1,065	4	5,275
Other liabilities	257	311	156	425	1,149
Total liabilities	816	3,958	1,221	429	6,424
Capital expenditure	5	9	2	-	16

2 Segmental information – Geographical segments

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

	2010 £m	2009 £m
Net insurance revenue		
UK	2,974	2,970
Republic of Ireland	378	359
Total income from insurance contracts	3,352	3,329
Total assets	2010 £m	2009 £m
UK	6,948	6,864
Republic of Ireland	1,437	1,447
Total assets	8,385	8,311

Notes to the Financial Statements continued Registered Number 01821312

	2010 £m	2009 £m
Capital expenditure		
UK	19	14
Republic of Ireland	3	2
Total capital expenditure	<u>22</u>	<u>16</u>

3 Net premium revenue

	2010 £m	2009 £m
Short-term insurance contracts		
- premium receivables	3,525	3,432
- change in unearned premium provision	(38)	23
Premium revenue arising from contracts issued	<u>3,487</u>	<u>3,455</u>
Short-term reinsurance contracts		
- premium payables	(129)	(130)
- change in unearned premium provision	(6)	4
Premium revenue ceded to reinsurers on insurance contracts issued	<u>(135)</u>	<u>(126)</u>
Net premium revenue	<u>3,352</u>	<u>3,329</u>

4 Investment income

	2010 £m	2009 £m
Available for sale		
- dividend income	15	16
- interest income	190	186
Real estate income	8	(4)
Cash and cash equivalents interest income	14	18
Total investment income	<u>227</u>	<u>216</u>

5 Net realised losses on available for sale financial assets

	2010 £m	2009 £m
Realised losses on financial assets		
- debt securities	(43)	(32)
- equities	10	(34)
Impairment of financial assets		
- release		
Investment properties	5	4
Debt securities	28	49
Equity securities	23	45
- allowance		
Investment properties	(1)	(10)
Debt securities	(10)	(36)
Equity securities	(26)	(45)
Mutual funds	(1)	(10)
Total net realised gains on available for sale financial assets	<u>(15)</u>	<u>(69)</u>

6 Other operating income

	2010 £m	2009 £m
Other income from non-insurance business	122	70
Foreign exchange gains	2	-
Recharge of expenses to immediate parent company	55	40
Recharge of expenses to fellow subsidiary undertakings	71	111
Other operating income	250	221

7 Other operating expenses

	2010 £m	2009 £m
Other expenses from non-insurance business	6	12
Foreign exchange losses	-	3
Expenses incurred by Service Company	126	151
Other operating expenses	132	166

8 Policyholder claims and benefits

	2010 £m	2009 £m
Insurance claims and loss adjustment expenses		
Gross claims paid	2,557	2,474
Gross changes in insurance contract liabilities for claims	(58)	(126)
Change in unexpired risks provision	-	(1)
	<u>2,499</u>	<u>2,347</u>
Insurance claims and loss adjustment expenses recoverable		
Reinsurers' share of		
claims paid	(32)	(12)
change in insurance contract liabilities for claims	17	3
	<u>(15)</u>	<u>(9)</u>
Net policyholder claims and benefits	2,484	2,338

9 Other expenses by destination

	2010 £m	2009 £m
Movement in advanced commission payments (note 17)	(12)	14
Amortisation of deferred acquisition costs (note 18)	60	38
Costs incurred for the acquisition of insurance contracts expensed in the year	760	858
Attributable to reinsurers	(7)	(8)
Total expenses for the acquisition of insurance contracts	801	902

	2010 £m	2009 £m
Marketing and administrative expenses	312	262
Depreciation of property, plant and equipment	6	4
Amortisation of software development costs	10	11
Amortisation of intangible assets	2	3
Total marketing and administrative expenses	330	280

The operating lease payments recognised as an expense during the year were £11m (2009 £10m)

Notes to the Financial Statements continued Registered Number 01821312

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

	2010 £000's	2009 £000's
Audit services		
- Fees payable to the Company's auditor for the audit of the statutory accounts	50	35
- Fees payable to the Company's auditor for the audit of its subsidiaries	1,115	1,334
- Other services pursuant to legislation	131	210
	<u>1,296</u>	<u>1,579</u>

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

10 Employee benefit expense

	2010 No	2009 No
Average number of employees in the year were		
- Healthcare	2,798	2,674
- Property & Casualty UK	3,306	3,369
- Property & Casualty R of I	957	926
	<u>7,061</u>	<u>6,969</u>

	2010 £m	2009 £m
Wages and salaries	266	274
Social security costs	27	27
Pension costs - defined contribution plans	16	15
Pension costs - defined benefit plans	63	41
	<u>372</u>	<u>357</u>

11 Finance costs

	2010 £m	2009 £m
Interest expense		
- non-bank borrowings	4	6
- unsecured company bonds	10	10
Finance costs	<u>14</u>	<u>16</u>

12 Income tax expense

	2010 £m	2009 £m
Current tax	49	16
Deferred tax (note 32)	(56)	(26)
Income tax credit	<u>(7)</u>	<u>(10)</u>

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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

	2010 £m	2009 £m
Profit/(Loss) before tax	49	(11)
Tax at the UK rate of 28% (2009 28.0%)	14	(3)
Effects of		
- tax calculated at domestic tax rates applicable to profits in the respective countries	(9)	(7)
- income not subject to tax	(6)	(1)
- change in UK tax rate to 27%	10	-
- adjustments to tax charge in respect of previous periods	(16)	1
Tax credit for the period	(7)	(10)

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 28% to 27% that was enacted in Finance (No 2) Act 2010 as effective from 1 April 2011, the relevant deferred tax balances have been re-measured on this basis. The impact included in the tax credit for the year is a charge of £10m.

Following the Government 2011 Budget announcement, a further reduction in the UK corporation tax rate to a rate of 26% with effect from 1 April 2011 was substantively enacted on 29 March 2011. This is expected to be followed by further 1% per annum reductions which will bring the rate to 23% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

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.

	2010	2009
Profit/(Loss) attributable to the Company's equity holders (£m)	56	(1)
Weighted average number of ordinary shares in issue (thousands)	1,059,786	1,059,786
Basic earnings per share (pence per share)	5.28	(0.09)

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

Interim dividends of £20m and £40m were paid on 25 June 2010 and 26 November 2010 respectively (2009 nil).

The directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009 £nil).

15 Property, plant and equipment

	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
Cost				
Balance as at 1 January 2009	68	3	23	94
Additions at cost	1	-	2	3
Disposals	-	(1)	-	(1)
Exchange and other movements	(1)	-	(1)	(2)
Balance as at 31 December 2009	68	2	24	94
Accumulated depreciation				
Balance as at 1 January 2009	23	1	12	36
Charge for the year	2	-	2	4
Disposals	-	(1)	-	(1)
Balance as at 31 December 2009	25	-	14	39
Net book value as at 31 December 2009	43	2	10	55

Depreciation expense of £6m (2009 £4m) 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

Notes to the Financial Statements continued Registered Number 01821312

16 Investment properties

	2010 £m	2009 £m
Cost		
Balance as at 1 January	119	107
Additions at cost	19	18
Impairment movement	4	(6)
Balance as at 31 December	142	119
Accumulated depreciation		
Balance as at 1 January	6	3
Charge for the year	4	3
Balance as at 31 December	10	6
Net book value as at 31 December	132	113

The properties were valued at £142m (£119m at 31 December 2009) 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

17 Goodwill and intangible assets

	Goodwill £m	Software development £m	Advance commissions £m	Other intangibles £m	Total £m
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
Balance as at 1 January 2009					
Cost	142	81	129	15	367
Accumulated amortisation	-	(64)	(101)	(3)	(168)
Net book value as at 1 January 2009	142	17	28	12	199
Additions	-	13	1	-	14
Amortisation charge	-	(11)	(15)	(3)	(29)
Net book value as at 31 December 2009	142	19	14	9	184
Balance as at 31 December 2009					
Cost	142	94	130	15	381
Accumulated amortisation	-	(75)	(116)	(6)	(197)
Net book value as at 31 December 2009	142	19	14	9	184

Notes to the Financial Statements continued Registered Number 01821312

- a) **Goodwill** relates to the acquisition of the PPP healthcare group plc, SecureHealth (Holdings) Limited and ICAS International Holdings Limited which form part of the Healthcare segment. 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 10%. 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.
- c) **Advance commissions** are in respect of future business and the annual impairment review resulted in an impairment of £nil (2009 £nil).
- d) **Other intangibles** arise mainly from the fair valuation of the assets acquired on acquisition together with some new books of business acquired. The annual impairment review resulted in an impairment of £2m (2009 £nil).

18 Deferred acquisition costs

	2010 £m	2009 £m
Deferred acquisition costs as at 1 January	364	404
Exchange and other movements	(3)	(2)
(Charge)/credit to income statement in the year	(60)	(38)
Acquisition costs deferred during the year	617	668
Amortisation charged during the year	(677)	(706)
Deferred acquisition costs as at 31 December	301	364

19 Investments in subsidiaries

Particulars of principal subsidiary undertakings

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

Notes to the Financial Statements continued Registered Number 01821312

Notes

- 1 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 are Cyprus and Greece
- 2 All holdings of ordinary shares are held by a subsidiary unless stated parent

20 Investment in financial assets

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

	2010 £m	2009 £m
Available for sale	4,963	4,780
Derivatives used for hedging	13	-
Held to maturity - AXA UK plc 2017 5 75% bonds	100	100
Loans	76	41
Deposits with credit institutions	-	50
Total financial assets	5,152	4,971
	2010 £m	2009 £m
Available for sale financial assets		
Equity securities		
- listed	320	407
- unlisted	107	4
Debt securities		
- listed	3,911	3,806
- unlisted	225	160
Mutual funds		
- listed	58	81
- unlisted	342	322
Total available for sale financial assets	4,963	4,780

	2010			2009		
	Contractual/ Notional Amount £m	Asset £m	Liability £m	Contractual/ Notional Amount £m	Asset £m	Liability £m
Foreign Exchange Forwards	276	1	(4)	185	-	(2)
Credit Default Swaps	122	-	(1)	127	-	(1)
Currency Swaps	98	-	(10)	80	-	(4)
Interest Rate Swaps	450	12	-	-	-	-
Total	946	13	(15)	384	-	(7)

The Group entered into a number of Credit Default Swap index (CDS iTraxx) contracts during the financial year (*accounting policy XII*). The CDS contracts were fully collateralised on a daily basis under an ISDA Master Agreement between the Group and various counterparties.

The Group entered into a number of Cross currency swap and Forward Forex contracts in order to hedge the currency risk back to sterling during the financial year (*accounting policy XII*).

The Group entered into a number of Cross paying fixed and receiving floating rate interest rate swaps during the financial year (*accounting policy XII*).

21 Reinsurers' share of insurance contract liabilities

	2010 £m	2009 £m
Reinsurers' share of provision for claims outstanding and loss adjustment expenses	<u>81</u>	<u>91</u>
	81	91
Reinsurers' share of provision for unearned premiums	<u>16</u>	<u>23</u>
Reinsurers' share of insurance contract liabilities	<u>97</u>	<u>114</u>
Settlement period for reinsurers' share of claims outstanding and long-term insurance contract liabilities		
Less than 12 months	24	32
Greater than 12 months	<u>57</u>	<u>59</u>
	<u>81</u>	<u>91</u>

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

	2010 £m	2009 £m
Balance as at 1 January	91	91
Reinsurers' share of claims payments made in year	(32)	(12)
Increase in recoverables	15	9
Exchange and other movements	<u>7</u>	<u>3</u>
Balance as at 31 December	<u>81</u>	<u>91</u>

Reinsurers' share of provision for unearned premiums

	2010 £m	2009 £m
Balance as at 1 January	23	19
Premiums written in the year	128	130
Premiums earned in the year	<u>(135)</u>	<u>(126)</u>
Balance as at 31 December	<u>16</u>	<u>23</u>

22 Insurance and reinsurance receivables

	2010 £m	2009 £m
Direct insurance receivables	1,021	903
Reinsurance receivables	<u>94</u>	<u>152</u>
Total insurance and reinsurance receivables due within one year	<u>1,115</u>	<u>1,055</u>

23 Other receivables

	2010 £m	2009 £m
Accrued interest	81	76
Prepayments and accrued income	28	22
Amounts due from ultimate parent company	4	4
Loans due from intermediate parent company	601	566
Other amounts due from intermediate parent company	147	105
Amounts due from fellow subsidiary undertakings	35	31
Other receivables	83	114
Total other receivables	979	918
Expected to be recovered in less than one year	936	874
Expected to be recovered in more than one year	43	44

Amounts expected in more than one year is represented by a five year term Euro 50m (2009 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

	2010 £m	2009 £m
Cash at bank and in hand	136	190
Short-term bank deposits	36	151
Cash and cash equivalents	172	341

The effective interest rate on short-term bank deposits, which have an average maturity of 51 days (2009 34 days), was 0.3% (2009 0.3%)

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

	2010 £m	2009 £m
Cash and cash equivalents	172	341
Bank overdrafts	(9)	(18)
	163	323

25 Ordinary share capital

	2010 Shares	£m	2009 Shares	£m
Issued and fully paid Ordinary shares at 31 December	1,059,785,981	56	1,059,785,981	56
Share premium account				
Balance as at 31 December		523		523

26 Other Reserves

	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 gains 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

	Capital reserve £m	Capital redemption reserve £m	Capital contribution reserve £m	Revaluation reserve £m	Translation reserve £m	Total £m
2009						
Balance as at 1 January	104	189	46	(163)	69	245
Fair value losses on available for sale financial assets	-	-	-	269	-	269
Tax on movements taken directly to equity - deferred	-	-	-	(69)	(17)	(86)
Exchange on revaluation of subsidiary net assets	-	-	-	-	(13)	(13)
Balance as at 31 December	104	189	46	37	39	415

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 XI 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

27 Insurance contract liabilities

	2010 £m	2009 £m
Provision for claims outstanding and loss adjustment expenses	3,644	3,716
Provision for unearned premiums	1,591	1,559
Total insurance contract liabilities	5,235	5,275
Settlement period for claims outstanding		
Less than 12 months	1,013	873
Greater than 12 months	2,631	2,843
	3,644	3,716

Provision for claims outstanding and loss adjustment expenses

	2010 £m	2009 £m
Balance as at 1 January	3,716	3,965
Total claims payments made in the year	(2,557)	(2,474)
Increase in liabilities	2,499	2,349
Exchange and other movements	(14)	(124)
Balance as at 31 December	3,644	3,716

Provision for unearned premiums

	2010 £m	2009 £m
Balance as at 1 January	1,559	1,593
Premiums written in the year	3,525	3,432
Premiums earned in the year	(3,487)	(3,455)
Exchange and other movements	(6)	(11)
Balance as at 31 December	1,591	1,559

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 General Insurance businesses specifically monitor 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 reserved (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 in charge, 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).
- The Health and Safety Executive and an Actuarial Working Party released new asbestos-related disease models for mesothelioma claims in 2009. New high level projections were also available from Professor Sir Richard Peto, an epidemiology expert. Whilst still using the same principles as previous years, these models are based on the latest available information. Our projections, as last year, are based on these latest models.
- Methods based on frequency and severity estimates.

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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 2010 for the estimation of General Insurance claims

c) Sensitivity analysis – 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 balance sheet An accident-year basis is considered to be most appropriate for the business written by the Group

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Accident year - Gross	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of ultimate claims costs											
- at end of accident year	1,972	1,968	1,916	1,962	1,869	2,001	2,342	2,320	2,484	2,542	21,376
- one year later	1,912	1,911	1,888	1,914	1,968	2,212	2,568	2,577	2,735		19,685
- two years later	1,953	1,925	1,881	1,867	1,854	2,092	2,422	2,437	-		16,431
- three years later	1,939	1,911	1,772	1,741	1,715	2,030	2,371	-	-		13,479
- four years later	1,937	1,805	1,665	1,627	1,673	1,989	-	-	-		10,696
- five years later	1,873	1,759	1,670	1,604	1,647	-	-	-	-		8,553
- six years later	1,876	1,734	1,626	1,587	-	-	-	-	-		6,823
- seven years later	1,838	1,709	1,617	-	-	-	-	-	-		5,164
- eight years later	1,807	1,682									3,489
- nine years later	1,794	-	-	-	-	-	-	-	-	-	1,794
Current estimate of cumulative claims	1,794	1,682	1,617	1,587	1,647	1,989	2,371	2,437	2,735	2,542	20,401
Cumulative payments to date	1,736	1,627	1,525	1,494	1,518	1,816	2,159	2,112	2,138	1,454	17,579
Liability recognised in the balance sheet	58	55	92	93	129	173	212	325	597	1,088	2,822
Liability in respect of prior years											822
Total liability included in the balance sheet											3,644

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Accident year - Net	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	Total £m
Estimate of ultimate claims costs											
- at end of accident year	1,939	1,940	1,882	1,933	1,813	1,963	2,323	2,299	2,445	2,518	21,055
- one year later	1,873	1,880	1,853	1,884	1,920	2,178	2,545	2,558	2,696	-	19,387
- two years later	1,920	1,891	1,850	1,813	1,804	2,056	2,392	2,422	-	-	16,148
- three years later	1,907	1,878	1,743	1,694	1,670	1,952	2,341	-	-	-	13,185
- four years later	1,901	1,774	1,641	1,587	1,633	1,911	-	-	-	-	10,447
- five years later	1,841	1,719	1,649	1,555	1,607	-	-	-	-	-	8,371
- six years later	1,844	1,712	1,605	1,534	-	-	-	-	-	-	6,695
- seven years later	1,807	1,692	1,595	-	-	-	-	-	-	-	5,094
- eight years later	1,777	1,665	-	-	-	-	-	-	-	-	3,442
- nine years later	1,764	-	-	-	-	-	-	-	-	-	1,764
Current estimate of cumulative claims	1,764	1,665	1,595	1,534	1,607	1,911	2,341	2,422	2,696	2,518	20,053
Cumulative payments to date	1,710	1,614	1,504	1,488	1,493	1,792	2,142	2,097	2,112	1,445	17,397
Liability recognised in the balance sheet	54	51	91	46	114	119	199	325	584	1,073	2,656
Liability in respect of prior years											907
Liability net of reinsurance included in the balance sheet											3,563

28 Insurance and reinsurance liabilities

	2010 £m	2009 £m
Direct insurance liabilities	213	217
Reinsurance liabilities	66	82
Total insurance and reinsurance liabilities	279	299

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

29 Borrowings

	2010 £m	2009 £m
Loans from immediate parent company		
15 year subordinated loan repayable 2016	100	100
Perpetual subordinated loan	50	50
Subordinated loans	150	150
Bank overdrafts	9	18
Listed unsecured 6 5/8% Company bonds repayable 2023	148	148
Total borrowings	307	316
Available less than one year	9	18
Available more than one year	298	298

The subordinated loans bear interest at rates of six months deposit London Inter-Bank Offered Rate plus a margin ranging from 170 to 220 basis points. They are redeemable by the lender, provided the lender has given not less than five years' notice in writing to the borrower.

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

	Carrying value		Fair value	
	2010	2009	2010	2009
	£m	£m	£m	£m
Subordinated loans	150	150	150	150
Short-term borrowings	9	18	9	18
Debentures and other loans	148	148	170	170
	<u>307</u>	<u>316</u>	<u>329</u>	<u>338</u>

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

The bank overdrafts include £nil (2009 £5m) denominated in Euros, all other borrowings are denominated in sterling

30 Provisions for other liabilities and charges

	MIB provision £m	Vacant space provision £m	Other provisions £m	Total £m
Balance as at 1 January 2009	32	29	36	97
Charged to income statement	30	4	19	53
Released during the year			-	-
Utilised during year	(23)	(9)	(20)	(52)
Balance as at 31 December 2010	<u>39</u>	<u>24</u>	<u>35</u>	<u>98</u>
		2010		2009
		£m		£m
To be settled within 12 months		67		55
To be settled after 12 months		31		42
		<u>98</u>		<u>97</u>

- a) The **MIB provision** relates to the levy payable in respect of 2010 premiums and covers both the UK Motor Insurers' Bureau and the Motor Insurers' Bureau of Ireland. The levy is assessed on 2010 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** includes provisions for liabilities arising from the reorganisation of the business, a levy relating to the London Metropolitan Fire Brigade and costs related to general insurance operations which include onerous contract provisions following a review of two underperforming contracts.

31 Other liabilities

	2010 £m	2009 £m
Accruals and deferred income	186	183
Amounts due to immediate parent company	5	36
Amounts due to fellow subsidiary undertakings	2	5
Social security and other tax payments	28	27
Other liabilities	93	56
Total other liabilities	<u>314</u>	<u>307</u>

Estimated fair values are the amounts recorded at year-end

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

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

	2010 £m	2009 £m
Balance as at 1 January	174	220
Income statement credit (<i>note 12</i>)	56	26
Statement of Comprehensive Income credit	(46)	(70)
Exchange differences	2	(2)
Balance as at 31 December	186	174

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 31 December 2010 was £186m (2009 £174m)

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 £m	Tax losses carried forward £m	Total £m
Balance as at 1 January 2010	18	173	191
Income statement credit (<i>note 12</i>)	2	18	20
Retained earnings	(6)	-	(6)
Exchange differences	(1)	-	(1)
Balance as at 31 December 2010	13	191	204

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 £36m (2009 £43m) in respect of losses amounting to £133m (2009 £155m) that can be carried forward against specific categories of future taxable income

Deferred tax liabilities

	Unrealised appreciation of investments £m	Equalisation reserve £m	Other short-term timing differences £m	Total £m
Balance as at 1 January 2010	(12)	43	(14)	17
Income statement credit (<i>note 12</i>)	(39)	-	3	(36)
Revaluation reserve	40	-	-	40
Exchange differences	1	-	(4)	(3)
Balance as at 31 December 2010	(10)	43	(15)	18

Notes to the Financial Statements continued Registered Number 01821312

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

	2010 £m	2009 £m
Retained earnings retirement obligations	6	1
Revaluation reserve financial assets	40	69
	<u>46</u>	<u>70</u>

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.

An independent actuarial review by Towers Watson of the defined benefit scheme revealed a deficit of £701m as at 31 December 2010 (£890m as at 31 December 2009) 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 2010. The AXA UK Group made additional contributions totalling £65m (2009: £26m) to the Scheme, in accordance with the 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 £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:

	2010	2009
Discount rate	5.4%	6.0%
Expected return on plan assets	6.8%	7.0%
Future salary increases	3.1%	3.2%
Future pension increases	3.3%	3.5%
Inflation assumption	3.3%	3.5%

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

	2010 £m	2009 £m
Present value of obligation as at 1 January	3,041	2,370
Merger of AXA Re and AXA Global Risks Pension Schemes	29	-
Service cost	21	22
Interest cost	179	150
Curtailment gain/ (loss)	2	(62)
Actuarial losses	327	685
Benefits paid	(127)	(124)
Present value of obligation as at 31 December	<u>3,472</u>	<u>3,041</u>

The curtailment loss of £2m in 2010 relates to the disposal by AXA UK plc of part of its Life Insurance business. This 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 Registered Number 01821312

The curtailment gain of £62m in 2009 relates primarily to a scheme change whereby a cap is applied to future pensionable salary increases and, to a lesser extent, members impacted by an outsourcing arrangement becoming deferred pensioners

Changes in the fair value of plan assets are as follows

	2010 £m	2009 £m
Fair value of plan assets as at 1 January	2,151	2,050
Merger of AXA Re and AXA Global Risks Pension Schemes	24	-
Expected return on plan assets	145	141
Employer contributions	488	52
Employee contributions	-	3
Benefits paid	(127)	(124)
Actuarial gains	90	29
Fair value of plan assets as at 31 December	2,771	2,151

Analysis of assets by category

	2010 £m	2009 £m
Equities	982	871
Debt securities	1,258	1,179
Property	94	87
Cash	437	14
Fair value of plan assets as at 31 December	2,771	2,151

Other pension schemes

- 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.
- 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 2010.
- The Group's subsidiary in Ireland operates a defined benefit scheme. An independent actuarial review by Mercer, on which the amounts recognised in the financial statements are based, was carried out at 31 December 2010.

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

	2010			2009		
	UK		Ireland	UK		Ireland
	Top-up scheme	Healthcare scheme		Top-up scheme	Healthcare scheme	
Discount rate	5.4%	5.4%	5.5%	6.0%	6.0%	5.8%
Expected return on plan assets	-	-	5.8%	-	-	6.4%
Future salary increases	-	-	3.3%	3.2%	-	3.3%
Future pension increases	3.3%	-	2.0%	3.5%	-	2.0%
Inflation assumption	3.3%	8.0%	2.0%	3.5%	8.0%	2.0%

Notes to the Financial Statements continued Registered Number 01821312

Mortality tables - UK schemes

For the 2010 actuarial review the following tables were used

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 2010 review

All male members - 62% of PNMLOO 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

The following tables were used for the 2009 review

Pensioners and dependants - 85% of PMA92C15 -2 and 85% of PFA92C15 -2 for male and female members respectively

For active and deferred members - 85% of PMA92C30 -2 and 85% of PFA92C30 -2 for male and female members respectively

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), 4% (debt securities), 7% (property) and 2% (cash). The corresponding 2009 expected returns were 8.5% (equities), 4% (debt securities), 7% (property) and 4% (cash).

Pensions and other post-retirement obligations

The amounts recognised in the balance sheet are as follows

	UK		Ireland	Total	2009
	Top-up	Healthcare			
	scheme	scheme			
	2010	2010	2010	2010	2009
	£m	£m	£m	£m	£m
Present value of funded obligations	26	7	285	318	364
Fair value of plan assets	-	-	(260)	(260)	(241)
Equities	-	-	(131)	(131)	(125)
Debt securities	-	-	(124)	(124)	(95)
Property	-	-	(2)	(2)	(4)
Cash	-	-	(3)	(3)	(17)
Net liability in the balance sheet	26	7	25	58	123

Notes to the Financial Statements continued Registered Number 01821312

The amounts recognised in the income statement are as follows

	UK				
	Top-up scheme	Healthcare scheme	Ireland	Total	
	2010	2010	2010	2010	2009
	£m	£m	£m	£m	£m
Current service cost	-	-	5	5	7
Interest cost	1	1	18	20	21
Expected return on plan assets	-	-	(14)	(14)	(14)
Curtailment	-	-	-	-	1
Employee contributions	-	-	(2)	(2)	(2)
Total included within employee benefit expenses	1	1	7	9	13

The amounts recognised in the statement of recognised income and expense are as follows

	UK				
	Top-up scheme	Healthcare scheme	Ireland	Total	
	2010	2010	2010	2010	2009
	£m	£m	£m	£m	£m
Actual return on assets	-	-	20	20	21
less expected return on scheme assets	-	-	(14)	(14)	(14)
Actual return on assets in excess of expected	-	-	6	6	7
Experience losses on liabilities	(2)	2	23	23	(11)
Change in actuarial assumptions	(1)	4	21	24	16
Actuarial gains/(losses) on pension benefits	(3)	6	50	53	12

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

	UK				
	Top-up scheme	Healthcare scheme	Ireland	Total	
	2010	2010	2010	2010	2009
	£m	£m	£m	£m	£m
Present value of obligation as at 1 January	23	12	329	364	385
Exchange	-	-	(12)	(12)	(28)
Service cost	-	-	5	5	7
Interest cost	1	1	18	20	21
Curtailment	-	-	-	-	1
Actuarial losses / (gains)	3	(6)	(44)	(47)	(5)
Benefits paid	(1)	-	(11)	(12)	(17)
Present value of obligation as at 31 December	26	7	285	318	364

Notes to the Financial Statements continued Registered Number 01821312

Changes in the fair value of plan assets are as follows

	UK		Ireland	Total	2009
	Top-up	Healthcare			
	scheme	scheme			
	2010	2010	2010	2010	2009
	£m	£m	£m	£m	£m
Fair value of plan assets as at 1 January	-	-	241	241	242
Exchange	-	-	(8)	(8)	(20)
Expected return on plan assets	-	-	14	14	14
Employer contributions	-	-	16	16	10
Employee contributions	-	-	2	2	2
Benefits paid	-	-	(11)	(11)	(14)
Actuarial gains	-	-	6	6	7
Fair value of plan assets as at 31 December	-	-	260	260	241

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

	2010	2009	2008	2007	2006	2005
	£m		£m	£m	£m	£m
As at 31 December						
Present value of funded obligations	318	364	385	271	271	273
Fair value of plan assets	260	241	242	219	194	175
Deficit	58	123	143	52	77	98
Experience adjustments on liabilities	23	(11)	(17)	(4)	(3)	(10)
Experience adjustments on plan assets	6	7	(78)	(13)	6	21

History of experience gains and losses

	UK				Ireland	
	Top-up scheme		Healthcare scheme		2010	2009
	2010	2009	2010	2009		
Difference between expected and actual return on scheme assets						
- amount - gain / (loss) £m	-	-	-	-	6	7
- percentage of scheme assets	-	-	-	-	2.2%	2.7%
Experience gains and losses on obligations						
- amount - (loss) / gain £m	(2)	(4)	2	(1)	23	(6)
- percentage of the present value of the obligations	(7.7)%	(15.5)%	34.4%	(10.6)%	8.0%	(1.8)%
Total amount recognised outside income statement						
- amount - (loss) / gain £m	(3)	(3)	6	(1)	50	16
- percentage of the present value of the obligations	(12.0)%	(12.9)%	96.0%	(8.0)%	17.3%	4.7%

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 balance sheet a 0.5% increase in the discount rate would reduce the present value of obligation by £25m (2009: £28m). A 0.5% increase in the inflation rate assumption would increase the present value of obligation by £4m (2009: £11m).

Notes to the Financial Statements continued Registered Number 01821312

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	
	2010	2009	2010	2009
	£m	£m	£m	£m
Current service cost and interest cost of net periodic post employment medical costs	0.1	0.2	0.1	0.1
Present value of obligation for post employment medical costs	0.9	2.0	0.9	1.7

The total pension cost which has been charged to the income statement for the Group is £79m (2009 £55m) which includes £16m (2009 £15m) 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 2011 are £85m.

34 Cash generated from operations

	2010	2009
	£m	£m
Profit/(loss) before tax and loss on disposal of operations	49	(11)
Depreciation and fixed asset write-offs	10	7
Amortisation of intangibles and impairments	24	29
Realised and unrealised investment gains	(51)	(30)
Amortisation of available for sale investments	-	4
Impairment charge on available for sale investments	38	101
Change in insurance technical provisions	10	(187)
Change in other assets and liabilities	(50)	62
Interest expense	16	29
Interest income	(219)	(213)
Dividend income	(15)	(17)
Cash generated from operations	(188)	(226)

35 Related parties

AXA Insurance plc and its subsidiary undertakings paid £7m (2009 £7m) to a fellow subsidiary undertaking, GIE AXA, under a service agreement to share costs.

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

AXA Insurance UK plc paid administrative expenses of £7m (2009 £nil) to a fellow subsidiary undertaking Inter Partner Assistance.

AXA Services Limited paid IT expenses of £31m (2009 £35m) to a fellow subsidiary undertaking, AXA Technology Services UK Limited.

AXA Services Limited paid administrative expenses of £6m (2009 £8m) to a fellow subsidiary undertaking, AXA Business Services Limited.

AXA Insurance UK plc paid commissions of £74m (2009 £91m) to fellow subsidiary undertakings, Swiftcover Insurance Services Limited and Bluefin Insurance Group Limited subsidiaries. In 2010, the

Notes to the Financial Statements continued Registered Number 01821312

commission rate charged is on a recovery of costs basis

AXA Insurance UK plc and AXA PPP healthcare limited paid reinsurance premiums of £70m (2009 £61m) to a fellow subsidiary undertaking, AXA Global P&C SA

AXA Insurance UK plc and AXA PPP healthcare limited received inwards treaty business premiums of £72m (2009 £74m) 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 and PT Assuransi AXA Indonesia

AXA Services Limited recovers its costs and related expenses from other group companies During 2010 this subsidiary recharged expenses of £55m (2009 £40m) to its immediate parent company, AXA UK plc, and £71m (2009 £111m) to fellow subsidiary undertakings in the AXA UK plc group

AXA Insurance plc made a loan of £10m to, AXA UK plc and AXA PPP healthcare group plc made a loan of £8m to AXA UK plc Amounts due from and to group undertakings are disclosed in note 23 Other receivables, note 29 Borrowings and note 31 Other liabilities

AXA Insurance UK plc and AXA General Insurance Limited purchased £40m and £10m respectively nominal Resolution Limited fixed rate unsecured loan notes due 2018 from AXA UK plc

Investment in financial assets note 20 includes

- US\$149.4m (2009 US\$149.4m) nominal in a participation agreement with a fellow subsidiary undertaking, AXA Equitable Life Insurance Limited giving it rights to a proportion of a secured mortgage loan AXA Equitable Life Insurance Limited has made with, 787 Holdings, LLC
- £150m (2009 £150m) nominal listed 5 year floating rate bonds issued by its ultimate parent company, AXA SA
- £100m (2009 £100m) nominal of fixed rate bonds due in 2017 issued by its intermediate parent company AXA UK plc

Key management compensation

Key management includes directors (executive and non executive of the immediate parent company, AXA UK plc) 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

	2010 £m	2009 £m
Salary and other short-term benefits	4	5
Post-employment benefits	-	-
Share-based payments	-	-
Termination benefits	-	-
Total	<u>4</u>	<u>5</u>

36 Commitments

Capital commitments

There is no capital expenditure contracted for at the balance sheet date but not yet incurred (2009 £nil)

Notes to the Financial Statements continued Registered Number 01821312

Financial commitments

As at 31 December 2010, Group subsidiaries, AXA Insurance UK plc and AXA PPP healthcare limited had outstanding commitments of \$6m into an American Public-Private Investment Programme and £34m 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

	2010 £m	2009 £m
No later than 1 year	3	4
Later than 1 year and no later than 5 years	11	12
Later than 5 years	5	7
	<u>19</u>	<u>23</u>

Operating lease commitments – where a Group company is the lessor

The commitments relate to land and buildings and are subject to rent reviews. The gross carrying amount of the associated assets is £188m (2009 £172m), which has subsequently been impaired resulting in an impaired cost of £140m (2009 £119m), shown within note 16

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

	2010 £m	2009 £m
No later than 1 year	11	10
Later than 1 year and no later than 5 years	38	32
Later than 5 years	32	30
	<u>81</u>	<u>72</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

	2010 £'000	2009 £'000
Aggregate emoluments excluding amounts receivable under long-term incentive schemes	51	-
Amounts receivable (excluding gains on exercise of share options and value of shares received) under long-term incentive schemes	-	-
Total	<u>51</u>	<u>-</u>

Retirement benefits are accruing to one director (2009 None) 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

Notes to the Financial Statements continued Registered Number 01821312

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, Mr N J-M D Moreau, Mr P L H Maso y Guell Rivet and Mr I Robinson 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 10th November 2010, the Group's subsidiary company, ICAS International Holdings Limited acquired the remaining 28.01% shares in ICAS Employee and Organisation Enhancement Services Southern Africa (PTY) Limited for a cash consideration of £6m. The consideration was split assets £1m and goodwill £5m.

39 Contingent liabilities

- a) With the approval of Financial Services Authority certain wholly-owned UK subsidiaries have entered into a mutual guarantee whereby each company guarantees payment of all liabilities incurred by the others in respect of general insurance business.
- 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 mis-selling claims and €8m for all other claims.

40 Post Balance sheet event

On 31 March 2011, there was an internal restructure of the Group non life operations in the United Kingdom. The insurance and reinsurance business written by subsidiary undertakings, AXA Insurance plc, The Royal Exchange Assurance and AXA General Insurance Limited, was transferred to AXA Insurance UK plc pursuant to a Court order issued under Part VII of the Financial Services and Markets Act 2000 dated 24 March 2011.

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 2010 which comprise the Balance Sheet, the Accounting Policies and the related 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' Report, 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 parent company 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.

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 2010,
- 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
- the parent company financial statements are not in agreement with the accounting records and returns, or

Parent Company Independent Auditors' Report continued

- 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 2010



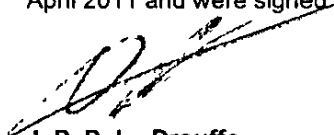
Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
28th April 2011

Parent Company Balance Sheet

as at 31 December 2010

	Note	2010 £m	2009 £m
Fixed assets			
Shares in subsidiary undertakings	1	<u>1,747</u>	<u>1,747</u>
Current assets			
Debtors amounts falling due within one year	2	110	110
Creditors			
Amounts falling due within one year	3	(619)	(636)
Net current liabilities		<u>(509)</u>	<u>(526)</u>
Total assets less current liabilities		1,238	1,221
Creditors			
Amounts falling due after more than one year	4	(148)	(148)
Net assets		<u>1,090</u>	<u>1,073</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	276	259
Total equity shareholders' funds	6	<u>1,090</u>	<u>1,073</u>

The separate financial statements on pages 71 to 75 were approved by the Board of Directors on 28th April 2011 and were signed on its behalf by



J. P. D. L. Drouffe
Director
28th April 2011

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 in accordance with applicable UK accounting standards and law

As permitted by section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements

II Investment income

Investment income consists of interest, dividends and realised gains. Income from listed equities is recognised when investments are quoted ex-dividend. Income from government and other fixed interest securities, loans and deposits is dealt with on an accruals basis. 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.

Investments are stated at market values, bid price for unit trusts and directors' valuations for other investments.

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 the rates at which it is expected that the tax will arise. 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.

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

	2010 £m
Cost at 1 January and at 31 December	<u>1,747</u>

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 plc	England	100%	(Parent)
AXA Insurance UK plc	England	100%	
The Royal Exchange Assurance	England	100%	
AXA General Insurance Limited	England	100%	
AXA PPP healthcare limited	England	100%	
AXA Insurance Limited	Ireland	100%	
Other companies			
Denplan Limited	England	100%	
SecureHealth (Holdings) Limited	England	100%	
ICAS International Holdings Limited	England	100%	
AXA Services Limited	England	100%	(Parent)
AXA PPP healthcare group plc	England	100%	(Parent)
AXA Holdings Ireland Limited	Ireland	100%	
Guardian Royal Exchange International (Holdings) BV	Netherlands	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 are Cyprus and Greece
- All holdings of ordinary shares are held by a subsidiary unless stated parent as above

2 Debtors

	2010 £m	2009 £m
Amounts due from intermediate parent company	106	106
Amounts due from subsidiary undertakings	1	-
Taxation	3	4
Total amounts falling due within one year	<u>110</u>	<u>110</u>

3 Creditors – amounts falling due within one year

	2010 £m	2009 £m
Amounts due to intermediate parent company	7	25
Amounts due to subsidiary undertakings	608	607
Other creditors	4	4
Total amounts falling due within one year	<u>619</u>	<u>636</u>

	2010 £m	2009 £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

	2010		2009	
	Shares	£m	Shares	£m
Issued and fully paid Ordinary shares at 31 December	1,059,785,981	56	1,059,785,981	56
Share premium account			2010	2009
			£m	£m
Balance as at 31 December			523	523

	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

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

At 31 December 2010 contracts placed for future capital expenditure not provided in the financial statements amounted to £nil (2009 £nil)

The Company is a limited liability company incorporated and domiciled in England. 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 and smallest group which includes the Company and for which group financial statements are prepared is AXA. Copies of the AXA Group financial statements can be obtained from 23, avenue Matignon, 75008 Paris, France.

The 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

CRF Jc 2010

Parent Company – Notes to the Financial Statements continued

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.