Registered Number 01821312

Guardian Royal Exchange plc

2014 Annual Reports and Financial Statements

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

Contents

Directors and Auditor

Directors

W. U. Malik
R. C. W. Organ
B. Poupart-Lafarge

Company Secretary

J. P. Small

Independent Auditor

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

Strategic Report

The directors present their Strategic Report for the year ended 31 December 2014.

REVIEW OF THE BUSINESS

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.

AXA Insurance provides general insurance to individuals and corporate customers, both through direct and intermediated channels and through several major partners.

AXA PPP healthcare offers medical insurance, occupational health support, expert health information and counselling and hospital care to individuals and corporate partners.

AXA Ireland provides general insurance in Ireland to individuals and corporate customers, both through direct and intermediated channels and through several major partners.

Results and performance

Profit before tax for the Group decreased by £41m to £226m (2013: £267m) in 2014, arising from a reduction of £86m in the investment result to £184m (2013: £270m) and an improvement of £45m in the underwriting result to £42m (2013: loss £3m).

The revaluation of available for sale investments produced a gain of £32m (2013: £41m loss) and is included in the consolidated Statement of Comprehensive Income.

During the year, gross revenue from insurance contracts increased by £21m to £3,686m (2013: £3,665m), as analysed below by business segment.

Healthcare

During the year, gross revenue from insurance contracts increased by £37m to £1,186m (2013: £1,149m).
- Revenue and customer numbers continue to grow, especially through international operations.

UK Property & Casualty

During the year, gross revenue from insurance contracts has increased by £5m to £2,120m (2013: £2,115m).
- Personal Lines saw decreased premiums compared to 2013 with Personal Lines Household and Pet business seeing a reduction in volumes during 2014 due to strategic planning in exiting the Pet business and the exit of a key household partner.
- Commercial Lines business written showed significant growth during 2014 across the portfolio, primarily as a result of new business growth and improved premium retention on the existing portfolio.
- Personal direct Lines saw an increase in premiums compared to 2013 with the Motor business seeing an increase in renewals and improved cancellations.

ROI Property & Casualty

During the year, gross revenue from insurance contracts decreased by £21m to £380m (2013: £401m).
- The Irish insurance market remained challenging throughout 2014 as the market continued to contract leading to a further reduction in gross premium by 0.3%. Despite that, focus remained on pricing adequacy and underwriting performance in the face of strong competition, ensuring business continues to be written at economic rates.

Strategic Report continued

The underwriting profit before tax for the year is £42m (2013: loss £3m), as analysed below by business segment.

Healthcare

The underwriting profit before tax for the year was £34m (2013: profit £46m).

- The performance in the year reflects increased revenue and a fall in the loss ratio, offset by an additional contribution to the AXAUK group pension scheme.

UK Property & Casualty

The underwriting loss before tax for the year is £40m (2013: loss £73m).

- The improvement is driven by a fall in the loss ratio, relating to personal and direct lines, as earned premiums have remained stable in comparison with the prior year.
- The improvement in the loss ratio is driven by the impact of rating actions and improvement in business mix, which have had a positive effect on the loss ratio. Business mix following a reduction in exposure on loss making classes. This has been offset by a number of large weather events during the year.

ROI Property & Casualty

The underwriting profit before tax for the year is £45m (2013: profit £26m).

- The improvement is primarily driven by foreign exchange movements, on both investing and operating activities, offset by a reduction in premiums.

Other

The underwriting profit before tax for the year is £3m (2013: loss £2m).

Net investment result

The net investment return for the year, recorded within the consolidated statement of profit or loss is a profit of £184m (2013: £270m) and further analysis is provided in note 4. The reduction in return compared to the prior year is driven by the negative fair value movement of the derivatives portfolio. In addition, hedge accounting transferred fair value movements of the hedged asset portfolio to the statement of profit or loss, thus aligning to derivative changes in fair value.

The total investment return, including the revaluation of available for sale financial assets through the Statement of Other Comprehensive Income, has decreased by £13m to £216m (2013: £229m) and is driven primarily by both unrealised and realised losses attributable to derivatives, compared to equivalent gains in the prior year.

The procedures put in place by the Group identified all significant exposures to risk arising out of the current financial market conditions. The valuation of financial instruments, where the market liquidity was negatively affected or where no active market exists, was considered specifically, and all credit events that occurred prior to 31 December 2014 have been considered.

Business environment

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

Strategic 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. The Group's strategy is consistent with the AXA Group global strategy of being the preferred company for customers, employees and shareholders.

Solid progress has been made in 2014 towards the strategic targets with the launch of new products and improved control over operational costs as well as maintaining the customer focused programmes for employees and improving IT stability.

Key performance indicators ("KPIs")

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

	2014	2013	
Gross written premiums	**£3,681m**	£3,629m	
Underwriting result	**£42m**	£(3)m	Result of insurance activities
Current year loss ratio	**70.1%**	70.0%	Ratio of net current year claims incurred to net earned premiums
Combined operating ratio	**98.8%**	100.1%	Ratio of net claims incurred, commissions, expenses and other operating income to net earned premiums
Operating result	**£236m**	£277m	

PRINCIPAL RISKS AND UNCERTAINTIES

The AXA UK Group has an established process for risk acceptance and risk management, which is addressed through a framework of policies, procedures and internal controls. All policies are subject to ongoing review by management, risk management and group internal audit. Compliance with regulation, legal and ethical standards is a high priority for the Group and the compliance and finance teams take on an important oversight role in this regard. Line management is responsible for maintaining an internal control framework to manage financial and operational risks, which is monitored regularly to ensure the completeness, accuracy and integrity of the Group's financial information.

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

Financial risk management, including the impact of risk on economic capital, is discussed in the management of risks note set out on pages 38 to 48 of the consolidated financial statements.

FUTURE DEVELOPMENTS

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

In 2015, the aim is to remain competitive by controlling costs and improving efficiency. At the same time the Group will continue to invest for the long term to support its vision of being 'Trusted Market Leader'; this will ensure a strong foundation is being built for the future.

Strategic Report continued

Signed on behalf of the Board by

W. U. Malik
Director
29 April 2015

Directors' Report

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

FUTURE DEVELOPMENTS

Future developments are discussed in the Strategic Report.

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 Strategic Report. The ability to cope with unexpected risks to the financial position is shown within management of risks note set out on pages 38 to 48 of the consolidated financial statements.

The Group has considerable financial resources, with large cash deposits in money market funds and long term debenture borrowings (note 28). 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 2020. 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

On the 10 April 2014, the directors recommended that an interim dividend of £168m should be paid (2013: £nil). The directors do not recommend the payment of any further dividends.

DIRECTORS

The directors of the Company who were in office during the year and up to the date of approval of the financial statements are shown on page 2.

Appointment of directors

In accordance with Article 87 of the Articles of Association of the Company, Mr W. U. Malik will retire by rotation at the forthcoming Annual General Meeting. Being eligible, he will offer himself for re-appointment.

Directors' qualifying third party and pension scheme indemnity provisions

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

The indemnification was in force during the year and at the date of approval of the financial statements.

Directors' Report continued

EMPLOYEES

The Group 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 communication with employees and in seeking to inform and involve staff in the development of the AXA UK Group operations and in the achievement of the global 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.

FINANCIAL RISK MANAGEMENT

Information on the use of financial instruments by the Group and its management of financial risk is disclosed in the management of risks note set out on pages 38 to 48 of the consolidated financial statements. In particular the Group's exposure to market risk, credit risk and liquidity risk are separately disclosed in that note.

BRANCHES OUTSIDE THE UK

The Group does not operate branches outside the UK.

RESEARCH AND DEVELOPMENT

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

POLITICAL DONATIONS

The Group made no donations for political purposes.

EVENTS OCCURING AFTER THE REPORTING PERIOD

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

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITOR

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

a) so far as he is aware, there is no relevant audit information of which the Group's auditor is unaware; 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 Group's auditor is aware of that information.

Directors' Report continued

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and those parts of the Companies Act 2006 applicable to Group reporting under IFRS; and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the European Union and applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively; and
- 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 Groups 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.

Signed on behalf of the Board by

W. U. Malik
Director
29 April 2015

Group Independent Auditor's Report

Independent auditor's report to the members of Guardian Royal Exchange plc

We have audited the Group financial statements of Guardian Royal Exchange plc (the 'Group') for the year ended 31 December 2014, which comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report is made solely to the Company's members, as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

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

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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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 matters where the Companies Act 2006 requires us 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 Auditor's Report continued

Other matter

We have reported separately on the Parent Company financial statements of Guardian Royal Exchange plc for the year ended 31 December 2014.

Andrew Goldsworthy (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London
E1W 1DD

29 April 2015

Registered Number 01821312

Consolidated Statement of Profit or Loss

for the year ended 31 December 2014

	Note	2014 £m	2013 £m
Insurance revenue			
Insurance premium revenue		**3,686**	3,665
Insurance premium ceded to reinsurers		**(151)**	(151)
Net insurance revenue	**3**	**3,535**	3,514
Other income			
Investment income	**4**	**251**	237
Net realised gains and losses relating to investments at cost and at fair value through shareholders' equity	**4**	**25**	15
Net realised gains and losses and change in fair value of investments at fair value through profit or loss	**4**	**(45)**	30
Change in investment impairments	**4**	**(22)**	14
Other operating income	**5**	**189**	150
Total income		**3,933**	3,960
Policyholder claims and benefits			
Insurance claims and loss adjustment expenses	**7**	**(2,503)**	(2,484)
Insurance claims and loss adjustment expenses recoverable from reinsurers	**7**	**29**	23
Other expenses			
Insurance contract acquisition expenses	**8**	**(752)**	(771)
Marketing and administration expenses	**8**	**(348)**	(294)
Cost of asset management services	**4**	**(15)**	(16)
Other operating expenses	**6**	**(108)**	(141)
Operating result		**236**	277
Finance costs	**10**	**(10)**	(10)
Profit before tax		**226**	267
Income tax expense	**11**	**(45)**	(71)
Profit for the year attributable to the equity shareholders of the Company	**1**	**181**	196
Basic earnings per share (pence per share)	**12**	**17.08**	18.49
Diluted earnings per share (pence per share)	**12**	**17.08**	18.49

All transactions relate to continuing operations.

The information on pages 18 to 82 forms an integral part of these consolidated financial statements.

Consolidated Statement of Other Comprehensive Income

for the year ended 31 December 2014

	Note	2014 £m	2013 £m
Profit for the financial year after tax		**181**	196
Other comprehensive income:			
Items that will not be subsequently reclassified to the Income Statement			
Remeasurement (losses)/gains on defined benefit schemes	32	**(87)**	9
Items that may be subsequently reclassified to the Income Statement			
Exchange (losses)/gains on revaluation of subsidiary net assets		**(23)**	13
Revaluation gains/(losses) of available for sale financial assets	25	**32**	(41)
Tax effect of items recognised in other comprehensive income			
- current	11	**-**	-
- deferred	31	**5**	7
Other Comprehensive Income net of tax		**(73)**	(12)
Total comprehensive income for the year attributable to the equity shareholders of the Company		**108**	184

The information on pages 18 to 82 forms an integral part of these consolidated financial statements.

Registered Number 01821312

Consolidated Statement of Financial Position

as at 31 December 2014

	Note	2014 £m	2013 £m
ASSETS			
Goodwill and intangible assets	**16**	**389**	406
Property, plant and equipment	**14**	**57**	63
Investment properties	**15**	**131**	126
Investment in financial assets	**19**	**5,883**	5,557
Reinsurers' share of insurance contract liabilities	**20**	**179**	181
Deferred acquisition costs	**17**	**293**	291
Deferred taxation	**31**	**152**	159
Insurance and reinsurance receivables	**21**	**1,208**	1,181
Other receivables	**22**	**591**	911
Cash and cash equivalents	**23**	**549**	518
Total assets		**9,432**	9,393

The information on pages 18 to 82 forms an integral part of these consolidated financial statements.

Registered Number 01821312

Consolidated Statement of Financial Position

as at 31 December 2014

	Note	2014 £m	2013 £m
EQUITY			
Ordinary share capital	**24**	**56**	56
Share premium	**24**	**523**	523
Other reserves	**25**	**848**	845
Retained earnings		**1,072**	1,134
Capital and reserves attributable to the equity shareholders		**2,499**	2,558
LIABILITIES			
Technical provisions - insurance contract liabilities	**26**	**5,537**	5,552
Borrowings	**28**	**162**	148
Insurance and reinsurance liabilities	**27**	**396**	390
Provisions for other liabilities and charges	**29**	**76**	79
Retirement benefit obligations	**32**	**135**	69
Other liabilities	**30**	**486**	505
Current taxation		**49**	34
Derivative financial instruments	**19**	**92**	58
Total liabilities		**6,933**	6,835
Total equity and liabilities		**9,432**	9,393

The information on pages 18 to 82 forms an integral part of these consolidated financial statements.

The financial statements on pages 12 to 82 were approved and authorised for issue by the Board of Directors on 29 April 2015 and were signed on its behalf by:

W. U. Malik
Director

Registered Number 01821312

Consolidated Statement of Changes in Equity

2014	Ordinary share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Balance as at 1 January	**56**	**523**	**845**	**1,134**	**2,558**
Profit for the year	-	-	-	181	**181**
Remeasurement loss on defined benefit schemes	-	-	-	(87)	**(87)**
Fair value gains/(loss) on available for sale					**-**
financial assets	-	-	32	-	**32**
Tax on movements in Statement of Other					**-**
Comprehensive Income - current	-	-	-	-	**-**
- deferred	-	-	(6)	11	**5**
Exchange on revaluation of subsidiary net					**-**
assets	-	-	(23)	-	**(23)**
Total comprehensive income for the year	**-**	**-**	**3**	**105**	**108**
Transactions with owners					**-**
Dividend	-	-	-	(168)	**(168)**
Share based payments	-	-	-	1	**1**
Capital contribution	-	-	-	-	**-**
Balance as at 31 December	**56**	**523**	**848**	**1,072**	**2,499**

2013	Ordinary share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Balance as at 1 January	56	523	640	929	2,148
Profit for the year	-	-	-	196	196
Remeasurement gain on defined benefit schemes	-	-	-	9	9
Fair value (loss)/gains on available for sale					
financial assets	-	-	(41)	-	(41)
Tax on movements in Statement of					
Comprehensive Income - current	-	-	-	-	-
- deferred	-	-	8	(1)	7
Exchange on revaluation of subsidiary net					
assets	-	-	13	-	13
Total comprehensive income for the year	-	-	(20)	204	184
Transactions with owners					
Dividend	-	-	-	-	-
Share based payments	-	-	-	1	1
Capital contribution	-	-	225	-	225
Balance as at 31 December	56	523	845	1,134	2,558

The information on pages 18 to 82 forms an integral part of these consolidated financial statements.

Registered Number 01821312

Consolidated Statement of Cash Flows

for the year ended 31 December 2014

	Note	2014 £m	2013 £m
Cash flows from operating activities			
Cash generated from operations	33	1	138
Income taxes paid		(16)	(45)
Interest paid		(10)	(10)
Interest received		244	220
Dividend and other income received		27	20
Net cash from operating activities		246	323
Cash flows from investing activities			
Proceeds from:			
Sale of investments		1,695	1,282
Loan repayment received from related party		300	85
Property, plant and equipment		-	1
Purchases of:			
Investments		(2,046)	(1,788)
Debt / Loans granted to related parties		-	(173)
Property, plant and equipment	14	(4)	(7)
Intangible assets	16	(3)	(3)
Investments in subsidiaries (net of cash acquired)		-	(219)
Net cash inflow from investing activities		(58)	(822)
Cash flows from financing activities			
Increase in capital contribution		-	225
Dividends paid		(168)	-
Net increase in cash and cash equivalents		20	(274)
Cash and cash equivalents at 1 January		518	790
Exchange (loss)/gain on cash and cash equivalents		(2)	2
Cash and cash equivalents at 31 December	23	536	518

The information on pages 18 to 82 forms an integral part of these consolidated financial statements.

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 under the Companies Act 2006, which has a debenture listed on the London Stock Exchange and is incorporated and domiciled in the UK. The address of its registered office is 5 Old Broad Street, London, EC2N 1AD.

Principal Accounting Policies

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

I. Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations of the IFRS Interpretations Committee ("IFRS IC") as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of available for sale financial investments and financial instruments at fair value through profit or loss.

In compliance with IFRS 4 'Insurance contracts' Phase I, the Group continues to apply the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005, as amended in December 2006.

The preparation of financial statements in compliance with IFRS requires management to monitor and exercise judgment in the selection and application of appropriate accounting policies and in the use of accounting estimates. Those areas which could have a significant impact to the consolidated financial statements are set out on page 37.

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

Certain prior year balances have been reclassified to conform with current year presentation. The principle change is the reclassification of accrued interest from other receivables to investment in financial assets. The directors believe that the current year presentation is appropriate and the reclassifications have no impact on the results or net assets of the Group.

The financial statements of the parent Company are presented on pages 83 to 89.

a) Changes in presentation

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

IAS 32 (amendment) 'Financial instruments: presentation'
The amendment does not change the current offsetting rules in IAS 32 surrounding financial assets and financial liabilities, but clarifies that the right of setoff must be available today and not contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy.
The Group adopted the amendment with effect from 1 January 2014, with no material impact on the financial statements.

Accounting policies continued

IFRS 10 (new standard) 'Consolidated financial statements'
The standard replaces the elements of control and consolidation in IAS 27 'Consolidated and separate financial statements' and SIC 12 'Consolidation - special purpose entities'. The standard does not change consolidation procedures, but defines the principle of control and establishes control as the basis for determining whether an entity should be consolidated. The Group adopted the amendment with effect from 1 January 2014, with no material impact on the financial statements.

IFRS 11 (new standard) 'Joint arrangements'
The standard replaces IAS 31 'Interests in joint ventures' and SIC 13 'Jointly controlled entities - non-monetary contributions by venturers'. The standard focuses on the rights and obligations of the parties to a joint arrangement, rather than its legal form; and distinguishes two types of joint arrangements: joint operations and joint ventures. The Group adopted the standard with effect from 1 January 2014, with no material impact on the financial statements.

IAS 28 (revised 2011) 'Investments in associates and joint ventures'
IAS 28 is renamed 'Investments in associates and joint ventures' and sets out the criteria and requirements for investments in associates and joint ventures to be equity accounted following the issue of IFRS 11. The Group adopted the revised standard with effect from 1 January 2014, with no material impact on the financial statements.

IFRS 12 (new standard) 'Disclosure of interest in other entities'
The standard addresses the disclosure requirements for an entity that has an interest in subsidiaries, joint arrangements, associates or structured entities. The Group adopted the standard with effect from 1 January 2014, with no material impact on the financial statements.

IFRS 10, IFRS 12 and IAS 27 (amendments) 'Consolidated financial statements, Disclosure of interest in other entities and Separate financial statements'
Published on 31 October 2012, 'Investment entities' amends IFRS 10, IFRS 12 and IAS 27 by providing an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendment to IFRS 12 introduces the disclosure requirements for investment entities. The Group adopted the amendments with effect from 1 January 2014, with no material impact on the financial statements.

IFRS 10, IFRS 11 and IFRS 12 (amendment) 'Consolidated financial statements, Joint arrangements and Disclosure of interest in other entities'
The amendments clarify the transition guidance in IFRS 10; and provide additional transitional relief in IFRS 10, IFRS 11 and IFRS 12 by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. The Group adopted the amendment with effect from 1 January 2014, with no material impact on the financial statements.

IAS 36 (amendment) 'Impairment of assets'
The amendment clarifies the disclosure requirements in respect of the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The Group adopted the amendment with effect from 1 January 2014, with no material impact on the financial statements.

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

Accounting policies continued

IFRIC 21 (interpretation) 'Levies'
This is an interpretation on IAS 37 'Provisions, contingent liabilities and contingent assets' and provides guidance on what the obligating event is that gave rise to pay a levy and when a liability should be recognised. The Group adopted the interpretation with effect from 1 January 2014, with no material impact on the financial statements.

b) Issued accounting pronouncements

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

IFRS 9 (new standard) 'Financial instruments'
IFRS 9 introduced new classification and measurements requirements in 2009 and 2010, with a new hedge accounting model published in 2013. In July 2014 the final version of the standard was published replacing the earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective for annual periods beginning on or after 1 January 2018, subject to EU endorsement. The Group is assessing the impact of IFRS 9.

IFRS 10 and IAS 28 (amendments) 'Consolidated Financial Statements and Investment in Associates'
These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are effective for annual periods beginning on or after 1 January 2016 subject to EU endorsement. It is not expected that the amendments will have a material impact on the financial statements.

IFRS 15 (new standard) 'Revenue from Contracts with Customers'
IFRS 15 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.
Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. Companies using IFRS will be required to apply the revenue standard for reporting periods beginning on or after 1 January 2017, subject to EU endorsement. The Group is assessing the impact of IFRS 15.

IFRS 11 (amendments) ' Joint Arrangements'
These amendments on Joint arrangements add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The amendments are effective for annual periods beginning on or after 1 January 2016 subject to EU endorsement. It is not expected that the amendments will have a material impact on the financial statements.

IAS 16 and IAS 38 (amendments) 'Property, Plant and Equipment and Intangible Assets'
In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The amendments are effective for annual periods beginning on or after 1 January 2016 subject to EU endorsement. It is not expected that the amendments will have a material impact on the financial statements.

Accounting policies continued

IAS 19 (amendments) 'Employee Benefits (revised 2011)'
These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective for annual periods beginning on or after 1 July 2014 subject to EU endorsement. It is not expected that the amendments will have a material impact on the financial statements.

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

Annual improvements 2012, 2013 and 2014 (amendments)
The IASB's annual improvements process addresses a series of narrow scope amendments to existing standards. The annual improvements for the 2010 to 2012, 2011 to 2013 and 2012 to 2014 reporting cycle amended fifteen standards which were endorsed by the EU and effective for annual periods beginning on or after 1 July 2014, 1 July 2015 and 1 January 2016. It is not expected the amendment will have a material impact on the financial statements.

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

IFRS 4 'Insurance contracts'
Phase I of the project primarily enhanced disclosures surrounding the amount, timing and uncertainty of future cash flows from insurance contracts. Phase II is aimed at providing a single principle based standard on accounting for all types of insurance contracts and addresses recognition, measurement, presentation and disclosure. The initial exposure draft on IFRS 4 Phase II issued in July 2010 introduced a current measurement model based on a building block approach; and the revised exposure draft issued in June 2013 maintained the current measurement model but introduced alternate methods to address earnings volatility. The IASB expects to allow a period of approximately three years after issuance of a final standard as the effective date; a final standard is not expected to be published until 2016.

Solvency II
Solvency II is a European initiative to address regulatory reporting and incorporates its own requirement for measuring insurance liabilities. Its primary objective is to strengthen policyholder protection by aligning capital requirements more closely with the risk profile of the entity. Assets and liabilities will be valued on an 'economic' market-consistent basis. The Group plans to use an internal risk management model that is Solvency II compliant. Discussions on the Omnibus II Directive will amend certain provisions of the Solvency II Directive, which has an implementation date of the 1 January 2016.

Accounting policies continued

II. Basis of consolidation

The consolidated financial statements include the assets, liabilities, equity, income, expenses and cash flows of the parent Company and its subsidiaries, presented as a single economic entity. Subsidiaries are all entities over which the Group has control. The Group controls an entity where it has exposure or the rights to variable returns from its involvement with the entity, with the ability to effect the amount of return through its power over the entity. Subsidiaries are fully consolidated from the date on which the Group obtains control and are de-consolidated from the date on which control ceases.

The Group applies the acquisition method to account for business combinations. The Group recognises, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The consideration transferred in a business combination is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The excess of the consideration transferred over the fair value of the Group's share of the net assets acquired is recognised as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Acquisition related costs are expensed in the period in which the costs are incurred.

Associates are all entities in which the Group has significant influence but not control and are accounted for by the equity method of accounting and recognised on the Statement of Financial Position at cost plus post-acquisition movements in the Group's share of net assets of the associate less allowances for impairment losses.

The Group's investment in specialised investment vehicles, such as unit trusts, is consolidated when control is achieved with the interests of third parties shown as 'net asset value attributable to unit holders' in 'other liabilities' in the Statement of Financial Position. Where the Group does not control such vehicles, these are designated as financial assets held at fair value through profit or loss.

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

III. Segmental reporting

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

IV. Foreign currency translation

a) Functional and presentation currency

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 Group and parent Company financial statements are presented in sterling, which is the Company's functional currency and the Group's presentational currency.

Accounting policies continued

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Profit or Loss in 'other operating income', 'other operating expenses' and 'finance costs'.

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

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

c) Group entities

The results and financial position of all the group entities that have a functional currency which is not sterling are translated into sterling as follows:

- The assets and liabilities for each balance sheet presented are translated at the closing rate ruling at the date of that balance sheet.
- Income and expenses for each Statement of Profit or Loss presented are translated at average exchange rates for the period in question; unless this average is not a reasonable approximation of the cumulative effect of the rates on the transaction dates, in which case income and expenses are translated at the rates on the transaction dates.
- All resulting exchange differences are recognised in Other Comprehensive Income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as an integral part of that entity and translated to sterling at the closing rate. Exchange differences arising are recognised in Other Comprehensive Income.

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

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

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.

Accounting policies continued

VI. General insurance contracts - recognition and measurement

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

a) Insurance premiums

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

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

b) Insurance claims

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

c) Technical provisions

Provision is made at the year-end for the estimated cost of claims incurred but not settled, including the cost of IBNR claims and IBNER to the 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 (that is, the IBNER provision), where more information about the claim event is generally available.

Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claim has occurred. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the 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.

Accounting policies continued

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

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

Where possible the 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 techniques are selected and combined, taking into account the characteristics of the business class and the extent of the development of each accident year.

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

Property, aviation and accident business

Property, aviation and accident business is short tail, that is, there is not generally a significant delay between the occurrence of the claim and the claim being reported to the 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.

Accounting policies continued

Motor business

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

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

Liability and marine claims

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

1. A combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes.
   The initial estimate of the loss ratio, based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort.

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

3. As per method 2 above but splitting the total case-by-case cost of notified claims into the cost of each and every claim capped at £100k and the excess amount over £100k.

4. By splitting the total case-by-case cost of notified claims into three band sizes (attritional, large and very large). The ultimate expected cost of claims in each band is then estimated by reference to the projected number of claims (based on statistics showing how the number of notified claims have been developed over time) and the anticipated average final cost of notified and IBNR claims (based on historical levels adjusted to allow for movements in the variables described above).

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

Disease-related and pollution claims arising from liability business

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

Accounting policies continued

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

Reinsurance recoveries

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims IBNR to the Group. The estimated cost of these claims is assessed on a consistent basis with gross of reinsurance claims allowing for the reinsurance retention or proportion recoverable, adjusted to reflect changes in the nature and extent of the Group's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries, having regard to market data on the financial strength of each of the reinsurance companies.

d) Salvage and subrogation

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

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

e) Deferred acquisition costs ("DAC")

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

f) Liability adequacy test

At each balance sheet date, the Group evaluates its unexpired risks to assess whether there are sufficient unearned premiums, after taking account of future investment income on the investments, to cover expected future claims and expenses. If following these assessments a deficiency is identified, the DAC asset for the associated grouping is initially reduced, and where this is insufficient a provision for losses arising from liability adequacy tests (the unexpired risk provision) is established.

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

Receivables and other liabilities are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. The Group assesses at each balance sheet date whether there is objective evidence that the insurance receivable is impaired. Where such evidence exists, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the Statement of Profit or Loss.

Accounting policies continued

VII. Goodwill and intangible assets

a) Goodwill

Goodwill arises on the acquisition of subsidiary companies and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

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

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash generating units that are expected to benefit from the synergies of the combination. The unit to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

b) Software development

Costs associated with major software developments are capitalised where such expenditure is expected to generate future economic benefits and can be reliably measured. The asset is amortised on the straight line basis over its estimated useful life, subject to a maximum period of 5 to 10 years. Assets with finite useful lives are reviewed for impairment at least annually.

c) Advanced Commissions

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

d) Other intangibles

Other intangible assets can arise on the acquisition of a portfolio of contracts directly from another insurer or through the acquisition of a subsidiary company; this represents the value of business acquired. The Group amortises the asset over the estimated useful life, subject to a maximum period of 15 years. Assets with finite useful lives are reviewed for impairment at least annually.

VIII. Property, plant and equipment

a) Property

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

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

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

Accounting policies continued

b) Plant and equipment

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

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

c) Motor vehicles

Motor vehicles are stated at cost less accumulated depreciation and an allowance for impairment, where appropriate.

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

IX. Investment property

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

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

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

X. Financial assets

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

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

a) Financial assets at fair value through profit or loss

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

Accounting policies continued

b) Available for sale financial assets

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

c) Held to maturity financial assets

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

d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are initially recognised at cost, which is the fair value of the consideration paid for the acquisition of the investment and transaction costs directly attributable to the acquisition of the investment; and subsequently measured at amortised cost using the effective interest rate method with gains and losses recognised in the Statement of Profit or Loss. Other assets classified as loans and receivables include 'other receivables' in note 22 and 'cash and cash equivalents' in note 23.
Private loans are carried at amortised cost, less impairment, using the effective interest rate method.

e) Fair value estimation

The fair value of financial assets is best established through quoted prices in an active market. An active market is where quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency; and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the market for a financial instrument is not active, the Group uses recognised valuation techniques to determine fair value. Valuation techniques include discounted cash flow analysis, option pricing models and, where available, evidence of arm's length transactions in similar assets. The inputs to these models are largely derived from observable market data; but where observable market data are not available, management judgement is applied to factors including model risks, liquidity risk and counterparty credit risk.

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

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

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

Accounting policies continued

The AXA SA 5.750% Floating Rate note is valued using a standard swap curve and applies a pricing tool called Arpson. The swap curve is sourced from Reuters to determine the forwards for 6-month GBP LIBOR which is the benchmark for this bond. The credit spread curves are received from 3 different banks and the model calculates an average credit spread curve from these indications.

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

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

XI. Impairment of assets

a) Financial assets carried at amortised cost

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

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

The carrying amount of the asset is reduced through an allowance account and the amount of the loss is recognised in the consolidated Statement of Profit or Loss.

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

b) Available for sale financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset has been impaired. For debt securities, the group applies the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is evidence that the assets are impaired. In the event of such evidence surfacing for available for sale financial assets, the cumulative loss that had been recognised in Other Comprehensive Income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

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

Accounting policies continued

c) Non-financial assets

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

XII. Derivative financial instruments

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

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

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

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

a) Hedge accounting

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

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking the hedge. The Group also documents the hedge effectiveness, both at inception and on an ongoing basis, indicating the actual or expected effectiveness level of the derivatives used in hedging transactions in offsetting changes in the fair values of the hedged underlying items.

b) Fair value hedge

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

Derivative financial instruments used for hedging purposes and the movements on fair value hedges are disclosed in note 19.

Accounting policies continued

c) Ineffective hedge

At the end of each month the hedge relationship is assessed using a retrospective effectiveness test. In those instances where it is determined that a hedge relationship is no longer effective, hedge accounting ceases to be applied from that point, with the accounting treatment reverting back to that applied for equivalent non-hedged items.

XIII. Cash and cash equivalents

Cash comprises cash in hand, demand deposits with banks, bank overdrafts and other cash equivalents within the controlled cash mutual fund investment. Cash equivalents are highly liquid investments which are subject to an insignificant risk of a change in value.

XIV. Share capital

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

XV. Borrowings

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

XVI. Offsetting

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

XVII. Current and deferred taxation

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

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

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

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

Accounting policies continued

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

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

XVIII. Employee benefits

The Group operates defined benefit plans, defined contribution plans and post-employment medical plans.

a) Pension obligations

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 (the Scheme). The Scheme supports a number of companies in the AXA UK Group, through both defined benefit and defined contribution schemes. The defined benefit schemes shares risks between the companies in the AXA UK Group and are not facilitated by a contractual agreement or stated policy to charge the individual companies the net defined benefit cost. As the outcome of various restructuring activities and movement of staff between companies in the AXA UK Group, it is not feasible to allocate the defined benefit scheme assets and liabilities to individual participating companies.

Consequently, the Group recognises its contribution payable for the period as permitted by IAS 19 'Employee benefits (revised 2011)' for defined benefit plans that share risks between companies under common control.

A defined contribution plan is a retirement benefit plan under which the Group pays fixed contributions into a separate entity (a fund) and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Under a defined benefit plan, the Group has an obligation to provide the agreed benefits to current and former employees and depends on factors such as age, years of service and compensation. The liability recognised in the Statement of Financial Position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields at the end of the reporting period on high quality corporate bonds of a consistent currency and estimated term to match the obligation.

Under defined benefit plans, other than the AXA UK Pension Scheme, the Group determines the following amounts recognised in profit or loss immediately:

- The current service cost represents the increase in the present value of the defined benefit obligation resulting from employee service in the current period.
- The past service cost, including a curtailment or settlement, represents the change in the present value of the defined benefit obligation for employee service in prior periods.
- Net interest on the net defined benefit liability is the product of the net defined benefit pension liability/(asset) and the discount rate.

Accounting policies continued

The following re-measurements are recognised in Other Comprehensive Income:

- Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, distinguished between demographic and financial assumptions.
- The return on plan assets comprise interest, dividends and other income derived from the plan assets; and excludes amounts included in net interest on the net defined benefit liability.

b) Other post-employment obligations

One subsidiary company provides post-employment healthcare benefits to retired employees. The accounting methodology for a defined benefit plan is applied and the liability is valued annually by independent qualified actuaries. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in equity through Other Comprehensive Income in the period in which they arise.

c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date. The Group recognises the cost of termination benefits when it is either contractually committed to the provision or it relates 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 bonus plans

Employees benefit from profit sharing arrangements based on a formula which factors in both personal performance of the employee and profitability of the applicable AXA group company. The Group recognises a provision for the cost of profit sharing and bonuses when contractually obliged to do so.

XIX. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

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

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

XX. Leases

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

XXI. Dividend distributions

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

Accounting policies continued

XXII. Revenue recognition

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

a) Premiums

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

b) Services rendered

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

c) Interest income

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

d) Rental income

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

e) Interest charges made to policyholders

Other operating income includes charges made to policyholders under the Consumer Credit Act where premiums are paid by instalments. The interest income is recognised in the Statement of Profit or Loss as it is earned using the effective interest rate method. The deferred portion is located in the line item 'accruals and deferred income' in note 30.

f) Dividend income

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

Critical Accounting Estimates and Judgements in Applying Accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas that the directors consider particularly susceptible to changes in estimates and assumptions are detailed below:

a) Insurance contract liabilities

The carrying value of insurance contract liabilities at the reporting date is £5,537m (2013: £5,552m). The judgements, estimates and assumptions employed in the assessment of the adequacy of provisions for unearned premiums and outstanding claims are set out in accounting policy VI and note 26.

b) Impairment of goodwill and intangible assets

The carrying value at the reporting date of goodwill is £361m (2013: £361m) and other intangible assets are £28m (2013: £45m). In accordance with accounting policy VII 'goodwill and intangible assets', impairment reviews occur at least on an annual basis where the recoverable amounts are determined of the respective specific assets. Details of the key assumptions used in the estimation of the recoverable amounts are contained in note 16.

c) Fair value of financial assets and derivative financial instruments

Where fair value cannot be derived from active markets or quoted prices, it is determined using valuation techniques. The inputs to these valuation techniques are largely derived from observable market data; but where observable market data is not available, management judgement is applied to factors including model risks, liquidity risk and counterparty credit risk. These are set out in accounting policy X 'financial assets', XI 'impairment of assets' and XII 'derivative financial instruments'; and note 19. Sensitivity information for financial assets and derivative financial instruments are set out in the 'management of risk' note.

d) Deferred taxation

The carrying value at the reporting date of the net deferred tax asset is £152m (2013: £159m), further details of which are disclosed in accounting policy XVII and note 31. A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Significant management judgement is applied to determine the deferred tax asset that can be recognised and is based on the probability of future taxable profits.

e) Retirement benefit obligations

The carrying value of the retirement benefit obligation at the reporting date is £135m (2013: £69m). The actuarial valuation employed in determining the retirement benefit obligation involves making assumptions surrounding discount rates, future salary increases, mortality rates and future pension increases. Details of the key assumptions used in the estimates are set out in accounting policy XVIII and note 32.

f) Deferred acquisitions costs

The carrying value at the reporting date of deferred acquisition costs is £293m (2013: £291m), further details of which are disclosed in accounting policy VI(e) and note 17.

Management of Risks

Financial risk management objectives and policies

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

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

Financial risks are considered from both a shareholder and a policyholder liability perspective with the adoption of the appropriate risk policies to cover different situations, such as insurance contracts, where the principal technique is to match assets to liabilities, non-investment credit risk and liquidity risk.

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

Market risk

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

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

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

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

Hedge accounting has been applied using two types of fair value hedge, a macro hedge (portfolio basis) and a micro hedge (individual basis), as part of its risk management strategy to reduce the Group's exposure to interest rate fluctuations of designated fixed income securities.

Management of Risks continued

a) Industry analysis

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

	2014		2013	
Equity analysis by industry	**£m**	**%**	**£m**	**%**
Financial	**86**	**28.7%**	105	29.8%
Consumer	**73**	**24.4%**	74	21.0%
Energy	**25**	**8.4%**	35	9.9%
Manufacturing & Pharmaceuticals	**19**	**6.4%**	19	5.4%
Utilities	**30**	**10.0%**	33	9.3%
Basic materials	**11**	**3.7%**	15	4.2%
Technology & Telecommunications	**30**	**10.0%**	33	9.3%
Others	**25**	**8.4%**	39	11.1%
Total	**299**	**100.0%**	353	100.0%

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

	2014		2013	
Debt securities analysis by industry	**£m**	**%**	**£m**	**%**
Financial	**1,420**	**30.3%**	1,615	35.1%
Consumer	**592**	**12.7%**	470	10.2%
Energy	**191**	**4.1%**	122	2.7%
Manufacturing & Pharmaceuticals	**224**	**4.8%**	164	3.6%
Utilities	**412**	**8.8%**	362	7.8%
Basic materials	**162**	**3.5%**	129	2.8%
Technology & Telecommunications	**362**	**7.7%**	319	6.9%
Government securities	**1,276**	**27.3%**	1,394	30.3%
Others	**37**	**0.8%**	27	0.6%
Total	**4,676**	**100.0%**	4,602	100.0%

b) Interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase of 100 basis points in interest rates (excluding derivatives) would result in reduced profit for the period of £27.4m (2013: £66.9m decreased profit) plus unrealised losses in the consolidated Statement of Comprehensive Income of £177.7m (2013: £118.2m). A decrease of 100 basis points in interest rates (excluding derivatives) would result in increased profit for the period of £29.5m (2013: £68.8m) plus unrealised gains in the consolidated Statement of Comprehensive Income of £196.9m (2013: £134.0m).

An increase/decrease of 100 basis points in interest rates would increase/decrease the fair value of derivatives through income by £36.9m (2013: £93.9m).

The fair value of debt securities is exposed to future interest rate fluctuations. Included in debt securities of £4,676m (2013: £4,602m) is £386m (2013: £457m) in respect of variable rate debentures and £nil (2013: £nil) in respect of index linked debentures. Debt securities with fixed interest rate are exposed to fair value interest rate risk but not cash flow interest rate risk. Ignoring the credit risk, debt securities with variable interest rates are exposed to cash flow interest rate risk but not fair value interest rate risk.

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

Management of Risks continued

c) Equity price risk

Listed equity securities represent 97% (2013: 93%) of total equity investments.

If equity valuations had increased by 10%, with all other variables constant, the operating result for the year would remain unchanged (2013: unchanged). Unrealised gains recorded through the consolidated Statement of Comprehensive Income would increase by £27m (2013: £32m).

If equity valuations had decreased by 10%, with all other variables constant, the operating result for the year would decrease by £7.7m (2013: £6.6m). Unrealised gains recorded through the consolidated Statement of Other Comprehensive Income would decrease by £19.1m (2013: £25.5m).

An increase of 10% in the relevant market indices would increase the fair value of equity hedging derivatives through income by £2.4m (2013: £2.5m). A decrease of 10% in the relevant market indices would decrease the fair value of equity hedging derivatives through income by £6.4m (2013: £6.4m).

d) Currency risk

The Group is exposed to currency risk in respect of portfolios denominated in other currencies, principally the US dollar and Euro. Mitigation of this risk is partly achieved by matching the liabilities with assets in the same currency and the use of derivative financial instruments. The Euro investments shown in the tables below principally relate to financial assets held by the Group's subsidiary undertaking in Ireland. At 31 December 2014, if the pound had weakened/strengthened by 1%, with all other variables constant, the profit before tax for the year would have been £1.5m (2013: £0.3m) lower/higher.

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

	2014		2013	
Currency analysis of equity shares	**£m**	**%**	**£m**	**%**
GBP	**169**	**56.6%**	190	53.9%
EURO	**101**	**33.8%**	137	38.8%
USD	**21**	**7.0%**	18	5.1%
Others	**4**	**1.3%**	4	1.1%
JYP	**3**	**1.0%**	3	0.8%
AUD	**1**	**0.3%**	1	0.3%
Total	**299**	**100.0%**	353	100%

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

	2014		2013	
Currency analysis of debt securities	**£m**	**%**	**£m**	**%**
GBP	**3,100**	**66.3%**	2,879	62.5%
EURO	**770**	**16.5%**	1,006	21.8%
USD	**797**	**17.0%**	676	14.8%
Others	**9**	**0.2%**	41	0.9%
Total	**4,676**	**100.0%**	4,602	100.0%

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

Management of Risks continued

Credit risk

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

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

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

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

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

	2014		2013	
Ratings	**£m**	**%**	**£m**	**%**
AAA	**245**	**3.0%**	492	6.1%
AA	**1,331**	**16.3%**	1,235	15.3%
A	**1,710**	**21.0%**	1,620	20.2%
BBB	**1,765**	**21.7%**	1,434	17.8%
BB	**70**	**0.9%**	317	3.9%
B	**1**	-	-	-
Not rated	**3,021**	**37.1%**	2,949	36.7%
Total	**8,143**	**100.0%**	8,047	100.0%

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

Maximum credit risk	**2014 (carrying value) £m**	2013 (carrying value) £m
Investment in financial assets - debt securities (note 19)	**4,676**	4,602
Investment in financial assets - mutual funds (note 19)	**572**	358
Investment in financial assets - loans (note 19)	**329**	215
Investment in financial assets - derivatives (note 19)	**59**	97
Reinsurers' share of insurance contract liabilities (note 20)	**179**	181
Insurance and reinsurance receivables (note 21)	**1,208**	1,181
Other receivables (note 22)	**571**	895
Cash and cash equivalents (note 23)	**549**	518
	8,143	8,047

Management of Risks continued

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

	Not past due or impaired	Overdue less than 6 months	Overdue 6 - 12 months	Overdue over 1 year	Provided for	Carrying value £m
2014						
Direct and reinsurance inwards insurance receivables	**1,153**	**29**	**4**	**2**	**(13)**	**1,175**
Reinsurance receivables (ceded only)	**3**	**7**	**10**	**15**	**(2)**	**33**
2013						
Direct and reinsurance inwards insurance receivables	1,143	27	5	3	(14)	1,164
Reinsurance receivables (ceded only)	2	3	4	13	(5)	17

Liquidity risk

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

Liquidity risk could arise from illiquid asset holdings, inappropriate asset/liability matching or inexact forecast operating liquidity requirements resulting in insufficient short-term (including intra-day) and longer-term liquidity. This is controlled via regular liquidity risk monitoring and reporting in addition to regular short-term cash flow forecasting. A robust capital management framework is in place to ensure there are appropriate loan and overdraft facilities in place.

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

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

2014	Less than 1 year £m	1-2 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
Financial assets						
Equities and mutual funds	-	-	-	-	819	**819**
Debt securities	294	487	1,249	2,646	-	**4,676**
Loans/bonds with related parties	14	29	23	263	-	**329**
Other receivables	508	-	83	-	-	**591**
Total non-derivative financial assets	**816**	**516**	**1,355**	**2,909**	**819**	**6,415**
Derivative financial instruments	23	-	1	35	-	**59**
Total financial assets	**839**	**516**	**1,356**	**2,944**	**819**	**6,474**

Management of Risks continued

2014	Less than 1 year £m	1-5 years £m	Over 5 years £m	Total £m
Financial liabilities				
Claims outstanding (note 26)	1,338	1,689	1,747	4,774
Direct insurance operations (note 27)	316	-	-	316
Reinsurance operations (note 27)	80	-	-	80
Other liabilities (note 30)	265	-	-	265
Insurance liabilities	1,999	1,689	1,747	5,435
Bank overdraft	13	-	-	13
Listed unsecured 6 5/8% Company bonds repayable 2023	-	-	149	149
Total borrowings (note 28)	13	-	149	162
Derivative financial instruments (note 19)	37	10	46	93
Total financial liabilities	2,049	1,699	1,942	5,690

2013	Less than 1 year £m	1-2 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
Financial assets						
Equities and mutual funds	-	-	-	-	643	643
Debt securities	451	383	1,303	2,465	-	4,602
Loans/bonds with related parties	6	28	62	119	-	215
Other receivables	809	-	86	-	-	895
Total non-derivative financial assets	1,266	411	1,451	2,584	643	6,355
Derivative financial instruments	38	4	26	29	-	97
Total financial assets	1,304	415	1,477	2,613	643	6,452

2013	Less than 1 year £m	1-5 years £m	Over 5 years £m	Total £m
Financial liabilities				
Claims outstanding (note 26)	1,331	1,791	882	4,004
Direct insurance operations (note 27)	329	-	-	329
Reinsurance operations (note 27)	61	-	-	61
Other liabilities (note 30)	271	-	-	271
Insurance liabilities	1,992	1,791	882	4,665
Listed unsecured 6 5/8% Company bonds repayable 2023	-	-	148	148
Total borrowings (note 28)	-	-	148	148
Derivative financial instruments (note 19)	16	18	24	58
Total financial liabilities	2,008	1,809	1,054	4,871

Capital management

The Group's UK and Irish insurance operations are regulated by the Financial Conduct Authority ("FCA"), Prudential Regulation Authority ("PRA") and The Central Bank of Ireland respectively and are subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. The Group manages capital in accordance with these rules and has embedded in its processes the necessary tests to ensure continuous and full compliance with such regulations.

Given the variability of the many inflows and outflows which are subject to price and other combinations of risk, regular monitoring of liability and asset profiles is undertaken to establish the implications for supporting capital requirements.

Management of Risks continued

The individual insurance companies are subject to capital adequacy requirements (which are based on EU Directive requirements). At 31 December 2014 the total capital available to meet the UK Insurance Group's adjusted solo basis Solvency I requirement is £1,138m (2013: £799m) which exceeds the General Insurance Capital Requirement by £592m (2013: £264m). For Ireland the total regulatory assets available to cover the minimum solvency margin under Solvency I are €314m (2013: €376m) which exceed the required solvency margin by €239m (2013: €296m).

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

Insurance and reinsurance risk

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

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the 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 unpredictable and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

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

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

The concentration of insurance risk by geographical area is disclosed in segment assets and liabilities (note 1). The UK Property & Casualty segment includes direct commercial employee liability claims outstanding of £992m (2013: £976m) and other liability claims outstanding of £238m (2013: £228m) within the total Insurance liabilities of £5,537m (2013: £5,552m).

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

Management of Risks continued

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

General insurance contracts – assumptions, change in assumptions and sensitivity

a) Process used to decide on assumptions

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

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

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

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

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

- Methods based on the development of claims (paid or incurred) using triangulation methods (e.g. chain ladder and link ratio) for which past experience is applied to each loss occurrence or underwriting year, in order to make reserves projections until their estimated final development.
- The average cost per claim method which applies an estimated average cost to the final number of claims expected to be notified in each loss occurrence or underwriting year.
- Methods based on claims ratios (such as the ultimate claims ratio or the additional claims ratio).
- Hybrid methods (such as Bornhuetter-Ferguson and Cape Cod).
- For asbestos-related diseases (mesothelioma claims), models released by The Health and Safety Executive and an Actuarial Working Party as well as high level projections available from Professor Sir Richard Peto, an epidemiology expert.
- Methods based on frequency and severity estimates.
- Claims which are reserved on an annuity certain approach over the period of expected payments for each individual claim, are subject to discounting.

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.

Management of Risks continued

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 2014 for the estimation of general insurance claims other than for claims settled by means of periodical payment orders as disclosed in note 26.

Fair value estimation

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

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

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

Financial assets and financial liabilities presented in the fair value measurement hierarchy at 31 December 2014.

Assets measured at fair value

		Fair value measurement based on:		
	2014	Level 1	Level 2	Level 3
Description	£m	£m	£m	£m
Financial assets at fair value through income	**578**	**12**	**566**	**-**
Derivative financial instruments	58	12	46	-
Mutual funds	520	-	520	-
Available for sale financial assets	**4,975**	**3,760**	**1,191**	**24**
Equity investments	247	227	20	-
Debt securities	4,676	3,533	1,143	-
Mutual funds	52	-	28	24
Derivative financial instruments for hedging	**1**	**-**	**1**	
Total financial assets	**5,554**	**3,772**	**1,758**	**24**
Financial liabilities at fair value through income	**92**	**24**	68	-
Derivative financial instruments	53	24	29	-
Derivative financial instruments for hedging	39	-	39	-
Total financial liabilities	**92**	**24**	**68**	**-**

Management of Risks continued

Financial assets and financial liabilities presented in the fair value measurement hierarchy at 31 December 2013.

Description	2013 £m	Level 1 £m	Level 2 £m	Level 3 £m
		Fair value measurement based on:		
Financial assets at fair value through income	365	32	333	-
Derivative financial instruments	75	32	43	-
Mutual funds	290	-	290	-
Available for sale financial assets	4,955	3,383	1,547	25
Equity investments	285	249	36	-
Debt securities	4,602	3,134	1,468	-
Mutual funds	68	-	43	25
Derivative financial instruments for hedging	22	-	22	
Total financial assets	5,342	3,415	1,902	25
Financial liabilities at fair value through income	58	16	42	-
Derivative financial instruments	47	16	31	-
Derivative financial instruments for hedging	11	-	11	-
Total financial liabilities	58	16	42	-

£65.6m of debt securities and £0.9m of equities were transferred from Level 1 to Level 2 during the year and £372.2m of debt securities and £0.4m of equities were transferred from Level 2 to Level 1. £0.6m of derivative assets and £0.1m of derivative liabilities were transferred from Level 1 to Level 2 during the year.

a) Financial instruments in level 1

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

b) Financial instruments in level 2

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

c) Financial instruments in level 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3. The investment included within Level 3 is the AXA Trireme private equity fund, the investment has no equivalent market activity and is valued based on the various valuations of the assets held within the fund.

The impact of a deterioration in the underlying exposures of 20%, would result in a decrease in the fair value of the asset and other comprehensive income of £4.8m.

Other financial instrument's carrying values do not differ significantly from their fair value.

Management of Risks continued

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

	Fair value Level 3 available for sale	
2014	**Mutual funds**	**Total**
Description		**£m**
Opening balance	**25**	**25**
Total gains or losses		
in other comprehensive income	**-**	**-**
Purchases	**7**	**7**
Settlements	**(6)**	**(6)**
Income	**(2)**	**(2)**
Transferred into/out of level 3	**-**	**-**
Closing balance	**24**	**24**

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

	Fair value measurement of Level 3 available for sale		
2013	**Debt securities**	**Mutual funds**	**Total**
Description	**£m**	**£m**	**£m**
Opening balance	109	21	130
Total gains or losses			
in other comprehensive income	-	1	1
Purchases	-	8	8
Settlements	-	(5)	(5)
Transferred into level 3	-	-	-
Transferred out of level 3	(109)	-	(109)
Closing balance	-	25	25

Transfers out of level 3, are as a result of changes in valuation techniques.

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 and dental insurance cover to both individuals and businesses, both in the UK and internationally, 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 ("ROI")

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, international property & casualty agencies, central functions and any elimination adjustments.

Basis of Measurement

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

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

Notes to the financial statements continued

The segment results for the year ended 31 December 2014 are as follows:

	Healthcare	Property & Casualty UK	Property & Casualty R of I	Other	Group
	£m	£m	£m	£m	£m
Insurance revenue					
Insurance premium revenue	1,186	2,120	380	-	3,686
Insurance premium ceded to reinsurers	(21)	(115)	(15)	-	(151)
Net insurance revenue	**1,165**	**2,005**	**365**	**-**	**3,535**
Other income					
Investment income	28	189	34	-	251
Net realised gains and losses relating to investments at cost and at fair value through shareholders equity	4	15	6	-	25
Net realised gains and losses and change in fair value of investments at fair value through profit and loss	(12)	(7)	(26)	-	(45)
Change in investment impairments	1	(25)	2	-	(22)
Other operating income	(9)	74	23	101	189
Total income	**1,177**	**2,251**	**404**	**101**	**3,933**
Policyholders claims and benefits					
Insurance claims and loss adjustment expenses	(854)	(1,405)	(244)	-	(2,503)
Insurance claims and loss adjustment					-
expenses recoverable from reinsurers	13	12	4	-	29
Other expenses					
Insurance contract acquisition expenses	(145)	(531)	(76)	-	(752)
Marketing and administration expenses	(136)	(184)	(27)	(1)	(348)
Cost of asset management services	(2)	(9)	(3)	(1)	(15)
Other operating expenses	-	(11)	-	(97)	(108)
Operating result	**53**	**123**	**58**	**2**	**236**
Underwriting result (footnote1)	34	(40)	45	3	42
Net investment result (footnote 2)	19	163	13	(1)	194
Operating result	**53**	**123**	**58**	**2**	**236**
Finance costs	-	-	-	(10)	(10)
Gain on disposal	-	-	-	-	-
Profit/(loss) before tax	**53**	**123**	**58**	**(8)**	**226**
Income tax expense	(15)	(25)	(7)	2	(45)
Profit/(loss) for the year attributable to equity shareholders of the Company	**38**	**98**	**51**	**(6)**	**181**
Other segment items included in the income statement:					
Depreciation and amortisation expenses	**8**	**14**	**2**	**-**	**24**

Notes to tables

1. 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.

2. Net investment result comprises: investment income, net realised gains on available for sale financial asset investments, net fair value gains and losses on assets at fair value through income and expenses, and cost of asset management services; including exchange gains and losses, and non-insurance related income and expenses.

Notes to the financial statements continued

The segment results for the year ended 31 December 2013 are as follows:

	Healthcare £m	Property & Casualty UK £m	Property & Casualty R of I £m	Other £m	Group £m
Insurance revenue					
Insurance premium revenue	1,149	2,115	401	-	3,665
Insurance premium ceded to reinsurers	(17)	(115)	(19)	-	(151)
Net insurance revenue	1,132	2,000	382	-	3,514
Other income					
Investment income	28	170	39	-	237
Net realised gains and losses relating to investments at cost and at fair value through shareholders equity	1	8	6	-	15
Net realised gains and losses and change in fair value of investments at fair value through profit and loss	5	28	(3)	-	30
Change in investment impairments	2	10	2	-	14
Other operating income	(8)	50	5	103	150
Total income	1,160	2,266	431	103	3,960
Policyholders claims and benefits					
Insurance claims and loss adjustment expenses	(835)	(1,393)	(256)	-	(2,484)
Insurance claims and loss adjustment expenses recoverable from reinsurers	10	9	4	-	23
Other expenses					
Other net realised losses					
Insurance contract acquisition expenses	(142)	(551)	(78)	-	(771)
Marketing and administration expenses	(105)	(161)	(27)	(1)	(294)
Cost of asset management services	(2)	(10)	(3)	(1)	(16)
Other operating expenses	(6)	(27)	(4)	(104)	(141)
Operating result	80	133	67	(3)	277
Underwriting result (footnote1)	46	(73)	26	(2)	(3)
Net investment result (footnote 2)	34	206	41	(1)	280
Operating result	80	133	67	(3)	277
Finance costs	-	-	-	(10)	(10)
Gain on disposal	-	-	-	-	-
Profit/(loss) before tax	80	133	67	(13)	267
Income tax expense	(17)	(44)	(11)	1	(71)
Profit/(loss) for the year attributable to equity shareholders of the Company	63	89	56	(12)	196
Other segment items included in the income statement:					
Depreciation and amortisation expenses	7	13	3	-	23

Notes to tables

1. 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.
2. Net investment result comprises: investment income, net realised gains on available for sale financial asset investments, net fair value gains and losses on assets at fair value through income and expenses, and cost of asset management services; including exchange gains and losses, and non-insurance related income and expenses.

Notes to the financial statements continued

The segment assets and liabilities at 31 December 2014 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
Goodwill, intangible and deferred acquisition costs assets	229	425	28	-	682
Investments	690	4,357	967	-	6,014
Reinsurers share of insurance contract liabilities	7	150	22	-	179
Property, plant and equipment	24	19	14	-	57
Deferred Taxation	6	138	(1)	9	152
Receivables	190	(344)	57	1,896	1,799
Cash and cash equivalents	113	327	20	89	549
Total assets	**1,259**	**5,072**	**1,107**	**1,994**	**9,432**
Insurance contract liabilities	650	4,073	814	-	5,537
Other liabilities	341	617	168	270	1,396
Total liabilities	**991**	**4,690**	**982**	**270**	**6,933**
Capital expenditure	**1**	**3**	**3**	**-**	**7**

The segment assets and liabilities at 31 December 2013 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
Goodwill, intangible and deferred acquisition costs assets	226	443	28	-	697
Investments	634	3,931	1,118	-	5,683
Reinsurers share of insurance contract liabilities	5	155	21	-	181
Property, plant and equipment	25	24	14	-	63
Deferred Taxation	1	154	(5)	9	159
Receivables	182	(147)	61	1,996	2,092
Cash and cash equivalents	95	317	43	63	518
Total assets	1,168	4,877	1,280	2,068	9,393
Insurance contract liabilities	634	4,003	915	-	5,552
Other liabilities	308	600	109	266	1,283
Total liabilities	942	4,603	1,024	266	6,835
Capital expenditure	-	246	2	-	248

2. Segmental information – Geographical segments

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

	2014	2013
Net insurance revenue	**£m**	**£m**
UK	**3,170**	3,132
Republic of Ireland	**365**	382
Total income from insurance contracts	**3,535**	3,514

Notes to the financial statements continued

Total assets	2014 £m	2013 £m
UK	**8,196**	7,971
Republic of Ireland	**1,236**	1,422
Total assets	**9,432**	9,393

Capital expenditure	2014 £m	2013 £m
UK	**4**	246
Republic of Ireland	**3**	2
Total capital expenditure	**7**	248

3. Net premium revenue

	2014 £m	2013 £m
Short-term insurance contracts		
- premium receivables	**3,681**	3,629
- change in unearned premium provision	**5**	36
Premium revenue arising from contracts issued	**3,686**	3,665
Short-term reinsurance contracts		
- premium payables	**(154)**	(193)
- change in unearned premium provision	**3**	42
Premium revenue ceded to reinsurers on insurance contracts issued	**(151)**	(151)
Net premium revenue	**3,535**	3,514

4. Investment income

December 2014 £m	Net investment income	Net realised gains and losses relating to investments at cost and at fair value through shareholders' equity	Net realised gains and losses and change in fair value of other investments at fair value through profit and loss	Change in investments impairment	Total
Investment in real estate property at amortised cost	6	-	-	7	**13**
Debt instruments – available for sale	191	-	-	-	**191**
Debt instruments – available for sale in hedging relationship	-	16	42	8	**66**
Equity instruments – available for sale	10	7	-	(37)	**(20)**
Non-consolidated investment funds	17	1	23	-	**41**
Non-consolidated investment funds available for sale	*4*	*1*	-	-	**5**
Non-consolidated investment funds designated as at fair value through profit or loss	*13*	-	*23*	-	**36**
Loans at cost	18	1	-	-	**19**
Derivative instruments	7	-	(110)	-	**(103)**
Cash and cash equivalents	1	-	-	-	**1**
Other	1	-	-	-	**1**
TOTAL INCOME	**251**	**25**	**(45)**	**(22)**	**209**
Investment management expenses	(15)	-	-	-	**(15)**
Finance costs (note 10)	(10)	-	-	-	**(10)**
NET INVESTMENT RESULT	**226**	**25**	**(45)**	**(22)**	**184**

Notes to the financial statements continued

£m	Net investment income	Net realised gains and losses relating to investments at cost and at fair value through shareholders' equity	Net realised gains and losses and change in fair value of other investments at fair value through profit and loss	Change in investments impairment	Total
	December 2013				
Investment in real estate property at amortised cost	-	-	-	4	4
Debt instruments – available for sale	186	3	-	-	189
Debt instruments – available for sale in hedging relationship	-	-	(54)	-	(54)
Equity instruments – available for sale	13	12	-	6	31
Non-consolidated investment funds	7	-	(13)	4	(2)
Non-consolidated investment funds available for sale	*3*	-	-	*4*	*7*
Non-consolidated investment funds designated as at fair value through profit or loss	*4*	-	*(13)*	-	*(9)*
Loans at cost	21	-	-	-	21
Derivative instruments	6	-	97	-	103
Cash and cash equivalents	1	-	-	-	1
Other	3	-	-	-	3
TOTAL INCOME	237	15	30	14	296
Investment management expenses	(16)	-	-	-	(16)
Finance costs (note 10)	(10)	-	-	-	(10)
NET INVESTMENT RESULT	211	15	30	14	270

5. Other operating income

	2014 £m	2013 £m
Other income from non-insurance business	**55**	47
Foreign exchange gains	**36**	-
Recharge of expenses to immediate parent company	**48**	62
Recharge of expenses to fellow subsidiary undertakings	**50**	41
Other operating income	**189**	150

6. Other operating expenses

	2014 £m	2013 £m
Other expenses from non-insurance business	**10**	13
Foreign exchange losses	**-**	25
Expenses incurred by Service Company recharged	**98**	103
Other operating expenses	**108**	141

Notes to the financial statements continued

7. Policyholder claims and benefits

	2014 £m	2013 £m
Insurance claims and loss adjustment expenses:		
Gross claims paid	**2,356**	2,310
Gross changes in insurance contract liabilities for claims	**145**	174
Unrealised movement in derivatives	**2**	-
	2,503	2,484
Insurance claims and loss adjustment expenses recoverable:		
Reinsurers' share of:		
Claims paid	**(33)**	(24)
Change in insurance contract liabilities for claims	**4**	1
	(29)	(23)
Net policyholder claims and benefits	**2,474**	2,461

Policyholder claims and benefits are stated after the impact of associated fair value movements on derivative instruments of £(1.5)m (2013: £0.7m).

8. Other expenses by destination

	2014 £m	2013 £m
Movement in advanced commission payments (note 16)	**5**	4
Amortisation of deferred acquisition costs (note 17)	**(3)**	11
Costs incurred for the acquisition of insurance contracts expensed in the year	**749**	761
Attributable to reinsurers	**1**	(5)
Total expenses for the acquisition of insurance contracts	**752**	771

	2014 £m	2013 £m
Marketing and administrative expenses	**324**	271
Depreciation of property, plant and equipment	**9**	8
Amortisation of software development costs	**12**	15
Amortisation of intangible assets	**3**	-
Total marketing and administrative expenses	**348**	294

The operating lease payments recognised as an expense during the year were £12m (2013: £12m).

Notes to the financial statements continued

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

	2014 £000	2013 £000
Audit services:		
- Fees payable to the Group's auditor for the audit of the statutory accounts	**59**	33
- Fees payable to the Group's auditor for the audit of its subsidiaries:	**930**	1,016
Non-audit services:		
Audit related assurance services, including the audit of the regulatory return and extended assurance	**90**	70
Mazars	**90**	66
PwC	**-**	4
	1,079	1,119

Non-audit services principally include fees relating to group and regulatory reporting, and other services pursuant to the review of internal financial controls.

9. Employee benefit expense

	2014 No	2013 No
Monthly average number of employees in the year were:		
- Healthcare	**2,974**	2,842
- Property & Casualty UK	**4,332**	4,215
- Property & Casualty R of I	**1,054**	1,002
	8,360	8,059

	2014 £m	2013 £m
Wages and salaries	**299**	287
Social security costs	**34**	26
Pension costs - defined contribution plans (note 32)	**34**	24
Pension costs - defined benefit plans (note 32)	**76**	27
	443	364

10. Finance costs

	2014 £m	2013 £m
Interest expense:		
- unsecured company bonds	**10**	10
Finance costs	**10**	10

11. Income tax expense

	2014 £m	2013 £m
Current tax		
Current tax on profits for the year	**27**	35
Adjustments in respect of previous years	**5**	1
Total current tax	**32**	36
Deferred tax (note 31)		
Origination and reversal of timing differences	**14**	39
Adjustments to deferred tax assets arising in previous periods	**(1)**	(4)
Total deferred tax	**13**	35
Income tax charge	**45**	71

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:

	2014 £m	2013 £m
Profit before tax	**226**	267
Tax at the UK rate of 21.5% (2013: 23.25%)	**48**	62
Effects of:		
- tax calculated at domestic tax rates applicable to profits in the respective countries	**(3)**	(6)
- income not subject to tax	**(2)**	(2)
- disposal of subsidiary undertakings		-
- change in UK tax rate to 20% (2013: 23%)	**(2)**	21
- adjustments to tax charge in respect of previous periods	**4**	(4)
Tax charge for the period	**45**	71

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 23% to 21% (effective from 1 April 2014) and from 21% to 20% (effective from 1 April 2015) that were enacted in Finance Act 2013, the relevant deferred tax balances have been re-measured on this basis. The impact included in the tax charge for the year is a charge of £(2)m (2013: £21m).

The tax charge relating to components of Other Comprehensive Income is as follows:

	2014			2013		
	Before tax £m	Tax charge £m	After tax £m	Before tax £m	Tax credit £m	After tax £m
Remeasurement gains/(losses) on defined benefit schemes	**(87)**	**11**	**(76)**	9	-	9
Fair value movement on available for sale financial assets	**32**	**(6)**	**26**	-	-	-
Other comprehensive income	**(55)**	**5**	**(50)**	9	-	9
Deferred tax charge/(credit)		**5**			-	

Notes to the financial statements continued

12. 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.

	2014	**2013**
Profit attributable to the Company's equity holders (£m)	**181**	196
Weighted average number of ordinary shares in issue ('000)	**1,059,786**	1,059,786
Basic earnings per share (pence per share)	**17.08**	18.49

Diluted

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

13. Dividends

On the 10 April 2014, the directors recommended that an interim dividend of £168m should be paid (2013: £nil).

14. Property, plant and equipment

	Land and buildings £m	Motor vehicles £m	Plant and Equipment £m	Total £m
Cost				
Balance as at 1 January 2014	76	2	39	117
Additions at cost	1	1	2	4
Exchange and other movements	(1)	-	-	(1)
Balance as at 31 December 2014	**76**	**3**	**41**	**120**
Accumulated depreciation				
Balance as at 1 January 2014	33	-	21	54
Charge for the year	5	-	4	9
Balance as at 31 December 2014	**38**	**-**	**25**	**63**
Net book value as at 31 December 2014	**38**	**3**	**16**	**57**

	Land and buildings £m	Motor vehicles £m	Plant and Equipment £m	Total £m
Cost				
Balance as at 1 January 2013	77	2	28	107
Additions at cost	-	1	4	5
Acquisitions	-	-	5	5
Disposals	(1)	(1)	-	(2)
Exchange and other movements	-	-	2	2
Balance as at 31 December 2013	76	2	39	117
Accumulated depreciation				
Balance as at 1 January 2013	32	-	14	46
Charge for the year	2	-	7	9
Disposals	(1)	-	-	(1)
Balance as at 31 December 2013	33	-	21	54
Net book value as at 31 December 2013	43	2	18	63

Notes to the financial statements continued

Depreciation expense of £9m (2013: £9m) 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 5 years; and Equipment is 5 years.

The freehold properties were valued at £40m as at 31 December 2014 (2013: £46m) on a fair value basis by Lambert Smith Hampton, who are independent chartered surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

15. Investment properties

	2014 £m	2013 £m
Cost		
Balance as at 1 January	192	189
Additions at cost	-	3
Balance as at 31 December	**192**	192
Accumulated depreciation and impairment		
Balance as at 1 January	66	67
Impairment movement	(7)	(3)
Charge for the year	2	2
Balance as at 31 December	**61**	66
Net book value as at 31 December	**131**	126

The properties were valued at £153m (£158m at 31 December 2013) on a fair value basis by Lambert Smith Hampton or by CB Richard Ellis, who are independent chartered surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

The rental income arising from investment properties amounted to £9m (2013: £10m), whilst the associated operating expenses were £1m (2013: £1m). Both amounts, including the amortisation charge, are recorded in the statement of profit or loss within investment income.

16. Goodwill and intangible assets

	Goodwill £m	Software Development £m	Advance Commission £m	Other Intangibles £m	Total £m
Cost					
Balance as at 1 January 2014	361	97	145	30	633
Additions at cost	-	3	-	-	3
Acquisitions	-	-	-	-	-
Transfers / Disposals	-	-	-	-	-
Balance as at 31 December 2014	**361**	**100**	**145**	**30**	**636**
Accumulated amortisation and impairment					
Balance as at 1 January 2014	-	77	132	18	227
Charge for the year	-	12	5	3	20
Balance as at 31 December 2014	-	**89**	**137**	**21**	**247**
Net book value as at 31 December 2014	**361**	**11**	**8**	**9**	**389**

Notes to the financial statements continued

	Goodwill	Software Development	Advance Commission	Other Intangibles	Total
	£m	£m	£m	£m	£m
Cost					
Balance as at 1 January 2013	163	86	155	25	429
Additions at cost	-	3	1	-	4
Acquisitions	198	10	-	5	213
Transfers / Disposals	-	(2)	(11)	-	(13)
Balance as at 31 December 2013	361	97	145	30	633
Accumulated amortisation and impairment					
Balance as at 1 January 2013	-	62	139	14	215
Charge for the year	-	15	(7)	4	12
Balance as at 31 December 2013	-	77	132	18	227
Net book value as at 31 December 2013	361	20	13	12	406

a) **Goodwill** relates to the acquisitions of the AXA PPP healthcare group plc, SecureHealth (Holdings) Limited, ICAS International Holdings Limited, Health and Protection Solutions Limited (previously Independent Sales Force Solutions Limited), Health On-line Company UK Limited and GBI Holdings. The goodwill has been allocated between the healthcare and direct business cash generating units, £163m and £198m, respectively. The value-in-use was calculated through cash flow projections based on business plans approved by management covering a three to five year period and a risk adjusted discount rate of 9.0%. Cash flows beyond that period were extrapolated using a steady 2% growth rate and terminal value. The key assumptions used in the cash flow projections are the increases in premiums, claims and expenses. These assumptions were determined based on historical rates.

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

b) **Software development** is all internally developed, with a useful life ranging from five to ten years. A review of the carrying value of assets identified for capitalisation relating to projects which were no longer being actively pursued and which would not support business generation. This resulted in exceptional amortisation being charged within the year.

c) **Advance commissions** represent separate payments to intermediaries, with useful lives ranging from two to three years, in respect of future business. An annual impairment review resulted in no impairment being required (2013: £nil). The prior year value has been restated by £11m on the basis this represented advance commission attributable to Swiftcover. Following the transfer of the trade and assets of Swiftcover Insurance Services Limited to subsidiary company, AXA Insurance UK plc in 2013, the commission has been reclassified to deferred acquisition costs.

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 £nil (2013: £nil).

17. Deferred acquisition costs

	2014	2013
	£m	£m
Deferred acquisition costs as at 1 January	**291**	303
Exchange and other movements	(1)	-
(Charge)/credit to income statement in the year:	**3**	(12)
Acquisition costs deferred during the year	**668**	714
Amortisation charged during the year	**(665)**	(726)
Deferred acquisition costs as at 31 December	**293**	291

Notes to the financial statements continued

18. Investments in subsidiaries

Particulars of principal subsidiary undertakings

	Country of incorporation or registration	Holdings of ordinary shares	
Insurance companies			
AXA Insurance UK plc	England	100%	
AXA PPP healthcare limited	England	100%	
AXA Insurance Limited	Ireland	100%	
Other companies			
AXA Insurance plc	England	100%	(Parent)
AXA General Insurance Limited	England	100%	
AXA Holdings Ireland Limited	Ireland	100%	
AXA PPP healthcare group plc	England	100%	(Parent)
AXA Services Limited	England	100%	(Parent)
Health On-line Company UK Limited	England	100%	
ICAS International Holdings Limited	England	100%	
SecureHealth (Holdings) Limited	England	100%	

Notes:

1. The country of principal operation for each of the above companies is the country of incorporation.
2. All holdings of ordinary shares are held by a subsidiary unless stated parent.

19. Investment in financial assets

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

	2014 £m	2013 £m
Available for sale	**4,975**	4,955
Fair value through income	**578**	365
Held for trading	**58**	75
Designated	**520**	290
Derivatives in hedge relationships	**1**	22
Held to maturity - AXA UK plc 2017 5.75% bonds	**100**	100
Loans	**229**	115
Total financial assets	**5,883**	5,557

Available for sale financial assets	2014 £m	2013 £m
Equity securities:		
- listed	**245**	285
- unlisted	**2**	-
Debt securities:		
- listed	**4,589**	4,374
- unlisted	**87**	228
Mutual funds:		
- listed	**27**	43
- unlisted	**25**	25
Total available for sale financial assets	**4,975**	4,955

Notes to the financial statements continued

Loans	2014 £m	2013 £m
Broker loans	9	9
Real estate and other private loans	220	106
Total loans	229	115

Derivative financial instruments and hedging

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

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

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

As of 31 December 2014, the notional amount of all derivative instruments totalled £7,667m (£9,989m at the end of 2013). Their net fair value as of 31 December 2014 totalled £(33)m (£39.0m at the end of 2013).

Instruments qualifying for hedge accounting

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

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

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

Notes to the financial statements continued

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

Derivative financial instruments	2014 Contractual / Notional Amount £m	2014 Asset £m	2014 Liability £m	2013 Contractual / Notional Amount £m	2013 Asset £m	2013 Liability £m
Interest Rate Swaps	1,073	1	(39)	1,475	22	(11)
Inflation Swaps				-	-	-
Total	**1,073**	**1**	**(39)**	1,475	22	(11)

Gains/(losses) on fair value hedges	2014 £m	2013 £m
Hedged items attributable to interest rate risk	**42**	(50)
Hedging instruments – macro	**(43)**	42
Hedging instruments – micro	**(9)**	6
	(10)	(2)

Instruments not qualifying for hedge accounting

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

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

	2014 Contractual / Notional Amount £m	2014 Asset £m	2014 Liability £m	2013 Contractual / Notional Amount £m	2013 Asset £m	2013 Liability £m
Foreign Exchange Forwards	**1,859**	**9**	**(22)**	1,506	19	(3)
Credit Default Swaps	**347**	**1**	**(2)**	2,647	13	(12)
Currency Swaps	**152**	**1**	**-**	741	7	(2)
Interest Rate Swaps	**1,093**	**32**	**(14)**	1,285	14	(17)
Options	**79**	**2**	**-**	160	3	-
OTC Equities	**407**	**2**	**(3)**	977	13	(8)
Swaptions	**2,653**	**11**	**(11)**	184	2	(1)
Futures	**(7)**	**-**	**-**	169	2	(1)
Return swaps	**11**	**-**	**(1)**	124	2	(3)
Total	**6,594**	**58**	**(53)**	7,793	75	(47)

20. Reinsurers' share of insurance contract liabilities

	2014 £m	2013 £m
Reinsurers' share of insurance contract liabilities		
Reinsurers' share of provision for claims outstanding and loss adjustment expenses	**115**	120
Reinsurers' share of provision for unearned premiums	**64**	61
Reinsurers' share of insurance contract liabilities	**179**	181

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

	2014	2013
Settlement period for reinsurers' share of claims outstanding and long-term insurance contract liabilities		
Less than 12 months	**22**	12
Greater than 12 months	**93**	108
	115	120

Notes to the financial statements continued

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

	2014 £m	2013 £m
Balance as at 1 January	**120**	122
Reinsurers' share of claims payments made in year	**(33)**	(24)
Increase in recoverables	**29**	23
Exchange and other movements	**(1)**	(1)
Balance as at 31 December	**115**	120

Reinsurers' share of provision for unearned premiums

	2014 £m	2013 £m
Balance as at 1 January	**61**	19
Premiums written in the year	**154**	193
Premiums earned in the year	**(151)**	(151)
Balance as at 31 December	**64**	61

21. Insurance and reinsurance receivables

	2014 £m	2013 £m
Direct and reinsurance inwards insurance receivables	**1,175**	1,164
Reinsurance receivables (ceded only)	**33**	17
Total insurance and reinsurance receivables due within one year	**1,208**	1,181

22. Other receivables

	2014 £m	2013 £m
Accrued interest	**8**	7
Prepayments and accrued income	**12**	9
Amounts due from ultimate parent company	**4**	4
Loans due from immediate parent company	**318**	624
Other amounts due from intermediate parent company	**97**	118
Amounts due from fellow subsidiary undertakings	**34**	33
Other receivables	**118**	116
Total other receivables	**591**	911
Expected to be recovered in less than one year	**508**	825
Expected to be recovered in more than one year	**83**	86

Amounts expected in more than one year comprise a three year term Euro 85m 1.21% fixed rate loan and a three year term Euro 19m 1.21% fixed rate loan, maturing in 2016 between the Group and an intermediate parent company, AXA UK plc.

No interest is charged on other intercompany loans.

Notes to the financial statements continued

23. Cash and cash equivalents

	2014 £m	2013 £m
Cash at bank and in hand	**254**	273
Short-term deposits	**295**	245
Cash and cash equivalents	**549**	518

The principal balance within the short-term deposits is a controlled sterling cash mutual fund investment, which has an average maturity of 43 days (2013: 50 days). The fund invests in certificates of deposit, commercial paper, bonds, floating rate note, derivatives and United Kingdom treasury bills.

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

	2014 £m	2013 £m
Cash and cash equivalents	**549**	518
Bank overdrafts	**(13)**	-
	536	518

24. Ordinary share capital

	2014		2013	
	Shares	£m	Shares	£m
Issued and fully paid ordinary shares of 5.25p each	**1,059,785,981**	**56**	1,059,785,981	56

Share premium account	2014 £m	2013 £m
Balance as at 31 December	**523**	523

25. Other Reserves

2014	Capital reserve £m	Capital redemption reserve £m	Capital contribution reserve £m	Revaluation reserve £m	Translation reserve £m	Total £m
Balance as at 1 January	104	189	271	261	20	**845**
Fair value gain on available for sale financial assets	-	-	-	32	-	**32**
Tax on movements in Statement of Other Comprehensive Income - deferred	-	-	-	(6)	-	**(6)**
- current	-	-	-	-	-	**-**
Exchange on revaluation of subsidiary net assets	-	-	-	-	(23)	**(23)**
Capital contribution	-	-	-	-	-	**-**
Balance as at 31 December	**104**	**189**	**271**	**287**	**(3)**	**848**

Notes to the financial statements continued

2013	Capital reserve £m	Capital redemption reserve £m	Capital contribution reserve £m	Revaluation reserve £m	Translation reserve £m	Total £m
Balance as at 1 January	104	189	46	294	7	640
Fair value loss on available for sale financial assets	-	-	-	(41)	-	(41)
Tax on movements in Statement of Other Comprehensive Income - deferred	-	-	-	8	-	8
- current	-	-	-	-	-	-
Exchange on revaluation of subsidiary net assets	-	-	-	-	13	13
Capital contribution	-	-	225	-	-	225
Balance as at 31 December	104	189	271	261	20	845

The capital reserve represents share premium paid on ordinary shares of GRE Assurance plc and share premium paid on options exercised to subscribe for ordinary shares under the employee share option scheme.

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 and 2013, from the immediate parent AXA UK plc.

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

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

Movements in revaluation reserve for available for sale investments

	2014 £m	2013 £m
Balance as at 1 January	**261**	294
Investments purchased in prior accounting periods		
Transfer to income statement following sale	**40**	(33)
Transfer to income statement following increase in impairment	**(32)**	2
Transfer to income statement following changes in premium/discount	**13**	11
Adjustments in current accounting period	**94**	7
Adjustments to investments purchased in the current accounting period	**(83)**	(28)
Revaluation gains/(losses) of available for sale financial assets	**32**	(41)
Tax	**(6)**	8
Balance as at 31 December	**287**	261

26. Insurance contract liabilities

	2014 £m	2013 £m
Provision for claims outstanding and loss adjustment expenses	**3,891**	3,893
Provision for unearned premiums	**1,646**	1,659
Total insurance contract liabilities	**5,537**	5,552
Settlement period for claims outstanding		
Less than 12 months	**1,338**	1,019
Greater than 12 months	**2,553**	2,874
	3,891	3,893

Notes to the financial statements continued

Provision for claims outstanding and loss adjustment expenses

	2014 £m	2013 £m
Balance as at 1 January	**3,893**	3,813
Total claims payments made in the year	**(2,356)**	(2,310)
Increase in liabilities	**2,391**	2,374
Exchange and other movements	**(37)**	16
Balance as at 31 December	**3,891**	3,893

Provision for unearned premiums

	2014 £m	2013 £m
Balance as at 1 January	**1,659**	1,692
Premiums written in the year	**3,681**	3,629
Premiums earned in the year	**(3,686)**	(3,665)
Exchange and other movements	**(8)**	3
Balance as at 31 December	**1,646**	1,659

Discounting

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

	Rate		Mean term of liabilities	
	2014 %pa	2013 %pa	2014 Years	2013 Years
Periodic Payment basis	**4.5**	4.25	**34**	30

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

The period of time which will elapse before the liabilities are settled has been estimated by reference to medical experts' reports during claim settlement and Ogden 7 tables view of life expectancy on a claim by claim basis. The assets held in respect of reinsurers' share of insurance contract liabilities have also been discounted in respect of periodic payment order claims.

Total outstanding claims provision before discounting was £4,774m (2013: £4,004m).

Claims development tables

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

Notes to the financial statements continued

Accident year - Gross	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	Total £m
Estimate of ultimate claims costs:											
- at end of accident year	1,841	1,974	2,317	2,294	2,457	2,514	2,431	2,521	2,414	2,495	
- one year later	1,942	2,184	2,539	2,545	2,702	2,677	2,528	2,656	2,500	-	
- two years later	1,827	2,064	2,395	2,407	2,649	2,582	2,446	2,608	-	-	
- three years later	1,690	2,005	2,346	2,399	2,632	2,555	2,413	-	-	-	
- four years later	1,676	1,965	2,322	2,392	2,620	2,520	-	-	-	-	
- five years later	1,624	1,953	2,315	2,351	2,603	-	-	-	-	-	
- six years later	1,599	1,939	2,304	2,345	-	-	-	-	-	-	
- seven years later	1,596	1,956	2,304	-	-	-	-	-	-	-	
- eight years later	1,595	1,940	-	-	-	-	-	-	-	-	
- nine years later	1,594	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims	1,594	1,940	2,304	2,345	2,603	2,520	2,413	2,608	2,500	2,495	23,322
Cumulative payments to date	1,521	1,860	2,270	2,329	2,531	2,372	2,172	2,164	1,946	1,436	20,601
Liability recognised in the balance sheet	73	80	34	16	72	148	241	444	554	1,059	2,721
Liability in respect of prior years											1,170
Total liability included in the balance sheet											**3,891**

Accident year - Net	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	Total £m
Estimate of ultimate claims costs:											
- at end of accident year	1,785	1,936	2,298	2,274	2,419	2,491	2,404	2,469	2,395	2,466	
- one year later	1,893	2,150	2,517	2,527	2,664	2,658	2,512	2,610	2,484	-	
- two years later	1,778	2,029	2,366	2,392	2,612	2,565	2,431	2,566	-	-	
- three years later	1,645	1,927	2,317	2,386	2,596	2,535	2,398	-	-	-	
- four years later	1,610	1,886	2,294	2,379	2,579	2,499	-	-	-	-	
- five years later	1,585	1,879	2,287	2,339	2,561	-	-	-	-	-	
- six years later	1,561	1,865	2,276	2,336	-	-	-	-	-	-	
- seven years later	1,561	1,881	2,276	-	-	-	-	-	-	-	
- eight years later	1,559	1,867	-	-	-	-	-	-	-	-	
- nine years later	1,559	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims	1,559	1,867	2,276	2,336	2,561	2,499	2,398	2,566	2,484	2,466	23,012
Cumulative payments to date	1,499	1,840	2,255	2,318	2,501	2,357	2,164	2,128	1,932	1,413	20,407
Liability recognised in the balance sheet	60	27	21	18	60	142	234	438	552	1,053	2,605
Liability in respect of prior years											1,171
Liability net of reinsurance included in the balance sheet											**3,776**

Notes to the financial statements continued

27. Insurance and reinsurance liabilities

	2014 £m	2013 £m
Direct and reinsurance inwards insurance liabilities	**316**	329
Reinsurance liabilities (ceded only)	**80**	61
Total insurance and reinsurance liabilities	**396**	390

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

28. Borrowings

	2014 £m	2013 £m
Bank overdrafts	**13**	-
Listed unsecured 6 5/8% Company bonds repayable 2023	**149**	148
Total borrowings	**162**	148

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

	Carrying value		Fair value	
	2014 £m	2013 £m	2014 £m	2013 £m
Short term borrowings	**13**	-	**13**	-
Debentures and other loans	**149**	148	**202**	186
	162	**148**	**215**	**186**

Short term borrowings are payable within one year of the statement of financial position date. Debentures and other loans are payable more than one year after the statement of financial position date.

29. Provisions for other liabilities and charges

	MIB provision £m	Vacant space provision £m	Other provisions £m	Total £m
Balance as at 1 January 2014	26	26	27	**79**
Charged to income statement	26	-	18	**44**
Utilised during year	(26)	(8)	(13)	**(47)**
Balance as at 31 December 2014	**26**	**18**	**32**	**76**

	2014 £m	2013 £m
To be settled within 12 months	**61**	67
To be settled after 12 months	**15**	12
	76	79

a) The **MIB provision** relates to the levy payable in respect of 2014 premiums and covers both the UK Motor Insurers' Bureau and the Motor Insurers' Bureau of Ireland. The levy is assessed on 2014 premiums and information available from the MIB at the time.

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

c) **Other provisions** include provisions for liabilities arising from the reorganisation of the business and a levy relating to the London Metropolitan Fire Brigade.

30. Other liabilities

	2014 £m	2013 £m
Accruals and deferred income	**221**	234
Amounts due to immediate parent company	**12**	37
Amounts due to fellow subsidiary undertakings	**-**	1
Social security and other tax payments	**57**	73
Other liabilities	**107**	97
Net asset value attributable to unit holders	**89**	63
Total other liabilities	**486**	505

Estimated fair values are the amounts recorded at year-end and are payable within one year of the Statement of Financial Position date. Amounts attributable to unit holders incorporates £89m (2013: £58m) of the sterling cash mutual fund, which are repayable on demand and the Group is responsible for ensuring there is sufficient liquidity within the corresponding asset portfolio to enable the liability to be met as it falls due.

31. Deferred taxation

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.

	2014 £m	2013 £m
Balance as at 1 January	**160**	186
Income statement charge (note 11)	**(13)**	(35)
Tax credit to statement of other comprehensive income (note 25)	**6**	7
Deferred tax assets held in acquired subsidiary	**-**	2
Exchange differences	**(1)**	(1)
Balance as at 31 December	**152**	159

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 31 December 2014 was £152m (2013: £159m).

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 2014	12	164	**176**
Income statement charge (note 11)	-	(22)	**(22)**
Retained earnings	11	-	**11**
Balance as at 31 December 2014	**23**	**142**	**165**

Deferred income tax assets are recognised for tax losses carried forward 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 £22m (2013: £22m) in respect of losses amounting to £109m (2013: £109m) that can be carried forward against specific categories of future taxable income.

Notes to the financial statements continued

Deferred tax liabilities

	Unrealised appreciation of investments £m	Equalisation reserve £m	Other short-term timing differences £m	Total £m
Balance as at 1 January 2014	14	29	(27)	**16**
Income statement (charge)/credit (note 11)	(3)	1	(7)	**(9)**
Revaluation reserve	6	-	-	**6**
Balance as at 31 December 2014	**17**	**30**	**(34)**	**13**

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

	2014 £m	2013 £m
Retained earnings: retirement obligations	**11**	(1)
Revaluation reserve: financial assets	**(6)**	8
	5	7

32. 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. On 31 August 2013 the AXA UK Pension Scheme closed to future accrual and all remaining active members moved to deferred status and had the option to participate in the defined contribution sections.

An independent actuarial review by Towers Watson of the defined benefit scheme evaluated a deficit of £542m as at 31 December 2014 (£540m as at 31 December 2013) before taking account of any tax relief. This represents a snapshot of the present cost of meeting pension obligations that will crystallise over a period of many years. The Scheme invests in a wide range of assets, including equities, which over the long term, are expected by the Directors to produce higher returns than those underlying the assessment of the deficit as at 31 December 2014.

The AXA UK Group made additional contributions totalling £82m (2013: £77m) to the Scheme, in accordance with the ten year recovery plan to reduce the deficit and to ensure that the Statutory Funding Objective is met. The appropriate level of contributions to be paid under the recovery plan are based on the actuarial valuation performed every three years, however, these may change more frequently if significant events occur in the year. These contributions have been charged to the underlying operating companies based on a management allocation. Companies within this consolidation paid £73m (2013: £17m) 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.

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

Notes to the financial statements continued

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

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

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

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

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

Analysis of assets by category

	2014 £m	2013 £m
Equities	**84**	87
Debt securities	**2,413**	1,457
Government	**1,480**	713
Government related	**123**	92
Corporate	**716**	494
Other	**94**	158
Property	**245**	204
Other assets	**1,299**	1,835
Derivatives	**31**	519
Loans	**27**	-
Cash	**74**	304
Investment funds	**1,167**	1,012
Fair value of plan assets as at 31 December	**4,041**	3,583

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

Other defined benefit pension schemes

a) *The Group operates the AXA Unapproved Top-up Scheme which is a defined benefit scheme.* The scheme is an unfunded arrangement and therefore no company contributions were paid during the accounting period or are to be paid in the future. However, the Group has paid the current pensions in payment over the year of £2m. The AXA Unapproved Top-up Scheme has been closed to new members since 1999.

Notes to the financial statements continued

b) A subsidiary of the Group offers certain healthcare benefits, on a non-contributory basis, to substantially all employees who were employed prior to June 1999, upon retirement. The expected costs of this benefit have been assessed in accordance with the advice of an independent qualified actuary as at 31 December 2014.

c) The Group's subsidiary in Ireland operates a contributory defined benefit scheme which provides benefits based on length of service and pensionable salary at retirement age. The pensions in payment and deferred pensions are updated in line with movements in the consumer price index. The scheme was closed to new membership at the end of 2005.

The defined benefit scheme assets are held in a separately administered fund and benefits are paid from the scheme assets. Assets are primarily invested in Bonds and Equities and the asset allocation is being moved to a liability driven investment strategy in order to hedge the interest rate risk on both an economic basis and on a minimum funding standard basis, a prescribed test set by the Irish Pensions regulator. The target allocation is 75% Bonds and 25% Equities.

The contributions are determined by Mercer, independent consulting actuaries on the basis of triennial valuations using the projected unit method. The most recent valuation for funding purposes was carried out as at 1 April 2014. The scheme has a funding proposal with the Irish Pensions regulator in order to meet the minimum funding standard by 2016. The employer contribution is £12m per annum until 2016 and after this date the payments will revert to a long term contribution rate of pensionable salaries for future service plus a contribution of £5m per annum to fund the past service deficit.

An independent actuarial review by Mercer, on which the amounts recognised in the financial statements are based, was carried out at 31 December 2014.

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:

	2014			2013		
	UK			UK		
	Top-up scheme	Healthcare scheme	Ireland	Top-up scheme	Healthcare scheme	Ireland
Discount rate	**3.8%**	**3.8%**	**2.2%**	4.6%	4.6%	3.9%
Future salary increases	**-**	**-**	**2.8%**	-	-	2.8%
Future pension increases	**2.7%**	**-**	**1.8%**	3.1%	-	1.8%
Inflation assumption	**1.9%**	**8.0%**	**1.8%**	2.3%	8.0%	1.8%
Life expectancy for pensioners at regular retirement age						
Male	29	24	27	29	24	27
Female	30	25	29	30	25	29

Mortality tables - UK schemes

The following tables were used for the actuarial review:

Mortality for male members is assumed to follow the standard SAPS Light tables applicable to each individual's year of birth with a 101% multiplier and no age rating. Future improvements in these mortality rates are in line with those applying from 2002 in accordance with the CMI 2011 Core projection Model, with a long term improvement rate of 1% pa.

Mortality for female members is assumed to follow the standard SAPS Light tables applicable to each individual's year of birth with a 103% multiplier and no age rating. Future improvements in these mortality rates are in line with those applying from 2002 in accordance with the CMI 2011 Core projection Model, with a long term improvement rate of 1% pa.

Notes to the financial statements continued

Mortality tables – Ireland scheme

The mortality tables used in valuing the liabilities were S2PMA/S2PFA with CMI 2013 (1.5%) – 2 year age rating. For prior year the following mortality tables were used:

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

All female members - 70% of PNFL00 with CSO mortality improvements from 2008 to the year of retirement and a -2 year age rating.

Pensions and other post-retirement obligations

The amounts recognised in the Statement of Financial Position are as follows:

	UK				
	Top-up scheme 2014 £m	Healthcare scheme 2014 £m	Ireland 2014 £m	Total 2014 £m	2013 £m
Present value of funded obligations	24	10	502	**536**	422
Fair value of plan assets:	-	-	(401)	**(401)**	(353)
Equities	-	-	(107)	**(107)**	(109)
Debt securities	-	-	(287)	**(287)**	(237)
Property	-	-	(3)	**(3)**	(3)
Cash	-	-	(4)	**(4)**	(4)
Net liability in the balance sheet	**24**	**10**	**101**	**135**	69

All investments are quoted in active markets. No properties included in plan assets are occupied by the Group.

The amounts recognised in the Statement of Profit or Loss are as follows:

	UK				
	Top-up scheme 2014 £m	Healthcare scheme 2014 £m	Ireland 2014 £m	Total 2014 £m	2013 £m
Current service cost	-	-	3	**3**	3
Plan amendment and curtailments	-	-	(2)	**(2)**	(1)
Total service cost	-	-	1	1	2
Interest cost	1	-	14	**15**	18
Interest income on plan assets			(13)	**(13)**	(14)
Total included within employee benefit expenses	**1**	**-**	**2**	**3**	**6**

The total cost recognised as an expense in the income statement for defined benefit schemes amounted to £76m in 2014 (2013: £27m). This represents £3m (2013: £6m) for the schemes reported on balance sheet and £73m (2013: £21m) for the AXA UK Merged scheme.

The amounts recognised in the Statement of Other Comprehensive Income are as follows:

Notes to the financial statements continued

	UK Top-up scheme 2014 £m	UK Healthcare scheme 2014 £m	Ireland 2014 £m	Total 2014 £m	2013 £m
Actual return on assets	-	-	72	**72**	20
less expected return on scheme assets	-	-	(13)	**(13)**	(14)
Experience gains on assets	-	-	59	**59**	6
Experience gains/ (losses) on liabilities	-	(3)	4	**1**	5
Change in demographic assumptions			(3)	**(3)**	-
Change in financial assumptions	-	(1)	(143)	**(144)**	(2)
Actuarial (losses) / gains on pension benefits	-	(4)	(83)	(87)	9

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

	UK Top-up scheme 2014 £m	UK Healthcare scheme 2014 £m	Ireland 2014 £m	Total 2014 £m	2013 £m
Present value of obligation as at 1 January	25	7	390	**422**	412
Exchange	-	-	(32)	**(32)**	9
Current service cost	-	-	3	**3**	3
Interest cost	1	-	14	**15**	18
Employee contributions	-	-	1	**1**	1
Plan ammendment and curtailment	-	-	(2)	**(2)**	(1)
Actuarial (losses)/gains	-	4	142	**146**	(3)
Benefits paid	(2)	(1)	(14)	**(17)**	(17)
Present value of obligation as at 31 December	**24**	**10**	**502**	**536**	422

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

	UK Top-up scheme 2014 £m	UK Healthcare scheme 2014 £m	Ireland 2014 £m	Total 2014 £m	2013 £m
Fair value of plan assets as at 1 January	-	-	353	**353**	312
Exchange	-	-	(27)	**(27)**	8
Return on plan assets	-	-	13	**13**	14
Employer contributions	-	-	16	**16**	27
Employee contributions	-	-	1	**1**	1
Benefits paid	-	-	(14)	**(14)**	(15)
Actuarial gains/ (losses)	-	-	59	**59**	6
Fair value of plan assets as at 31 December	**-**	**-**	**401**	**401**	**353**

Notes to the financial statements continued

History of experience gains and losses

	UK					
	Top-up scheme		Healthcare scheme		Ireland	
	2014	2013	2014	2013	2014	2013
Difference between expected and actual return on scheme assets:						
- amount - gain/(loss) £m	-	-	-	-	59	6
- percentage of scheme assets	-	-	-	-	14.7%	1.7%
Experience gains and losses on obligations:						
- amount - gain/(loss) £m		1	(3)	5	4	(1)
- percentage of the present value of the obligations		4.0%	(30.0)%	71.4%	0.8%	(0.3)%
Total amount recognised outside income statement:						
- amount - gain/(loss) £m	-	-	(4)	5	(83)	4
- percentage of the present value of the obligations	-	-	(40.0)%	71.4%	(16.5)%	1.0%

Estimated future benefits to be paid by the assets or the employer

The following payments are estimated future contributions and benefits to be paid in the future years out of the defined benefit plan obligation. The estimated payments are subject to uncertainty as they will be notably driven by economics of future years.

	2014 £m
2015	14
2016	14
2017	15
2018	16
2019	16
Between 5 years and 10 years	94
Beyond 10 years	922
Total estimated payments	1,091

The average duration of the defined benefit plan obligations at the end of the reporting period are 10 years, 13 years and 22 years for the Top up scheme, Healthcare scheme and Ireland scheme respectively.

Sensitivity analysis

The defined benefit plans are exposed to market investment risk, interest rate risk, inflationary risk and longevity risk. A decline in asset market values will immediately increase the balance sheet liability and a decrease in corporate bond yields will result in an increase in plan liabilities even if this effect will be partially offset by an increase in the asset value of debt securities. An increase in inflation rate or an increase in life expectancy will result in higher plan liabilities.

The sensitivity analysis for significant actuarial assumptions as at 31 December 2014 is shown below:

Notes to the financial statements continued

	Life expectancy	Discount rates	Inflation rates	Salary increase rate	Medical inflation rate
Impact on the net defined benefit obligation of					
0.5% increase		(54)	57	10	1
0.5% decrease		60	(50)	(9)	(1)
1 year increase measured at retirement age	16				
1 year decrease measured at retirement age	(16)				

The sensitivity analysis is performed on a plan by plan basis using the projected unit credit method and based on a change in an assumption whilst holding all other assumptions constant.

Estimated employer contributions

The estimated amount of 2015 employer contributions to be paid by Companies included within this consolidation for defined benefit schemes is £62m.

Defined contribution schemes

The cost of the contributions paid for defined contribution schemes was recognised as an expense in the statement of profit or loss and amounted to £34m in 2014 (2013: £24m).

33. Cash generated from operations

	2014 £m	2013 £m
Profit before tax and profit on disposal of operations	**226**	267
Depreciation and tangible fixed asset write-offs	**9**	10
Depreciation of investment properties	**2**	2
Amortisation of intangibles and impairments	**20**	12
Realised and unrealised investment (losses)	**(54)**	(37)
Unwinding of premium/discount paid on bonds	**18**	8
Impairment charge on available for sale investments	**43**	6
Impairment charge on investment properties	**1**	3
Change in insurance technical provisions	**50**	(19)
Change in other assets and liabilities	**(55)**	122
Interest expense	**10**	10
Interest income	**(242)**	(226)
Dividend income	**(27)**	(20)
Cash generated from operations	**1**	138

Notes to the financial statements continued

34. Related parties

The following transactions were carried out with related parties:

	Related Party	2014 £m	2013 £m
Income			
Gross written premiums	Fellow subsidiaries	**108**	106
Recharges of business services	Intermediate parent	**48**	62
	Fellow subsidiaries	**50**	41
Income on loans and debt securities	Ultimate parent	**1**	4
	Immediate parent	**6**	10
	Fellow subsidiaries	**7**	8
Total		**220**	231
Expenses			
Claims paid	Fellow subsidiaries	**80**	76
Claims handling	Fellow subsidiaries	**-**	1
Reinsurance premiums paid	Fellow subsidiaries	**143**	143
Acquisition costs	Fellow subsidiaries	**2**	7
Commissions paid	Fellow subsidiaries	**31**	37
Business services	Fellow subsidiaries	**81**	83
Interest on borrowings	Immediate parent	**-**	-
Total		**337**	347
Net settlement of prior years tax	Immediate parent	**-**	7
	Fellow subsidiaries	**-**	(13)

Related companies provide the IT and data processing services on behalf of the Group. Services are negotiated with related parties on a cost basis. Investment properties and investment asset portfolios are managed by related party companies.

Assets	Related party	2014 £m	2013 £m
Loans and bonds to related parties			
Investment bonds	Immediate parent	**101**	101
	Fellow subsidiary	**113**	104
Interest bearing loans	Immediate parent	**83**	87
Non interest bearing loans	Immediate parent	**238**	303
Insurance and reinsurance receivables	Fellow subsidiaries	**180**	137
Total		**715**	732

Liabilities	Related party	2014 £m	2013 £m
Insurance related creditors			
Outstanding claims	Fellow subsidiaries	**167**	104
Earned commissions	Fellow subsidiaries	**19**	9
Claims settlement costs	Fellow subsidiaries	**15**	12
Total		**201**	125

Summary of movements on loans and bonds:		
Opening balance	**595**	643
Additions during year	**113**	132
Repayments	**(173)**	(180)
Closing balance	**535**	595
Assets managed by fellow subsidiaries		
Available for sale investments	**4,247**	4,035
Fair value through P&L	**1,435**	1,369
Loans and receivables	**70**	104
Investment property	**131**	126
Total	**5,883**	5,634

The loans and receivables are unsecured and bear no interest except as disclosed in note 22. No provisions are held against receivables from related parties (2013: nil). Related party receivables and payables are disclosed in notes 22 and 30.

Key management compensation

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

The directors receive compensation by virtue of their employment with the AXA Group and this is paid by companies within the AXA Group. The total compensation to those employees classified as key management who have authority and responsibility for planning and controlling the activities of the Group, directly or indirectly, is as follows:

	2014 £'000	**2013 £'000**
Salary and other short-term benefits	**12,640**	13,238
Post-employment benefits	**550**	301
Share-based payments	**-**	883
Other long-term benefits	**2,858**	-
Termination benefits	**417**	-
Total	**16,465**	14,422

During the year, one member of the key management had an interest in a loan from AXA Insurance Limited. The outstanding balance of this loan at the end of the year was £110,322 (2013: £124,869).

Notes to the financial statements continued

35. Commitments

Capital commitments

As at 31 December 2014, the Group had outstanding capital commitments of £6m (2013: £nil) in respect of property owned by subsidiary PPP healthcare Limited.

Financial commitments

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

	2014 £m	2013 £m
Alternative credit fund (2014: €nil) (2013: €3.75m)	-	3
Debt fund (2014: $7.8m) (2013: $18m)	5	11
Mezzanine debt fund	9	37
Alternative credit fund (2014: $106.8m) (2013: $203.7m)	77	146

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:

	2014 £m	2013 £m
No later than 1 year	9	10
Later than 1 year and no later than 5 years	21	18
Later than 5 years	23	24
	53	52

Operating lease commitments – where a Group company is the lessor

The commitments relate to investment properties and are subject to rent reviews. The carrying amount of the associated assets is £131m (2013: £126m) shown within note 15.

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

	2014 £m	2013 £m
No later than 1 year	9	11
Later than 1 year and no later than 5 years	31	30
Later than 5 years	23	32
	63	73

Notes to the financial statements continued

36. 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.

	2014 £'000	2013 £'000
Aggregate emoluments excluding amounts receivable under long-term incentive schemes	**644**	517
Amounts receivable (excluding gains on exercise of share options and value of shares received) under long-term incentive schemes	**34**	16
Aggregate pension contributions:		
Defined contribution	**47**	32
Amounts attributable to highest paid director		
Aggregate emoluments	**369**	314
Defined contribution scheme pension:		
Pension contributions during the year	**27**	21

Retirement benefits are accruing to two directors (2013: two) under a defined contribution pension scheme.

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

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

No director exercised share options or employee sharesave options in AXA UK plc during the year (2013: 1).

Mr. B. Poupart-Lafarge was also a director of AXA UK plc, during the year and his emoluments, which relate to his services to the AXA Group as a whole, are disclosed in the financial statements of that company.

37. Contingent liabilities

With the approval of Prudential Regulation Authority, AXA Insurance plc, AXA Insurance UK plc and AXA PPP healthcare limited have entered into a mutual guarantee whereby each company guarantees payment of all liabilities incurred by the others in respect of general insurance business. AXA Insurance plc receives no benefit from the guarantee.

Notes to the financial statements continued

38. Events occurring after the reporting period

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

39. Immediate and ultimate parent

The Group's immediate parent is AXA UK plc, a company incorporated in Great Britain and registered in England and Wales.

The parent undertaking of the largest group which includes the Group 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.

Parent Company Independent Auditor's Report

Independent auditor's report to the members of Guardian Royal Exchange plc

We have audited the parent company financial statements of Guardian Royal Exchange plc (the 'Company') for the year ended 31 December 2014, which comprise the Parent Company Balance Sheet, the Parent Company 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, 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 is made solely to the company's members, as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

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

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 2014;
- 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 Strategic Report and 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
- 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.

Parent Company Independent Auditor's Report continued

Other matter

We have reported separately on the Group financial statements of Guardian Royal Exchange plc for the year ended 31 December 2014.

Andrew Goldsworthy (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London
E1W 1DD

29 April 2015

Registered Number 01821312

Parent Company Balance Sheet

as at 31 December 2014

	Note	2014 £m	2013 £m
Fixed assets			
Shares in subsidiary undertakings	1	1,942	1,942
Current assets			
Debtors	2	101	70
Creditors			
Amounts falling due within one year	3	(525)	(319)
Net current liabilities		(424)	(249)
Total assets less current liabilities		1,518	1,693
Creditors			
Amounts falling due after more than one year	4	(149)	(148)
Net assets		1,369	1,545
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	271	271
Profit and loss account	6	330	506
Total shareholders' funds	6	1,369	1,545

The separate financial statements on pages 86 to 89 were approved and authorised for issue by the Board of Directors on 29 April 2015 and were signed on its behalf by:

Waseem Malik

W. U. Malik
Director

Parent Company – Notes to the Financial Statements

I. Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 and have been prepared on a going concern basis, under the historical cost convention and in accordance with applicable UK accounting standards. The policies have been consistently applied to all years presented.

As permitted by section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements.

II. Investment income

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

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

III. Realised and unrealised investment gains and losses

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

IV. Valuation of investments

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

V. Deferred tax

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

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

VI. Foreign currencies

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

Parent Company – Notes to the Financial Statements continued

1. Shares in subsidiary undertakings

	2014 £m	2013 £m
Carrying value at 1 January	**1,942**	1,717
Capital contribution	-	225
Provision for impairment in value	-	-
Carrying value at 31 December	**1,942**	1,942

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

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

	Country of incorporation or registration	Holdings of ordinary shares	
Insurance companies			
AXA Insurance UK plc	England	100%	
AXA PPP healthcare limited	England	100%	
AXA Insurance Limited	Ireland	100%	
Other companies			
AXA Insurance plc	England	100%	(Parent)
AXA General Insurance Limited	England	100%	
AXA Holdings Ireland Limited	Ireland	100%	
AXA PPP healthcare group plc	England	100%	(Parent)
AXA Services Limited	England	100%	(Parent)
Health On-line Company UK Limited	England	100%	
ICAS International Holdings Limited	England	100%	
SecureHealth (Holdings) Limited	England	100%	

Notes:

1. The country of principal operation for each of the above companies is the country of incorporation.
2. All holdings of ordinary shares are held by a subsidiary unless stated parent as above.

2. Debtors-amounts falling due within one year

	2014 £m	2013 £m
Amounts owed by intermediate parent company	-	66
Amounts owed by subsidiary undertakings	**97**	2
Taxation	**4**	2
Total amounts falling due within one year	**101**	70

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

Parent Company – Notes to the Financial Statements continued

3. Creditors – amounts falling due within one year

	2014 £m	2013 £m
Amounts owed to intermediate parent company	**10**	34
Amounts owed to subsidiary undertakings	**511**	280
Other creditors	**4**	5
Total amounts falling due within one year	**525**	319

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

4. Creditors – amounts falling due after more than one year

	2014 £m	2013 £m
Non-bank loans over 5 years: listed unsecured 6 5/8% Company bonds repayable in 2023	**149**	148
Total amounts falling due after more than one year	**149**	148

5. Called up share capital

	2014 Shares	2014 £m	2013 Shares	2013 £m
Issued and fully paid ordinary shares of 5.25p each	**1,059,785,981**	**56**	1,059,785,981	56

Share premium account	2014 £m	2013 £m
Balance as at 31 December	**523**	523

6. Reconciliation of movements in shareholders' funds

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Capital contribution reserve £m	Profit and loss account £m	Total £m
Balance as at 1 January 2013	56	523	189	46	514	1,328
Profit for year	-	-	-	-	(8)	(8)
Capital Contribution	-	-	-	225	-	225
Balance as at 31 December 2013	**56**	**523**	**189**	**271**	**506**	**1,545**
Loss for year	-	-	-	-	**(8)**	**(8)**
Dividend	-	-	-	-	**(168)**	**(168)**
Balance as at 31 December 2014	**56**	**523**	**189**	**271**	**330**	**1,369**

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

The capital contribution reserve represents capital contributions received in 2003 and 2013, from its immediate parent, AXA UK plc.

On 10 April 2014, the company paid a dividend of £168m to its immediate parent, AXA UK plc.

Parent Company – Notes to the Financial Statements continued

7. Capital commitments

At 31 December 2014 contracts placed for future capital expenditure not provided in the financial statements amounted to £nil (2013: £nil).

8. Immediate and ultimate parent

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

The parent undertaking of the largest group which includes the Company and for which group financial statements are prepared is AXA. Copies of the AXA Group financial statements can be obtained from 23, avenue Matignon, 75008 Paris, France.

9. Related parties

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

No transactions arose with other companies in the ultimate parent company, AXA group (2013: £nil).

10. Cash flow statement

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

11. Directors' emoluments

The directors' emoluments are disclosed in note 36 of the Group consolidated financial statements.