Registered Number 01821312

# Guardian Royal Exchange plc

# 2017 Annual Reports and Financial Statements

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

# Contents

# Directors and Auditor

**Directors**

C. G. Bobby
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 2017.

**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 and gain on disposal of operations for the Group decreased by £54m to £272m (2016: £326m) in 2017, arising from a decrease of £54m in the net investment result to £180m (2016: £234m), whilst the underwiritng result remained static at £92m (2016: profit £92m).

The revaluation of available for sale investments produced a £nil return (2016: £153m gain) and is included in the consolidated Statement of Comprehensive Income.

During the year, gross revenue from insurance contracts increased by £211m to £4,341m (2016: £4,130m), as analysed below by business segment.

*Healthcare*

During the year, gross revenue from insurance contracts increased by £58m to £1,474m (2016: £1,416m). Revenue and customer numbers continue to grow, both in the UK and internationally.

*UK Property & Casualty*

During the year, gross revenue from insurance contracts has increased by £39m to £2,274m (2016: £2,235m). Gross revenue is on an earned basis, representing premiums written in the year, adjusted for the movement in unearned premium. Gross written premiums decreased in the year by £17m to £2,268m (2016: £2,285m), offset by positive movement in unearned premium of £56m to £6m (2016: £(50m)).

- Personal lines premiums are adverse to the prior year due to Household with a focus on improving profitability through targeted rating and underwriting actions.
- Commercial lines showed strong growth during 2017, with favourable performance across the portfolio, but particularly on Motor Fleet where market conditions have allowed strong tariff increases to be carried.
- Direct lines premiums reduced in comparison to the prior year. This reflected tariff increases in Motor implemented to focus on profitability and to mitigate the impact of increased injury costs more than offset by falling volumes.

*ROI Property & Casualty*

During the year, gross revenue from insurance contracts increased by £114m to £593m (2016: £479m). The increase in gross revenue was driven by favourable volume and price movements. The benefit of favourable premium was partially offset by increased claims costs and expenses.

# Strategic Report continued

The underwriting profit before tax and and gain on disposal of operations for the year is £92m (2016: profit £92m), as analysed below by business segment.

*Healthcare*

The underwriting profit before tax for the year was £83m (2016: profit £64m).
The performance in the year reflects increased revenue and customer numbers.

*UK Property & Casualty*

The underwriting loss before tax for the year is £(12)m (2016: Loss £(1)m).
The deterioration is driven by an increase in the loss ratio, due to the impact of the change in discount rate used to calculate lump sum payments in respect of bodily injury claims. There was a further deterioration due to adverse experience on Escape of Water and Theft perils within the Property classes, offset by relatively benign weather experience. An Unexpired Risk Provision has also been booked to recognise expected losses under an onerous contract.

*ROI Property & Casualty*

The underwriting profit before tax for the year is £22m (2016: Profit £33m).
The decrease includes operational exchange rate movements in both the current and prior year of £8m and £30m, respectively. The underwriting result excluding operational exchange gains is £14m profit before tax (2016: £2m profit before tax). The increase is driven by a significant uplift in premiums, partially offset by increased claims costs and expenses.

*Other*

The underwriting loss before tax for the year is £(1)m (2016: Loss £(4)m).

*Net investment result*

The net investment return for the year, recorded within the consolidated statement of profit or loss is a profit of £180m (2016: £234m) with further analysis in provided in note 4. The decrease in return compared to the prior year is driven by a number of decreases in investment gains across investment types, including a decrease in loan income due to an exceptional receipt in 2016 of £21m. In addition there has been a large fall in foreign exchange gains of £550m, which is primarily offset by a corresponding decrease in losses on derivatives of £526m, due to the foreign exchange forwards used to hedge the currency exposure. Prior year foreign currency movements were unusually large due to the Brexit vote in June.

The total investment return, including the revaluation of available for sale financial assets through the Statement of Other Comprehensive Income, has decreased by £194m to £178m (2016: £372m profit) and is driven primarily by the movement on revaluation gains on available for sale financial assets, which in 2017 was £nil movement, compared to a £153m gain in the prior year. The £nil movement in the year has resulted from a combination of gains and losses experienced across underlying subsidiaries due to market movements.

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 2017 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 which is consistent with the AXA Group global strategy, is to become the most trusted insurance partner to businesses, individuals and communities in the UK and Ireland by 2020.

Solid progress has been made in 2017 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:

| | **2017** | 2016 | |
|---|---|---|---|
| Gross written premium | **£4,391m** | £4,242m | Reflected in the net insurance revenue note (note 3) |
| Underwriting result | **£92m** | £92m | Result of insurance activities as shown in the segmental note (note 1) |
| Loss ratio | **67.7%** | 66.1% | Ratio of claims incurred net of reinsurance, to earned premiums net of reinsurance including other operating income. |
| Combined operating ratio | **97.9%** | 97.8% | Ratio of claims incurred net of reinsurance, including acquisition expenses, marketing and administration expenses, other operating expenses; to earned premiums net of reinsurance including other operating income. |
| Operating result | **£284m** | £337m | Reflected in the Statement of Profit or Loss |

### 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 41 to 52 of the consolidated financial statements.

# Strategic Report continued

**FUTURE DEVELOPMENTS**

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

In 2018, 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.

On 25 April 2017 underlying subsidiary AXA Insurance UK plc agreed to transfer all employer and public liability policies issued by the company prior to 1 January 2002 to RiverStone, while all disease claims related to policies issued between the same date and 31 December 2014 will be reinsured by RiverStone. The transaction is subject to regulatory approval and the High Court agreement of the Part VII transfer and is expected to be completed by the end of 2018.

**BREXIT**

The implications to the Group of the vote to leave the European Union in June 2016 are currently being considered, specifically the effects this could have on estimations and judgements made in the preparation of the financial statements. The assessment is ongoing, with quantitative impacts yet to be determined.

Signed on behalf of the Board by

**B. Poupart-Lafarge**
Director
27 April 2018

# Directors' Report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2017.

## 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 41 to 52 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

The directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: £nil).

## DIRECTORS

The directors of the Company who were in office during the year and up to the date of approval of the financial statements are shown on page 2. The director who have served for part of the year are given below:

W. U. Malik resigned as a director of the Company on 31 March 2018.

### 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, ethnicity, nationality, sexual orientation and religion. 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 41 to 52 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's subsidiary PPP healthcare limited operates a branch in Malta.

## 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 that 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 Group'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.

**Financial Reporting Council (FRC) Audit Quality Review (AQR)**
During 2017 the audit for the year ended 31 December 2016 was reviewed by the AQR team of the FRC. The results of this review were reported to the Audit Committee and identified no substantial issues. Mazars LLP made limited changes to their audit approach to reflect the findings of the review.

Signed on behalf of the Board by

**B. Poupart-Lafarge**
Director
27 April 2018

# Group Independent Auditor's Report

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

## Opinion

We have audited:

- The consolidated financial statements of Guardian Royal Exchange UK plc ('the Group') for the year ended 31 December 2017, which comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Management of Risks and notes to the consolidated financial statements including a summary of significant accounting policies; and
- The Parent Company financial statements of Guardian Royal Exchange UK plc ('the Parent Company') for the year ended 31 December 2017, which comprise the Parent Company Balance Sheet, the Parent Company Statement of Changes in Equity; the Parent Company Accounting Policies and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the consolidated financial statements 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.
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the parent financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Use of the audit report

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.

# Group Independent Auditor's Report continued

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period, and include the most significant assessed risks of material misstatement. These matters, described below, are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. They were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and therefore we do not provide a separate opinion on these matters.

| Area of focus | How our audit addressed the area of focus |
|---|---|
| **Valuation of insurance contract liabilities:**<br>The estimation of the Group's insurance contract liabilities involves a significant degree of judgement. The provision for claims outstanding and loss adjustment expenses at 31 December 2017 was £4,310m (see Note 26 of the financial statements).<br>The assessment is underpinned by a best-estimate ultimate cost calculation of all claims incurred but not settled at a given date, whether reported or not, together with the related costs of handling the claims. A range of stochastic processes and statistical methods are used to determine these provisions.<br>Underlying these methods are a number of assumptions (both explicit and implicit) relating to the expected settlement amounts and the settlement patterns of claims. | We evaluated the directors' assessment of the valuation of insurance contract liabilities by performing the following procedures:<br>• We assessed the design and implementation of controls around the governance process in place to determine the insurance contract liabilities;<br>• On a sample basis, we performed data integrity testing in relation to claims.<br>We engaged a specialist actuarial team as part of the audit team. The actuarial specialists:<br>• Challenged and benchmarked key actuarial assumptions;<br>• Performed re-projections on selected classes of business. Classes selected were those with the largest and most uncertain claims liabilities. We compared our projected claims liabilities to those calculated by management; and<br>• Evaluated the methodology and assumptions selected by management on the remaining classes of business. This involved meeting with senior management involved in the reserving process to discuss the reserving methodology, changes in assumptions from the previous year-end, and questions arising from the review of reserving reports.<br>We reviewed the disclosures in the financial statements and checked for compliance with the relevant accounting standards. |

# Group Independent Auditor's Report continued

| | |
|---|---|
| **Valuation of financial instruments:**<br><br>Financial assets account for a significant portion of the total assets of the Group. The total financial assets held at 31 December 2017 were valued at £7,691m (see Note 19 of the financial statements) - therefore the valuation of financial investments was a key audit area.<br><br>The risk of material errors in valuation is greatest for those investments which do not have readily available quoted prices and/or are not frequently traded on recognised markets. | We assessed both the methodology and assumptions used by management in the period end valuations in addition to testing the governance controls in place to monitor these processes.<br><br>We performed the following procedures:<br><br>• We evaluated the valuation methodology and assumptions used by management;<br>• We checked details of investments held to Custodian reports, and other evidence of ownership;<br>• For a sample of investments, including equities, bonds, and investment property we checked the valuation recorded to independent sources; and<br>• We assessed the adequacy and completeness of the relevant disclosures within the financial statements. |
| **Valuation of Goodwill:**<br><br>The Group recognised goodwill of £382m (see note 16) relating to two cash generating units (CGUs), "direct" and "healthcare".<br><br>Goodwill is reviewed for impairment annually (see accounting policy VII a) in the notes to the financial statements).<br><br>The valuation is sensitive to the underlying valuation assumptions, and therefore it is important that appropriate assumptions are chosen. | We performed the following procedures:<br><br>• We assessed the appropriateness of allocating goodwill to two CGUs;<br><br>For the impairment review performed on each CGU:<br><br>• We examined the calculations underlying the impairment test relating to the cash generating unit to assess whether it is in accordance with IFRS requirements;<br>• We assessed the appropriateness of the forecast information included in the projections;<br>• We performed a hindsight review to assess the accuracy of prior period forecasting;<br>• We tested management's application of the methodology by reperforming the impairment calculation;<br>• We performed a sensitivity analysis on the key assumptions used by management in their impairment assessment; and<br>• We assessed the adequacy and completeness of the relevant disclosures within the financial statements. |

# Group Independent Auditor's Report continued

| | |
|---|---|
| **Revenue recognition:**<br><br>There is an inherent risk of fraud in the financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period. | We performed the following procedures:<br><br>• We tested the Group's controls around the unearned premium reserve, and performed tests of detail around the automatic calculation of the unearned premium reserve;<br>• We tested material manual adjustments between system feeds and the final position of the unearned premium reserve in the accounts;<br>• We tested controls surrounding the pipeline premium estimate and performed tests of detail to assess the post year end recoverability of such estimates;<br>• We tested material manual journals in the accounts;<br>• Tests of detail were performed for a sample of premium entries. |
| **Valuation of investments in subsidiaries:**<br><br>The Parent Company's investments in subsidiary undertakings of £1,942m 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.<br><br>The investments are reviewed for impairment by management whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The assessment provides a large element of judgement. | We performed the following procedures:<br><br>• Where the net asset value of a subsidiary was lower than its carrying value, we challenged the assumptions and calculations of management's impairment assessment; and<br><br>We considered the future business prospects of each subsidiary. |

**Our application of materiality**

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| Overall group materiality | £42 million |
| How we determined it | 1% of net insurance revenues (net earned premium) |
| Rationale for benchmark applied | In determining our materiality, we considered financial metrics which we believed to be relevant, and concluded that net earned premium was the most relevant benchmark. We believe that the benchmark of net earned premiums is a fair reflection of revenue from the Group's operations as it is not subject to the volatility arising from insurance contracts that net written premiums would be. |
| Performance materiality | Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Performance materiality of £31m was applied in the audit. |

# Group Independent Auditor's Report continued

| | |
|---|---|
| Reporting threshold | We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. |

Materiality for the Parent company financial statements was determined as follows:

| | |
|---|---|
| Overall materiality | £21 million |
| How we determined it | 1% of the total assets of the company |
| Rationale for benchmark applied | The parent company primarily exists as the holding company which carries investments in group subsidiaries. We consider that totals assets of the company is the appropriate benchmark for the company. |
| Performance materiality | Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Performance materiality of £16m was applied in the audit. |
| Reporting threshold | We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. |

Materiality used in the audit of the significant components of the Group ranged from £6.4m to £27.6m.

**An overview of the scope of our audit**

Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the Group's accounting processes and controls, and the industry in which it operates.

We used the outputs of a risk assessment, our understanding of the Group, and we also considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Based on that assessment, the significant components of the group were:

- AXA Insurance UK – principally comprising AXA Insurance UK plc;
- AXA Ireland – principally comprising AXA Insurance dac;
- AXA PPP – principally comprising AXA PPP healthcare limited.

The principal trading company of each component was subjected to a full scope audit using component materiality levels.

At parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement.

This scope provided us with audit coverage of 100% of consolidated profit before tax, 99% of consolidated revenue, 98% of consolidated total assets and 100% of consolidated net assets.

# Group Independent Auditor's Report continued

### Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Reports and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Reports and the Directors' Reports for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Reports and the Directors' Reports have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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;
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specific by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Responsibilities of Directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

# Group Independent Auditor's Report continued

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Other matters which we are required to address**

Following the recommendation of the Audit Committee, we were appointed during the Annual General Meeting of the Company on 6 June 2017 to audit the financial statements for the year ended 31 December 2017. The period of total uninterrupted engagement is 5 years, covering the years ended 2013 to 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

**Steve Liddell (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

Date: 27 April 2018

Registered Number 01821312

# Consolidated Statement of Profit or Loss

for the year ended 31 December 2017

| | | 2017 £m | 2016 £m |
|---|---|---|---|
| **Insurance revenue** | | | |
| Insurance premium revenue | 3 | **4,341** | 4,130 |
| Insurance premium ceded to reinsurers | 3 | **(158)** | (158) |
| **Net insurance revenue** | | **4,183** | 3,972 |
| **Other income** | | | |
| Investment income | 4 | **47** | 610 |
| Net realised gains on available for sale financial assets | 4 | **36** | 31 |
| Net fair value gains on assets at fair value through income | 4 | **134** | (374) |
| Change in investments impairment | 4 | **(8)** | (6) |
| Other operating income | 5 | **170** | 236 |
| **Total income** | | **4,562** | 4,469 |
| **Policyholder claims and benefits** | | | |
| Insurance claims and loss adjustment expenses | 7 | **(2,956)** | (2,873) |
| Insurance claims and loss adjustment expenses recoverable from reinsurers | 7 | **9** | 93 |
| **Other expenses** | | | |
| Insurance contract acquisition expenses | 8 | **(834)** | (817) |
| Marketing and administration expenses | 8 | **(396)** | (382) |
| Cost of asset management services | 4 | **(17)** | (16) |
| Other operating expenses | 6 | **(84)** | (137) |
| **Operating result** | | **284** | **337** |
| Finance costs | 10 | **(12)** | (11) |
| Gain on disposal of operations | | **12** | 3 |
| **Profit before tax** | | **284** | **329** |
| Income tax expense | 11 | **(55)** | (61) |
| **Profit for the period attributable to the equity shareholders of the Company** | 1 | **229** | **268** |
| **Basic earnings per share (pence per share)** | 12 | **21.65** | **25.28** |
| **Diluted earnings per share (pence per share)** | 12 | **21.65** | **25.28** |

All transactions relate to continuing operations.

The information on pages 23 to 86 forms an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

| | | 2017<br>£m | 2016<br>£m |
|---|---|---|---|
| Profit for the period after tax | | **229** | 268 |
| **Other comprehensive income:** | | | |
| **Items that will not be subsequently reclassified to the Profit or Loss** | | | |
| Remeasurement gains/(losses) on defined benefit schemes | **32** | **48** | (53) |
| **Items that may be subsequently reclassified to the Profit or Loss** | | | |
| Exchange gains on retranslation of subsidiary net assets | | **12** | 43 |
| Revaluation gains of available for sale financial assets | **25** | **-** | 153 |
| Fair value loss on cash flow hedge accounting derivatives | **25** | **(2)** | (15) |
| Tax effect of items not recognised in profit or loss and taken directly to other comprehensive income - deferred | **31** | **(3)** | (21) |
| **Other Comprehensive Income net of tax** | | **55** | 107 |
| **Total comprehensive income for the period attributable to the equity shareholders of the Company** | | **284** | 375 |

The information on pages 23 to 86 forms an integral part of these consolidated financial statements.

Registered Number 01821312

# Consolidated Statement of Financial Position

as at 31 December 2017

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| **ASSETS** | | | |
| Goodwill and intangible assets | **16** | **424** | 428 |
| Property, plant and equipment | **14** | **73** | 75 |
| Investment properties | **15** | **116** | 125 |
| Investment in financial assets | **19** | **7,691** | 6,959 |
| Reinsurers' share of insurance contract liabilities | **20** | **163** | 206 |
| Deferred acquisition costs | **17** | **352** | 341 |
| Deferred taxation | **31** | **42** | 66 |
| Insurance and reinsurance receivables | **21** | **1,442** | 1,443 |
| Other receivables | **22** | **267** | 304 |
| Cash and cash equivalents | **23** | **467** | 855 |
| **Total assets** | | **11,037** | 10,802 |

The information on pages 23 to 86 forms an integral part of these consolidated financial statements.

Registered Number 01821312

# Consolidated Statement of Financial Position

as at 31 December 2017

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| **EQUITY** | | | |
| Ordinary share capital | **24** | **56** | 56 |
| Share premium | **24** | **523** | 523 |
| Other reserves | **25** | **876** | 862 |
| Retained earnings | | **1,797** | 1,527 |
| **Capital and reserves attributable to the equity shareholders** | | **3,252** | 2,968 |
| Non-controlling Interest | | **1** | 1 |
| | | **3,253** | **2,969** |
| **LIABILITIES** | | | |
| Technical provisions - insurance contract liabilities | **26** | **6,294** | 6,047 |
| Borrowings | **28** | **227** | 213 |
| Insurance and reinsurance liabilities | **27** | **292** | 381 |
| Provisions for other liabilities and charges | **29** | **140** | 107 |
| Retirement benefit obligations | **32** | **12** | 98 |
| Other liabilities | **30** | **688** | 861 |
| Current taxation | | **43** | 9 |
| Derivative financial instruments | **19** | **88** | 117 |
| **Total liabilities** | | **7,784** | 7,833 |
| **Total equity and liabilities** | | **11,037** | 10,802 |

The information on pages 23 to 86 forms an integral part of these consolidated financial statements.

The financial statements on pages 17 to 86 were approved and authorised for issue by the Board of Directors on 27 April 2018 and were signed on its behalf by:

**B. Poupart-Lafarge**
Director

# Consolidated Statement of Changes in Equity

as at 31 December 2017

| 2017 | Ordinary share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|
| Balance as at 1 January | 56 | 523 | 862 | 1,527 | **2,968** |
| Profit for the period | - | - | - | 229 | **229** |
| Remeasurement gain on defined benefit schemes | - | - | - | 48 | **48** |
| Fair value gains on available for sale financial assets | - | - | - | - | **-** |
| Fair value loss on cash flow hedge accounting derivatives | - | - | (2) | - | **(2)** |
| Tax on movements in Statement of Comprehensive Income - deferred | - | - | 4 | (7) | **(3)** |
| Exchange on retranslation of subsidiary net assets | - | - | 12 | - | **12** |
| **Total comprehensive income for the period** | - | - | 14 | 270 | 284 |
| **Transactions with owners** | | | | | |
| Share based payments | - | - | - | - | **-** |
| **Capital and reserves attributable to equity shareholders of the parent** | **56** | **523** | **876** | **1,797** | **3,252** |
| Non-controlling interest | - | - | - | 1 | **1** |
| **Balance as at 31 December** | **56** | **523** | **876** | **1,798** | **3,253** |

| 2016 | Ordinary share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|
| Balance as at 1 January | 56 | 523 | 709 | 1,309 | 2,597 |
| Profit for the period | - | - | - | 268 | 268 |
| Remeasurement loss on defined benefit schemes | - | - | - | (53) | (53) |
| Fair value gains on available for sale financial assets | - | - | 153 | - | 153 |
| Fair value loss on cash flow hedge accounting derivatives | - | - | (15) | - | (15) |
| Tax on movements in Statement of Comprehensive Income - deferred | - | - | (28) | 7 | (21) |
| Exchange on retranslation of subsidiary net assets | - | - | 43 | - | 43 |
| **Total comprehensive income for the period** | - | - | 153 | 222 | 375 |
| **Transactions with owners** | | | | | |
| Share based payments | - | - | - | (4) | (4) |
| **Capital and reserves attributable to equity shareholders of the parent** | 56 | 523 | 862 | 1,527 | 2,968 |
| Non-controlling interest | - | - | - | 1 | 1 |
| **Balance as at 31 December** | 56 | 523 | 862 | 1,528 | 2,969 |

The information on pages 23 to 86 forms an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

for the year ended 31 December 2017

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 33 | **362** | 516 |
| Income taxes paid | | **-** | (35) |
| Interest paid | | **(10)** | (10) |
| Interest received | | **221** | 251 |
| Dividends received | | **49** | 34 |
| **Net cash generated from operating activities** | | **622** | **756** |
| **Cash flows from investing activities** | | | |
| Proceeds from: | | | |
| Sale of subsidiary (net of cash ceded) | | **11** | - |
| Sale of investments | | **1,429** | 1,147 |
| Bond repayment received from related party | | **-** | 91 |
| Loan repayment received from related party | | **-** | 155 |
| Property, plant and equipment | | **3** | 1 |
| Increase in collateral payable | | **-** | 20 |
| Purchases of: | | | |
| Investments | | **(1,918)** | (1,922) |
| Loans granted to related parties | | **-** | (4) |
| Property, plant and equipment | 14 | **(5)** | (5) |
| Intangible assets | 16 | **(14)** | (13) |
| Decrease in collateral | | **(20)** | - |
| Loss of control of investing activities | | **(497)** | - |
| Investments in subsidiaries (net of cash acquired) | | **-** | (16) |
| **Net cash used in investing activities** | | **(1,011)** | **(546)** |
| **Cash flows from financing activities** | | | |
| Subordinated debt granted to related parties | | **-** | 16 |
| Financing debt granted to related parties | | **-** | 25 |
| **Net cashflow from financing activities** | | **-** | **41** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(389)** | **251** |
| Cash and cash equivalents at 1 January | | **855** | 602 |
| Exchange gain on cash and cash equivalents | | **1** | 2 |
| **Cash and cash equivalents at 31 December 2017** | 23 | **467** | 855 |

The information on pages 23 to 86 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 mainly underwrite general insurance and healthcare business in the United Kingdom and the Republic of Ireland.

Guardian Royal Exchange plc is a public limited company by shares 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 preparation

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.

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 40.

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 directors believe that the current year presentation is appropriate and has no impact on the results or net assets of the Company.

The financial statements of the parent Company are presented on pages 87 to 94.

#### a) Changes in presentation

The accounting policies adopted are consistent with those of the previous financial year, with the exception of the amendments, effective for annual periods beginning on or after 1 January 2017. The amendments and interpretations had no impact on the Company's individual 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 measurement requirements in 2009 and 2010, with a new hedge accounting model published in 2013. On 24 July 2014, the final version of the standard was published replacing the earlier versions of IFRS 9 and completed 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.

# Accounting policies continued

The implementation of IFRS 9 and its impact on the Group financial statements are currently being examined.

However, the amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts', published on 12 September 2016, addressed concerns raised by the insurance industry surrounding the different effective dates of IFRS 9 and IFRS 17 'Insurance contracts'. Whereby an entity issuing insurance contracts will still be able to adopt IFRS 9 on 1 January 2018; or one of the alternative options introduced by the amendment, namely:

- The temporary exemption which enables an eligible entity to defer the implementation date of IFRS 9; or
- The overlay approach allows an entity applying IFRS 9 from 2018 onwards to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before IFRS 17 is applied.

The Group is eligible for the temporary exemption option and has opted to defer the implementation of IFRS 9 until the effective date of IFRS 17, however, no later than 1 January 2021.

The amendments permitting the temporary exemption are effective for annual periods beginning on or after 1 January 2018. The amendments have been endorsed by the EU on 3 November 2017.

**IFRS 15 (new standard) 'Revenue from Contracts with Customers'**
The impact of the standard and its amendments on the Group financial statements is not expected to be significant because revenue mostly arises from insurance contracts that are not within the scope of IFRS 15.

**IFRS 16 (new standard) 'Leases'**
IFRS 16 'Leases' sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessor and the lessee. Under the IFRS 16 model the lessee is required to recognise (i) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (ii) depreciation of lease assets separately from interest on lease liabilities in the income statement. Lessors will continue to classify and account for their leases as (i) operating leases with recognition of the underlying assets; or (ii) finance leases by derecognising the underlying asset and recognition of a net investment, similar to the current IAS 17 requirements. The standard is effective for annual periods beginning on or after 1 January 2019. The standard has been endorsed by the EU on 31 October 2017. The impact of the standard on the Group financial statements is currently being assessed.

**IFRS 17 (new standard) 'Insurance contracts'**
On 18 May 2017, the IASB issued IFRS 17 'Insurance contracts' which replaces IFRS 4 'Insurance contracts', an interim standard issued in 2005 primarily based on grandfathering previous local accounting policies. The standard provides a consistent accounting model for insurance contracts, and aims to increase comparability of financial statements. The general model uses a building block approach; the simplified approach also referred to as the Premium Allocation Approach applies to certain types of insurance contracts, including those with a coverage period of one year or less; and a variation to the general model referred to as the variable fee approach applies to insurance contracts with direct participation features. The standard is effective for annual periods beginning on or after 1 January 2021, subject to EU endorsement. The impact of the standard on the Group financial statements is currently being assessed.

Other amendments and interpretations issued, but not yet effective are not expected to have a material impact on the Group

# 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 Group Activities comprise the applicable results of service companies, international property & casualty agencies and central functions.

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

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the Statement of Profit or Loss Account. 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 Account, and other changes in carrying amount are recognised in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Translation differences on non-monetary items measured at fair value through profit and loss are recognised in the Statement of Profit or Loss Account as part of the fair value gain or loss. Translation differences on non-monetary items 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. As a general guideline, the Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of the insured event that are more than the benefits payable if the insured event did not occur.

The Company has no investment contracts, i.e. contracts that carry financial risk with no significant insurance 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 insurance business incepted during the reporting period, recognised on the date on which the policy commences. Premiums include any adjustments arising in the reporting period for premiums receivable in respect of 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, mainly calculated on a time apportionment basis or on occasion 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

A 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

Allowances are 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; and
- the impact of large losses.; and
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of such claims, the 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 has 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 size bands to reflect the different claims development patterns observed within each size band.

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

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

**Disease-related and pollution claims arising from liability business**

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

# 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**

A 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 full deficiency is recognised as an unexpired risk reserve.

**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. The recoverable amount is calculated and compared to the carrying value. The recoverable amount is the higher 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 a straight line basis over its estimated useful life, subject to a maximum period of 5 years.

### c) Advanced Commissions

Commission advanced to intermediaries in anticipation of the introduction of new business is initially recognised at cost and subsequently amortised on a straight line basis over the period during which it is expected that the benefit will be received, with useful lives ranging from one to seven years.

### 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 on a straight line basis over the estimated useful life, subject to a maximum period of 15 years.

## VIII. Property, plant and equipment

### a) Property

Property comprises 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 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; 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. 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 within 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) 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, when the asset or liability is derecognised or impaired. 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.

**d) 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).

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.

# Accounting policies continued

## 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 measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original 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. The Company treats 'significant' generally as 20% and 'prolonged' generally as greater than six months.

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 the Statement of 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.

### 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. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

# Accounting policies continued

## XII. Derivative financial instruments

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

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

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability.

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) **Cash flow hedge**

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income, while the ineffective portion is recognised immediately in the Profit or Loss Account.

Amounts taken to other comprehensive income are transferred to the Profit and Loss Account when the hedged transaction affects profit and loss, such as when hedged financial income or financial expense is recognised. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit and loss.

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

d) **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 for that accounting period, with the accounting treatment reverting back to that applied for equivalent non-hedged items. Movements in the fair value of hedging instruments that represent ineffective proportions of qualifying hedge relationships are recognised in profit and loss immediately.

**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.

Borrowings represent a liability under a total return swap, in accordance with which the Company continues to recognise the transferred asset in its entirety, as substantially all the risks and rewards of ownership are retained, and raises a liability for the notional value of the transferred bonds.

**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.

# Accounting policies continued

## 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.

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 and there is an intention to settle the balances on a net basis.

## 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.

# Accounting policies continued

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.

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.

# Accounting policies continued

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.

**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 on a straight line basis over the lease term, from the point at which 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 £6,294m (2016: £6,047m). 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 £382m (2016: £382m) and other intangible assets are £42m (2016: £46m). 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 £42m (2016: £66m), 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 £12m (2016: £98m). 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 £352m (2016: £341m), 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:

| Equity analysis by industry | 2017 £m | % | 2016 £m | % |
|---|---|---|---|---|
| Financial | 48 | 3.9% | 86 | 8.3% |
| Consumer | 123 | 10.1% | 85 | 8.2% |
| Energy | 39 | 3.2% | 37 | 3.6% |
| Manufacturing & Pharmaceuticals | 48 | 4.0% | 32 | 3.1% |
| Utilities | 23 | 1.9% | 39 | 3.8% |
| Basic materials | 26 | 2.1% | 20 | 1.9% |
| Technology & Telecommunications | 61 | 5.0% | 48 | 4.7% |
| Others | 848 | 69.8% | 687 | 66.4% |
| **Total** | 1,216 | 100.0% | 1,034 | 100.0% |

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

| Debt securities analysis by industry | 2017 £m | % | 2016 £m | % |
|---|---|---|---|---|
| Financial | 1,674 | 27.5% | 1,625 | 29.1% |
| Consumer | 943 | 15.5% | 815 | 14.6% |
| Energy | 238 | 3.9% | 248 | 4.5% |
| Manufacturing & Pharmaceuticals | 423 | 7.0% | 371 | 6.7% |
| Utilities | 636 | 10.5% | 495 | 8.9% |
| Basic materials | 154 | 2.5% | 162 | 2.9% |
| Technology & Telecommunications | 521 | 8.6% | 532 | 9.6% |
| Government securities | 1,181 | 19.4% | 1,166 | 20.9% |
| Others | 313 | 5.1% | 155 | 2.8% |
| **Total** | 6,083 | 100.0% | 5,569 | 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 £70.3m (2016: £54.6m decreased profit) plus unrealised losses in the consolidated Statement of Comprehensive Income of £230m (2016: £217.2m). A decrease of 100 basis points in interest rates (excluding derivatives) would result in increased profit for the period of £75.3m (2016: £58.8m) plus unrealised gains in the consolidated Statement of Comprehensive Income of £267.6m (2016: £254.4m).

An increase of 100 basis points in interest rates would increase in the fair value of derivatives through profit or loss by £91.6m (2016: £58.1m). A decrease of 100 basis points in interest rates would decrease the fair value of derivatives through profit or loss by £91.4m (2016: £58.1m).

The fair value of debt securities is exposed to future interest rate fluctuations. Included in debt securities of £6,083m (2016: £5,569m) is £45m (2016: £73m) in respect of variable rate debentures and £590m (2016: £630m) in respect of index and inflation 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 on cash and cash equivalents balances.

# Management of Risks continued

## c) Equity price risk

Listed equity securities represent 45% (2016: 30%) of total equity investments, including mutual funds.

If equity valuations had increased by 10%, with all other variables constant, the operating result for the year would remain unchanged (2016: unchanged). Unrealised gains recorded through the consolidated Statement of Comprehensive Income would increase by £34.9m (2016: £30.4m).

If equity valuations had decreased by 10%, with all other variables constant, the operating result for the year would decrease by £4.0m (2016: £2.8m). Unrealised gains recorded through the consolidated Statement of Comprehensive Income would decrease by £29.7m (2016: £27.6m).

An increase of 10% in the relevant market indices would decrease the fair value of equity hedging derivatives through income by £3.2m (2016: £2.2m). A decrease of 10% in the relevant market indices would increase the fair value of equity hedging derivatives through income by £8.9m (2016: £6.9m).

## 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 2017, if the pound had weakened/strengthened by 1%, with all other variables constant, the profit before tax for the year would have been £(1.1)m/£1.2m (2016: £0.4m) lower/higher.

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

| | CAD | | EURO | | GBP | | JPY | | USD | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2017** | £m | % | £m | % | £m | % | £m | % | £m | % | £m | % | £m | % |
| **Fair value through profit and loss** | | | | | | | | | | | | | | |
| Derivative financial instruments | - | - | 25 | 1.5% | 43 | 1.2% | 1 | 3.1% | 29 | 1.3% | - | - | 98 | 1.3% |
| Debt securities | - | - | 10 | 0.6% | - | | - | - | - | - | - | - | 10 | 0.1% |
| Mutual funds | - | - | 4 | 0.2% | 122 | 3.3% | - | - | 472 | 21.2% | - | - | 598 | 7.8% |
| **Available for sale financial assets** | | | | | | | | | | | | | | |
| Equity instruments | 3 | 15.8% | 118 | 7.0% | 171 | 4.6% | 6 | 18.8% | 41 | 1.8% | 8 | 33.3% | 347 | 4.5% |
| Debt securities | 16 | 84.2% | 1,293 | 76.3% | 3,181 | 86.1% | 25 | 78.1% | 1,542 | 69.1% | 16 | 66.7% | 6,073 | 79.0% |
| Mutual funds | - | - | 87 | 5.1% | 90 | 2.4% | - | - | 94 | 4.2% | - | - | 271 | 3.5% |
| **Derivative instruments held for hedging** | - | - | 2 | 0.1% | 15 | 0.4% | - | - | 26 | 1.2% | - | - | 43 | 0.6% |
| **Loans** | - | | 156 | 9.2% | 68 | 1.8% | - | | 27 | 1.2% | - | | 251 | 3.3% |
| | 19 | 100.0% | 1,695 | 100.0% | 3,690 | 100.0% | 32 | 100.0% | 2,231 | 100.0% | 24 | 100.0% | 7,691 | 100.0% |

# Management of Risks continued

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

| | CAD | | EURO | | GBP | | JPY | | USD | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2016 | £m | % | £m | % | £m | % | £m | % | £m | % | £m | % | £m | % |
| **Fair value through profit and loss** | | | | | | | | | | | | | | |
| Derivative financial instruments | - | - | 29 | 2.2% | 37 | 1.1% | - | - | 9 | 0.4% | - | - | 75 | 1.1% |
| Debt securities | - | - | 10 | 0.8% | - | | - | - | - | - | - | - | 10 | 0.1% |
| Mutual funds | - | - | 3 | 0.2% | 44 | 1.3% | - | - | 516 | 24.3% | - | - | 563 | 8.1% |
| **Available for sale financial assets** | | | | | | | | | | | | | | |
| Equity instruments | 2 | 14.3% | 99 | 7.5% | 159 | 4.6% | 3 | 100.0% | 30 | 1.4% | 4 | 80.0% | 297 | 4.3% |
| Debt securities | 12 | 85.7% | 995 | 75.2% | 3,023 | 86.5% | - | | 1,528 | 72.0% | 1 | 20.0% | 5,559 | 79.9% |
| Mutual funds | - | - | 28 | 2.1% | 146 | 4.2% | - | - | - | - | - | - | 174 | 2.5% |
| **Derivative instruments held for hedging** | - | - | 1 | 0.1% | 3 | 0.1% | | - | 40.0 | 1.9% | - | - | 44 | 0.6% |
| **Loans** | - | - | 158 | 11.9% | 79 | 2.3% | - | | - | - | - | | 237 | 3.4% |
| | 14 | 100.0% | 1,323 | 100.0% | 3,491 | 100.0% | 3 | 100.0% | 2,123 | 100.0% | 5 | 100.0% | 6,959 | 100.0% |

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

## 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:

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

| Maximum credit risk | **2017 (carrying value) £m** | 2016 (carrying value) £m |
|---|---|---|
| Investment in financial assets - debt securities (note 19) | **6,083** | 5,569 |
| Investment in financial assets - loans (note 19) | **251** | 237 |
| Investment in financial assets- derivatives (note 19) | **141** | 119 |
| Reinsurers' share of insurance contract liabilities (note 20) | **163** | 206 |
| Insurance and reinsurance receivables (note 21) | **1,442** | 1,443 |
| Other receivables (note 22) | **75** | 144 |
| Other receivables from related parties (note 22) | **178** | 143 |
| Cash and cash equivalents (note 23) | **467** | 855 |
| | **8,800** | **8,716** |

# Management of Risks continued

| Ratings | 2017 £m | 2017 % | 2016 £m | 2016 % |
|---|---|---|---|---|
| AAA | **572** | **6.5%** | 530 | 6.1% |
| AA | **1,317** | **15.0%** | 1,294 | 14.8% |
| A | **2,001** | **22.7%** | 1,761 | 20.2% |
| BBB | **2,475** | **28.1%** | 2,653 | 30.4% |
| BB | **46** | **0.5%** | 127 | 1.5% |
| B | **13** | **0.1%** | 41 | 0.5% |
| Not rated | **2,376** | **27.1%** | 2,310 | 26.5% |
| **Total** | **8,800** | **100.0%** | 8,716 | 100.0% |

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 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Direct and reinsurance inwards insurance receivables | **1,365** | **49** | **11** | **2** | **(19)** | **1,408** |
| Reinsurance receivables (ceded only) | **7** | **11** | **6** | **11** | **(1)** | **34** |
| 2016 | | | | | | |
| Direct and reinsurance inwards insurance receivables | 1,324 | 65 | 25 | 3 | (17) | 1,400 |
| Reinsurance receivables (ceded only) | 5 | 12 | 5 | 23 | (2) | 43 |

## Liquidity risk

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

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

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

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

# Management of Risks continued

| 2017 | 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 | - | - | - | - | 1,216 | **1,216** |
| Debt securities | 366 | 417 | 1,879 | 3,421 | - | **6,083** |
| Loans/bonds with related parties | 19 | 104 | 97 | 31 | - | **251** |
| Other receivables | 267 | - | - | - | - | **267** |
| Cash and cash equivalents | 467 | - | - | - | - | **467** |
| **Total non-derivative financial assets** | **1,119** | **521** | **1,976** | **3,452** | **1,216** | **8,284** |
| Derivative financial instruments | 35 | - | 28 | 78 | - | **141** |
| **Total financial assets** | **1,154** | **521** | **2,004** | **3,530** | **1,216** | **8,425** |

| 2017 | Less than 1 year £m | 1-5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|
| Claims outstanding* | **1,482** | **1,927** | **1,556** | **4,965** |
| Direct insurance operations (note 27) | **254** | - | - | **254** |
| Reinsurance operations (note 27) | **38** | - | - | **38** |
| Other liabilities (note 30)** | **450** | - | - | **450** |
| | **2,224** | **1,927** | **1,556** | **5,707** |
| Listed unsecured 6 5/8% Company bonds repayable 2023 | - | - | **149** | **149** |
| Subordinated debt | - | - | **18** | **18** |
| Operating debt instrument | - | - | **32** | **32** |
| Financing debt | - | **28** | - | **28** |
| **Total borrowings (note 28)** | **-** | **28** | **199** | **227** |
| Derivative financial instruments (note 19) | **8** | **15** | **65** | **88** |
| **Total liabilities** | **2,232** | **1,970** | **1,820** | **6,022** |

*The claims outstanding amounts represent the undiscounted cash flows, in contrast to the total amount reported within note 26 which is on a discounted basis.

**other liabilities excludes accruals and deferred income as reported within note 30.

| 2016 | 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 | - | - | - | - | 1,034 | 1,034 |
| Debt securities | 317 | 391 | 1,536 | 3,325 | - | 5,569 |
| Loans/bonds with related parties | 6 | 29 | 156 | 46 | - | 237 |
| Other receivables | 304 | - | - | - | - | 304 |
| Cash and cash equivalents | 855 | - | - | - | - | 855 |
| **Total non-derivative financial assets** | **1,482** | **420** | **1,692** | **3,371** | **1,034** | **7,999** |
| Derivative financial instruments | 18 | - | 16 | 85 | - | 119 |
| **Total financial assets** | **1,500** | **420** | **1,708** | **3,456** | **1,034** | **8,118** |

| 2016 | Less than 1 year £m | 1-5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|
| Claims outstanding | 1,310 | 1,709 | 1,601 | 4,620 |
| Direct insurance operations (note 27) | 324 | - | - | 324 |
| Reinsurance operations (note 27) | 57 | - | - | 57 |
| Other liabilities (note 30) | 634 | - | - | 634 |
| | **2,325** | **1,709** | **1,601** | **5,635** |
| Listed unsecured 6 5/8% Company bonds repayable 2023 | - | - | 149 | 149 |
| Liability relating to repurchase agreement | 20 | - | - | 20 |
| Subordinated debt | - | - | 17 | 17 |
| Financing debt | - | 27 | - | 27 |
| **Total borrowings (note 28)** | 20 | 27 | 166 | 213 |
| Derivative financial instruments (note 19) | 64 | 7 | 46 | 117 |
| **Total liabilities** | **2,409** | **1,743** | **1,813** | **5,965** |

# Management of Risks continued

## 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's UK and Irish insurance operations are subject to the Solvency II Directive, which establishes a new set of EU-wide capital requirements, risk management and disclosure standards. The regime is designed to implement solvency requirements that better reflect the risks that insurance companies face and deliver a supervisory system that is consistent across all EU member States.

The Solvency II framework is based on three main pillars: (1) Pillar 1 consists of the quantitative requirements around own funds, valuation rules for assets and liabilities and capital requirements, (2) Pillar 2 sets out qualitative requirements for the governance and risk management of insurers, as well as for the effective supervision of insurers including the requirement for insurers to submit an Own Risk and Solvency Assessment ("ORSA") which will be used by the regulator as part of the supervisory review process; and (3) Pillar 3 focuses on enhanced reporting and disclosure requirements. The Solvency II framework covers, among other matters, valuation of assets and liabilities, the treatment of insurance groups, the definition of capital and the overall level of required capital.

The Solvency II Directive provides for two separate levels of solvency margin: (i) the Minimum Capital Requirement ("MCR"), which is the amount of own funds below which policyholders and beneficiaries are exposed to an unacceptable level of risk should the Company be allowed to continue its operations, and (ii) the Solvency Capital Requirement ("SCR"), which corresponds to a level of eligible own funds that enables insurance and reinsurance companies to absorb significant losses and that gives reasonable assurance to policyholders and beneficiaries that payments will be made.

The Company calculates its SCR in accordance with AXA's approved internal economic capital model, which is designed to allow AXA entities to choose the local calibrations which better reflect the local risk profile and to capture all the material risks to which AXA is exposed. As a result, the internal economic capital model better aligns the capital requirement metrics with management decision making. The Company has complied with all regulatory capital requirements throughout the year.

The PRA continues to regularly review the underlying methodologies and assumptions of the Company's model for adequacy and such review may lead to adjustments to the level of capital required by the PRA. The European Insurance and Occupational Pensions Authority ("EIOPA") is also expected to carry out a review of the consistency of European insurer's models and any such review may lead to regulatory changes to increase convergence and to strengthen oversight of cross-border groups.

| | Excess assets over liabilities | Solvency capital requirement |
|---|---|---|
| At 1 January 2017 | | |
| **UK** | | |
| AXA Insurance UK plc | £2,187m | £1,776m |
| AXA PPP healthcare limited | £359m | £267m |
| **Ireland** | | |
| AXA Insurance DAC | €393m | €301m |
| At 31 December 2017 | | |
| **UK** | | |
| AXA Insurance UK plc | £2,388m | £1,703m |
| AXA PPP healthcare limited | £297m | £220m |
| **Ireland** | | |
| AXA Insurance DAC | €484m | €306m |

# Management of Risks continued

## 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 recognised at fair value in the fair value measurement hierarchy at 31 December 2017.

| | | Fair value measurement based on: | | |
|---|---|---|---|---|
| Description | 2017 £m | Level 1 £m | Level 2 £m | Level 3 £m |
| **Financial assets at fair value through income** | **706** | **33** | **672** | **1** |
| Derivative financial instruments | 98 | 33 | 65 | - |
| Debt securities | 10 | - | 10 | - |
| Mutual funds | 598 | - | 597 | 1 |
| **Available for sale financial assets** | **6,691** | **5,116** | **1,556** | **19** |
| Equity investments | 347 | 332 | 13 | 2 |
| Debt securities | 6,073 | 4,784 | 1,289 | - |
| Mutual funds | 271 | - | 254 | 17 |
| Derivative financial instruments for hedging | **43** | **-** | **43** | **-** |
| **Total financial assets** | **7,440** | **5,149** | **2,271** | **20** |
| | | | | |
| **Financial liabilities at fair value through income** | **88** | **4** | **84** | **-** |
| Derivative financial instruments | 28 | 4 | 24 | - |
| Derivative financial instruments for hedging | 60 | - | 60 | - |
| | | | | |
| **Total financial liabilities** | **88** | **4** | **84** | **-** |

Investments recognised at cost less accumulated depreciation in the fair value measurement hierarchy at 31 December 2017.

| Description | 2017 £m | Level 1 £m | Level 2 £m | Level 3 £m |
|---|---|---|---|---|
| **Investments at cost less accumulated depreciation** | | | | |
| Investment property | 142 | - | 142 | - |
| Total | **142** | **-** | **142** | **-** |

# Management of Risks continued

Financial assets and financial liabilities recognised at fair value in the fair value measurement hierarchy at 31 December 2016.

| | | Fair value measurement based on: | | |
|---|---|---|---|---|
| Description | 2016 £m | Level 1 £m | Level 2 £m | Level 3 £m |
| **Financial assets at fair value through income** | **648** | **24** | **623** | **1** |
| Derivative financial instruments | 75 | 24 | 51 | - |
| Debt securities | 10 | - | 10 | - |
| Mutual funds | 563 | - | 562 | 1 |
| **Available for sale financial assets** | **6,030** | **4,079** | **1,926** | **25** |
| Equity investments | 297 | 279 | 16 | 2 |
| Debt securities | 5,559 | 3,800 | 1,759 | - |
| Mutual funds | 174 | - | 151 | 23 |
| **Derivative financial instruments for hedging** | **44** | **-** | **44** | **-** |
| **Total financial assets** | **6,722** | **4,103** | **2,593** | **26** |
| **Financial liabilities at fair value through income** | 117 | 53 | 64 | - |
| Derivative financial instruments | 89 | 53 | 36 | - |
| Derivative financial instruments for hedging | 28 | - | 28 | - |
| **Total financial liabilities** | 117 | 53 | 64 | - |

Investments recognised at amortised cost in the fair value measurement hierarchy at 31 December 2016.

| Description | 2016 £m | Level 1 £m | Level 2 £m | Level 3 £m |
|---|---|---|---|---|
| **Investments at cost less accumulated depreciation** | | | | |
| Investment property | 141 | - | 141 | - |
| Total | 141 | - | 141 | - |

£70.1m of debt securities were transferred from Level 1 to Level 2 during the year and £737.9m of debt securities were transferred from Level 2 to Level 1. £7.4m of derivative assets and £12.2m of derivative liabilities were transferred from Level 1 to Level 2 during the year and £0.1m of derivative assets were transferred from Level 2 to Level 1 during the year. Transfers between Level 1 and Level 2 occur primarily due to changes in the availability of pricing information.

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(d) '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.

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 2017

| 2017 | Available for sale | | Fair value through profit or loss | |
|---|---|---|---|---|
| | Equity securities | Mutual funds | Mutual funds | Total |
| **Description** | **£m** | **£m** | **£m** | **£m** |
| Opening balance | 2 | 23 | 1 | 26 |
| Total gains or losses | | | | |
| in other comprehensive income | - | 1 | - | 1 |
| Losses recognised through the statement of profit or loss | - | (1) | - | (1) |
| Purchases | - | 3 | - | 3 |
| Settlements | - | (9) | - | (9) |
| Transferred into level 3 | - | - | - | - |
| Transferred out of level 3 | - | - | - | - |
| Closing balance | 2 | 17 | 1 | 20 |

The following table presents the changes to Level 3 instruments for the year ended 31 December 2016

| 2016 | Available for sale | | Fair value through profit or loss | |
|---|---|---|---|---|
| | Equity securities | Mutual funds | Mutual funds | Total |
| **Description** | | **£m** | **£m** | **£m** |
| Opening balance | 2 | 33 | - | 35 |
| Total gains or losses | | | | |
| in other comprehensive income | - | 1 | - | 1 |
| Purchases | - | - | 1 | 1 |
| Settlements | - | (1) | - | (1) |
| Transferred into level 3 | - | - | - | - |
| Transferred out of level 3 | - | (10) | - | (10) |
| Closing balance | 2 | 23 | 1 | 26 |

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

**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 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.

# Management of Risks continued

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The 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 £847m (2016: £873m) and other liability claims outstanding of £394m (2016: £301m) within the total Insurance liabilities of £6,294m (2016: £6,047m).

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

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

**General insurance contracts – assumptions, change in assumptions and sensitivity**

**a) Process used to decide on assumptions**

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

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

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

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

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

- Methods based on the development of claims (paid or incurred) using triangulation methods (e.g. chain ladder and link ratio) for which past experience is applied to each loss occurrence or underwriting year, in order to make reserve 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).

# Management of Risks continued

- 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.
- Catastrophic injury claims settled, or expected to settle, as a periodic payment order, which are reserved for on an expected future payments basis for each individual claim, are subject to discounting (note 26).

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

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

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

**b) Change in assumptions**

Other than the Lord Chancellor's announcement of a change to the Ogden discount rate (used to discount the future cost of care and loss of earnings for injury claims) from +2.5% to -0.75% in the first quarter of 2017, no significant changes to assumptions were made in 2017 for the estimation of general insurance claims other than for claims settled by means of periodical payment orders as disclosed in note 26.

.

# 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 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 2017 are as follows:

| | Healthcare £m | Property & Casualty UK £m | Property & Casualty R of I £m | Other £m | Group £m |
|---|---|---|---|---|---|
| **Insurance revenue** | | | | | |
| Insurance premium revenue | 1,474 | 2,274 | 593 | - | 4,341 |
| Insurance premium ceded to reinsurers | (28) | (110) | (20) | - | (158) |
| **Net insurance revenue** | **1,446** | **2,164** | **573** | **-** | **4,183** |
| **Other income** | | | | | |
| Investment income | 5 | 57 | (15) | - | 47 |
| Net realised gains and losses relating to investments at cost and at fair value through shareholders equity | - | 29 | 7 | - | 36 |
| Net realised gains and losses and change in fair value of investments at fair value through profit and loss | 15 | 93 | 26 | - | 134 |
| Change in investment impairments | 2 | (8) | (2) | - | (8) |
| Other operating income | (6) | 88 | 16 | 72 | 170 |
| **Total income** | **1,462** | **2,423** | **605** | **72** | **4,562** |
| **Policyholders claims and benefits** | | | | | |
| Insurance claims and loss adjustment expenses | (1,046) | (1,491) | (419) | - | (2,956) |
| Insurance claims and loss adjustment expenses recoverable from reinsurers | 18 | (11) | 2 | - | 9 |
| **Other expenses** | | | | | |
| Insurance contract acquisition expenses | (185) | (544) | (105) | - | (834) |
| Marketing and administration expenses | (144) | (207) | (45) | - | (396) |
| Cost of asset management services | (1) | (13) | (3) | - | (17) |
| Other operating expenses | - | (11) | - | (73) | (84) |
| **Operating result** | **104** | **146** | **35** | **(1)** | **284** |
| **Underwriting result (footnote1)** | 83 | (12) | 22 | (1) | 92 |
| **Net investment result (footnote 2)** | 21 | 158 | 13 | - | 192 |
| **Operating result** | **104** | **146** | **35** | **(1)** | **284** |
| Finance costs | - | (1) | (1) | (10) | (12) |
| Gain on disposal | 12 | - | - | - | 12 |
| **Profit/(loss) before tax** | **116** | **145** | **34** | **(11)** | **284** |
| Income tax expense | (20) | (29) | (5) | (1) | (55) |
| **Profit/(loss) for the period attributable to equity shareholders of the Company** | **96** | **116** | **29** | **(12)** | **229** |
| **Other segment items included in the profit and loss account:** | | | | | |
| Depreciation and amortisation expenses | 6 | 15 | 2 | - | 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 investment related 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 investment related 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 2016 are as follows:

| | Healthcare £m | Property & Casualty UK £m | Property & Casualty R of I £m | Other £m | Group £m |
|---|---|---|---|---|---|
| **Insurance revenue** | | | | | |
| Insurance premium revenue | 1,416 | 2,235 | 479 | - | 4,130 |
| Insurance premium ceded to reinsurers | (26) | (114) | (18) | - | (158) |
| **Net insurance revenue** | **1,390** | **2,121** | **461** | **-** | **3,972** |
| **Other income** | | | | | |
| Investment income | 70 | 539 | 1 | - | 610 |
| Net realised gains and losses relating to investments at cost and at fair value through shareholders equity | 2 | 27 | 3 | (1) | 31 |
| Net realised gains and losses and change in fair value of investments at fair value through profit and loss | (47) | (317) | (10) | - | (374) |
| Change in investment impairments | - | (9) | 3 | - | (6) |
| Other operating income | (7) | 73 | 37 | 133 | 236 |
| **Total income** | **1,408** | **2,434** | **495** | **132** | **4,469** |
| **Policyholders claims and benefits** | | | | | |
| Insurance claims and loss adjustment expenses | (1,017) | (1,517) | (339) | - | (2,873) |
| Insurance claims and loss adjustment expenses recoverable from reinsurers | 16 | 71 | 6 | - | 93 |
| **Other expenses** | | | | | |
| Insurance contract acquisition expenses | (179) | (543) | (95) | - | (817) |
| Marketing and administration expenses | (139) | (205) | (37) | (1) | (382) |
| Cost of asset management services | (2) | (10) | (3) | (1) | (16) |
| Other operating expenses | - | (1) | - | (136) | (137) |
| ***Operating result*** | **87** | **229** | **27** | **(6)** | **337** |
| Underwriting result (footnote1) | 64 | (1) | 33 | (4) | 92 |
| Net investment result (footnote 2) | 23 | 230 | (6) | (2) | 245 |
| **Operating result** | **87** | **229** | **27** | **(6)** | **337** |
| Finance costs | - | - | - | (11) | (11) |
| Gain on disposal | - | 3 | - | - | 3 |
| **Profit/(loss) before tax** | 87 | 232 | 27 | (17) | 329 |
| Income tax expense | (20) | (40) | (4) | 3 | (61) |
| **Profit/(loss) for the period attributable to equity shareholders of the Company** | 67 | 192 | 23 | (14) | 268 |
| **Other segment items included in the profit and loss account:** | | | | | |
| Depreciation and amortisation expenses | **5** | **7** | **2** | **-** | **14** |

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 investment related 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 investment related 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 2017 and capital expenditure for the year then ended are as follows:

| | Healthcare £m | Property & Casualty UK £m | Property & Casualty R of I £m | Other £m | Group £m |
|---|---|---|---|---|---|
| Goodwill, intangible and deferred acquisition costs assets | 289 | 445 | 42 | - | 776 |
| Investments | 690 | 5,714 | 1,403 | - | 7,807 |
| *Reinsurance share of insurance contract liabilities* | 9 | 137 | 17 | - | 163 |
| Property, plant and equipment | 43 | 16 | 14 | - | 73 |
| Deferred Taxation | 2 | 46 | (6) | - | 42 |
| Receivables | (243) | (567) | 13 | 2,506 | 1,709 |
| Cash and cash equivalents | 175 | 236 | 56 | | 467 |
| **Total assets** | 965 | 6,027 | 1,539 | 2,506 | 11,037 |
| Insurance contract liabilities | 814 | 4,305 | 1,175 | - | 6,294 |
| Other liabilities | 337 | 656 | 142 | 355 | 1,490 |
| **Total liabilities** | 1,151 | 4,961 | 1,317 | 355 | 7,784 |
| **Capital expenditure** | 2 | 16 | 1 | - | 19 |

The segment assets and liabilities at 31 December 2016 and capital expenditure for the year then ended are as follows:

| | Healthcare £m | Property & Casualty UK £m | Property & Casualty R of I £m | Other £m | Group £m |
|---|---|---|---|---|---|
| Goodwill, intangible and deferred acquisition costs assets | 288 | 443 | 38 | - | 769 |
| Investments | 694 | 5,171 | 1,219 | - | 7,084 |
| Reinsurance share of insurance contract liabilities | 10 | 180 | 16 | - | 206 |
| Property, plant and equipment | 44 | 16 | 15 | - | 75 |
| Deferred Taxation | 3 | 61 | (3) | 5 | 66 |
| Receivables | (129) | (640) | 2 | 2,514 | 1,747 |
| cash and cash equivalents | 144 | 441 | 56 | 214 | 855 |
| **Total assets** | 1,054 | 5,672 | 1,343 | 2,733 | 10,802 |
| Insurance contract liabilities | 757 | 4,272 | 1,018 | - | 6,047 |
| Other liabilities | 425 | 591 | 194 | 576 | 1,786 |
| **Total liabilities** | 1,182 | 4,863 | 1,212 | 576 | 7,833 |
| **Capital Expenditure** | 18 | 12 | 2 | - | 32 |

# Notes to the financial statements continued

## 2. Segmental information – Geographical segments

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

| Net insurance revenue | 2017 £m | 2016 £m |
|---|---|---|
| UK | **3,610** | 3,511 |
| Republic of Ireland | **573** | 461 |
| **Total income from insurance contracts** | **4,183** | 3,972 |

| Total assets | 2017 £m | 2016 £m |
|---|---|---|
| UK | **9,498** | 9,459 |
| Republic of Ireland | **1,539** | 1,343 |
| **Total assets** | **11,037** | 10,802 |

| Capital expenditure | 2017 £m | 2016 £m |
|---|---|---|
| UK | **18** | 30 |
| Republic of Ireland | **1** | 2 |
| **Total capital expenditure** | **19** | 32 |

## 3. Net insurance revenue

| | 2017 £m | 2016 £m |
|---|---|---|
| Insurance contracts | | |
| - gross written premium | **4,391** | 4,242 |
| - change in unearned premium provision | **(50)** | (112) |
| Premium revenue arising from contracts issued | **4,341** | 4,130 |
| Reinsurance contracts | | |
| - gross written premium ceded | **(144)** | (153) |
| - change in unearned premium provision | **(14)** | (5) |
| Premium revenue ceded to reinsurers on insurance contracts issued | **(158)** | (158) |
| **Net premium revenue** | **4,183** | 3,972 |

# Notes to the financial statements continued

## 4. Investment result

| | December 2017 | | | | |
|---|---|---|---|---|---|
| £m | Net investment income | Net realised gains and losses relating to investments at cost and at fair value through other comprehensive income | 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 cost less accumulated depreciation less accumulated impairment | 3 | 1 | - | - | **4** |
| Debt instruments – available for sale | 166 | 4 | - | (1) | **169** |
| Debt instruments – available for sale in hedging relationship | - | - | (18) | - | **(18)** |
| Equity instruments – available for sale | 13 | 28 | - | (9) | **32** |
| Non-consolidated investment funds | 34 | 3 | 14 | - | **51** |
| *Non-consolidated investment funds available for sale* | *29* | - | *12* | - | ***41*** |
| *Non-consolidated investment funds designated as at fair value through profit or loss* | *5* | *3* | *2* | - | ***10*** |
| Loans at cost | 6 | - | - | 2 | **8** |
| Derivative instruments | 13 | - | 138 | - | **151** |
| Cash and cash equivalents | 1 | - | - | - | **1** |
| Foreign exchange gains (net) | (192) | - | - | - | **(192)** |
| Other | 3 | - | - | - | **3** |
| **TOTAL INCOME** | **47** | **36** | **134** | **(8)** | **209** |
| Investment management expenses | (17) | - | - | - | **(17)** |
| **INVESTMENT RESULT** | **29** | **36** | **134** | **(8)** | **192** |
| Finance costs (note 10) | (12) | - | - | - | **(12)** |
| **NET INVESTMENT RESULT** | **17** | **36** | **134** | **(8)** | **180** |

Notes to table:
1) Write back of impairment following investment sales are included in the net realised capital gains or losses on investments.

| **Net investment income by category** | **2017** **£m** | 2016 £m |
|---|---|---|
| Interest and similar income | **222** | 250 |
| Dividends | **46** | 34 |
| Amortisation | **(29)** | (32) |
| Foreign exchange | **(192)** | 358 |
| | **47** | **610** |

# Notes to the financial statements continued

| £m | December 2016<br>Net investment income | Net realised gains and losses relating to investments at cost and at fair value through other comprehensive income | 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 cost less accumulated depreciation less accumulated impairment | 6 | 9 | - | 3 | 18 |
| Debt instruments – available for sale | 172 | 5 | - | - | 177 |
| Debt instruments – available for sale in hedging relationship | - | - | 17 | (4) | 13 |
| Equity instruments – available for sale | 11 | 17 | - | (5) | 23 |
| Non-consolidated investment funds | 24 | - | (3) | - | 21 |
| *Non-consolidated investment funds available for sale* | *9* | - | - | - | *9* |
| *Non-consolidated investment funds designated as at fair value through profit or loss* | *15* | - | *(3)* | - | *12* |
| Loans at cost | 29 | - | - | - | 29 |
| Derivative instruments | 10 | - | (388) | - | (378) |
| Foreign exchange gains (net) | 358 | - | - | - | 358 |
| **TOTAL INCOME** | **610** | **31** | **(374)** | **(6)** | **261** |
| Investment management expenses | (16) | - | - | - | (16) |
| **INVESTMENT RESULT** | **594** | **31** | **(374)** | **(6)** | **245** |
| Finance costs (note 10) | (11) | - | - | - | (11) |
| **NET INVESTMENT RESULT** | **583** | **31** | **(374)** | **(6)** | **234** |

Notes to table:

*1) Write back of impairment following investment sales are included in the net realised capital gains or losses on investments.*

## 5. Other operating income

| | 2017<br>£m | 2016<br>£m |
|---|---|---|
| Other income from non-insurance business | **84** | 80 |
| Foreign exchange gains | **13** | 20 |
| Recharge of expenses to immediate parent company | **51** | 91 |
| Recharge of expenses to fellow subsidiary undertakings | **22** | 45 |
| **Other operating income** | **170** | 236 |

## 6. Other operating expenses

| | 2017<br>£m | 2016<br>£m |
|---|---|---|
| Other expenses from non-insurance business | **11** | 1 |
| Expenses incurred by Service Company recharged | **73** | 136 |
| **Other operating expenses** | **84** | 137 |

# Notes to the financial statements continued

## 7. Policyholder claims and benefits

| | 2017 £m | 2016 £m |
|---|---|---|
| Insurance claims and loss adjustment expenses: | | |
| Gross claims paid | **2,650** | 2,650 |
| Gross changes in insurance contract liabilities for claims | **308** | 223 |
| Unrealised movement in derivatives | **(2)** | - |
| | **2,956** | 2,873 |
| Insurance claims and loss adjustment expenses recoverable: | | |
| Reinsurers' share of: | | |
| Claims paid | **(40)** | (51) |
| Change in insurance contract liabilities for claims | **31** | (42) |
| | **(9)** | (93) |
| **Net policyholder claims and benefits** | **2,947** | 2,780 |

Policyholder claims and benefits are stated after the impact of associated fair value movements on derivative instruments of £(1.7)m (2016: £(0.3m)).

## 8. Other expenses

| | 2017 £m | 2016 £m |
|---|---|---|
| Movement in advanced commission payments (note 16) | **-** | 1 |
| Movement in deferred acquisition costs (note 17) | **(11)** | (27) |
| Costs incurred for the acquisition of insurance contracts expensed in the year | **851** | 850 |
| Attributable to reinsurers | **(6)** | (7) |
| **Total expenses for the acquisition of insurance contracts** | **834** | 817 |

| | 2017 £m | 2016 £m |
|---|---|---|
| Marketing and administrative expenses | **372** | 368 |
| Depreciation of property, plant and equipment | **7** | 7 |
| Amortisation of software development costs | **13** | 4 |
| Amortisation of other intangible assets | **4** | 3 |
| **Total marketing and administrative expenses** | **396** | 382 |

The operating lease payments recognised as an expense during the year were £7m (2016: £10m).

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

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Audit services: | | |
| - Fees payable to the Company's auditor for the audit of the statutory accounts | **76** | 66 |
| - Fees payable to the Company's auditor for the audit of its subsidiaries | **1,016** | 972 |
| Non-audit services: | | |
| Audit related assurance services, including the audit of the regulatory returns | **430** | 417 |
| | **1,522** | **1,455** |

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

# Notes to the financial statements continued

## 9. Employee benefit expense

| | 2017 Number | 2016 Number |
|---|---|---|
| Monthly average number of employees in the year were: | | |
| - Healthcare | **3,435** | 3,481 |
| - Property & Casualty UK | **4,594** | 4,449 |
| - Property & Casualty R of I | **1,063** | 1,064 |
| | **9,092** | 8,994 |

| | 2017 £m | 2016 £m |
|---|---|---|
| Wages and salaries | **339** | 329 |
| Social security costs | **37** | 31 |
| Pension costs - defined contribution plans (note 32) | **41** | 40 |
| Pension costs - defined benefit plans (note 32) | **40** | 62 |
| | **457** | 462 |

## 10. Finance costs

| | 2017 £m | 2016 £m |
|---|---|---|
| Interest expense: | | |
| - subordinated debt at cost | **1** | 1 |
| - unsecured company bonds | **10** | 10 |
| - net foreign exchange gains | **1** | - |
| **Finance costs** | **12** | 11 |

## 11. Income tax expense

| | 2017 £m | 2016 £m |
|---|---|---|
| Current tax | | |
| Current tax on losses for the year | **36** | 26 |
| Adjustments in respect of previous years | **(2)** | (6) |
| Total current tax | **34** | **20** |
| Deferred tax (note 31) | | |
| Origination and reversal of temporary differences | **21** | 43 |
| Adjustments to deferred tax assets arising in previous periods | **-** | (2) |
| Total deferred tax | **21** | 41 |
| **Income tax charge** | **55** | **61** |

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:

| | 2017 £m | 2016 £m |
|---|---|---|
| Profit before tax | **284** | 329 |
| Tax at the UK rate of 19.25% (2016: 20.00%) | **55** | 66 |
| Effects of: | | |
| - tax calculated at domestic tax rates applicable to profits in the respective countries | **(2)** | (2) |
| - income not subject to tax & expenses not tax deductible | **(3)** | - |
| - recognition of tax losses | **4** | - |
| - impact of the change in UK tax rate | **3** | 5 |
| - adjustments to tax charge in respect of previous periods | **(2)** | (8) |
| **Tax charge for the period** | **55** | **61** |

# Notes to the financial statements continued

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.

The standard rate of tax applied to reported profit on ordinary activities is 19.25% (2016: 20.0%). During 2016 the deferred tax balances were re-measured as a result of the changes to the UK corporation tax rate that were enacted in Finance (No.2) Act 2016. The UK corporation tax rate will reduce from 20% to 19% with effect from 1 April 2017 and will be further reduced from 19% to 17% with effect from 1 April 2020. The impact included in the tax charge for the year is a charge of £3m (2016: charged of £5m).

The tax (charge)/credit relating to components of Other Comprehensive Income is as follows:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Before tax | Tax charge | After tax | Before tax | Tax charge | After tax |
| | £m | £m | £m | £m | £m | £m |
| Remeasurement (losses)/gains on defined benefit schemes | **48** | **(7)** | **41** | (53) | 7 | (46) |
| Fair value movements on available for sale financial assets | **-** | **4** | **4** | 153 | (28) | 125 |
| Exchange losses on revaluation of subsidiary net assets | **12** | **-** | **12** | 43 | - | 43 |
| Fair value on loss on hedge accounting derivatives | **(2)** | **-** | **(2)** | (15) | - | (15) |
| **Other comprehensive income** | **58** | **(3)** | **55** | 128 | (21) | 107 |
| **Current tax charge** | | **(3)** | | | (21) | |

## 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.

| | 2017 | 2016 |
|---|---|---|
| Profit attributable to the Company's equity holders (£m) | **229** | 268 |
| Weighted average number of ordinary shares in issue (£'000) | **1,059,786** | 1,059,786 |
| Basic earnings per share (pence per share) | **21.65** | 25.28 |

### Diluted

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

## 13. Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: £nil).

# Notes to the financial statements continued

## 14. Property, plant and equipment

| | Land and Buildings £m | Motor vehicles £m | Plant and Equipment £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as at 1 January 2017 | 96 | 4 | 47 | 147 |
| Additions at cost | - | - | 5 | 5 |
| Disposals | - | (1) | (1) | (2) |
| Exchange and other movements | 1 | - | - | 1 |
| **Balance as at 31 December 2017** | **97** | **3** | **51** | **151** |
| **Accumulated depreciation** | | | | |
| Balance as at 1 January 2017 | 42 | - | 30 | 72 |
| Charge for the year | 2 | - | 5 | 7 |
| Disposals | - | - | (1) | (1) |
| **Balance as at 31 December 2017** | **44** | **-** | **34** | **78** |
| **Net book value as at 31 December 2017** | **53** | **3** | **17** | **73** |

| | Land and buildings £m | Motor vehicles £m | Plant and Equipment £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as at 1 January 2016 | 93 | 4 | 43 | 140 |
| Additions at cost | 1 | - | 4 | 5 |
| Acquisitions | 1 | - | 2 | 3 |
| Disposals | (1) | - | (3) | (4) |
| Exchange and other movements | 2 | - | 1 | 3 |
| **Balance as at 31 December 2016** | **96** | **4** | **47** | **147** |
| **Accumulated depreciation** | | | | |
| Balance as at 1 January 2016 | 40 | - | 28 | 68 |
| Charge for the year | 2 | - | 5 | 7 |
| Disposals | - | - | (3) | (3) |
| Exchange and other movements | - | - | - | - |
| **Balance as at 31 December 2016** | **42** | **-** | **30** | **72** |
| **Net book value as at 31 December 2016** | **54** | **4** | **17** | **75** |

Depreciation expense of £7m (2016: £7m) has been charged to marketing and administration expenses.

The freehold properties were valued at £77m as at 31 December 2017 (2016: £65m) 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.

# Notes to the financial statements continued

## 15. Investment properties

| | 2017 £m | 2016 £m |
|---|---|---|
| **Cost** | | |
| Balance as at 1 January | **177** | 194 |
| Disposals at cost | **(13)** | (17) |
| **Balance as at 31 December** | **164** | **177** |
| **Accumulated depreciation and impairment** | | |
| Balance as at 1 January | **52** | 55 |
| Charge for the year | **2** | 3 |
| Disposals | **(1)** | (3) |
| Impairment movement | **(5)** | (3) |
| **Balance as at 31 December** | **48** | **52** |
| **Net book value as at 31 December** | **116** | **125** |

The properties were valued at £142m (£141m at 31 December 2016) on a fair value basis 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 £7m (2016: £10m), whilst the associated operating expenses were £1m (2016: £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 2017 | 382 | 114 | 149 | 55 | 700 |
| Additions at cost | - | 13 | 1 | - | 14 |
| **Balance as at 31 December 2017** | **382** | **127** | **150** | **55** | **714** |
| **Accumulated amortisation and impairment** | | | | | |
| Balance as at 1 January 2017 | - | 100 | 145 | 27 | 272 |
| Charge for the year | - | 13 | 1 | 4 | 18 |
| **Balance as at 31 December 2017** | **-** | **113** | **146** | **31** | **290** |
| **Net book value as at 31 December 2017** | **382** | **14** | **4** | **24** | **424** |

| | Goodwill £m | Software Development £m | Advance Commission £m | Other Intangibles £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at 1 January 2016 | 377 | 103 | 147 | 44 | 671 |
| Additions at cost | - | 11 | 2 | - | 13 |
| Disposals at cost | (1) | - | - | - | (1) |
| Acquisitions (note 38) | 6 | - | - | 11 | 17 |
| **Balance as at 31 December 2016** | **382** | **114** | **149** | **55** | **700** |
| **Accumulated amortisation and impairment** | | | | | |
| Balance as at 1 January 2016 | - | 96 | 144 | 24 | 264 |
| Charge for the year | - | 4 | 1 | 3 | 8 |
| **Balance as at 31 December 2016** | **-** | **100** | **145** | **27** | **272** |
| **Net book value as at 31 December 2016** | **382** | **14** | **4** | **28** | **428** |

Amortisation expense of £18m (2016: £8m) has been charged to marketing and administration expenses.

# Notes to the financial statements continued

a) **Goodwill** relates to the acquisitions of the AXA PPP Healthcare Group Limited, SecureHealth (Holdings) Limited, ICAS International Holdings Limited, Health and Protection Solutions Limited (previously Independent Sales Force Solutions Limited), Health On-line Company UK Limited, GBI Holdings, SimplyHealth private medical business, The Permanent Health Company and Aid-call Limited. The goodwill has been allocated between the healthcare and direct business cash generating units, £185m and £197m, 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 pre-tax risk adjusted discount rate of 9.0% (direct business CGU) and 12.1% (healthcare CGU). 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 not exceeding five years. A review was undertaken of the carrying value of capitalised assets relating to projects which were no longer being actively pursued and which would no longer support business generation. This resulted in exceptional impairment being charged within the year of £9m (2016: £nil).

c) **Advance commissions** represent separate payments to intermediaries, with useful lives ranging from two to three years, in respect of future business.

d) **Other intangibles** arise mainly from the fair valuation of the assets acquired on acquisition together with some new books of business acquired.

## 17. Deferred acquisition costs

| | 2017 £m | 2016 £m |
|---|---|---|
| Deferred acquisition costs as at 1 January | **341** | 310 |
| Exchange and other movements | **-** | 4 |
| Credit to income statement in the year: | **11** | 27 |
| Acquisition costs deferred during the year | **649** | 644 |
| Amortisation charged during the year | **(638)** | (617) |
| **Deferred acquisition costs as at 31 December** | **352** | **341** |

# Notes to the financial statements continued

## 18. Investments in subsidiaries

### Particulars of principal subsidiary undertakings

| | Address of the registered office | Holdings of ordinary shares |
|---|---|---|
| **Insurance companies** | | |
| AXA Insurance UK plc | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA PPP healthcare limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA Insurance DAC | Wolfe Tone House, Wolf Tone Street, Dublin 1, Ireland | 100% |
| | | |
| **Other companies** | | |
| AXA Insurance plc | 5 Old Broad Street, London, EC2N 1AD, UK | *100% |
| AXA General Insurance Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA Holdings Ireland Limited | Wolfe Tone House, Wolf Tone Street, Dublin 1, Ireland | 100% |
| AXA PPP Healthcare Group Limited | 5 Old Broad Street, London, EC2N 1AD, UK | *100% |
| AXA Services Limited | 5 Old Broad Street, London, EC2N 1AD, UK | *100% |
| Health On-line Company UK Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| ICAS International Holdings Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA PPP Healthcare Administration Services Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| Health and Protection Solutions Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| The Permanent Health Company Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA ICAS Occupational Health Services Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA PPP Administration Services Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA ICAS Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| ICAS Orientacion Independiente S. L. | Arroyofresno 19, 28035 Madrid, Spain | 100% |
| ICAS Employee and Organisation Enhancement Services Southern Africa (PTY) Limited | Dunkeld Office Park, 6 North Road, Dunkeld West 2196, Johannesburg, South Africa | 80% |
| AXA UK Pension Trustees Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| The Royal Exchange Assurance | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA Pension Fund Ireland Limited | Wolfe Tone House, Wolf Tone Street, Dublin 1, Ireland | 100% |
| AXA Ireland Limited | Wolfe Tone House, Wolf Tone Street, Dublin 1, Ireland | 100% |
| AXA Ireland Pension Trustees Limited | Wolfe Tone House, Wolf Tone Street, Dublin 1, Ireland | 100% |
| AXA Assistance Ireland Limited | Wolfe Tone House, Wolf Tone Street, Dublin 1, Ireland | 49% |
| AXA Group Services Limited | Wolfe Tone House, Wolf Tone Street, Dublin 1, Ireland | 100% |
| Swiftcover Insurance Services Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| GRE Nominee Shareholdings Limited | 5 Old Broad Street, London, EC2N 1AD, UK | *100% |
| Sangano Investment Holdings Proprietary Limited | 6 North Road, Moorgate Building, Dunkeld Park, Dunkeld West, 2196, Johannesburg, South Africa | 34% |
| PPP Taking Care Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| ICAS Managed Care Proprietary Limited | Dunkeld Office Park, 6 North Road, Dunkeld West 2196, Johannesburg, South Africa | 100% |

*denotes where the company is a direct subsidiary of the Company.

**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, with the exception of those holdings denoted by an asterix, where the Company is the parent.

On 5 April 2017, ICAS Managed Care Proprietary Limited was incorporated in South Africa as a wholly owned subsidiary of the Group's intermiedate subsidiary ICAS Employee and Organisation Enhancement Services Southern Africa (PTY) Limited.

On 15 August 2017, Knight Law Limited was dissolved and removed as a group undertaking.

# Notes to the financial statements continued

As at 1 January 2017, the Group's immediate subsidiary AXA Healthcare Group Limited had entered into a share purchase agreement to sell the entire issued share capital of AXA Healthcare Management (Asia) to AXA Global Protect. The sale has resulted in the recognition of a £12m gain on disposal of operations, recorded in the consolidated statement of profit or loss.

The Group is considered to have obtained control of indirect subsidiary undertaking Sangano Investment Holdings Limited despite only holding 34% of available share capital, due to the company's memorandum of incorporation and board of directors being structured in such a way as to enable ICAS International Holdings Limited to retain control of the activities and returns of the company.

## 19. Investment in financial assets

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

| | 2017 £m | 2016 £m |
|---|---|---|
| Available for sale | **6,691** | 6,030 |
| Fair value through income | **706** | 648 |
| - Held for trading: derivatives | **98** | 75 |
| - Designated: debt and other fixed income securities | **10** | 10 |
| - Designated: share and other variable yield securities | **598** | 563 |
| Derivatives in hedge relationships | **43** | 44 |
| Loans | **251** | 237 |
| **Total financial assets** | **7,691** | **6,959** |

| **Available for sale financial assets** | 2017 £m | 2016 £m |
|---|---|---|
| Shares and other variable yield securities - equity securities | | |
| - listed | **345** | 295 |
| - unlisted | **2** | 2 |
| Shares and other variable yield securities - mutual funds | | |
| - listed | **113** | 32 |
| - unlisted | **158** | 142 |
| Debt securities | | |
| - listed | **5,891** | 5,461 |
| - unlisted | **182** | 98 |
| **Total available for sale financial assets** | **6,691** | 6,030 |

| **Loans** | 2017 £m | 2016 £m |
|---|---|---|
| Broker loans | **4** | 4 |
| Real estate and other private loans - secured by mortgages | **123** | 141 |
| Term loan | **96** | 92 |
| Secured loan facility | **28** | - |
| **Total loans** | **251** | 237 |

Included within available for sale assets - Debt and other fixed income securities are bonds with a fair value of £35m, which form part of a total return swap agreement. A corresponding liability has been recorded within borrowings (note 28) for £32m, representing the amount repayable on maturity of the agreements. The bonds continue to be recognised on the basis that all the risks and rewards associated with the bonds are retained by the Company. The total return swaps have maturity periods ranging from 2022 to 2024.

# Notes to the financial statements continued

## Derivative financial instruments and hedging

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

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

In the narrative and tables below, both notional and fair value amounts are shown. The notional amount is the most commonly used measure of volume in the derivatives market, however, it is not used as a measure of risk because the notional amount greatly exceeds the possible credit market loss that could arise from such transactions, as it does not represent the amounts actually exchanged by the parties. The 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 2017, the notional amount of all derivative instruments totalled £13,251m (£7,340m at the end of 2016). Their net fair value as of 31 December 2017 totalled £53m (£2m at the end of 2016).

## Instruments designated for hedge accounting

During the year the Group has used one type of fair value hedge, a macro hedge (portfolio 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 cash flow hedges effectively hedge the income stream from inflation linked UK treasury bonds over the lifetime of the asset, which mature in 2044 and 2052. There was no ineffectiveness recorded from the cash flow hedges during the period. The movement in fair value is recognised in other comprehensive income at the end of the reporting period.

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

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| **Derivative financial instruments** | **Contractual / Notional Amount** | **Asset** | **Liability** | **Contractual/ Notional Amount** | **Asset** | **Liability** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Asset swaps - cash flow hedge | **131** | **-** | **(24)** | 131 | - | (20) |
| Interest Rate Swaps | **6,688** | **43** | **(36)** | 2,020 | 44 | (8) |
| **Total** | **6,819** | **43** | **(60)** | 2,151 | 44 | (28) |

| **Gains/(losses) on fair value hedges** | **2017** | **2016** |
|---|---|---|
| | **£m** | **£m** |
| Hedged items attributable to interest rate risk | **(18)** | 17 |
| Hedging instruments – macro | **11** | (19) |
| | **(7)** | (2) |

# Notes to the financial statements continued

### Instruments not qualifying for hedge accounting

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

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

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Contractual / Notional Amount £m | Asset £m | Liability £m | Contractual/ Notional Amount £m | Asset £m | Liability £m |
| Foreign Exchange Forwards | **2,757** | **23** | **(3)** | 2,813 | 18 | (53) |
| Credit Default Swaps | **472** | **11** | - | 473 | 5 | (1) |
| Currency Swaps | **33** | - | **(6)** | 32 | - | (5) |
| Interest Rate Swaps | **917** | **48** | **(16)** | 591 | 51 | (20) |
| OTC Equities | **1,469** | **7** | **(2)** | 1,067 | 1 | (5) |
| Swaptions | **296** | - | - | 213 | - | (5) |
| OTC currency options | **488** | **9** | **(1)** | - | - | - |
| **Total** | **6,432** | **98** | **(28)** | 5,189 | 75 | (89) |

## 20. Reinsurers' share of insurance contract liabilities

| | 2017 £m | 2016 £m |
|---|---|---|
| **Reinsurers' share of insurance contract liabilities** | | |
| Reinsurers' share of provision for claims outstanding and loss adjustment expenses | 128 | 157 |
| Reinsurers' share of provision for unearned premiums | 35 | 49 |
| **Reinsurers' share of insurance contract liabilities** | **163** | **206** |

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

| | | |
|---|---|---|
| Settlement period for reinsurers' share of claims outstanding and long-term insurance contract liabilities | | |
| Less than 12 months | **12** | 12 |
| Greater than 12 months | **116** | 145 |
| | **128** | **157** |

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

| | 2017 £m | 2016 £m |
|---|---|---|
| Balance as at 1 January | **157** | 112 |
| Reinsurers' share of claims payments made in year | **(40)** | (51) |
| Increase in recoverables | **9** | 93 |
| Exchange and other movements | **2** | 3 |
| **Balance as at 31 December** | **128** | **157** |

## Notes to the financial statements continued

**Reinsurers' share of provision for unearned premiums**

| | 2017 £m | 2016 £m |
|---|---|---|
| Balance as at 1 January | **49** | 54 |
| Premiums written in the year | **144** | 153 |
| Premiums earned in the year | **(158)** | (158) |
| **Balance as at 31 December** | **35** | **49** |

**21. Insurance and reinsurance receivables**

| | 2017 £m | 2016 £m |
|---|---|---|
| Direct and reinsurance inwards insurance receivables | **1,408** | 1,400 |
| Reinsurance receivables (ceded only) | **34** | 43 |
| **Total insurance and reinsurance receivables due within one year** | **1,442** | **1,443** |

**22. Other receivables**

| | 2017 £m | 2016 £m |
|---|---|---|
| Accrued interest | - | 1 |
| Prepayments and accrued income | **14** | 16 |
| Amounts due from ultimate parent company | **4** | 4 |
| Loans due from immediate parent company | **86** | 86 |
| Other amounts due from intermediate parent company | **60** | 22 |
| Amounts due from fellow subsidiary undertakings | **28** | 31 |
| Other receivables | **75** | 144 |
| **Total other receivables** | **267** | **304** |
| | | |
| Expected to be recovered in less than one year | **267** | 304 |
| Expected to be recovered in more than one year | - | - |

No interest is charged on other intercompany loans.

**23. Cash and cash equivalents**

| | 2017 £m | 2016 £m |
|---|---|---|
| Cash at bank and in hand | **454** | 338 |
| Short-term deposits | **13** | 517 |
| **Cash and cash equivalents** | **467** | 855 |

The principal balance within the short-term deposits in the prior year is a controlled sterling cash mutual fund investment, which has an average maturity of 56 days. The fund invests in certificates of deposit, commercial paper, bonds, floating rate note, derivatives and United Kingdom treasury bills. In 2017 the Group no longer has a controlling interest in the fund, which has resulted in the investment being recorded within investments in financial assets as a mutual fund.

# Notes to the financial statements continued

## 24. Ordinary share capital

| | 2017 Shares | £m | 2016 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 | 2017 £m | 2016 £m |
|---|---|---|
| Balance as at 31 December | 523 | 523 |

## 25. Other Reserves

| 2017 | Capital reserve £m | Capital redemption reserve £m | Capital contribution reserve £m | Revaluation reserve AFS assets £m | Revaluation reserve Cash flow hedge £m | Translation reserve £m | Total £m |
|---|---|---|---|---|---|---|---|
| Balance as at 1 January | 104 | 189 | 271 | 290 | (19) | 27 | **862** |
| Fair value gain on available for sale financial assets | - | - | - | - | - | - | - |
| Fair value loss on cash flow hedge accounting derivatives | - | - | - | - | (2) | - | **(2)** |
| Tax on movements taken directly to equity - deferred | - | - | - | 4 | - | - | **4** |
| - current | - | - | - | - | - | - | - |
| Exchange on revaluation of subsidiary net assets | - | - | - | - | - | 12 | **12** |
| **Balance as at 31 December** | **104** | **189** | **271** | **294** | **(21)** | **39** | **876** |

| 2016 | Capital reserve £m | Capital redemption reserve £m | Capital contribution reserve £m | Revaluation reserve AFS £m | Revaluation reserve Cash flow | Translation reserve £m | Total £m |
|---|---|---|---|---|---|---|---|
| Balance as at 1 January | 104 | 189 | 271 | 165 | (4) | (16) | **709** |
| Fair value loss on available for sale financial assets | - | - | - | 153 | - | - | **153** |
| Fair value loss on cash flow hedge accounting derivatives | - | - | - | - | (15) | - | **(15)** |
| Tax on movements taken directly to equity - deferred | - | - | - | (28) | - | - | **(28)** |
| - current | - | - | - | - | - | - | - |
| Exchange on revaluation of subsidiary net assets | - | - | - | - | - | 43 | **43** |
| **Balance as at 31 December** | **104** | **189** | **271** | **290** | **(19)** | **27** | **862** |

The capital reserve represents share premium paid on ordinary shares of AXA Insurance plc (formerly, Guardian Royal Exchange 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 Xb and movements in cash flow hedges as described in accounting policy XII (c).

# Notes to the financial statements continued

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**

| | 2017 £m | 2016 £m |
|---|---|---|
| Balance as at 1 January | **271** | 161 |
| Investments purchased in prior accounting periods | | |
| Transfer to statement of profit or loss following sale | **(40)** | (25) |
| Transfer to statement of profit or loss following increase in impairment | **7** | 21 |
| Transfer to statement of profit or loss following changes in premium/discount | **32** | 30 |
| Foreign exchange impact | **(8)** | 8 |
| Adjustments in current accounting period | **(8)** | 106 |
| Change in fair value of hedge accounting derivatives | **(2)** | 2 |
| Adjustments to investments purchased in the current accounting period | **17** | (4) |
| Revaluation gains of available for sale financial assets | **269** | **299** |
| Tax | **4** | (28) |
| **Balance as at 31 December** | **273** | **271** |

## 26. Insurance contract liabilities

| | 2017 £m | 2016 £m |
|---|---|---|
| Provision for claims outstanding and loss adjustment expenses | **4,310** | 4,120 |
| Provision for unearned premiums | **1,984** | 1,927 |
| **Total insurance contract liabilities** | **6,294** | **6,047** |
| | | |
| Settlement period for claims outstanding | | |
| Less than 12 months | **1,482** | 1,310 |
| Greater than 12 months | **2,828** | 2,810 |
| | **4,310** | **4,120** |

**Provision for claims outstanding and loss adjustment expenses**

| | 2017 £m | 2016 £m |
|---|---|---|
| Balance as at 1 January | **4,120** | 3,917 |
| Total claims payments made in the year | **(2,650)** | (2,650) |
| Increase in liabilities | **2,820** | 2,755 |
| Exchange and other movements | **20** | 98 |
| **Balance as at 31 December** | **4,310** | **4,120** |

**Provision for unearned premiums**

| | 2017 £m | 2016 £m |
|---|---|---|
| Balance as at 1 January | **1,927** | 1,790 |
| Premiums written in the year | **4,391** | 4,242 |
| Premiums earned in the year | **(4,341)** | (4,130) |
| Exchange and other movements | **7** | 25 |
| **Balance as at 31 December** | **1,984** | **1,927** |

# Notes to the financial statements continued

## 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 | |
|---|---|---|---|---|
| | 2017 %pa | 2016 %pa | 2017 Years | 2016 Years |
| Periodic Payment basis | **4.3** | 3.9 | **38** | 39 |

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 £4,965m (2016: £4,620m).

## 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.

| Accident year - Gross | 2009 £m | 2010 £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | 2016 £m | 2017 £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of ultimate claims costs: | | | | | | | | | | |
| - at end of accident year | 2,470 | 2,489 | 2,466 | 2,506 | 2,380 | 2,493 | 2,665 | 2,793 | 2,888 | |
| - one year later | 2,706 | 2,648 | 2,563 | 2,669 | 2,470 | 2,574 | 2,932 | 3,114 | - | |
| - two years later | 2,644 | 2,547 | 2,454 | 2,588 | 2,388 | 2,584 | 2,786 | - | - | |
| - three years later | 2,623 | 2,513 | 2,434 | 2,551 | 2,388 | 2,590 | - | - | - | |
| - four years later | 2,609 | 2,515 | 2,412 | 2,473 | 2,378 | - | - | - | - | |
| - five years later | 2,616 | 2,511 | 2,432 | 2,519 | - | - | - | - | - | |
| - six years later | 2,614 | 2,480 | 2,365 | - | - | - | - | - | - | |
| - seven years later | 2,554 | 2,442 | - | - | - | - | - | - | - | |
| - eight years later | 2,495 | - | - | - | - | - | - | - | - | |
| Current estimate of cumulative claims | 2,495 | 2,442 | 2,365 | 2,519 | 2,378 | 2,590 | 2,786 | 3,114 | 2,888 | 23,577 |
| Cumulative payments to date | 2,449 | 2,401 | 2,317 | 2,422 | 2,194 | 2,245 | 2,270 | 2,198 | 1,604 | 20,099 |
| Liability recognised in the balance sheet | 46 | 41 | 48 | 97 | 184 | 345 | 516 | 917 | 1,284 | 3,478 |
| Liability in respect of prior years | | | | | | | | | | 832 |
| **Total liability included in the balance sheet** | | | | | | | | | | **4,310** |

| Accident year - Net | 2009 £m | 2010 £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | 2016 £m | 2017 £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of ultimate claims costs: | | | | | | | | | | |
| - at end of accident year | 2,431 | 2,465 | 2,438 | 2,454 | 2,361 | 2,463 | 2,636 | 2,758 | 2,846 | |
| - one year later | 2,666 | 2,628 | 2,546 | 2,627 | 2,453 | 2,545 | 2,902 | 3,075 | - | |
| - two years later | 2,607 | 2,528 | 2,434 | 2,550 | 2,371 | 2,550 | 2,757 | - | - | |
| - three years later | 2,588 | 2,492 | 2,415 | 2,511 | 2,371 | 2,558 | - | - | - | |
| - four years later | 2,568 | 2,492 | 2,392 | 2,436 | 2,356 | - | - | - | - | |
| - five years later | 2,574 | 2,488 | 2,414 | 2,485 | - | - | - | - | - | |
| - six years later | 2,581 | 2,467 | 2,343 | - | - | - | - | - | - | |
| - seven years later | 2,522 | 2,428 | - | - | - | - | - | - | - | |
| - eight years later | 2,457 | - | - | - | - | - | - | - | - | |
| Current estimate of cumulative claims | 2,457 | 2,428 | 2,343 | 2,485 | 2,356 | 2,558 | 2,757 | 3,075 | 2,846 | 23,306 |
| Cumulative payments to date | 2,416 | 2,388 | 2,304 | 2,388 | 2,179 | 2,219 | 2,243 | 2,167 | 1,577 | 19,881 |
| Liability recognised in the balance sheet | 41 | 41 | 39 | 96 | 177 | 339 | 514 | 908 | 1,269 | 3,424 |
| Liability in respect of prior years | | | | | | | | | | 758 |
| **Liability net of reinsurance included in the balance sheet** | | | | | | | | | | **4,182** |

The amounts shown in the above gross and net tables for the prior years have been amended to reflect an improved analysis of the development of claims.

## 27. Insurance and reinsurance liabilities

| | 2017 £m | 2016 £m |
|---|---|---|
| Direct and reinsurance inwards insurance liabilities | **254** | 324 |
| Reinsurance liabilities (ceded only) | **38** | 57 |
| **Total insurance and reinsurance liabilities** | **292** | **381** |

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

## 28. Borrowings

| | 2017 £m | 2016 £m |
|---|---|---|
| Liability relatng to repurchase agreement | **-** | 20 |
| Subordinated debt at cost due to immediate parent company | **18** | 17 |
| Financing debt due to immediate parent company | **28** | 27 |
| Liability under total return swap agreement | **32** | - |
| Listed unsecured 6 5/8% Company bonds repayable 2023 | **149** | 149 |
| **Total borrowings** | **227** | 213 |

The fair value of the above financial instruments is the same as the carrying amount, with the exception of the listed unsecured 6 5/8% Company bond, which has a fair value of £192m (2016: £199m).

All of the above items are payable after more than one year after the Statement of Financial Position date. A maturity analysis is included witin the management of risks section.

# Notes to the financial statements continued

## 29. Provisions for other liabilities and charges

| 2017 | MIB provision £m | Vacant space provision £m | Restructuring provision £m | Other provisions £m | Total £m |
|---|---|---|---|---|---|
| Balance as at 1 January 2017 | 43 | 18 | 11 | 35 | **107** |
| Charged to income statement | 28 | 5 | 29 | 51 | **113** |
| Utilised during year | (32) | (3) | (15) | (31) | **(81)** |
| Exchange and other movements | 1 | - | - | - | **1** |
| **Balance as at 31 December 2017** | **40** | **20** | **25** | **55** | **140** |

| | 2017 £m | 2016 £m |
|---|---|---|
| To be settled within 12 months | **110** | 93 |
| To be settled after 12 months | **30** | 15 |
| | **140** | 107 |

a) The **MIB provision** relates to the levy payable in respect of 2017 premiums and covers both the UK Motor Insurers' Bureau and the Motor Insurers' Bureau of Ireland. The levy is assessed on 2017 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) The **restructuring provision** relates to restructuring costs arising in the healthcare companies following the acquisitions of the Simplyhealth PMI business in 2015, and the acquisition of PPP Taking Care Limited in 2016, in addition to redundancy payments within AXA Insurance UK plc and branch network restructure programme in Ireland.

d) **Other provisions** include provisions for liabilities arising from regulatory levies, taxation and a levy relating to the London Metropolitan Fire Brigade and an onerous contract for travel business in relation to the future period between 2018 and 2020.

## 30. Other liabilities

| | 2017 £m | 2016 £m |
|---|---|---|
| Accruals and deferred income | **238** | 227 |
| Amounts due to immediate parent company | **187** | 163 |
| Social security and other tax payments | **133** | 118 |
| Other liabilities | **130** | 139 |
| Net asset value attributable to unit holders | **-** | 214 |
| **Total other liabilities** | **688** | **861** |

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 £nil (2016: £214m) 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.

# Notes to the financial statements continued

## 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.

| | 2017<br>£m | 2016<br>£m |
|---|---|---|
| Balance as at 1 January | **66** | 128 |
| Statement of profit or loss charge (note 11) | **(21)** | (41) |
| Tax (charge)/credit to other comprehensive income (note 25) | **(3)** | (21) |
| **Balance as at 31 December** | **42** | **66** |

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 31 December 2017 was £42m (2016: £66m).

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<br>£m | Tax losses carried forward<br>£m | Total<br>£m |
|---|---|---|---|
| Balance as at 1 January 2017 | 11 | 90 | **101** |
| Statement of profit or loss (charge) (note 11) | (12) | (11) | **(23)** |
| Retained earnings | (7) | - | **(7)** |
| **Balance as at 31 December 2017** | **(8)** | **79** | **71** |

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 £18m (2016: £20m) in respect of losses amounting to £101m (2016: £110m) that can be carried forward against specific categories of future taxable income.

### Deferred tax liabilities

| | Unrealised appreciation of investments<br>£m | Equalisation reserve<br>£m | Other short-term timing differences<br>£m | Total<br>£m |
|---|---|---|---|---|
| Balance as at 1 January 2017 | 40 | 23 | (28) | **35** |
| Statement of profit or loss (charge) (note 11) | (4) | (4) | 6 | **(2)** |
| Revaluation reserve | (4) | - | - | **(4)** |
| **Balance as at 31 December 2017** | **32** | **19** | **(22)** | **29** |

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:

| | 2017<br>£m | 2016<br>£m |
|---|---|---|
| Retained earnings: retirement obligations | **(7)** | 7 |
| Revaluation reserve: financial assets | **4** | (28) |
| | **(3)** | **(21)** |

# Notes to the financial statements continued

## 32. Retirement benefit obligations

### AXA UK Pension Scheme

Staff engaged in the Company'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 Company is unable to accurately identify its share of the underlying assets and liabilities of the defined benefit section. There is no contractual agreement or stated policy for charging the net defined benefit cost to the Company, as such the Company has recognised within the financial statements a cost equal to its contribution for the period. On 31 August 2013 the AXA UK Pension Scheme closed to both new membes and future accrual and all remaining active members moved to deferred status.

Responsibility for the governance of the plan, including investment decisions, contribution schedules and scheme administration, lies with a single trustee board consisting of company appointed directors and member nominated directors. Additionally, the Law Debenture Pension Trust Corporation is a director, acting on behalf of the Trustee board with Special Director status.

The AXA UK Group made additional contributions totalling £243m (2016: £119m) to the Scheme, in accordance with a ten year plan to reduce the funding deficit and to ensure that the Statutory Funding Objective is met. The appropriate level of contributions to be paid under the funding deficit 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. Companies within this Group consolidation paid £38m (2016: £59m) of this amount. The expected contributions to be paid for the next annual reporting period under the recovery plan is £66m. The assumptions adopted for the triennial actuarial valuations are determined by the trustees and agreed with AXA UK and are normally more prudent than the assumptions adopted for IAS 19 purposes, which are on a best estimate basis.

An internal review by AXA UK of the defined benefit scheme, revealed an IAS 19 surplus of £152m as at 31 December 2017 (£321m deficit as at 31 December 2016) after reflecting an investment in the Scottish Limited Partnership. 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 meet the liabilities of the scheme.

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.

| | **2017** | **2016** |
|---|---|---|
| Discount rate | **2.5%** | 2.7% |
| Future pension increases | **3.0%** | 3.3% |
| Inflation assumption | **2.2%** | 2.3% |

The discount and inflation rates disclosed within the above table represent single equivalent rates based on the cashflow profile of the scheme. The 2017 and 2016 valuations have been calculated on a full yield curve rather than a single rate, as this methodology provides a more accurate approach that is better aligned with a general move in the market to use a market consistent approach in valuing the liabilities.

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

| | **2017 £m** | **2016 £m** |
|---|---|---|
| Present value of obligation as at 1 January | **5,496** | 4,520 |
| Current service cost | **5** | 5 |
| Interest cost | **124** | 147 |
| Actuarial losses/(gains) - financial assumptions | **52** | 1,131 |
| Actuarial gains/(losses) - demographic assumptions | **(97)** | (98) |
| Benefits paid | **(245)** | (209) |
| **Present value of obligation as at 31 December** | **5,335** | **5,496** |

# Notes to the financial statements continued

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

| | 2017 £m | 2016 £m |
|---|---|---|
| Fair value of plan assets as at 1 January | **5,175** | 4,139 |
| Expected return on plan assets | **120** | 136 |
| Employer contributions paid by AXA UK plc | **188** | 40 |
| Employer contributions paid by other participating entities | **42** | 67 |
| Asset backed contribution | **18** | 18 |
| Benefits paid | **(245)** | (209) |
| Actuarial gains | **189** | 984 |
| **Fair value of plan assets as at 31 December** | **5,487** | **5,175** |

Analysis of assets by category

| | 2017 £m | 2016 £m |
|---|---|---|
| Equities | **39** | 55 |
| Debt securities | **2,794** | 2,287 |
| Government | **2,240** | 1,661 |
| Corporate | **554** | 626 |
| Property | **348** | 334 |
| Other assets | **1,986** | 2,173 |
| Derivatives | **403** | 343 |
| Cash | **63** | 22 |
| Investment funds | **1,520** | 1,808 |
| Asset backed security | **320** | 326 |
| **Fair value of plan assets as at 31 December** | **5,487** | **5,175** |

**Other defined benefit pension schemes**

a) The Group operated the AXA Unapproved Top-up Scheme which is a defined benefit scheme. During the year the obligations as at 30 June 2017 was transferred to the immediate parent company AXA UK plc. The scheme is an unfunded arrangement and therefore no company contributions were paid during the accounting period. However, the Group has paid the current pensions in payment of £1m up to the date of transfer of the scheme to AXA UK plc. The AXA Unapproved Top-up Scheme has been closed to new members since 1999.

b) A subsidiary of the Group offers certain healthcare benefits, on a non-contributory basis, to substantially all employees who were employed prior to June 1999, upon retirement. The expected costs of this benefit have been assessed in accordance with the advice of an independent qualified actuary as at 31 December 2017.

c) The Group's subsidiary in Ireland operated a contributory defined benefit scheme which provided benefits based on length of service and pensionable salary at retirement age. The scheme closed to future accrual with an effective date of 31 July 2015 and was closed to new membership at the end of 2005. The deferred member benefits increase in line with inflation and are capped at 4% p.a., and pension increases are discretionary and shall not exceed 1.35% p.a. compound cumulative from 1 April 2017 except with prior consent of the principal employer.

The defined benefit scheme assets are held in a separately administered fund and benefits are paid from the scheme assets. During 2016 the asset allocation changed to reduce exposure to interest rate, inflation and equity risks. The first phase of the change increased the interest rate hedging in the scheme to 55% (on a government bond basis rather than on an IAS basis/AA corporate bond basis).

The increase in interest rate hedges helps reduce the volatility in the funding level and protects against a fall in yields. The company and trustees are considering increasing the hedge to 75% at a later date. An inflation hedge was introduced through inflation swaps, which has reduced exposure to funding level volatility resulting from movements in inflation.

A one year equity collar strategy was put in place from June 2016 to June 2017. The strategy is designed to protect against equity losses of more than 20% over the period however this limits the upside exposure to 9% over the period. The equity collar strategy is no longer in place. The defined benefit plan is also invested in an investment grade European Credit portfolio which somewhat reduces its risk to a fall in corporate bond yields however it is now exposed to credit risk on this portfolio.

A funding policy was agreed between the trustees and the company in 2015. Under this funding policy the company agreed to pay contributions over six years with the goal of eliminating the plan deficit. The expected employer funding contributions for 2018 is £11m.

An independent actuarial review by Mercer, on which the amounts recognised in the financial statements are based, was carried out at 31 December 2017.

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:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | UK | | | UK | | |
| | Top-up scheme | Healthcare scheme | Ireland | Top-up scheme | Healthcare scheme | Ireland |
| Discount rate | 0 | 2.5% | 2.1% | 2.7% | 2.7% | 1.9% |
| Future pension increases | 0 | - | 1.4% | 3.3% | - | 1.4% |
| Inflation assumption | 0 | 8.0% | 1.8% | 2.3% | 8.0% | 1.7% |
| Life expectancy for pensioners at regular retirement age | | | | | | |
| Male | 0 | 24 | 27 | 29 | 24 | 27 |
| Female | 0 | 25 | 29 | 30 | 26 | 30 |

**Mortality tables - UK schemes**

The following tables were used for the 2016 actuarial review:

Mortality for male members is assumed to follow the standard SAPS 2 Light tables applicable to each individual's year of birth with a 95% multiplier and no age rating. Future improvements in these mortality rates are in line with those applying from 2007 in accordance with the CMI 2016 Core Projection Model, with a long term improvement rate of 1.25% pa.

Mortality for female members is assumed to follow the standard SAPS 2 Light tables applicable to each individual's year of birth with a 87% multiplier and no age rating. Future improvements in these mortality rates are in line with those applying from 2007 in accordance with the CMI 2016 Core Projection Model, with a long term improvement rate of 1.25% pa.

The following tables were used for the 2017 actuarial review:

**Mortality tables – Ireland scheme**

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

# Notes to the financial statements continued

**Pensions and other post-retirement obligations**

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

| | UK Top-up scheme 2017 £m | Healthcare scheme 2017 £m | Ireland 2017 £m | Total 2017 £m | 2016 £m |
|---|---|---|---|---|---|
| Present value of defined benefit obligations | - | 11 | 515 | **526** | 590 |
| Fair value of plan assets: | - | - | (514) | **(514)** | (492) |
| Equities | - | - | (99) | **(99)** | (110) |
| Debt securities | - | - | (376) | **(376)** | (369) |
| Property | - | - | (5) | **(5)** | (5) |
| Cash | - | - | (34) | **(34)** | (8) |
| **Net liability in the balance sheet** | **-** | **11** | **1** | **12** | **98** |

All investments are quoted in active markets with the exception of Property. 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 2017 £m | Healthcare scheme 2017 £m | Ireland 2017 £m | Total 2017 £m | 2016 £m |
|---|---|---|---|---|---|
| Current service cost | - | - | 1 | **1** | **1** |
| Plan amendment and curtailments | - | - | - | **-** | **1** |
| Total service cost | - | - | 1 | 1 | **2** |
| Interest cost on the defined benefit obligation | - | - | 9 | **9** | **10** |
| Interest income on plan assets | - | - | (8) | **(8)** | **(9)** |
| **Total included within employee benefit expenses** | **-** | **-** | **2** | **2** | **3** |

The total cost recognised as an expense in the statement of profit or loss for defined benefit schemes amounted to £40m in 2017 (2016: £62m). This represents a £2m (2016: £3m credit) for the schemes reported on balance sheet and £38m (2016: £59m) for the AXA UK merged pension scheme.

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

| | UK Top-up scheme 2017 £m | Healthcare scheme 2017 £m | Ireland 2017 £m | Total 2017 £m | 2016 £m |
|---|---|---|---|---|---|
| Actual return on assets | - | - | 5 | **5** | 32 |
| less expected return on scheme assets | - | - | (8) | **(8)** | (9) |
| Experience gains on assets | - | - | (3) | **(3)** | 23 |
| Experience (losses)/gains on liabilities | - | 1 | 10 | **11** | (8) |
| Change in demographic assumptions | - | - | 20 | **20** | - |
| Change in financial assumptions | 1 | - | 19 | **20** | (68) |
| **Remeasurement (losses)/gains on pension benefits** | **1** | **1** | **46** | **48** | (53) |

# Notes to the financial statements continued

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

| | UK Top-up scheme 2017 £m | UK Healthcare scheme 2017 £m | Ireland 2017 £m | Total 2017 £m | 2016 £m |
|---|---|---|---|---|---|
| Present value of obligation as at 1 January | 28 | 12 | 550 | **590** | 452 |
| Exchange | - | - | 21 | **21** | 67 |
| Current service cost | - | - | 1 | **1** | 1 |
| Interest cost | - | - | 9 | **9** | 10 |
| Plan ammendment and curtailment | - | - | - | **-** | 1 |
| Actuarial losses/(gains) | (1) | (1) | (49) | **(51)** | 76 |
| Benefits paid | (1) | - | (17) | **(18)** | (17) |
| Transfer of defined benefit obligation to immediate parent company | (26) | - | - | **(26)** | - |
| **Present value of obligation as at 31 December** | **-** | **11** | **515** | **526** | 590 |

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

| | UK Top-up scheme 2017 £m | UK Healthcare scheme 2017 £m | Ireland 2017 £m | Total 2017 £m | 2016 £m |
|---|---|---|---|---|---|
| Fair value of plan assets as at 1 January | - | - | 492 | **492** | 395 |
| Exchange | - | - | 20 | **20** | 64 |
| Expected return on plan assets | - | - | 8 | **8** | 9 |
| Employer contributions | - | - | 14 | **14** | 17 |
| Benefits paid | - | - | (17) | **(17)** | (16) |
| Actuarial gains | - | - | (3) | **(3)** | 23 |
| **Fair value of plan assets as at 31 December** | **-** | **-** | **514** | **514** | **492** |

**History of experience gains and losses**

| | UK Top-up scheme | | UK Healthcare scheme | | Ireland | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Difference between expected and actual return on scheme assets: | | | | | | |
| - amount - gain £m | - | - | - | - | **(3)** | 23 |
| - percentage of scheme assets | - | - | - | - | **(0.6)%** | 4.7% |
| Experience gains and losses on obligations: | | | | | | |
| - amount - (loss)/gain £m | - | (4) | **1** | 1 | **10** | (5) |
| - percentage of the present value of the obligations | - | (14.3)% | **9.1%** | 8.3% | **1.9%** | (0.9)% |
| Total amount recognised outside income statement: | | | | | | |
| - amount - (loss)/gain £m | - | (1) | **1** | (1) | **46** | (51) |
| - percentage of the present value of the obligations | - | (3.6)% | **9.1%** | (8.3)% | **8.9%** | (9.3)% |

# Notes to the financial statements continued

**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.

| | 2017 £m |
|---|---|
| 2018 | 15 |
| 2019 | 16 |
| 2020 | 16 |
| 2021 | 17 |
| 2022 | 18 |
| Between 5 years and 10 years | 95 |
| Beyond 10 years | 617 |
| Total estimated payments | 794 |

The average duration of the defined benefit plan obligations at the end of the reporting period are 14 years and 20 years for the 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 2017 is shown below:

| | Life expectancy | Discount rates | Inflation rates | Salary increase rate | Medical inflation rate |
|---|---|---|---|---|---|
| Impact on the net defined benefit obligation of | | | | | |
| 0.5% increase | - | (50) | 12 | - | 1 |
| 0.5% decrease | - | 55 | (18) | - | (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 2018 employer contributions to be paid by companies included within this consolidation for defined benefit schemes is £48m.

**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 £41m in 2017 (2016: £40m).

# Notes to the financial statements continued

## 33. Cash generated from operations

| | **2017** **£m** | 2016 £m |
|---|---|---|
| Profit before tax and exceptionals | **272** | 326 |
| Depreciation and fixed asset write-offs | **7** | 7 |
| Depreciation of investment properties | **2** | 3 |
| Amortisation of intangibles and impairments | **18** | 8 |
| Realised and unrealised investment gains/(losses) | **19** | (35) |
| Amortisation of available for sale investments | **28** | 29 |
| Impairment charge on available for sale investments | **10** | 25 |
| Impairment charge on investment properties | **1** | 1 |
| Change in insurance technical provisions | **254** | 146 |
| Change in Other debt instrument | **32** | - |
| Change in other assets and liabilities | **(25)** | 279 |
| Interest expense | **12** | 11 |
| Interest income | **(222)** | (250) |
| Dividend income | **(46)** | (34) |
| **Cash generated from operations** | **362** | 516 |

## 34. Related parties

The following transactions were carried out with related parties:

| | **Related Party** | **£m** | **£m** |
|---|---|---|---|
| **Income** | | | |
| Gross written premiums | Fellow subsidiaries | **98** | 90 |
| Recharges of business services | Intermediate parent | **51** | 91 |
| | Fellow subsidiaries | **22** | 45 |
| Income on loans and debt securities | Ultimate parent | **1** | 1 |
| | Immediate parent | **-** | 4 |
| | Fellow subsidiaries | **-** | 22 |
| **Total** | | **172** | **253** |
| **Expenses** | | | |
| Claims paid | Fellow subsidiaries | **60** | 85 |
| Reinsurance premiums paid | Fellow subsidiaries | **111** | 103 |
| Acquisition costs | Fellow subsidiaries | **5** | 5 |
| Commissions paid | Fellow subsidiaries | **53** | 46 |
| Business services | Fellow subsidiaries | **60** | 57 |
| Interest on borrowings | Immediate parent | **1** | 1 |
| **Total** | | **290** | **297** |

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.

# Notes to the financial statements continued

| Assets | Related party | 2017 £m | 2016 £m |
|---|---|---|---|
| **Loans and bonds to related parties** | | | |
| Interest bearing loans | Immediate parent | **96** | 92 |
| Non interest bearing loans | Immediate parent | **86** | 86 |
| **Insurance related assets** | | | |
| Deferred acquisition costs | | **4** | 1 |
| Insurance and reinsurance receivables | Fellow subsidiaries | **152** | 136 |
| **Total** | | **338** | **315** |

| Liabilities | Related party | 2017 £m | 2016 £m |
|---|---|---|---|
| **Interest bearing loan** | Immediate parent | **18** | 17 |
| **Insurance related creditors** | | | |
| Unearned premium reserve | Fellow subsidiaries | **37** | 26 |
| Outstanding claims | Fellow subsidiaries | **94** | 83 |
| Insurance payables | Fellow subsidiaries | **33** | 29 |
| Earned commissions | Fellow subsidiaries | **7** | 2 |
| Claims settlement costs | Fellow subsidiaries | **4** | 1 |
| **Total** | | **193** | **158** |

| | | | |
|---|---|---|---|
| **Summary of movements on loan assets and bonds:** | | | |
| Opening balance | | **178** | 525 |
| Additions during year | | **4** | 14 |
| Repayments | | **-** | (361) |
| Closing balance | | **182** | **178** |
| **Assets managed by fellow subsidiaries** | | | |
| Available for sale investments | | **6,691** | 6,017 |
| Fair value through profit or loss | | **749** | 575 |
| Loans and receivables | | **251** | 141 |
| Investment property | | **116** | 125 |
| **Total** | | **7,807** | **6,858** |

The above tables include amendments to prior years to reflect an improvement in the analysis of related party transactions.

The loans and receivables are unsecured and bear no interest except as disclosed in note 28. No provisions are held against receivables from related parties (2016: 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 DAC, which includes the Group Chief Executive Officer and Group Chief Financial Officer of AXA UK plc.

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

| | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| Salary and other short-term benefits | **7,672** | 10,172 |
| Post-employment benefits | **146** | 183 |
| Other long-term benefits | **744** | 3,617 |
| Total | **8,562** | **13,972** |

During the year, one member of the key management had an interest in a loan from AXA Insurance DAC. The outstanding balance of this loan at the end of the year was £108,316 (2016: £108,625). The loan has a term of 7 years, at an interest rate of 3.4%

## 35. Commitments

**a) Pledged securities and collateralised commitments given**

The Group pledged £118m (2016: £53m) government bonds as collateral for derivative contracts with Barclays, BNP Paribas, Royal Bank of Canada, HSBC and GS International.

The Group pledged assets of £33m (2016: £33m) for ceded technical reserves under a reinsurance agreement with Swiss Re. The collateral is set at 80% of the prior year closing technical reserves and is updated annually.

**b) Pledged securities and collateralised commitments received**

The Group received pledges of £59m (2016: £54m) government bonds as collateral to derivative contracts with Barclays, Morgan Stanley and Deutsche Bank.

**Financial commitments**

Outstanding commitments at 31 December 2017 are listed in the table. These have been translated at the exchange rates prevailing at year end.

| | 2017<br>£m | 2016<br>£m |
|---|---|---|
| Debt securities (2017: €45m) (2016: €45m) | 40 | 39 |
| Debt fund (2017: $8m) (2016: $7m) | 6 | 5 |
| Alternative credit fund (2017: $27m) (2016: $51m) | 20 | 40 |
| | **66** | **84** |

**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:

| | 2017<br>£m | 2016<br>£m |
|---|---|---|
| No later than 1 year | **9** | 11 |
| Later than 1 year and no later than 5 years | **31** | 34 |
| Later than 5 years | **30** | 36 |
| | **70** | 81 |

**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 £116m (2016: £125m) shown within note 15.

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

| | 2017<br>£m | 2016<br>£m |
|---|---|---|
| No later than 1 year | 9 | 10 |
| Later than 1 year and no later than 5 years | 27 | 40 |
| Later than 5 years | 24 | 29 |
| | 60 | 79 |

## 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. The directors did not receive any emoluments or other benefits from the Company or from any other company in the AXA Group in respect of qualifying services to the Company in the current or prior year.

Mr. B. Poupart-Lafarge was 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.

Mr. W. U. Malik was a director of AXA Insurance 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.

Mr. C. G. Bobby was a director of SBJ Holdings Limited 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.

No directors exercised share options or employee sharesave options in AXA UK plc during the year (2016: One).

## 37. Contingent liabilities

With the approval of the 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.

## 38. Events occurring after the reporting period

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

## 39. Immediate and ultimate parent

The Group's immediate parent is AXA UK plc, a company incorporated and registered in the UK.

The parent undertaking of the largest group which includes the Group and for which group financial statements are prepared is AXA SA. Copies of the AXA SA Group financial statements can be obtained from 25, avenue Matignon, 75008 Paris, France.

Registered Number 01821312

# Parent Company Balance Sheet

as at 31 December 2017

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Shares in subsidiary undertakings | 1 | **1,942** | 1,942 |
| **Current assets** | | | |
| Debtors | 2 | **148** | 145 |
| **Creditors** | | | |
| Amounts falling due within one year | 3 | **(145)** | (134) |
| **Net current liabilities** | | **3** | 11 |
| **Total assets less current liabilities** | | **1,945** | 1,953 |
| **Creditors** | | | |
| Amounts falling due after more than one year | 4 | **(149)** | (149) |
| **Net assets** | | **1,796** | 1,804 |
| **Capital and reserves** | | | |
| Called up share capital | 5 | **56** | 56 |
| Share premium account | 5 | **523** | 523 |
| Capital redemption reserve | 6 | **189** | 189 |
| Capital contribution reserve | 6 | **271** | 271 |
| Profit and loss account - brought forward | | **765** | 723 |
| Profit and loss account - profit for the year | | **(8)** | 42 |
| **Total shareholders' funds** | | **1,796** | 1,804 |

The separate financial statements on pages 87 to 94 were approved and authorised for issue by the Board of Directors on 27 April 2018 and were signed on its behalf by:

**B. Poupart-Lafarge**
Director

# Parent Company Statement of Changes in Equity

as at 31 December 2017

| 2017 | Called-up share capital £m | Share premium account £m | Other reserves £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|---|
| Balance as at 1 January | 56 | 523 | 460 | 765 | **1,804** |
| Loss for the year financial year and total comprehensive income | - | - | - | (8) | **(8)** |
| **Balance as at 31 December** | **56** | **523** | **460** | **757** | **1,796** |

| 2016 | Called-up share capital £m | Share premium £m | Other reserves £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|---|
| Balance as at 1 January | 56 | 523 | 460 | 723 | 1,762 |
| Profit for the year financial year and total comprehensive income | - | - | - | 42 | 42 |
| **Balance as at 31 December** | 56 | 523 | 460 | 765 | 1,804 |

The information on pages 89 to 94 forms an integral part of these individual financial statements.

# Parent Company – Accounting Policies

## I. General Information

Guardian Royal Exchange plc ("the Company") acts as a holding company for its subsidiaries which underwrite general insurance and healthcare business mainly in the United Kingdom and the Republic of Ireland.

The Company is a public limited company by shares under the Companies Act 2006, and is incorporated and domiciled in the UK. The address of its registered office is 5 Old Broad Street, London, EC2N 1AD.

## II. Principal Accounting Policies

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

## III. Basis of preparation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires management to monitor and exercise judgment in the selection and application of appropriate accounting policies and in the use of accounting estimates. Management has determined that there are no accounting policies subject to significant accounting policy judgement.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

(a) The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
i.paragraph 79(a)(iv) of IAS 1;
ii. paragraph 118(e) of IAS 38 Intangible Assets

(b) The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, and 111 of IAS 1 Presentation of Financial Statements.

(c) The requirements of IFRS 7 Financial instruments: Disclosures.

(d) The requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement.

(e) The requirements of IAS 7 Statement of Cash Flows.

(f) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

(g) The requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures.

(h) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

(i) The requirements of paragraph 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135 (c) to 135 (e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

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.

## IV. Investment income

Investment income consists of dividends. Dividend income is recognised when the right to receive payment is established.

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

# Parent Company – Accounting Policies continued

V. **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.

VI. **Current and deferred taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

**Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Profit and Loss Account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying value amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the Profit and Loss Account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority.

**Current and deferred tax for the year**

Current and deferred tax are recognised in profit and loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

# Parent Company – Accounting Policies continued

## VII. Foreign currencies

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

# Parent Company – Notes to the Financial Statements

## 1. Shares in subsidiary undertakings

| | 2017 £m | 2016 £m |
|---|---|---|
| Carrying value at 1 January and 31 December | 1,942 | 1,942 |

| | Address of the registered office | Holdings of ordinary shares |
|---|---|---|
| **Insurance companies** | | |
| AXA Insurance UK plc | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA PPP healthcare limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA Insurance DAC | Wolfe Tone House, Wolf Tone Street, Dublin 1, Ireland | 100% |
| **Other companies** | | |
| AXA Insurance plc | 5 Old Broad Street, London, EC2N 1AD, UK | *100% |
| AXA General Insurance Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA Holdings Ireland Limited | Wolfe Tone House, Wolf Tone Street, Dublin 1, Ireland | 100% |
| AXA PPP Healthcare Group Limited | 5 Old Broad Street, London, EC2N 1AD, UK | *100% |
| AXA Services Limited | 5 Old Broad Street, London, EC2N 1AD, UK | *100% |
| Health On-line Company UK Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| ICAS International Holdings Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA PPP Healthcare Administration Services Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| Health and Protection Solutions Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| The Permanent Health Company Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA ICAS Occupational Health Services Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA PPP Administration Services Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA ICAS Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| ICAS Orientacion Independiente S. L. | Arroyofresno 19, 28035 Madrid, Spain | 100% |
| ICAS Employee and Organisation Enhancement Services Southern Africa (PTY) Limited | Dunkeld Office Park, 6 North Road, Dunkeld West 2196, Johannesburg, South Africa | 80% |
| AXA UK Pension Trustees Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| The Royal Exchange Assurance | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| AXA Pension Fund Ireland Limited | Wolfe Tone House, Wolf Tone Street, Dublin 1, Ireland | 100% |
| AXA Ireland Limited | Wolfe Tone House, Wolf Tone Street, Dublin 1, Ireland | 100% |
| AXA Ireland Pension Trustees Limited | Wolfe Tone House, Wolf Tone Street, Dublin 1, Ireland | 100% |
| AXA Assistance Ireland Limited | Wolfe Tone House, Wolf Tone Street, Dublin 1, Ireland | 49% |
| AXA Group Services Limited | Wolfe Tone House, Wolf Tone Street, Dublin 1, Ireland | 100% |
| Swiftcover Insurance Services Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| GRE Nominee Shareholdings Limited | 5 Old Broad Street, London, EC2N 1AD, UK | *100% |
| Sangano Investment Holdings Proprietary Limited | 6 North Road, Moorgate Building, Dunkeld Park, Dunkeld West, 2196, Johannesburg, South Africa | 34% |
| PPP Taking Care Limited | 5 Old Broad Street, London, EC2N 1AD, UK | 100% |
| ICAS Managed Care Proprietary Limited | Dunkeld Office Park, 6 North Road, Dunkeld West 2196, Johannesburg, South Africa | 100% |

*denotes where the company is a direct subsidiary of the Company.

**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, with the exception of those holdings denoted with an asterix, where the Company is the parent.

On 15 August 2017, Knight Law Limited was dissolved and removed as a group undertaking.

The Group is considered to have obtained control of indirect subsidiary undertaking Sangano Investment Holdings Limited despite only holding 34% of available share capital, due to the company's memorandum of incorporation and board of directors structured in such a way as to enable ICAS International Holdings Limited to retain control of the activities and returns of the company.

# Parent Company – Notes to the Financial Statements continued

## 2. Debtors-amounts falling due within one year

| | 2017 £m | 2016 £m |
|---|---|---|
| Amounts owed by subsidiary undertakings | 142 | 141 |
| Taxation | 6 | 4 |
| **Total amounts falling due within one year** | **148** | **145** |

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

## 3. Creditors – amounts falling due within one year

| | 2017 £m | 2016 £m |
|---|---|---|
| Amounts owed to intermediate parent company | **69** | 59 |
| Amounts owed to subsidiary undertakings | **72** | 71 |
| Other creditors | **4** | 4 |
| **Total amounts falling due within one year** | **145** | **134** |

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

| | 2017 £m | 2016 £m |
|---|---|---|
| Non-bank loans over 5 years: listed unsecured 6 5/8% Company bonds repayable in 2023 | **149** | 149 |
| **Total amounts falling due after more than one year** | **149** | **149** |

## 5. Called up share capital

| | 2017 Shares | £m | 2016 Shares | £m |
|---|---|---|---|---|
| **Issued and fully paid ordinary shares of 5.25p each** | **1,059,785,981** | **56** | 1,059,785,981 | 56 |

| | 2017 £m | 2016 £m |
|---|---|---|
| **Share premium account** | | |
| **Balance as at 31 December** | 523 | 523 |

## 6. Other reserves

| | Capital redemption reserve £m | Capital contribution reserve £m | Total £m |
|---|---|---|---|
| Balance as at 1 January and 31 December 2017 | 189 | 271 | 460 |

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.

# Parent Company – Notes to the Financial Statements continued

## 7. Capital commitments

At 31 December 2017 contracts placed for future capital expenditure not provided in the financial statements amounted to £nil (2016: £nil).

## 8. Immediate and ultimate parent

The Company's immediate parent is AXA UK plc, a company registered in the UK. In the opinion of the directors, the Company's ultimate parent and controlling company is AXA SA, 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 SA. Copies of the AXA SA Group financial statements can be obtained from 25, avenue Matignon, 75008 Paris, France.

## 9. Directors' emoluments

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