GUARDIAN ASSURANCE LIMITED

COMPANY NUMBER 38921

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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GUARDIAN ASSURANCE LIMITED

COMPANY INFORMATION

Chairman

Ian Bruce Owen

Directors

Stephen James Groves

Jonathan James Yates

Andrew Seaton Birrell

John Leonard Wybrew

Secretary

Simon Anthony John Davis

Registered Office

Ballam Road

Lytham St Annes

Lancashire

FY8 4JZ

Auditors

Ernst & Young LLP

Ten George Street

Edinburgh

EH2 2DZ

Company Number: 38921

The following members of the Financial Services sector team at Cinven are non-executive Directors of Guardian Financial Services Holdings UK Limited, the immediate parent undertaking of Guardian Assurance Limited

- Caspar Berendsen, also a member of the Group Investment Committee, the Group Remuneration Committee and the Chairman of the Group Audit, Risk & Compliance Committee
- Peter Catterall, also a member of the Group Remuneration Committee
- Maxim Crewe, also a member of the Group Investment Committee and the Audit, Risk & Compliance Committee

GUARDIAN ASSURANCE LIMITED

REPORT BY THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2012

The Directors present their report and the audited financial statements for the year ended 31 December 2012

Structure of these Financial Statements

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2012 and applied in accordance with the Companies Act 2006

Introduction and Structure

Guardian Financial Services is the collective trading name for Guardian Assurance Limited, Guardian Linked Life Assurance Limited and Guardian Pensions Management Limited These Companies, together with Guardian Companies Services Limited, are all 100% owned by Guardian Financial Services Holdings UK Limited (formerly known as Green Day Acquisitions Limited) The ultimate parent undertakings are the partnerships comprising the Fourth Cinven Fund, being funds managed by Cinven Limited The Directors consider the Company's ultimate controlling party to be Cinven Limited, a European Private Equity Firm

Cinven funds, advised by Cinven Limited, acquired Guardian Assurance Limited during November 2011 Cinven's approach is to acquire successful companies and help them grow and develop, while demonstrating a responsible approach towards employees, suppliers, local communities, the environment and society

Change in ownership

On 30 June 2012, the entire share capital of Guardian Linked Life Assurance Limited and Guardian Pensions Management Limited was transferred to the Company's Non Profit Fund from Guardian Financial Services Holdings UK Limited (formerly known as Green Day Acquisitions Limited)

Principal activity

The principal activity of the Company consists of the writing of long-term insurance business The Company is currently only writing new business in respect of increments and options under existing policies The regulatory authorisations allowing new business to be written remain in force In addition to its principal activity, the Company has a run-off portfolio of general insurance business The Company is domiciled and incorporated in England & Wales

On 30 June 2012, the Company underwent a restructure of its With Profit Fund, whereby gross liabilities of £3 7 billion, in respect of immediate and deferred non profit annuities and reinsurance assets of £1 1 billion were transferred to a newly created Non Profit Fund Financial assets of £2 6 billion were transferred from the With Profits Fund to the Non Profit Fund

On 26 June 2012, the Company entered into an agreement with Phoenix Group, under which Phoenix reinsured 300,000 in-payment pension annuities, effective from 1 July 2012 to the company The gross liabilities of the Non Profit Fund accordingly increased by £5 0 billion, effective on 1 July 2012 with an equivalent amount of financial assets received in support of these liabilities, which were fully transferred to the company on 5 July 2012 The assets accepted were in the form of UK Gilts, corporate bonds and interest rate swaps Prior to closing the transaction, the company raised additional capital of £420m by issuing new ordinary shares to its parent

Principal activity (continued)

On 1 August 2012, the Company entered into a longevity swap with RGA Global Reinsurance Company Limited and RGA International Reinsurance Company Limited, effective from 1 July 2012 This was in respect of £1 5 billion of liabilities arising from the Phoenix in-payment pension annuities The net effect of these reinsurance arrangements was to reduce the net liabilities of the Non Profit Fund by £98m As part of the terms of the RGA longevity swap, collateral is required to be provided, and £30m of assets were set aside in terms of this collateral arrangement on 28 August 2012

Financial results

The results for the year are shown in the Income Statement on page 13 Interim dividends of £17,600,000 were declared and settled for the year to 31 December 2012 (2011 £8,400,000) The Directors do not propose a final dividend payment for the year ended 31 December 2012 (2011 £nil)

The income before tax is £287,675,000 (2011 £27,622,000)

Review of the business and future developments

The directors consider that the net income and year end financial position were highly satisfactory, particularly given the background of reduced credit spreads and bond yields over the period The Company's net income after tax for the year is £212,173,000 (2011 £12,273,000)

The increase over the prior year reflects the impact of the With Profit Restructure, whereby shareholders are now exposed to risks and returns on the assets backing the liabilities transferred into the Non Profit Fund, and the further increase in assets and liabilities as a result of the Phoenix pensions annuities reinsurance The Directors expect the Company will continue to generate net income and maintain a satisfactory financial position for the foreseeable future

The main key performance indicator for the Company is maintaining solvency and generating profits over the longer term This is monitored by the Board of the Company on a regular basis The excess of Available Capital Resources to cover long-term insurance business and general insurance business over the Capital Resources Requirement was £562,211,000 at 31 December 2012 compared to £193,789,000 at 31 December 2011

Strategy

The directors believe that closed life books enjoy highly visible and very stable long term cash flows with attractive returns on equity The Guardian Group's strategy focuses on the acquisition of further life insurance back books via reinsurance or corporate transactions, in order to apply Guardian's investment and capital synergies knowledge, resulting in value creation to transaction counterparties, customers and Guardian shareholders

GUARDIAN ASSURANCE LIMITED

REPORT BY THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2012

Directors

The current Directors of the Company are shown on page 1

The names of those individuals who served as Directors of the Company during the year are as follows

Christopher W Chapman	Appointed 23 November 2011 and Resigned 5 March 2012
Stephen James Groves	
Ian Bruce Owen	
Jonathan James Yates	Appointed 1 March 2012
Andrew Seaton Birrell	Appointed 2 April 2012
John Leonard Wybrew	Appointed 6 September 2012

Each of the current Directors has been granted a qualifying third party indemnity by the Company, in terms of the relevant sections of the Companies Acts 2006

Creditor payment policy

The objective is to treat our suppliers fairly and in accordance with good commercial practice Suppliers' invoices are settled in accordance with agreed contractual terms or, if no terms are scheduled, generally within 20 days of the appropriate invoice date The trade creditors outstanding at the end of the year represented a credit period of 12 days

Corporate governance

The Company has established a governance framework for monitoring and overseeing strategy, conduct of business standards and operations of the business that includes

- a clearly stated corporate organisational structure, and written terms of reference for the Board and its committees, with appropriate delegated authorities,
- a Group Audit, Risk and Compliance Committee, the members of which are non-executive Directors, which oversees internal control and financial reporting matters, risk and capital matters, and regulatory compliance matters,
- a With-Profits Committee, the members of which consist of experienced experts who are independent of the Company and the Board, who act to ensure that the With-Profit policyholder interests are fully considered on an independent basis,
- a risk management function providing a second line of defence, independent of operations and with responsibility for monitoring and reporting of risk, and
- an internal audit function which provides independent, objective assurance over the complete control framework reporting to the Chairman of the Group Audit, Risk and Compliance Committee and with direct access to all executive members, in particular the Chief Executive Officer

The Board has three non-executive members and two executive members

Risk and capital management and financial instruments

Management of risk

In the course of its business activities, the Group is exposed to financial and non-financial risks (strategic, market, credit, insurance and operational risks) Overall responsibility for the management of these risks is delegated by the Board to the Executive Management Group (EMG) The Group has a risk management framework in place comprising formal committees, risk assessment processes and risk review functions

Financial Risk

Financial risk is defined as the risk of financial failure, reputation loss, loss of earnings and/or value arising from the inappropriate recording, reporting and disclosure of financial information

The Company is exposed to the following financial risks

- Interest rate risk
- Equity market risk
- Credit risk
- Currency risk
- Liquidity risk

Interest Rate Risk

Interest rate risk arises as a result of changes in the value of fixed income securities relative to the value of guaranteed liabilities, due to changes in interest rates The main exposure of the Company to interest rate risk arises in the Non Profit Fund, which uses fixed income securities to match guaranteed payments under immediate and deferred annuity contracts The exposure is significantly reduced by investing the fixed interest portfolio with the objective that, as far as is reasonable, the projected cash flows from the asset portfolios match, both in terms of quantum and timing, the expected liability outgo Interest rate swaps are used to improve cash flow and duration matching where required, with a broad range of counterparties, under collateralised agreements

Equity Market Risk

Equity market risk arises with changes in the value of the underlying equities held The With Profit Fund including the Linked Fund takes on a certain amount of equity market risk, consistent with the PPFM and representations to With Profit policyholders This risk is mitigated by using equities only to match benefits that are not guaranteed such as accrued terminal bonus and by investing the free estate in a mixture of equities and bonds

Credit Risk

Credit risk is the risk of reductions in earnings and/or value (or value of collateral), through financial or reputational loss as a result of the default of a counterparty or an associate of such counterparty to a financial transaction (i e a failure to honour their contractual obligations, or failing to perform them in a timely manner, or failure of collateral to perform as required) whether on or off balance sheet

The Non Profit Fund holds a substantial credit asset portfolio and credit risk on this portfolio arises in the event of default on credit assets The Company's credit risk mitigation policy is to hold an appropriate spread of assets between counterparties in order to reduce counterparty credit risk and for the credit ratings of at least 95% of its fixed interest securities to have credit ratings of BBB or higher

At times of significant downgrade, the proportion of fixed interest securities below BBB could be greater than 5% The Company would not normally expect to be a forced seller of fixed interest securities should credit ratings on investments held fall from BBB or higher to below BBB, since it is able to hold these securities to maturity, given the illiquid nature of the immediate and deferred annuity liabilities backed by these assets

Risk and capital management and financial instruments (continued)

Credit Risk (continued)

Credit risk associated with derivatives is substantially reduced through the use of collateralisation on 'over-the-counter' derivatives and margining and deposit-back arrangements on exchange-traded futures

Currency Risk

The Company holds some assets in foreign denominated currency that are hedged using foreign exchange and exchange traded derivatives

Liquidity Risk

Liquidity risk is the risk that the Company may have insufficient liquid assets to meet claims as they become due and be unable to realise assets in order to meet these claims As the Company has primarily illiquid liabilities and few guaranteed surrender values on contracts with customer options, invests almost exclusively in tradable securities including a significant proportion of highly liquid assets and has normally positive cash flow, this is not generally a significant risk In respect of unit-linked commercial property funds, the Company has the right to defer payment of certain withdrawals to allow for the orderly sale of properties, in order to ensure liquidity requirements of the funds can be appropriately managed at a time of stress in respect of those assets

Market Risk

Market Risk is the risk of reductions in earnings and/or value, through financial or reputational loss, from unfavourable market moves The risk typically arises from equity, property and bond exposures and the impact of interest rates, inflation rates and currency values

Insurance Risk

Insurance risk includes mortality risk, morbidity/disability risk, longevity risk and lapse risk

- Mortality risk is the risk that the claim payments incurred is greater than expected
- Morbidity/disability risk is the risk that claim payments incurred by the business due to critical illness events is greater than expected
- Longevity risk exists due to the increasing life expectancy trends among policy holders and pensioners and can result in pay-out levels that are higher than what a company or fund originally accounts for The main mortality risk that the Company is exposed to is longevity risk on its immediate and deferred annuity business The exposure to longevity risk on immediate annuity business has been reduced by the use of reassurance The nature of the Company's contracts means that it is not significantly exposed to increasing rates of mortality and the amount of morbidity business written is not significant in terms of the size of the fund
- Lapse risk is the risk of a change in value caused by deviations from the actual rate of policy lapses from their expected rates The main lapse risk that the Company is exposed to is reducing lapse rates on its with-profits and non-profit deferred annuity business The exposure is limited due to the low lapse rates already experienced on these classes of business and by the Company's ability to reduce bonus rates on the with-profits deferred annuity business as set out in the Company's Principles and Practices of Financial Management

Risk and capital management and financial instruments (continued)

Non-financial risks and uncertainties to which the Group is exposed are listed below

Strategic Risk

Strategic risk is the risk associated with future business plans and strategies, including plans for entering new business lines, expanding existing services through mergers and acquisitions, enhancing infrastructure, external communications and corporate governance

Operational Risk

Operational risk is defined as the risk of reductions in earnings and/or value, through financial or reputation loss, from inadequate or failed internal processes and systems, or from people related or external events The Group manages its operational risk to mitigate exposures to within its stated risk appetite across the business The oversight of operational risk exposures is undertaken through a number of different forums, ultimately reporting up through the Group Audit, Risk and Compliance Committee Key high-level controls over operational risk are described in the Corporate Governance Section

Exposure to these risks is monitored by the Guardian Assurance Limited ("GA") Board, particularly in respect of the Individual Capital Assessment ("ICA") process required by the UK Financial Services Authority (FSA) under its Prudential Sourcebook for Insurers

The Company believes that the measurement of economic capital provides a clear and consistent way to monitor and compare the risks in its businesses The Company's ICA estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level, based on a number of stress tests applied to the capital position of the business The ICA works to a 99 5% confidence level of solvency over one year, in line with UK Financial Services Authority (FSA) regulatory requirements Additionally, economic capital is measured and monitored, including as part of preparations for the Solvency II regime

FCR's

The Company also uses financial condition reports ("FCR's") FCR's cover the medium-term financial outlook of the business, including forecasts of solvency positions and key performance indicators under a variety of economic and operating scenarios, allowing for new business sales, to inform our capital and risk management decisions

Fund structure

The majority of the Company's business is written in the Non Profit Fund, established in 2012 as detailed earlier The Non Profit Fund, now consists of the in-payment pension annuities reassured from Phoenix Group during the year and also the gross and reassured liabilities, in respect of immediate and deferred non-profit annuities, transferred from the With Profits Fund as part of the restructure of the fund

The With Profits Fund consists of with-profits life and pension business The With Profits policyholders receive 90% of the profits arising in the fund and the shareholder receives 10% of the profits The fund was closed to new business in 1998

Investment policy and management actions in the With Profits Fund are set consistent with the Principles and Practices of Financial Management and the Company's aim is to distribute the fund's estate fairly over time The estate provides a buffer to help meet the cost of guarantees and to protect the fund from the impact of adverse events The shareholder has an exposure to guarantees once these assets have been exhausted The likelihood of this exposure crystallising is currently considered remote

The With Profits Committee acts to ensure that the With Profit policyholder interests are fully considered and is independent of management

The Company also has a much smaller Permanent Health Insurance (PHI) fund which predominantly writes PHI business This fund is owned entirely by the shareholder and is also closed to new business

Key Performance Indicators

The main key performance indicator for the companies in the Guardian group is to maintain solvency and generate profits over the longer term This is monitored by the Board on a regular basis The aggregate excess of Available Capital Resources to cover long-term insurance business and general insurance business over the Capital Resources Requirement was £562,211,000 at 31 December 2012 compared to £193,789,000 at 31 December 2011 The prior year comparative represents the solvency position for Guardian Assurance Limited on an individual entity basis, whereas the current year solvency position is presented on adjusted solo basis The increase in capital resource mainly reflects the restructure of the fund and the shareholder injection made during 2012

Social and Corporate Responsibility

Employees

The Group is an equal opportunity employer, operating in the UK We actively look to promote equal opportunities for all employees and we do not discriminate on grounds of colour, sex, ethnic origin, gender, age, religious belief, disability, sexual orientation or marital status The Group expects its employees to act with a high degree of dignity, respect, integrity and commitments in all their business activities

During the year, the policy of providing employees with information about the Group has been continued through internal presentations and publications of relevant information Wherever appropriate, employees are consulted to ensure that their views are taken into account before decisions are taken which are likely to affect their interests

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever possible

Environmental, Social and Community issues

The Group recognises that we all have a role to play in looking after the environment for future generations and it has adopted a number of environmental policies to promote recycling, encourage energy saving and efficient travel

In summary, the Group's ambition is to grow the business in a way that benefits all our stakeholders whilst being aware of, and sensitive to, our wider environment

The Group does not make any political contributions but is active in the communities in which it is based and supports regional charitable causes

Walker Report

On 20 November 2007, Sir David Walker published his 'Guidelines for Disclosure and Transparency in private equity (the "Walker Report")' Funds managed and advised by Cinven have a controlling interest in the Group and Guardian Assurance Limited is considered a portfolio company as defined by the Walker Report This annual report and accounts has been prepared in the context of those recommendations

Going Concern

In assessing whether the Company is a going concern the Directors have taken into account the guidance issued by the Financial Reporting Council in October 2009

This Directors' report includes a Review of Business and Future Developments, and a description of the Company's risk and capital management (including liquidity risk) In addition the financial statements include notes on borrowings (note 24), capital and solvency (note 27), contingent liabilities and charges (note 28) and risk management (note 29)

The economic outlook for 2013 remains uncertain and there will be further challenges and opportunities which continue to arise through regulatory and market changes The Directors consider that the Company has the plans and resources to manage its business risks successfully despite this economic and regulatory uncertainty

As noted in the liquidity risk section the Company has significant liquid assets to enable it to meet liabilities as they fall due Additionally in reaching a conclusion on going concern the Directors have considered projected regulatory capital positions in both normal and stressed scenarios together with the availability of a range of management actions

After making enquiries, which include considering the liquidity of the Company's assets, the regulatory required capital and the capital available to cover this requirement, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future (being 12 months from the date of this report) Accordingly, they continue to adopt the going concern basis in preparing the financial statements

Auditors

Under Section 485 of the Companies Act 2006, the Company has elected to dispense with the obligation to appoint auditors annually

Disclosure of information to the auditors

The Directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware, and each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the auditors are aware of that information

By order of the Board



Simon A J Davis

Company Secretary

12 March 2013

GUARDIAN ASSURANCE LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RELATION TO THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable United Kingdom law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under the law, the Directors have elected to prepare those statements in accordance with International Financial Reporting Standards as adopted by the European Union Under company law, the Directors must not approve the financial statements unless they are satisfied that they present fairly the state of the affairs of the Company and the net income of the Company for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies in accordance with IAS 8 *Accounting policies, changes in Accounting Estimates and Errors* and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance,
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

GUARDIAN ASSURANCE LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GUARDIAN ASSURANCE LIMITED

We have audited the financial statements of Guardian Assurance Limited for the year ended 31 December 2012 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 31 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

George M Reid (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Edinburgh

14 March 2013

GUARDIAN ASSURANCE LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 £'000	2011 £'000
Income			
Premium income		**5,181,513**	82,885
Investment income	3	**347,805**	258,440
Fee and commission income		**4,394**	4,113
Total revenues		**5,533,712**	345,438
Income from reinsurance ceded	4	**471,045**	129,805
Fair value gains and losses	5	**45,001**	268,454
Total income		**6,049,758**	743,697
Charges			
Premium to reinsurers		**9,969**	8,979
Policyholders claims and benefits	6	**5,720,677**	688,261
Commissions and expenses	7	**30,896**	17,754
Interest charges and related fees	8	**541**	1,081
Total charges		**5,762,083**	716,075
Income before tax		**287,675**	27,622
Income tax charge	9	**(75,502)**	(15,349)
Net income attributable to equity holders of Guardian Assurance Limited		**212,173**	12,273

The profit for the year is consistent with Total Comprehensive Income and there were no other items of comprehensive income not already reflected within the profit for the year

GUARDIAN ASSURANCE LIMITED

BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 £'000	2011 £'000
Assets			
Investment in subsdiary	10	**91,520**	-
Investments	11	**8,052,201**	78,094
Investments for account of policyholders	12	**2,721,720**	5,139,551
Derivatives	14	**191,761**	505,696
Reinsurance assets	15	**2,613,916**	2,198,432
Deferred tax	25	-	526
Deferred expenses and rebates	16	-	121
Other assets and receivables	17	**256,383**	279,347
Cash and cash equivalents	18	**245,334**	10,445
Total assets		**14,172,835**	8,212,212
Equity and liabilities			
Shareholders' equity	19	**785,942**	79,625
Insurance contracts	20	**8,867,871**	14,175
Insurance contracts for account of policyholders			
- Fund for future appropriations	21	**158,088**	148,521
- Other	21	**2,134,585**	5,912,396
Investment contracts for account of policyholders	22	**1,583,706**	1,579,596
Derivatives	14	**152,609**	262,723
Other financial liabilities	23	**355,433**	-
Borrowings	24	**5,539**	4,106
Deferred tax liabilities	25	**40,719**	-
Other liabilities	26	**88,343**	211,070
Total liabilities		**13,386,893**	8,132,587
Total equity and liabilities		**14,172,835**	8,212,212

The financial statements were approved by the Board of Directors and are signed on its behalf by

Jonathan J Yates

12 March 2012

Andrew S Birrell

GUARDIAN ASSURANCE LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 £'000	2011 £'000
Income before tax		**287,675**	27,622
Fair value gains and losses	5	**(45,001)**	(268,454)
Amortisation and depreciation		**20**	19
Impairment of deferred expenses		**100**	-
Adjustments of non-cash items		**(44,881)**	(268,435)
Insurance and investment liabilities		**7,366,354**	(1,601)
Insurance and investment liabilities for account of policyholders		**(2,692,276)**	195,287
Accrued income and prepayments		**(120,759)**	(2,814)
Accrued expenses and other liabilities		**(126,040)**	147,967
Changes in accruals		**4,427,279**	338,839
Net (purchase) / disposal of investments (other than money market investments)		**(7,754,941)**	5,592
Net (purchase) / disposal of derivatives		**228,673**	(25,387)
Net disposal of investments for account of policyholders		**2,578,932**	93,889
Net change in cash collateral		**139,038**	(158,914)
Cash flow movements on operating items not reflected in income		**(4,808,298)**	(84,820)
Tax paid		**(30,943)**	(9,042)
Net cash flows from operating activities		**(169,168)**	4,164
Issued share capital		**420,224**	-
Dividends paid		**(17,600)**	(8,400)
Net cash flows from financing activities		**402,624**	(8,400)
Net increase / (decrease) in cash and cash equivalents[1]		**233,456**	(4,236)
Net cash and cash equivalents at 1 January	18	**6,339**	10,575
Net cash and cash equivalents at 31 December	18	**239,795**	6,339

The cash flow statement is prepared according to the indirect method

[1] Included in net decreases in cash and cash equivalents are interest received £198 0m (2011 £197 0m), dividends received £43 4m (2011 £47 0m) and interest paid £0 3m (2011 £0 8m)

GUARDIAN ASSURANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Share Capital £'000	Capital Reserves £'000	Capital Contribution £'000	Retained Earnings £'000	Shareholders' Equity £'000
At 1 January 2012		10,354	56,846	-	12,425	79,625
Profit for the period		-	-	-	212,173	212,173
Capital contribution		-	-	91,520	-	91,520
Issuance of shares		420,224	-	-		420,224
Dividends settled		-	-	-	(17,600)	(17,600)
At 31 December 2012	19	**430,578**	**56,846**	**91,520**	**206,998**	**785,942**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Share Capital £'000	Capital Reserves £'000	Capital Contribution £'000	Retained Earnings £'000	Shareholders' Equity £'000
At 1 January 2011		10,354	56,846	-	8,552	75,752
Profit for the year		-	-	-	12,273	12,273
Dividends settled		-	-	-	(8,400)	(8,400)
At 31 December 2011	19	**10,354**	**56,846**	-	**12,425**	**79,625**

1 Summary of Significant Accounting Policies

1 1 Basis of preparation

1 1 1 Introduction

The Company's financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2012 and applied in accordance with the Companies Act 2006

These financial statements are separate financial statements containing information about the company only In accordance with IAS 27 paragraph 10 the company has elected not to prepare consolidated financial statements on the basis that the ultimate parent undertaking, Guardian Holdings Europe Limited incorporated in Jersey (company number 108672), produces consolidated financial statements that are publically available and comply with International Financial Reporting Standards These financial statements are available upon request from 47 Esplanade, St Helier, Jersey JE1 0BD

These financial statements were authorised for issue in accordance with a resolution of the Directors on 12 March 2013

1 1 2 Adoption of new IFRS

The International Accounting Standards Board has issued the following standards, interpretations and amendments, which, subject to adoption for use by the EU, apply from the dates shown The Company has decided not to early adopt any of these standards, interpretations or amendments where this is permitted The impact in adopting them is subject to evaluation but is currently not expected to have a material effect on the results of the Company

IAS 1 Presentation of financial statements (Revised) – the amendments clarifies that entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements The effective date of the standard is 1 January 2013

IFRS 9 Financial Instruments addresses classification and measurement of financial assets, is available for early adoption immediately but mandatory only for accounting periods beginning on or after January 1, 2015 IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories amortized cost and fair value IFRS 9 represents the first stage in the IASB's planned replacement of IAS 39 IFRS 9 is expected to have a significant impact on the Company's financial statements because it will potentially result in a reclassification and re-measurement of the Company's financial assets However, the full impact of IFRS 9 will only be clear after the remaining stages of the IASB's project on IAS 39 are completed and issued

IFRS 13 – Fair value measurement This standard was issued in May 2011 The standard consolidates fair value measurement guidance from across various IFRSs into a single standard, but does not change when fair value can or should be used The new standard is effective for annual periods starting on or after 1 January 2013 The impact on adopting the standard is not expected to have material effect on the financial statements

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments This interpretation, effective for annual periods beginning on or after 1 July 2010, clarifies that equity instruments issued to a creditor to extinguish a financial liability qualifies as consideration paid The equity instruments issued are measured at their fair value unless this cannot be reliably measured, in which case they are measured at the fair value of liability extinguished These amendments are not expected to have a material change to the Company's financial statements

IFRS 12 Disclosure of Interests of Other Entities -- IFRS 12 includes all the disclosures that are previously in IAS 27, IAS 31 and IAS 28 Investment in Associates A number of new disclosures are added to the existing requirements such as the judgements made to determine whether it controls another entity This standard is effective for the annual periods beginning on or after 1 January 2013 IFRS 12 is a disclosure only standard and therefore will have no effect on profit or loss or the equity of the group

1 1 2 Adoption of new IFRS (continued)

IAS 24 (revised) *Related Party Disclosures* The revised IAS 24 simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party and to eliminate inconsistencies in its application These amendments, which are effective for accounting periods beginning on or after January 1, 2011, will be applied by the Company in its 2012 financial statements to the extent they are relevant These amendments are not expected to have a material change to the Company's financial statements

1 2 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate prevailing at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the rate of exchange prevailing at the balance sheet date Exchange differences on monetary items are recognised in the income statement when they arise

1 3 Offsetting of assets and liabilities

Financial assets and liabilities are offset in the balance sheet when the Company has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously

1 4 Premium income

Gross premiums, including recurring and single premiums, from insurance contracts and from investment contracts with discretionary participation features are recognised as revenue when they become receivable

1 5 Investment income

For interest-bearing assets, interest is recognised as it accrues and is calculated using the effective interest rate method Fees and commissions that are an integral part of the effective yield of the financial assets or liabilities are recognised as an adjustment to the effective interest rate of the instrument Investment income includes the interest income and dividends on financial assets carried at fair value through profit or loss

Investment income also includes dividends accrued and rental income due, as well as fees received for security lending

1 6 Fee and commission income

Fees and commissions from investment management services are recognised as revenue over the period in which the services are performed

1 7 Reinsurance

The Company accepts and cedes reinsurance in the normal course of the business, with retention limits varying by line of business Premiums and claims on reinsurance accepted and ceded are recognised as revenue in the same manner they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities, with movements in ceded insurance liabilities reported in income from reinsurance ceded within the income statement Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract

1 8 Policyholder claims and benefits

Policyholder claims and benefits consist of claims and benefits paid to policyholders, including benefit claims in excess of account value for products for which deposit accounting is applied, and the change in the valuation of liabilities for insurance and investment contracts It includes internal and external claims handling costs that are directly related to the processing and settlement of claims

1 8 Policyholder claims and benefits (continued)

Claims payable on maturity are accounted for when due for payment, and claims payable on death are accounted for on notification Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the relevant liability

1 9 Fair value gains and losses

Realised gains and losses recorded in the income statement on investments include gains and losses on financial assets and liabilities designated at fair value through the profit and loss and investment properties Unrealised gains and losses are the difference between valuations at the balance sheet date and their valuation at the previous balance sheet date or purchase price, if acquired during the year

1 10 Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less impairment The deemed cost was the fair value at the time of the acquisition

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale Assets are tested individually for impairment when there are indications that the asset may be impaired The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset's value in use and its net selling price The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties

1 11 Investments

Investments for general account comprise financial assets, excluding derivatives

Financial assets are recognised on the trade date when the Company becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased

Classification

Financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell in the near future or for which the holder may not recover all of its initial investment, other than because of credit deterioration, are accounted for as loans

All remaining financial assets are designated at fair value through profit or loss with their performance evaluated on a fair value basis in order to more closely match the accounting for the related liabilities of the insurance contracts

Measurement

Financial assets are initially recognised at fair value excluding interest accrued to date plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs

Loans are subsequently carried at amortised cost using the effective interest rate method Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognised in the income statement as incurred

Fair Value

The fair value of an asset is the amount for which it could be exchanged between knowledgeable, willing parties in an arm's length transaction For quoted financial assets for which there is an active market, the fair value is the bid price at the balance sheet date In the absence of an active market, fair value is estimated by using present value or other valuation techniques Where discounting techniques are applied, the discount rate is based on current market rates applicable to financial instruments with similar characteristics

Interest accrued to date is not included in the fair value of the financial asset

1 11 Investments (continued)

Derecognition

A financial asset is derecognised when the contractual rights to the asset's cash flows expire, when the Company has transferred the asset and substantially all the risks and rewards of ownership, or when the Company has transferred the asset without transfer of substantially all the risks and rewards of ownership, provided the other party can sell or pledge the asset Financial assets, in respect of which the Company has neither transferred nor retained all the risks and rewards, are recognised to the extent of the Company's continuing involvement If significantly all risks are retained, the assets are not derecognised On derecognition, the difference between the disposal proceeds and the carrying amount is recognised in the income statement as a realised gain or loss

Stock lending

Financial assets that are lent to a third party are not derecognised as the Company retain substantially all risk and rewards of the asset Financial assets that have been received under repurchase or reverse repurchase agreements are not recognised on the balance sheet as the counterparty retains substantially all the risk and rewards of the asset

Collateral

With the exception of cash collateral, assets received as collateral are not separately recognised as an asset until the financial asset they secure is foreclosed When cash collateral is recognised, a liability is recorded for the same amount

1 12 Investments for account of policyholders

Investments held for account of policyholders consist of investments in financial assets, excluding derivatives, as well as investments in real estate Investment return on these assets is passed on to the policyholder Also included are the assets held by consolidated investment funds that are backing liabilities towards third parties All financial asset investments for account of policyholder have been designated as at fair value through profit or loss The accounting principles for financial assets are the same as those applicable to general account investments, as described in note 1 11

Real estate

Investments in real estate is property held to earn rentals or for capital appreciation, or both Considering the Company's asset/liability management policies, property can be allocated to liabilities resulting from insurance and investment contracts, both are presented as investments

All property is initially recognised at cost Subsequently, investments in real estate are measured at fair value with the changes in fair value recognised in the income statement On disposal of an asset, the difference between the net proceeds received and the carrying amount is recognised in the income statement

Valuations of investments in real estate are conducted with sufficient regularity to ensure the value reflects the fair value at the balance sheet date Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property If such information is not available, other valuation methods are applied, considering the current cost of reproducing or replacing the property, the value that the property's net earning power will support and the value indicated by recent sales of comparable properties

1 13 Derivatives

Definition

Derivatives are financial instruments, classified as held for trading financial assets, whose value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date

Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities

Measurement

All derivatives are recognised on the balance sheet at fair value All changes in fair value are recognised in the income statement

1 14 Reinsurance assets

Reinsurance contracts are contracts entered into by the Company in order to receive compensation for losses on contracts written by the Company (outgoing reinsurance) For contracts transferring sufficient insurance risk, a reinsurance asset is recognised for the expected future benefits, less expected future reinsurance premiums Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement

Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract They are subject to impairment testing and are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party

1 15 Deferred expenses and rebates

Deferred policy acquisition costs (DPAC)

DPAC relates to insurance contracts and investment contracts with discretionary participation features and represents the variable costs that are related to the acquisition or renewal of these contracts

Acquisition costs are deferred to the extent that they are recoverable and are subsequently amortised based on either the expected future premiums or the expected gross profit margins

Estimates include, but are not limited to an economic perspective in terms of future returns on bond and equity instruments, mortality, disability and lapse assumptions, maintenance expenses and expected inflation rates For all products, DPAC is assessed for recoverability at least annually and is considered in the liability adequacy test for each reporting period If appropriate, the assumptions included in the determination of estimated gross profits are adjusted The portion of DPAC that is determined not to be recoverable is charged to the income statement

1 16 Other assets and receivables

Other assets include trade and other receivables, prepaid expenses and equipment Trade and other receivables are initially recognised at fair value and are subsequently measured at amortised cost Equipment is initially carried at cost, depreciated on a straight-line basis over its useful life to its residual value and is subject to impairment testing

1 17 Cash and cash equivalents

Cash comprises cash at banks and in-hand Cash equivalents are short-term, highly liquid investments that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements Money market investments that are held for investment purposes (backing insurance liabilities, investment liabilities or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investment or investments for account of policyholders

1 18 Insurance contracts

Insurance contracts are contracts under which the Company accepts a significant risk – other than a financial risk – from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which he or she will be adversely affected Contracts that do not meet this definition are accounted for as investment contracts The Company reviews homogeneous books of contracts to assess whether the underlying contracts transfer significant insurance risk on an individual basis This is considered the case when at least one scenario with commercial substance can be identified in which the Company has to pay significant additional benefits to the policyholder Contracts that have been classified as insurance are not reclassified subsequently

Insurance liabilities are recognised when the contract is entered into and the premiums are charged The liability is derecognised when the contract expires, is discharged or is cancelled

Insurance contracts are accounted for consistent with the policies adopted by the Company for reporting to the Company's ultimate parent undertaking, Guardian Financial Services Holdings UK Limited (formerly known as Green Day Acquisitions Limited)

Insurance contracts in the non-linked fund with terms that are fixed and guaranteed and which are of a long duration (generally over 3 years) are measured using the net premium method The liability is determined as the sum of the discounted value of the expected benefits and future administrative expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used The liability is based on assumptions which are, for each cohort, determined at inception of the business and which include a margin for risk and adverse deviation

The liability for insurance contracts with a short duration of generally less than 3 years comprises reserves for unearned premiums as well as for claims outstanding, which includes an estimate of the insured claims that have not yet been reported

Insurance contracts for general insurance business

Based on a detailed understanding of the run-off position of the general insurance business and on market knowledge and experience technical provisions have been established so as to predict the future development of specific classes of business and, in some cases, individual claims All estimated future losses are provided for The Company's provisions are subject to regular actuarial review

The technical provisions are not discounted All future claims handling and administration costs to the cessation of the general insurance business are estimated To the extent that such estimated costs exceed estimated future investment income, a provision is made

1 18 Insurance contracts *(continued)*

Insurance contracts for account of policyholders

Insurance contracts under which the policyholder bears the risks associated with the underlying investments are classified as insurance contracts for account of policyholders This classification comprises unit-linked policies and with-profit fund policies Unit-linked policies are measured at the nominal value of the policyholder unit account, with interest on any actuarial funding (i e the difference between the nominal value of the policyholder unit account) being at an expected rate of return With-profit policies are measured using the net premium method The liability is determined as the sum of the discounted value of the expected benefits and future administrative expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used The liability is based on assumptions which are, for each cohort, determined at inception of the business and which include a margin for risk and adverse deviation

The Company's with-profits fund is a 90-10 fund and therefore a proportion of the net assets of the fund are represented by the Fund for Future Appropriation, which represents an estimate of the amount that may be paid over time to the shareholder as profits emerge from the fund in the form of bonuses Note 19 in the accounts provides further disclosure regarding the Company's Fund for Future Appropriation The Fund for Future Appropriation is classified as an insurance contract liability

Liability adequacy testing

At each reporting date the adequacy of insurance contract liabilities, net of DPAC, is assessed using a liability adequacy test Insurance contract liabilities are tested to ensure that the resulting liabilities are not lower than would be required under a sufficiently prudent prospective calculation and results in assumptions being revised to prospective assumptions when the test is not met DPAC is tested for recoverability based on current estimates of future cash flows, with any resulting deficiency recognised in the income statement

1 19 Investment contracts

Contracts issued by the Company that do not transfer significant insurance risk, but do transfer financial risk from the policyholder to the Company are accounted for as investment contracts Depending on whether the Company or the policyholder runs the risks associated with the investments allocated to the contract, the liabilities are classified as investment contracts or as investment contracts for account of policyholders Investment contract liabilities are recognised when the contract is entered into and are derecognised when the contract expires, is discharged or is cancelled

Investment contracts for account of policyholders with discretionary participation features

Some investment contracts have participation features whereby the policyholder has the right to receive potentially significant additional benefits which are based on the performance of a specified pool of investments held by the Company If the Company has discretion over the amount or timing of the distribution of the returns to policyholders, the investment contract liability is measured based on the accounting principles that apply to insurance contracts with similar features

Investment contracts for account of policyholders without discretionary participation features

Investment contracts for account of policyholders without discretionary participation features are designated as at fair value through profit or loss Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund

For unit-linked contracts without discretionary participation features and subject to actuarial funding, the Company recognises a liability at the funded amount of the units The difference between the gross value of the units and the funded value is treated as an initial fee paid by the policyholder for future asset management services and is deferred It is subsequently amortised over the life of the contract or a shorter period, if appropriate

1 20 Financial liabilities

Financial liabilities are recognised on the trade date when the Company becomes a party to the contractual provisions of the instrument

Classification

All financial liabilities, except borrowings (see note 1 21), are designated at fair value through profit or loss with their performance evaluated on a fair value basis

Measurement

Financial liabilities are initially recognised at fair value

Fair Value

The fair value of a liability is the amount for which it could be exchanged between knowledgeable, willing parties in an arm's length transaction For quoted financial liabilities for which there is an active market, the fair value is the offer price at the balance sheet date In the absence of an active market, fair value is estimated by using present value or other valuation techniques Where discounting techniques are applied the discount rate is based on current market rates applicable to financial instruments with similar characteristics or using a discount rate that approximates the risk inherent in the instrument

Derecognition

A financial liability is derecognised when the contractual obligation expires, when the Company has transferred the liability and substantially all the risks and rewards of ownership On derecognition, the difference between the disposal proceeds and the carrying amount is recognised in the income statement as a realised gain or loss

1 21 Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method Borrowing costs are recognised as an expense when incurred

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost

The liability is derecognised when the Company's obligation under the contract expires, is discharged or is cancelled

1 22 Tax assets and liabilities

Current income tax

Current income tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, or paid to or recovered from other group companies in respect of group relief surrendered or received The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date

Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in the income statement

1 22 Tax assets and liabilities (continued)

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes

Deferred income tax and liabilities are recognised for all taxable temporary differences except

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date

Deferred income tax relating to items recognised directly in other comprehensive income is recognised directly in other comprehensive income and not in the income statement

Deferred income tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income tax relate to the same taxable entity and the same taxation authority

Policyholder tax

The income tax charge comprises tax in respect of policyholders' returns and the balance which represents the tax on equity holders' returns The income tax charge in respect of policyholders' returns reflects the movement in current and deferred income tax recognised in respect of those items of income, gains and expenses, which inure to the benefit of policyholders

1 23 Contingent assets and liabilities

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate

A provision is recognised for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote

1 24 Impairment of assets

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale For tangible and intangible assets, financial assets and reinsurance assets, if not held at fair value through income statement, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired

Impairment of non-financial assets

Assets are tested individually for impairment when there are indications that the asset may be impaired The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset's value in use and its net selling price The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties

Impairment of financial assets held at amortised cost

Individually significant loans and other receivables are first assessed separately All non-impaired assets measured at amortised cost are then grouped by credit risk characteristics and collectively tested for impairment

Impairment of reinsurance assets

Reinsurance assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due under the terms of the contract will be received and the impact of the event on the amount to be received from the reinsurer can be reliably measured Impairment losses are recognised in the income statement

1 25 Events after the balance sheet date

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the balance sheet date

Events that are indicative of conditions that arose after the balance sheet date are disclosed where significant, but do not result in an adjustment, of the financial statements themselves

2 Critical accounting estimates and judgements in applying accounting polices

Application of the accounting policies in the preparation of the financial statements requires management to apply judgement involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events There can be no assurance that actual results will not differ materially from those estimates Accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgement are described in the following sections

2 1 Valuation of assets and liabilities arising from insurance contracts and investment contracts with discretionary participating features

The liability for long duration insurance contracts in the non-linked fund with guaranteed or fixed account terms is based on current assumptions, reflecting the current best estimates increased with a margin for adverse deviation

2 2 Fair value and fair value hierarchy

Fair value is the amount for which an asset could be exchanged, between knowledgeable willing parties in an arm's length transaction Financial instruments measured at fair value on an ongoing basis include investments designated at fair value and derivatives These are categorised as follows,

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date,
- 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 of identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data, and
- Level 3 inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) using valuation techniques for which any significant input is not based on observable market data

The best evidence of fair value is a quoted price in an actively traded market In the event that the market for a financial instrument is not active, a valuation technique is used Level 2 and level 3 therefore involve the use of estimates Note 13 provides further information relating to categorisation of financial assets and liabilities

3 Investment income

	2012 £'000	2011 £'000
Interest income	**304,308**	211,592
Dividend income	**43,006**	46,352
Rental income	**491**	496
	347,805	258,440

	2012 £'000	2011 £'000
Investment income related to general account	**243,687**	2,042
Investment income for account of policyholders	**104,118**	256,398
	347,805	258,440

	2012 £'000	2011 £'000
Investment income from financial assets held for general account		
Fair value through the profit and loss	**237,311**	1,403
Loans	**684**	569
Other	**5,692**	70
	243,687	2,042

	2012 £'000	2011 £'000
Investment income from		
Shares	**43,006**	46,352
Debt securities and money market instruments	**283,964**	193,621
Loans	**684**	569
Real estate	**491**	496
Other	**19,660**	17,402
	347,805	258,440

Investment income from general account loans, relates to loans to parent undertakings Within other investment income is £5,000 (2011 £7,000) interest received from Guardian Linked Life Assurance Limited, a subsidiary undertaking of the Company

The interest income of financial assets that are not carried at fair value through profit or loss amounted to £6,376,000 (2011 £639,000)

4 Income from reinsurance ceded

	2012 £'000	2011 £'000
Recovered claims and benefits	**76,032**	78,768
Change in technical provisions	**395,013**	51,037
	471,045	129,805

5 Fair value gains and losses

	2012 £'000	2011 £'000
Fair value gains / (losses) on financial assets at fair value through profit and loss	**214,481**	(447)
Fair value gains / (losses) on financial liabilities at fair value through profit and loss	**(355,433)**	-
Net fair value change on derivatives	**24,852**	267,216
Net fair value change on for account of policyholders financial assets at fair value through profit and loss (all designated), other than derivatives	**160,720**	1,109
Net fair value change on investments in real estate for policyholders	**381**	576
	45,001	268,454

Investments for account of policyholders comprise financial assets and investments in real estate Refer to Note 12 for further information Financial assets for account of policyholder are classified as fair value through profit or loss Investment income on investments for account of policyholders is included in investment income Refer to Note 3 for further information

The loss on the financial liability relates to fixed leg of the swap contract with RGA entered into during the year, classified as a financial liability on the balance sheet This is offset by income from reinsurance ceded of £438,000,000 from the floating leg of the contract, classified as a reassurance contract in the balance sheet

6 Policyholder claims and benefits

	2012 £'000	2011 £'000
Claims and benefits paid to policyholders	**646,073**	439,528
Change in valuations of liabilities for insurance contracts and investment contracts	**5,074,604**	248,733
	5,720,677	688,261

7 Commissions and expenses

	2012 £'000	2011 £'000
Commissions	**1,442**	1,601
Investment management expenses	**17,359**	7,382
Administration expenses	**11,975**	8,752
Amortisation of deferred expenses	**20**	19
Impairment of deferred expenses	**100**	-
	30,896	17,754

The Company has no employees under contracts of service From 23 November 2011, on completion of the sale of the Company to Guardian Financial Services Holdings UK Limited (formerly known as Green Day Acquisitions Limited), the contracts of employment of the personnel providing services to the Company were transferred to Guardian Companies Services Limited, a fellow subsidiary of Guardian Financial Services Holdings UK Limited (formerly known as Green Day Acquisitions Limited)

Amount paid to auditors and their associates

	2012 £'000	2011 £'000
Audit of the financial statements	**149**	48
Other fees to auditors		
- audit of regulatory return	**47**	50
- audit services in respect of ultimate parent undertaking	**-**	22
	196	120

7 Commissions and expenses (continued)

Directors' remuneration

The Guardian Group Directors are paid centrally via Guardian Financial Services Holdings UK Limited In respect of qualifying services provided to the group in the year to the 31st of December 2012, the Directors received remuneration comprised of salary, bonus and money value of benefits received The Directors did not receive any pension benefits or pension contributions, nor did they receive remuneration under a long-term incentive plan, shares or share options The highest paid Director received remuneration of £505,708 in respect of qualifying services provided to group companies The Directors remuneration has been allocated across the group to individual companies in line with management's assessment of the time invested by the Directors on that company The total Directors' remuneration for qualifying services allocated to the Company for 2012 was £698,000 (2011 £14,000)

Operating lease arrangements

Operating leases relate to a non-cancellable operating lease over the London office The lease term is 10 years and is renewable at the end of the term on market rates

Although the Company is a party to the lease, the Company's holding company, Guardian Financial Services Holding UK Limited will be liable for all the financial implications of this lease as the lease has been taken out to house the operations of Guardian Financial Services Holdings UK Ltd The financial implications of the lease are reflected in Guardian Financial Services Holdings UK Ltd's Annual Financial Statements Accordingly the Company's income statement does not reflect any charges relating to this lease

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

	2012	2011
	£'000	£'000
No later than one year	**-**	-
Later than one year and no later than five years	**1,358**	-
Later than five years	**2,003**	-
	3,361	-

The lease includes a rent-free period, therefore the table above includes payments on a contractual basis rather than when they will be accounted for in the income statement

8 Interest charges and related fees

	2012	2011
	£'000	£'000
Bank charges	**80**	17
Relating to collateral held	**189**	288
Other	**272**	776
	541	1,081

9 Income tax

	2012 £'000	2011 £'000
Current Tax		
Current year	**34,966**	16,825
Overseas tax	**113**	350
Adjustments in respect of prior year	**(822)**	839
	34,257	18,014
Deferred Tax		
Origination of temporary differences	**41,245**	(2,672)
Change in tax rate	-	7
Adjustments in respect of prior years	-	-
Income tax for the period	**75,502**	15,349

The Finance Act 2012, which was substantively enacted in July 2012, included provisions to reduce the rate of corporation tax to 24% with effect from 1 April 2012 and 23% with effect from 1 April 2013

The government has announced that it intends to further reduce the rate of corporation tax to 21% with effect from 1 April 2014 As this legislation was not substantively enacted by 31 December 2012, the impact of the anticipated rate change is not reflected in the tax provisions reported in these accounts

Reconciliation between standard and effective income tax	2012 £'000	2011 £'000
Income before tax	**287,675**	27,622
Income tax at main rate of UK corporation tax of 24 5%	**70,473**	7,320
Difference due to effects of.		
Non taxable income	**(1,168)**	(2,151)
Change in tax rate	**(2,405)**	7
Overseas tax	**113**	350
Other taxes	**9,311**	8,984
Adjustment to prior years	**(822)**	839
Income tax for the period	**75,502**	15,349

10 Investment in subsidiary

During the year, the Company acquired 100% of the issued share capital of the Guardian Linked Life Assurance Limited and Guardian Pensions Management Limited

The principal activity of the subsidiaries is the writing of long-term insurance business The subsidiaries are currently only writing new business in respect of increments and options under existing policies The authorisations allowing new business to be written remain in force

Details of the Company's subsidiaries at 31 December 2012 are as follows

	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %
Guardian Linked Life Assurance Limited	United Kingdom	100	100
Guardian Pensions Management Limited	United Kingdom	100	100

	£'000
Cost	
At 1 January 2012	-
Additions	91,520
At 31 December 2012	91,520
Carrying amount	
At 1 January 2012	-
Additions	91,520
At 31 December 2012	**91,520**

The share capital had a nominal value of £1 for Guardian Linked Life Assurance Limited and £1 for Guardian Pensions Management Limited

The investment in subsidiary is stated at fair value at acquisition less impairment

11 Investments

Investments for the general account comprise financial assets, excluding derivatives Refer to Note 12 for which the investment risk is borne by the policyholders

	2012 £'000	2011 £'000
Fair value through the profit or loss		
Shares	**32,060**	-
Debt securities and money market investments	**7,554,697**	24,973
Loans		
Loans to immediate parent undertaking	**57,806**	53,121
Other	**407,638**	-
	8,052,201	78,094

Of the debt securities and money market investments, £155,917,000 is current (2011 £4,880,000)

Loans to related parties are repayable in 2017 Interest on these loans is charged at LIBOR As permitted under the loan agreements, interest is currently being rolled up into the loan balance rather than being paid The directors consider the carrying value of these loans to represent their fair value

12 Investments for account of policyholders

Investments for account of policyholders comprise financial assets at fair value through profit or loss, excluding derivatives, as well as investments in real estate Refer to Note 14 for details on derivatives for account of policyholders

	2012 £'000	2011 £'000
Fair value through profit or loss - designated		
Shares	**1,264,846**	1,282,370
Debt securities and money market investments	**1,220,472**	3,512,998
Deposits with financial institutions	**230,366**	337,904
Other	**187**	208
	2,715,871	5,133,480
Investment in real estate	**5,849**	6,071
Total investments for account of policyholders	**2,721,720**	5,139,551

12 Investments for account of policyholders (continued)

12 a Investments in real estate

	2012 £'000	2011 £'000
At 1 January	**6,071**	6,111
Additions	**428**	595
Disposals	**(781)**	(1,211)
Fair value gains	**131**	576
At 31 December	**5,849**	6,071

Investment properties are stated at fair value

No property interests held under operating leases are classified and accounted for as investment property The investment property is fully leased out under operating leases The fair value is supported by market evidence and represents the amount at which the assets could be exchanged between knowledgeable willing buyer and a knowledgeable willing seller in an arms length transactions at the date of valuation

All the properties were was valued in 2011 by independent external appraisers The fair value gains and losses are recorded within the income statement

13 Financial assets and financial instrument fair value hierarchy

In the tables that follow financial assets and liabilities have been categorised as follows,

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date,
- 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 of identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data, and
- Level 3 inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) using valuation techniques for which any significant input is not based on observable market data

13 Financial assets and financial instrument fair value hierarchy (continued)

The table below shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy

The fair values of the financial instruments carried at fair value were determined as follows

	Level I £'000	Level II £'000	Level III £'000	2012 Total £'000
Financial assets carried at fair value				
Fair value through profit or loss				
Debt securities	572,931	6,744,091	269,735	7,586,757
Other	71,206	336,432	-	407,638
Fair value through profit or loss				
Investments for account of policyholders	1,137,335	1,583,787	598	2,721,720
Derivatives	1,292	187,680	2,789	191,761
Financial liabilities carried at fair value through profit or loss				
Derivatives	532	152,077	-	152,609
Investments contracts for account of policyholder	-	1,109,806	-	1,109,806
Other financial liabilities	-	-	355,433	355,433

	Level I £'000	Level II £'000	Level III £'000	2011 Total £'000
Financial assets carried at fair value				
Fair value through profit or loss				
Debt securities	13,328	11,645		24,973
Other	-	-	-	-
Fair value through profit or loss				
Investments for account of policyholders	1,461,807	3,641,401	30,272	5,133,480
Derivatives	197	499,232	6,267	505,696
Financial liabilities carried at fair value through profit or loss				
Derivatives	371	262,352	-	262,723
Investments contracts for account of policyholder	-	1,089,254	-	1,089,254
Other financial liabilities	-	-	-	-

13 Financial assets and financial instrument fair value hierarchy (continued)

Movement in Level 3 Financial instruments measured at fair value

	At 1 January 2012 £'000	Total gains/ losses in income statement * £'000	Total gains/ losses in other Comprehensive income £'000	Purchases £'000	Sales £'000	Transfers II to III £'000	Transfers III to II £'000	At 31 December 2012 £'000	Total gains/losses for the future period included in profit and losses for assets held at December 2012 ** £'000
Fair value through profit and loss									
Investments	-	12,410	-	299,667	-	-	(42,342)	269,735	-
Investments contracts for account of policyholders	30,272	(887)	-	1,182	(20,186)	14,707	(24,490)	598	8,523
Derivatives	6,267	(3,478)	-	-	-	-	-	2,789	(9,320)

	At 1 January 2011 £'000	Total gains/ losses in income statement * £'000	Total gains/ losses in other Comprehensive income £'000	Purchases £'000	Sales £'000	Transfers II to III £'000	Transfers III to II £'000	At 31 December 2011 £'000	Total gains/losses for the future period included in profit and losses for assets held at December 2011 ** £'000
Fair value through profit and loss									
Investments contracts for account of policyholders	29,672	1,408	-	5,922	(252)	37,843	(44 321)	30,272	67
Derivatives	1,008	5,259	-	-	-	-	-	6,267	5,886

Movement in Level 3 Financial instruments measured at fair value *

** These are the total gains / losses for the period during which the financial instrument was in Level 3

During the year, the Company transferred certain financial instruments from Level 2 to Level 3 of the fair value hierarchy The amount of assets transferred was £14 7m (2011 £37.8m) The change in level was a result of changes in market observability of prices

Similarly, during the year the Company transferred certain financial instruments from Level 3 to Level 2 of the fair value hierarchy The amount of assets transferred was £66 8 m (2011 £44 3m) The change in level was a result of changes in market observability of prices

There were no significant transfers between Level 1 and Level 2

13 Financial assets and financial instrument fair value hierarchy (continued)

In regards to Level 3 holdings we do not consider that there are reasonable alternative assumptions that would significantly impact net income, total equity or total assets Of the £0 6m (2011 £30 3m) classed as Level 3 holdings for investments for account of policyholder, £Nil (2011 £18 9m) is in respect of a holding in an overseas non-quoted insurance company Of the £269 7m (2011 £Nil) classed as Level 3 holdings for investments, £32m (2011 £Nil) is in respect of a holding in an overseas non-quoted insurance company

Money market and other short-term investments and deposits with financial institutions

The fair value of assets maturing within a year is assumed to be approximated by their carrying amount adjusted for credit risk, where appropriate, based on market observable credit spreads

Financial derivatives

Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modelling, are applied The valuation techniques incorporate all factors that market participants would consider and are based on observable market data when available All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices

Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices Fair values for over-the-counter (OTC) derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources Option pricing is based on industry standard valuation models and current market levels, where applicable The pricing of complex or illiquid instruments is based on internal models For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable To value OTC derivatives, management uses observed market information, other trades in the market and dealer prices

The Company normally mitigates credit risk in derivative contracts by entering into collateral agreements where practical and in International Securities and Derivatives Association (ISDA) master netting agreements for each of the Company's legal entities to facilitate the Company's right to offset credit risk exposure Where appropriate collateral is not held by the Company or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant

14 Derivatives

	2012 £'000	2011 £'000
Derivatives for account of policyholders		
Rights under derivatives contracts	**14,039**	505,696
Obligations under derivatives contracts	**(10,968)**	(262,723)
Derivatives for general account		
Rights under derivatives contracts	**177,722**	-
Obligations under derivatives contracts	**(141,641)**	-
	39,152	242,973

As at 31 December 2012, the derivatives classed as current have a net positive value of £3,605,000 (2011 positive value of £11,029,000)

The fair value of the derivatives reflects the estimated amounts that the Company would receive or pay to terminate the contracts on the reporting date Market quotes are available for many derivatives, for those products without readily available market quotes generally accepted valuation models, such as option pricing, are used to estimate fair value

The Company uses derivatives as part of the asset management process in both the unit-linked and with-profits funds The use of derivatives is either for efficient portfolio management or for the reduction of equity, interest rate and currency risk

Interest rate swaps are held to swap a series of fixed interest rates for a series of floating interest rates on nominal amounts in the future Swaptions are held to match the maturing profile of deferred annuities with guaranteed cash option rates Equity put options are held in order to hedge against the guaranteed maturity values on Homebuilder Plus contracts

Exchange traded derivative positions are all cleared through a central clearer and margining is reviewed daily For over-the-counter derivatives, collateral is used to limit the counterparty exposures arising Further disclosure relating to collateral held and pledged for derivatives is detailed within note 29

15 Reinsurance assets

Assets arising from reinsurance contracts are related to	2012 £'000	2011 £'000
Life insurance general account	**1,491,977**	4,635
Life insurance for account of policyholders	**11,841**	1,104,170
Investment contracts for account of policyholders without discretionary participation features	**1,110,098**	1,089,627
	2,613,916	2,198,432

£93 9m of the reinsurance assets are current (2011 £156 6m)

15 Reinsurance assets (continued)

£4 7m (2011 £5 1m) of the Company's reinsurance of life insurance for account of policyholders is to Guardian Linked Life Assurance Limited and Guardian Pensions Management Limited, both of which are subsidiary undertakings of the Company, on arm's length terms

A collateral arrangement is in place for the majority of the reinsurance assets within the non-profit fund to limit the counterparty exposure arising The value of the reassured liability falling under the collateral arrangement at 31 December 2012 was £1,048,727,000 (2011 £1,091,930,000) Further disclosure relating to collateral held for this annuity business is detailed within note 29

Movements during the year in reinsurance assets relating to life insurance general account	**2012 £'000**	2011 £'000
At 1 January	**4,635**	4,909
Business transfer in	**1,092,050**	-
Gross premium and deposits	**438,581**	9
Insurance liabilities released	**(43,289)**	(283)
At 31 December	**1,491,977**	4,635

Movements during the year in reinsurance assets relating to life insurance for account of policyholders	**2012 £'000**	2011 £'000
At 1 January	**1,104,170**	1,052,858
Business transfer out	**(1,092,050)**	-
Gross premium and deposits	**2,721**	8,970
Insurance liabilities released	**(3,000)**	42,342
At 31 December	**11,841**	1,104,170

The transfers of business above relate to the reassured assets transferred from the with-profits fund of the Company to the non-profit fund as detailed on page 2 of the Directors report

16 Deferred expenses and rebates

Deferred policy acquisition costs	**2012 £'000**	2011 £'000
At 1 January	**121**	140
Amortisation through income statement	**(20)**	(19)
Impairment through income statement	**(101)**	-
At 31 December	**-**	121

In regards to deferred expenses, £Nil is current (2011 £20,000)

17 Other assets and receivables

		2012 £'000	2011 £'000
Receivables	17 a	**89,482**	206,088
Accrued income		**166,901**	73,259
Total other assets and receivables		**256,383**	279,347

All accrued income is current

17 a Receivables

	2012 £'000	2011 £'000
Receivables from policyholders	**1,728**	5,095
Receivables from reinsurers	**357**	887
Receivables from fellow subsidiary undertakings	**2,810**	7
Cash outstanding from assets sold	**893**	51
Cash collateral relating to derivatives	**27,596**	166,634
Investment debtor	**16,237**	7,230
Other debtors	**39,861**	26,184
	89,482	206,088

All receivables are current

18 Cash and cash equivalents

	2012 £'000	2011 £'000
Cash at bank and in hand	**163,679**	8,353
Short term deposits	**81,655**	2,092
	245,334	10,445

The weighted effective interest rate on short-term deposits was 0 41% (2011 0 26 %) and these deposits have an average maturity of 1 days (2011 2 days) Cash and cash equivalents are not subject to any restrictions

For the purposes of the cash flow statement, cash equivalents comprise the following

18 Cash and cash equivalents (continued)

	2012 £'000	2011 £'000
Cash and cash equivalents	**245,334**	10,445
Bank overdrafts (note 24)	**(5,539)**	(4,106)
Net cash and cash equivalents	**239,795**	6,339

The carrying amounts disclosed reasonably approximate the fair values as at the year-end

19 Shareholders' equity

	Note	2012 £'000	2011 £'000
Share capital	19a	**430,578**	10,354
Retained earnings		**206,998**	12,425
Share premium		**16,221**	16,221
Capital contribution reserve		**132,145**	40,625
		785,942	79,625

Nature and purposes of other reserves

Capital Contribution Reserve

The capital contribution reserve is used to record capital contributions received from the immediate parent undertaking The increase in capital contribution is in respect of the Company acquiring 100% of the issued share capital of the Guardian Linked Life Assurance Limited and Guardian Pensions Management Limited

19 a Share capital

Authorised, allotted, called up and fully paid	2012 £'000	2011 £'000
At January 2012		
Ordinary shares 41,416,000 of £0 25 each	**10,354**	10,354
Issued share capital 1,680,896,000 of £0 25 each	**420,224**	-
At 31 December 2012		
Ordinary shares of £0 25 each	**430,578**	10,354

All ordinary shares issued are fully paid and carry one vote per share and carry a right to dividends Guardian Financial Services Holdings UK Limited, the immediate parent undertaking of the Company, holds all the ordinary shares

20 Insurance contracts

	2012 £'000	2011 £'000
At 1 January	**14,175**	16,050
Business transfer in	**3,750,854**	-
Gross premiums and deposits	**5,146,457**	189
Insurance liabilities released	**(43,615)**	(2,064)
At 31 December	**8,867,871**	14,175

The transfer of business above relates to the gross liabilities transferred from the with-profits fund of the Company to the non-profit fund as detailed on page 2 of the Directors report

The premium figure above includes the initial premium from the reassurance transaction entered into during the year as detailed on page 2 of the Directors report

Actuarial assumptions – insurance contracts

The assumptions underlying the calculations are broadly as set out in the 2012 Valuation Report prepared under the requirements of Appendix 9 4 of the Interim Prudential Sourcebook for Insurers In calculating the technical provisions, material judgements are required, particularly through the choice of assumptions underlying the valuation of liabilities

The principal assumptions underlying the calculations of the technical provisions are as follows

Class of business		Mortality		Interest Rate
Pensions		50%/55% AM/AF92	(50%/55%)	3 00% (2 80%)
Annuities - in payment and post vesting	}<£2,000	92%/99% IML00/RFV00	(85%/93%)	3 00% (2 80%)
	}<£4,000	85%/91% IML00/RFV00	(85%/93%)	3 00% (2 80%)
	}<£10,000	81%/87% IML00/RFV00	(85%/93%)	3 00% (2 80%)
	}>£10,000	68%/73% IML00/RFV00	(85%/93%)	3 00% (2 80%)

Phoenix reinsured annuities

BA	106 9%/106 9% RMV00/RFV00	3 00%
Century	97 6%/97 6% PCMA00/PCFA00	3 00%
SMA	93%/97 6% PCMA00/PCFA00	3 00%
SPL	97 6%/97 6% PCMA00/PCFA00	3 00%
Pearl	104 6%/120 9% RMV00/RFV00	3 00%
NPL	93%/102 3% RMV00/RFV00	3 00%

There were variations within the different classes of business, the above gives the assumptions for the principal contracts

Annuity business is valued on the two-way IML00/RFV00 tables, assuming CMI 2011 mortality improvements with a long term rate of 2% Males and 1 5% for Females

The provisions held in respect of guaranteed annuity options are a prudent assessment of the additional liability incurred under the option on a basis and method consistent with that used to value basic policy liabilities

20 Insurance contracts (continued)

Other classes of business were valued using appropriate methods There have been no significant changes in the bases or assumptions adopted for the long-term business provision during the year other than the changes in mortality rates and interest rates detailed above

The annual bonus rates assumed for the Pension Plus/VIP/Buy-Out Plan business reassured from the with-profits fund to the non-profit fund are set out in Note 21 below

21 Insurance contracts for account of policyholders

	2012 £'000	2011 £'000
At 1 January	**6,060,917**	5,783,294
Business transfer out	**(3,750,854)**	-
Gross premiums and deposits	**25,728**	75,518
Change in insurance liabilities	**(43,118)**	202,105
At 31 December	**2,292,673**	6,060,917

The transfer of business above relates to the gross liabilities transferred from the with-profits fund of the Company to the non-profit fund as detailed on page 2 of the Directors report

The insurance contract for account of policyholders liability includes £42.5m (2011. £56.8m) relating to reinsurance accepted from Guardian Linked Life Assurance Limited and Guardian Pensions Management Limited, are subsidiary undertaking of the Company, on arm's length terms

Actuarial assumptions – insurance contracts and investment contracts with discretionary participating features

The assumptions underlying the calculations are broadly as set out in the 2012 Valuation Report prepared under the requirements of Appendix 9 4 of the Interim Prudential Sourcebook for Insurers In calculating the technical provisions, material judgements are required, particularly through the choice of assumptions underlying the valuation of liabilities In particular, market consistent techniques have been used to value all options and guarantees that fall under the FSA's "realistic" balance sheet requirements The business lines valued are summarized in note 21 Investment contracts for account of policyholders

Options and guarantees on non-profit and with-profit business have been valued deterministically using demographic assumptions consistent with those used for the published embedded value and discounting at risk-free zero coupon yields plus 80% of the spread available on the bond portfolio and less 1 5 times a default allowance based on bond rating and term, derived from historic data, to allow for credit defaults This approach can be taken because it has been demonstrated that all such options and guarantees are closely matched by suitable bonds such that the bond portfolio can be considered to be a replicating portfolio of the guaranteed liabilities The matching has been tested by applying extreme scenarios to the assets and liabilities and demonstrating that the assets remain sufficient to meet the liabilities under these scenarios

No specific management actions have been assumed in the deterministic valuation of the with-profits realistic liabilities, either in the base position or under the scenarios applied to determine the Risk Capital Margin In particular, future annual bonuses are assumed to remain at their current levels and no changes to investment policy are assumed No deductions are assumed for the cost of guarantees consistent with the current approach, although it should be noted that the Firm reserves the right to introduce a charge for guarantees in accordance with its Principles and Practices of Financial Management Payouts are assumed to be 100% of asset shares

21 Insurance contracts for account of policyholders (continued)

The annual bonus rates assumed are as follows

Class	Future Annual Bonus Rate (Terminal Bonus rate zero)
Endowments	1 00%
Pension Plus/VIP/Buy-Out Plan	0 50%
Personal Pension	1 00%
Life Unitised With-Profits	1 25%
Pensions Unitised With-Profits	1 50%

Assumed levels of future mortality improvement have a significant impact on future costs, particularly those relating to deferred annuities The assumptions used are consistent with current experience projected forward in line with CMI 2011 mortality improvements with a long term rate of 1 5% for Males and 1% for Females

The principal assumptions underlying the calculations of the technical provisions that do not fall within the FSA's "realistic" balance sheet requirements are as follows

Class of business		Mortality		Interest Rate
Assurances				
- non-participating		85%/80% AM/AF92	(85%/75%)	2 50% (2 80%)
- temporary (non-smoker)		55%/80% TM/TF92	(60%/75%)	2 50% (2 80%)
- temporary (smoker)		110%/125% TM/TF92	(115%/125%)	2 50% (2 80%)
- temporary (other)		60%/85% TM/TF92	(65%/80%)	2 50% (2 80%)
Pensions - non-participating		50%/55% AM/AF92	(50%/55%)	3 20% (2 80%)
Annuities - in payment and post vesting	}<£2,000	92%/99% IML00/RFV00	(85%/93%)	3 20% (2 80%)
	}<£4,000	85%/91% IML00/RFV00	(85%/93%)	3 20% (2 80%)
	}<£10,000	81%/87% IML00/RFV00	(85%/93%)	3 20% (2 80%)
	}>£10,000	68%/73% IML00/RFV00	(85%/93%)	3 20% (2 80%)

There were variations within the different classes of business, the above gives the assumptions for the principal contracts

Annuity business is valued on the two-way IML00/RFV00 tables, assuming CMI 2011 mortality improvements with a long-term rate of 2% Males and 1 5% for Females

For unitised with-profit business, the provisions are valued initially by determining the lower of the current non-guaranteed surrender value and the bid value of units This result is then compared with a prospective valuation and the higher result is taken

The provisions held in respect of guaranteed annuity options are a prudent assessment of the additional liability incurred under the option on a basis and method consistent with that used to value basic policy liabilities

An additional provision is held to cover the cost of dealing with complaints, including compensation payments, resulting from mortgage endowments contracts sold in the past For Low Cost Mortgage Endowments the provision is based on the expected number of future complaints and an assumed average cost of each complaint based on the experience to date For Freedom the provision is based on an expected future complaint rate, using historic data, and calculated on a case-by-case basis

21 Insurance contracts for account of policyholders (continued)

Other classes of business were valued using appropriate methods There have been no significant changes in the bases or assumptions adopted for the long-term business provision during the year other than the changes in mortality rates and interest rates detailed above

Deferred Tax

Future anticipated tax cash flows are included in the actuarial calculation and are discounted at the interest rate applicable to the appropriate class of business

Amount Charged for Bonuses

The amount in respect of bonuses in the long term business technical account amounts to £110 3m (2011: £102 5m) of which £102 1m (2011 £93 4m) relates to interim and terminal bonuses and £8 2m (2011 £9 1m) is in respect of reversionary bonuses declared at the end of the year and which was included in the long term business provision

Within insurance contracts for the account of policyholders above is the Fund for Future Appropriations in respect of the with-profits business of the Company The Fund for Future Appropriations represents an estimate of the amount that may be paid over time to the shareholder as profits emerge from the fund in the form of bonuses The value attributed to the Fund for Future Appropriations at 31 December 2012 is £158 1m (2011 £148 5m)

22 Investment contracts for account of policyholders

	2012 £'000	2011 £'000
Without discretionary participation features	**1,109,806**	1,089,254
With discretionary participation features	**473,900**	490,342
	1,583,706	1,579,596

With discretionary participation features

	2012 £'000	2011 £'000
At 1 January	**490,342**	521,511
Gross premiums and deposits	**6,433**	7,178
Investment liabilities released	**(22,875)**	(38,347)
At 31 December	**473,900**	490,342

22 Investment contracts for account of policyholders (continued)

The investment contract for account of policyholder liability includes £13 0m (2011 £15 2m) relating to reinsurance accepted from Guardian Pensions Management Limited, a subsidiary undertaking of the Company, on arm's length terms

Investment contracts with discretionary participation features are not measured at fair value and there is currently no agreed definition of fair value for discretionary participation features In the absence of such a definition, it not possible to provide a range of estimates within which a fair value is likely to fall There is no active market for these instruments, which will be settled with policyholders in the normal course of business

Changes in the fair value of investment contracts without discretionary participation features, which are designated as fair value through profit or loss were not attributable to changes in the Company's credit spread There are no significant differences between the carrying amount of these financial liabilities and the contractual amount payable at maturity (net of surrender policies)

Actuarial assumptions – insurance contracts

The business lines referred to in note 20 are as follows

Traditional With-Profits

In return for the payment of a single premium or an agreed series of premiums, the firm guarantees to pay a specified level of sum assured or annuity, including annual bonus additions to date, at a specified maturity date or, for life assurances, on earlier death As at 31 December 2012, the great majority of such guarantees were out of the money (i e current asset shares generally exceed corresponding guaranteed benefits) for life assurances but in the money for deferred annuities

Unitised With-Profits Guarantees

Units purchased to date are guaranteed not to decrease in value if taken at maturity Similar guarantees exist on earlier death

The majority of such guarantees are currently out of the money

Actuarial assumptions – contracts with discretionary participating features

The business lines referred to in note 21 are as follows

Unitised With-Profits Guarantees

Units purchased to date are guaranteed not to decrease in value if taken on early retirement up to 5 years before maturity (i e no market value reduction will be applied on early retirement up to 5 years before maturity) Similar guarantees exist on earlier death

The majority of such guarantees are currently out of the money

23 Other financial liabilities

All other financial liabilities at fair value through profit or loss are designated by the Group to be in this measurement category Included in other financial liabilities is the fixed leg of the longevity swap reinsurance arrangement discussed in the Principal Activity section of the Report by the Directors This is categorised as level 3 in the fair value hierarchy disclosed in note 13

24 Borrowings

Borrowings are in respect of bank overdrafts with a value of £5,539,000 at 31 December 2012 (2011 £4,106,000)

At 31 December 2012 all borrowings are current (2011 all current)

25 Deferred tax assets and deferred tax liabilities

	Financial Assets £'000	**Insurance Contracts £'000**	**Total £'000**
At 1 January 2012	**(526)**	**-**	**(526)**
Change in tax rate	-	-	-
Charged to income statement	**4,356**	**36,889**	**41,245**
At 31 December 2012	**3,830**	**36,889**	**40,719**

	Financial Assets £'000	Insurance Contracts £'000	Restated Total £'000
At 1 January 2011	2,471	(332)	2,139
Change in tax rate	-	7	7
Charged to income statement	(2,997)	325	(2,672)
At 31 December 2011	(526)	-	(526)

All deferred taxes are non-current by nature

26 Other liabilities

	2012 £'000	2011 £'000
Payables due to policyholders	**22,240**	22,321
Payables out of reinsurance	**8,048**	2,398
Income tax payable	**15,415**	12,102
Cash collateral	**27,596**	166,634
Payables to fellow subsidiary undertakings	**1,497**	1,380
Other creditors	**13,547**	6,235
	88,343	211,070

All other liabilities are current

Within payables out of reinsurance £6 9m (2011 £1 4m) is in respect of payables due to subsidiary undertakings

27 Capital and solvency

a) The capital available as at 31 December 2012 to meet regulatory capital requirements can be derived from the accounts as shown below The table that follows has been prepared on an adjusted solo basis All capital within the firm falls within FSA's core tier one definition

	2012 £'000	2011 £'000
Shareholder Equity as per accounts	**785,942**	79,625
Adjustments-		
Positive valuation differences	**1,089,287**	951,401
Fund for future appropriation	**158,088**	148,521
Inadmissible assets	**(921)**	(2,082)
Core tier one capital in related undertakings	**6,124**	-
Deductions in regulated related undertakings	**(50,073)**	-
Assets in excess of market risk and counterparty limits in regulated related undertakings	**(5,401)**	-
Capital to meet the FSA's Pillar 1 regulatory requirements:	**1,983,046**	1,177,465
Capital Resources Requirement	**1,420,835**	983,676
Available Capital after CRR	**562,211**	193,789

Note There were no changes in Management policy and no changes were made with respect to PS06/14 The fund is closed to new business

b) Only the With-Profits Fund is subject to a 'realistic' assessment of liabilities In the table above the With-Profits Fund results are consistent with FSA's Pillar 1 requirement

c) The shareholder has a 10% interest in the Guardian With-Profits Fund and a 100% interest in the PHI/CR and Non-Profit Funds

27 Capital and solvency (continued)

d) As the regulatory capital standard is market consistent, the level of available capital will fluctuate with market conditions, in particular with the level of fixed interest yields, credit spreads and equity markets In general terms the level of regulatory capital will reduce if equity markets fall, fixed interest yields fall, credit spreads widen, and vice versa

e) The Company aims to manage the available capital in the With-Profits Fund, after deduction of the CRR, to a long-term position of zero, consistent with the need to distribute the estate as the fund reduces in size Risk mitigation strategies adopted (both now and in future) must be consistent with representations made to policyholders

f) Liabilities within the With-Profits and PHI/CR and Non-Profit Funds are either perfectly matched (unit-linked business) or very closely matched (non-profit business and guaranteed liabilities on with-profits business)

g) The Company's risk profile is monitored by reference to its economic capital positions The Company's economic solvency position should be maintained to a level such that it would not default economically on its obligations to policyholders should any "plausible" scenarios from the past recur

h) The Company should not be vulnerable to "plausible" events and so should be well diversified in the risks it takes Risk concentrations will be monitored quarterly using metrics that may change from time to time These will be considered by the Company's Risk and Capital Committee which amongst other activities, issues

- Policies to help reduce the possibility of undue risk concentration
- Guidance as to which types of risk it may be attractive to write more of on a worldwide, consolidated basis

i) The Company has met its regulatory capital requirements during 2012 and 2011

28 Provisions, contingent liabilities and charges

A provision of £7m (2011 £8m) has been established in the actuarial reserves in respect of a review of the past sales of personal pension policies which involved transfers, opt-outs and non-joiners from occupational schemes, as required by the Personal Investment Authority and the Financial Services Authority It is anticipated that the review will be completed in accordance with the required timescales of the Financial Services Authority The provision covers the completion of the last few remaining cases, the guarantees given on certain cases, and the winding up of the investigating unit

A provision of £3m (2011 £3m) has been established in the actuarial reserves in respect of complaints arising from past sales of mortgage endowments The eventual liability is dependent upon future complaints and costs of redress, and as a result the ultimate liability for complaints arising from past sales of mortgage endowments may be greater than the current reserve

The Company has a Bond and Floating Charge granted to Guardian Pensions Management Limited, a subsidiary undertaking of the Company, on 28 December 2005 in respect of reinsurance contracts (relating to unit-linked business, annuities and other classes of insurance business) between the Company and Guardian Pensions Management Limited (reserves accepted as at 31 December 2012 £20 0m)

The Company also has a Bond and Floating Charge granted to Guardian Linked Life Assurance Limited, also a subsidiary undertaking of the Company, on 28 December 2005 in respect of reinsurance contracts (relating to unit-linked business and other classes of insurance business) between the Company and Guardian Linked Life Assurance Limited (reserves accepted as at 31 December 2012 £35 4m)

28 Provisions, contingent liabilities and charges (continued)

The Company also has a Bond and Floating Charge granted to Countrywide Assured plc on 23 October 2006, in respect of reinsurance contracts (relating to unit-linked business, with-profits business and other classes of insurance business) between the Company and Countrywide Assured plc (reserves accepted as at 31 December 2012 £209 9m)

The Company had no contingent liabilities as at 31 December 2012

29 Risk management

General

The Company is exposed to financial and insurance risks The main financial risks are credit risk, liquidity risk and market risk, with the principal elements of market risk being interest rate risk and equity price risk The Company is not exposed to significant currency risk The Risk and Capital Management and Financial Instruments section of the Report by the Directors describes the Company's general approach to risk management and the Company's approach to management of financial and insurance risks

In the quantitative analyses of credit and liquidity risk that follow assets held within unit-linked and with-profit funds have been excluded as the risks are principally borne by the policyholder rather than the shareholder

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss An indication of the Company's exposure to credit risk is the quality of the investments and the counterparties with which it transacts The Company manages credit risk exposure by individual counterparty, sector and asset class, including cash positions The Company is most exposed to credit risk on debt securities and money market investments, derivative financial instruments, cash and cash equivalents and reinsurance arrangements Debt securities and money market investments mainly comprise government bonds and corporate bonds There is also a credit risk to the Company in respect of linked pension business that is reassured to Scottish Equitable plc

There is a further credit risk to the Company in respect of certain unitised life and pension business that is reassured to Guardian Linked Life Assurance Limited and Guardian Pensions Management Limited, are subsidiary undertakings of the Company

The following tables give an indication of the level of creditworthiness of those categories of assets which are most exposed to credit risk principally using ratings prescribed by major rating agencies

31 December 2012

	AAA	AA	A	BBB	BB	B	D	Non-rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Debt securities and money market instruments	612,401	730,860	3,006,309	1,810,642	92,899	24,862	1,362	1,275,362	7,554,697
Cash and cash equivalents	-	-	219,252	-	-	-	-	-	219,252
Reinsurance assets	-	-	1,491,977	-	-	-	-	-	1,491,977
	612,401	730,860	4,717,538	1,810,642	92,899	24,862	1,362	1,275,362	9,265,926

29 Risk management (continued)

31 December 2011

	AAA	AA	A	BBB	BB	B	D	Non-rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Debt securities and money market instruments	16,590	1,715	4,641	388	919	720	-	-	24,973
Cash and cash equivalents	-	-	3,524	-	-	-	-	-	3,524
Reinsurance assets	-	-	4,635	-	-	-	-	-	4,635
	16,590	1,715	12,800	388	919	720	-	-	33,132

The loans to immediate parent undertakings are not rated

Credit risk concentrations by sector for general account debt securities and money market investments are as follows

	2012	2011
	£'000	£'000
Asset backed securities (ABS)		
- Household	**9,163**	-
- Other	**432,929**	-
Other collateralised mortgage backed securities	**185,740**	
Financial	**2,289,788**	3,358
Industrial	**1,730,421**	3,857
Utility	**1,821,483**	1,169
Sovereign exposure	**1,085,173**	16,589
	7,554,697	24,973

The Company has total debt security holdings of £8,775,170,000 (2011 £3,533,564,000) of which £1,220,473,000 (2011 £3,508,591,000) is held within the linked and with-profit funds where exposure risk predominantly is borne by the policyholder

The remaining debt security exposure detailed above is held within the non-linked and general insurance funds Of the sovereign exposure debt holdings, £162,948,000 (2011 £3,098,000) is held in government bonds issued by countries within the Eurozone and £176,974,000 (2011 £3,262,000) is held in bonds issued by European supra-national financial institutions

Of the remaining corporate debt exposure £2,533,609,000 (2011 £4,247,000) is exposed to countries within the Eurozone

Past due or impaired assets

There were no general account past due or impaired assets as at 31 December 2012 or 31 December 2011

As at 31 December 2012 general account stock lent to third parties, under standard market terms, totalled £Nil (2011 £Nil) for which cash collateral of £Nil (2011 £Nil) had been received and asset collateral of £Nil (2011 £Nil)

29 Risk management (continued)

Collateral

Investments pledged as collateral for derivative liabilities totalled £672,000 (2011 £Nil) These assets are pledged under standard market terms Cash pledged as collateral for derivative liabilities totalled £5,563,000 (2011 £132,000)

Investments received as collateral for derivative assets totalled £21,036,0000 (2011 £91,200,000) The Company did not have the right to sell or re-pledge these types of investments These investments were in the form of government and supranational bonds and a corporate bond with a credit rating of Aa2 Cash received as collateral for derivative assets totalled £27,596,000 (2011 £166,634,000)

Investments received as collateral for reassured annuity business within the non-profit fund totalled £1,013,198,000 (2011 £979,039,000) The Company did not have the right to sell or re-pledge these types of investments These investments were in the form of Gilts, fixed income securities guaranteed by sovereign states or supra-nationals and corporate bonds with a credit rating of BBB or higher

Investments pledged as collateral within the non-profit fund in respect of the reassurance transaction with Phoenix Group totalled £5,435,944,000 (2011 £Nil) The Company did not have the right to sell or re-pledge these types of investments These investments were principally in the form of Gilts and corporate bonds with a credit rating of A- or higher

On 1st August 2012, the Company entered into a longevity swap with RGA to transfer mortality risk on £1 5bn of annuities to RGA As part of this agreement, the Company was required to put up collateral, which is assessed quarterly, to support the difference between the fixed payments to RGA and the variable payments from RGA At 31st December 2012 £34,935,000 of financial assets (principally corporate bonds) were posted as collateral These assets continue to be recognised on the Company balance sheet (and are included within note 11) The title to these assets has been transferred to RGA although the Company can swap assets provided the total market value of the assets supports the overall collateral required to be posted

29 Risk management (continued)

Liquidity risk

The tables that follow sets out a maturity analysis for the Company's general account financial liabilities (non-derivatives and derivatives) based on remaining contractual maturities

2012 - Maturity analysis - gross undiscounted cash flows

	On Demand £'000	< 1 yr £'000	1 < 5 yrs £'000	> 5 yrs £'000	Totals £'000
Borrowings	-	**5,539**	-	-	**5,539**
Other financial liabilities	-	**31,414**	**85,764**	**400,341**	**517,519**
	-	**36,953**	**85,764**	**400,341**	**523,058**

2011 - Maturity analysis - gross undiscounted cash flows

	On Demand £'000	< 1 yr £'000	1 < 5 yrs £'000	> 5 yrs £'000	Totals £'000
Borrowings	-	4,106	-	-	4,106
Other financial liabilities	-	4,737	-	-	4,737
	-	8,843	-	-	8,843

All investment contract liabilities are repayable in less than one year

The Company's liquidity management is based on expected claims and benefit payments rather than on the contractual maturities The projected cash benefit payments below are based on management's best estimates of the expected gross benefits and expenses, partially offset by the expected gross premiums, fees and charges relating to the existing business in force Estimated cash benefit payments are based on mortality, morbidity and lapse assumptions comparable with the Company's historical experience, modified for recently observed trends Actual payment obligations may differ if experience varies from these assumptions The cash benefit payments are presented on an undiscounted basis and are before deduction of tax and before reinsurance

29 Risk management (continued)

Financial liabilities relating to insurance and investment contracts

	< 1 yr Amount 2012 £'000	1 < 5 yrs Amount 2012 £'000	5 < 10 yrs Amount 2012 £'000	> 10 yrs Amount 2012 £'000	Totals 2012 £'000
Insurance contracts	**421,400**	**1,683,203**	**2,052,543**	**6,737,666**	**10,894,812**
Insurance contracts for account of policyholders	**270,578**	**894,201**	**549,032**	**1,101,884**	**2,815,695**
Investment contracts for account of policyholders	**123,177**	**492,814**	**669,640**	**1,537,181**	**2,822,812**
	815,155	**3,070,218**	**3,271,215**	**9,376,731**	**16,533,319**

	< 1 yr Amount 2011 £'000	1 < 5 yrs Amount 2011 £'000	5 < 10 yrs Amount 2011 £'000	> 10 yrs Amount 2011 £'000	Totals 2011 £'000
Insurance contracts	2,097	6,227	4,625	4,076	17,025
Insurance contracts for account of policyholders	347,747	1,280,039	1,186,950	4,062,470	6,877,206
Investment contracts for account of policyholders	124,430	474,513	611,596	1,406 495	2,617,034
	474,274	1 760,779	1,803,171	5,473,041	9,511,265

The liability amount in the Company's financial statements reflects the discounting for interest as well as adjustments for the timing of other factors as described above As a result, the sum of the cash benefit payments shown for all years in the table exceeds the corresponding liability amounts included in Notes 20 to 22.

Market risk

Results of the Company's sensitivity analyses are presented throughout this section to show the estimated sensitivity of net income and shareholders' equity to various scenarios For interest rate risk and equity market risk, the analysis shows how these measures would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date In performing the analyses and determining the potential impact for the financial year, the assumption is made that the financial instrument exposures at the balance sheet date were in existence for a full year For each sensitivity test the impact of a reasonably possible change in a single factor is shown

The sensitivities do not reflect what the results for the period would have been if risk variables had been different, because, for financial instruments, the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year Nor are the sensitivities intended to be an accurate prediction of the Company's future equity or earnings The analysis does not consider all instruments available to management to respond to changes in the financial environment, such as changing investment portfolio allocations or adjusting premiums and crediting rates

Furthermore, the results of the analyses cannot be extrapolated for wider variations since effects are not always linear No risk management processes can clearly predict future results

29 Risk management (continued)

Interest rate risk

The sensitivity analysis in the table below shows an estimate of the effect of a parallel shift in the yield curve on net income and shareholders' equity Increases in interest rates have a positive effect on loan income, a negative effect on bond income because it results in unrealised losses on investments that are carried at fair value and a negative effect on annual management charges collected because the value of fixed interest securities would decrease The offsetting economic gain on the insurance is not fully reflected, however, in the sensitivities, because many of these liabilities are not measured at fair value The net effect of these movements is shown in the table below

	2012		2011	
	Impact on net income £'000	**Impact on equity £'000**	Impact on net income £'000	Impact on equity £'000
Immediate change				
Shift up 100 basis points	(45,321)	(45,271)	(989)	(796)
Shift down 100 basis points	52,258	52,199	1,135	918

Equity price risk

The sensitivity analysis of net income and shareholders' equity to changes in equity prices is presented in the table below The sensitivity of net income and shareholders' equity primarily reflects the impact of equity price changes on fund related charges

	2012		2011	
	Impact on net income £'000	**Impact on equity £'000**	Impact on net income £'000	Impact on equity £'000
Immediate change				
Equity increase 10%	1,084	1,084	984	984
Equity decrease 10%	(1,084)	(1,084)	(984)	(984)
Equity increase 20%	2,167	2,167	1,969	1,969
Equity decrease 20%	(2,167)	(2,167)	(1,969)	(1,969)

29 Risk management (continued)

Underwriting risk

The Company's earnings are impacted by the extent to which actual claims experience is not consistent with the assumptions used in setting prices for products and establishing technical liabilities and liabilities for claims To the extent that actual claims experience is less favourable than the underlying assumptions used in establishing such liabilities, income would be reduced Furthermore, if these higher claims were part of a permanent trend, the Company may be required to increase liabilities, which could also reduce income

Sources of underwriting risk include policy claims such as mortality and morbidity For mortality and morbidity risk, the Company holds certain types of policies that are at risk if mortality or morbidity increases, such as term life insurance, and certain types of policies that are at risk if mortality decreases (longevity risk) such as annuity products The Company is not exposed to a significant expense risk due to an agreement in place with the shareholder The Company is not exposed to a significant lapse risk as no new policies are sold and up front expenses have already been recovered from policies previously sold

The Company monitors and manages its underwriting risk by underwriting risk type Attribution analysis is performed on earnings in order to understand the source of any material variation in actual results from what was expected The Company also performs experience studies for underwriting risk assumptions, comparing the Company's experience to industry experience as well as combining the Company's experience and industry experience based on the depth of the history of each source to the Company's underwriting assumptions Where products have flexible policy charges the Company uses these analyses as the basis for modifying these charges, with a view to maintaining a balance between policyholder and shareholder interests

Sensitivity analysis of net income and shareholders' equity to various underwriting risks as shown below has been assessed The sensitivities considered represent an increase or decrease of mortality and morbidity rates or lapse rates during the relevant year

10% increase in mortality rates

10% decrease in mortality rates

0 5% increase in long term future improvement in longevity assumption

20% increase in lapses

20% decrease in lapses

10% increase in morbidity rates

10% decrease in morbidity rates

The only sensitivities that had a significant impact on net income or shareholder's equity for 2012 were in respect of mortality and longevity as shown below There was no significant impact on net income or shareholder's equity for 2011 in respect of mortality and longevity

	2012	
	Impact on net income £'000	**Impact on equity £'000**
Immediate change		
10% increase mortality rates	123,741	123,741
10% decrease mortality rates	(136,905)	(136,905)
Mortality improvement stress	(97,797)	(97,797)

29 Risk management (continued)

Underwriting risk

The Longevity Stress is an increase in the long-term future improvement assumption of +0 5% It represents the chance that future improvements happen quicker than expected leading to lower mortality assumptions

Operational risk

In the normal course of business, reviews of processes and procedures are undertaken to ensure that customers are treated fairly, and to respond to matters raised by policyholders and their representatives The Company does not believe that material liabilities will arise from such reviews, however there is a risk that the Company is not able to resolve such matters in the manner that it expects

30 Related party transactions

(a) Immediate parent undertaking

The entire issued share capital of the Company at the year end is held by Guardian Financial Services Holdings UK Limited (formerly known as Green Day Acquisitions Limited), which is domiciled and incorporated in England & Wales

(b) Ultimate parent undertaking

The Company's ultimate parent undertakings are the partnerships comprising the Fourth Cinven Fund, being funds managed and advised by Cinven Limited, a company incorporated under the laws of England and Wales Accordingly, the Directors consider the Company's ultimate controlling party to be Cinven Limited, the manager and advisor to the Cinven Funds

(c) Year-end balances and transactions with related parties

Transactions with related parties include all transactions with Guardian Financial Services Holdings UK Limited (formerly known as Green Day Acquisitions Limited) and it's fellow subsidiary undertakings and the immediate subsidiary undertakings of the Company

Administration expenses have been recharged to the Company with reference to an expense agreement during the year by Guardian Companies Services Limited, a fellow subsidiary of Guardian Financial Services Holdings UK Limited (formerly known as Green Day Acquisitions Limited) (see note 7 for total amount of such transactions) The terms of reinsurance arrangements are described in notes 15, 21 and 22 Interest received from related parties is set out in note 3

Premiums include £2 1m (2011 £2 0m) in respect of reinsurance accepted from subsidiary undertakings. Premiums to reinsurers include £7 6m (2011 £8 0m) in respect of reinsurance ceded to subsidiary undertakings. Claims include £7 8m (2011 £4 0m) in respect of reinsurance accepted from subsidiary undertakings Income from reinsurance ceded includes £1 6m (2011 £70 8m) in respect of reinsurance ceded to subsidiary undertakings

Commission and expenses include £7 4m (2011 £3 4m) of operational expenses recharged to the Company by Guardian Companies Services Limited, a fellow subsidiary of Guardian Financial Services UK Limited (formerly known as Green Day Acquisitions Limited)

Outstanding payables are unsecured, interest free and cash settlement is generally expected within 30 to 90 days of invoice Outstanding receivables relate to unsecured, interest free intercompany accounts with no specified credit period The Company has not provided or benefited from any guarantees for any related party receivables or payables During the year ended 31 December 2012 the Company has not made any provision for doubtful debt relating to amounts owed by related parties (2011 nil)

30 Related party transactions (continued)

(c) Year-end balances and transactions with related parties (continued)

Year-end balances related to related party transactions are detailed in Notes 11, 17a and 26 For the 31 December 2012, year-end balances with related parties include all balances with fellow subsidiary undertakings of Guardian Financial Services Holdings UK Limited (formerly known as Green Day Acquisitions Limited), including £1 4m (2011 £1 4m) in respect of operational expenses recharge and funding arrangement with Guardian Companies Services Limited, a fellow subsidiary of Guardian Financial Services Holdings UK Limited (formerly known as Green Day Acquisitions Limited)

(d) Compensation of key management personnel

The key management of the company consists of the Board of Directors In respect of qualifying services provided to the group in the year to the 31st of December 2012, Directors received remuneration (as outlined below) The Directors did not receive any pension benefits or pension contributions, nor did they receive remuneration under a long-term incentive plan, shares or share options.

Key Management Personnel Remuneration	**2012**	2011
	(£000)	(£000)
Short Term Employee Benefits	**498**	153
Post Employment Employee Benefits	-	21
Termination Benefits	**200**	-
Total Remuneration	**698**	174

There were no transactions with any key management personnel during the year and there are no balances outstanding at the year-end

31 Post Balance Sheet Events

The Directors are not aware of any significant post balance sheet events that require disclosure in the financial statements