

Ageas Protect Limited

Directors' Report and Financial Statements

For the year ended 31 December 2012

Registered Number 6367921



Ageas Protect Limited

Directors' Report and Financial Statements

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Ageas Protect Limited

Directors and Advisors

Directors

Julian Hance
Julian Harvey (resigned 31 December 2012)
Barry Smith
Darren Spriggs
Matthew Thomas
Michael Urmston (Chairman)

Jane Dale (appointed 28 March 2012)
Fernley Dyson (appointed 11 May 2012)
Andrew Watson (appointed 11 February 2013)
Mark Winlow (appointed 3 October 2012)

Secretary

Rosemary Smith

Head Office and Registered Address

Ageas House, Tollgate
Eastleigh Hampshire, SO53 3YA

Registered Number: 6367921

Independent Auditor

KPMG Audit Plc
Chartered Accountants
Registered Auditors
15 Canada Square
London
E14 5GL

Ageas Protect Limited

Report of the Directors

The Directors submit their report, together with the audited financial statements for the year ended 31 December 2012

Share capital

At 31 December 2012 the authorised share capital comprised 160,110,000 ordinary shares of £1 each, fully paid up, (2011 160,110,000 ordinary shares of £1 each, fully paid up)

Activities

During the year Ageas Protect Limited's (the Company) principal activity has been the transaction of long term insurance protection products

Business Review

Full details of the Company's results are contained in the accounts on pages 7 to 32. The Directors intend to continue the development of the Company's long term life protection business

The Company was established in 2008 as an innovative provider of life insurance, critical illness and income protection products, sold through Independent Financial Advisers (IFAs), intermediaries and distribution partners. Our vision is to be the new protection standard against which others in the market will be measured. The Company has grown steadily by

- Developing quality products designed to meet our customer's protection needs
- Empowering our distribution partners to be in control and making it easy to do business with us
- Committing to operational excellence

For a young company, growth in new business is a key indicator of financial performance as the business establishes itself. During the year to 31 December 2012, the Company wrote 99,767 policies which generated £36 million Annual Premium Equivalent (APE), this represents an increase of 16.5% over the prior year (2011 86,819 policies and £30.9 million APE)

The majority of new business sales in 2012 came from the IFA / intermediary sector (96.3%) with the remainder from a small number of distribution partners. The IFA sector is intended to remain the Company's core distribution channel.

Gross Earned Premiums also grew substantially, from £44.6 million in 2011 to £69.4 million in 2012, an increase of 55.6%.

At the end of 2012 an additional charge of £5.1 million was made in the Statement of Comprehensive Income in respect of Deferred Acquisition Costs (DAC) as a result of strengthening the valuation assumptions. Before this additional charge the Company made a profit of £0.2 million, following the charge the overall loss before taxation was £4.9 million.

The Company had a tax credit of £4.1 million, part of which was due to the impact of the lower UK tax rates on the deferred tax liability relating to the DAC asset. The loss after tax for the year was £0.8 million.

Going Concern

The financial statements have been prepared on a going concern basis. During 2012 the Company's additional solvency and working capital requirements were met through a Subordinated Debt Agreement with an Ageas Group company, Ageas (UK) Limited, £26 million was drawn down under the agreement during 2012, of which £11 million (drawn in December 2012) was related to its 2013 capital requirements.

Solvency II was expected to be beneficial for the Company as it would be able to take credit for assets which are currently not allowed for solvency purposes, the on-going delays to Solvency II now means that the Company requires additional capital for longer. The parent company, Ageas Insurance International NV, is fully aware of the capital requirements of the Company, which are included in the Group's multiyear budget. In addition, the parent company has committed to supporting the capital requirements of the Company for at least the next 12 months. The Company is, in the opinion of the directors, able to meet all debts as they fall due, has significant net assets and will be able to meet its regulatory Solvency I requirements.

Shareholder's equity

The Company did not pay a dividend in the year to 31 December 2012, (2011: £nil), and had a loss after tax for the year of £0.8 million, (2011: loss of £1.3 million) which was recorded in shareholder's equity. At 31 December 2012, the shareholders' equity stood at £137.0 million, (2011: £137.6 million).

Assets

The primary assets held by the Company at the 31 December 2012 are cash and fixed term investments. These assets represent the Company's expected working and solvency capital requirements.

Also included within the Company's assets is an amount of £1.7 million capitalised under IAS 38, Intangible Assets, which represents the costs of developing the IT systems and processes which underpin the operating activities of the Company.

Liabilities

The liabilities at the 31 December 2012 represent creditors in respect of the Company's day to day trading activities and reserves for insurance contract liabilities.

Cash Flow

Cash and investments available to the Company have increased by £8.7 million as a result of on-going cash injection in the form of subordinated loans.

Regulatory Changes

During 2012 the exemption previously afforded to insurance under the Gender Directive was removed and the Company was required to price its insurance products the same for men and women (referred to as gender neutral pricing). The Company met the legal requirements by the implementation date of 21st December 2012 and is now fully compliant with the law.

Risks and uncertainties

The Company's principal risks and uncertainties and the way in which these risks are managed are detailed in note 23 to the financial statements.

Results and dividends

The result for the year is a loss after taxation of £0.8 million, (2011: loss of £1.3 million), and no dividend was paid or proposed during the year, (2011: £nil).

Information provided to the auditors

The members of the Board, and the dates of their appointment and resignation as applicable, are shown on page 3. The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware.

and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

KPMG Audit Plc were appointed as Independent Auditors of the Company on the 27 November 2007 and pursuant to the shareholders' resolution the Company is not obliged to reappoint auditors annually and KPMG Audit Plc will therefore continue in office

Creditor payment policy

The Company agrees terms and conditions under which business transactions with suppliers are conducted. It is the Company's policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions.

Employees

The average number of employees in the United Kingdom was 216, (2011 178), during the year and the aggregate remuneration is shown in note 5.

Employee involvement

Employees are kept up to date about a wide range of Company developments through a programme of engagement activities, delivered through a variety of channels. This includes formal Director briefings for all employees and communication, management on the Company's performance and strategy, as well as regular bulletins and employee newsletters. In addition, informal discussions take place between senior management and the formal employee consultation bodies. In 2012 Ageas ran its fourth UK-wide engagement survey and launched an intranet to further promote a two-way dialogue between employees and the organisation, and to connect people across different businesses.

Disabled persons

In line with the Equality Act 2010 we have taken a number of actions in response. The Act consolidates the range of discrimination legislation that has previously been in place and, as a result, the Company's policy and procedures have been reviewed. The requirements have been built into our management training and an e-learning module has been created to further embed our approach to a diverse working environment. Our approach to diversity is monitored regularly.

Charitable donations

Charitable donations in the year amounted to £12,395 (2011 £950).

This report was approved by the Board of Directors on 27 March 2013 and signed on its behalf by



RA Smith
Company Secretary

Ageas Protect Limited

Statement of Comprehensive Income for the year ended 31 December 2012

		2012	2011
		£'000	£'000
Revenues			
Gross earned premiums	2	69,425	44,599
Outward reinsurance premiums		(20,406)	(11,669)
Net earned premiums		49,019	32,930
Investment Income	3	1,292	2,637
Total revenues		50,311	35,567
Policyholder benefits and claims			
Claims paid, before reinsurance	7	(16,674)	(8,183)
Reinsurer's share of claims paid	7	15,460	6,577
Claims paid, after reinsurance		(1,214)	(1,606)
Increase in insurance contract liabilities, before reinsurance	13	(42,627)	(46,755)
Increase in reinsurance share of insurance contract liabilities	13	41,560	46,752
Increase in insurance contract liabilities, after reinsurance	13	(1,067)	(3)
Total policyholder benefits and claims		(2,281)	(1,609)
Operating expenses			
Acquisition expenses	4	(45,864)	(33,034)
Administrative expenses	4	(3,704)	(3,036)
Depreciation and amortisation expenses	4	(2,970)	(3,094)
Other Operating Income			
Total operating expenses		(52,538)	(39,165)
Loss for the period before tax and interest		(4,508)	(5,207)
Finance costs		(428)	-
Loss for the period before tax		(4,936)	(5,207)
Tax Credit	6	4,092	3,953
Loss for the period after tax		(844)	(1,254)
Other comprehensive income			
Net change in fair value of available for sale financial assets		341	937
Tax on net change in fair value of available for sale assets		(72)	(220)
Other comprehensive income for the period, net of income tax		269	717
Total comprehensive income for the period		(575)	(537)

All of the above results relate to continuing operations

The notes on pages 11 to 32 form an integral part of these financial statements

Ageas Protect Limited

Statement of Changes in Equity for the year ended 31 December 2012

	Share capital £'000	Retained Earnings £'000	AFS Reserve £'000	Total £'000
Opening Balance 1 January 2011	160,110	(22,417)	429	138,122
Shares issued during the year	-	-	-	-
Gain/(loss) on AFS reserve	-	-	717	717
Loss for the year	-	(1,254)	-	(1,254)
At the end of the year 31 December 2011	160,110	(23,671)	1,146	137,585
Shares issued during the year	-	-	-	-
Gain/(loss) on AFS reserve	-	-	269	269
Loss for the year	-	(844)	-	(844)
At the end of the year 31 December 2012	160,110	(24,515)	1,415	137,010

- * The AFS reserve includes the cumulative net change in the fair value of available for sale investments, net of tax, until the investment is derecognised. Upon de-recognition or impairment of available for sale investments, the relevant portion of the available for sale reserve is reclassified to profit or loss.

The notes on pages 11 to 32 form an integral part of these financial statements

Ageas Protect Limited

Statement of Financial Position as at 31 December 2012

		2012	2011
		£'000	£'000
ASSETS			
Deferred acquisition costs	8	106,228	81,849
Development expenditure	9	1,692	4,131
Intangible Assets		107,920	85,980
Property, plant and equipment	11	845	930
Reinsurers' share of insurance contract liabilities	13	93,008	51,447
Current tax asset	19	3,504	4,646
Loans and receivables, including insurance receivables	10	12,007	5,213
Financial investments	12	40,013	44,156
Cash and cash equivalents	12	34,354	25,699
Financial Assets		86,374	75,069
Total Assets		291,651	218,072
Liabilities			
Insurance contract liabilities	13	94,746	52,119
Payables and other financial liabilities	15	9,190	6,444
Financial Liabilities - Loans & Borrowings	17	26,000	-
Deferred tax liability	16	24,705	21,924
Total Liabilities		154,641	80,487
Shareholders' Equity			
Share capital	21	160,110	160,110
Retained reserves		(23,100)	(22,525)
Total Shareholders' Equity		137,010	137,585
Total Liabilities and Shareholders' Equity		291,651	218,072

These financial statements were approved by the Board of Directors on 27 March 2013 and signed on its behalf by

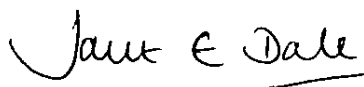
Darren Spriggs

Managing Director



Jane Dale

Finance Director



The notes on pages 11 to 32 form an integral part of these financial statements

Ageas Protect Limited

Statement of Cash flows for the year ended 31 December 2012

	2012	2011
	£'000	£'000
Cash flows from operating activities		
Loss before tax	(4,936)	(5,207)
Adjustments for cash and non cash items		
Depreciation	531	666
Deferred acquisition costs	(24,379)	(28,095)
Interest income	(865)	(2,637)
Finance costs	-	-
Amortisation of intangible assets	2,439	2,428
Operating loss before working capital changes	(27,210)	(32,845)
Changes in operating assets and liabilities		
Changes in operating receivables	(11,392)	(9,264)
Changes in operating payables	8,024	9,344
Net cash from operating activities before tax	(30,578)	(32,765)
Tax paid	-	-
Group tax relief cash received	8,329	7,225
Net cash flows from operating activities	(22,249)	(25,540)
Cash flows from investing activities		
Acquisition of property, plants and equipment	(446)	(200)
Net sales and purchase of investments	4,485	9,287
Development expenditure	-	(533)
Net cash flows from investing activities	4,039	8,554
Cash flows from financing activities		
Interest charges	(428)	-
Interest income	1,292	2,637
Subordinated loan	26,000	-
Share capital injections	-	-
Net cash flows from financing activities	26,864	2,637
Net decrease in cash and cash equivalents	8,654	(14,349)
Balance Brought Forward	25,700	40,049
Cash and cash equivalents at 31 December	34,354	25,700

The notes on pages 11 to 32 form an integral part of these financial statements

Ageas Protect Limited

Notes to the financial statements for the year ended 31 December 2012

Ageas Protect Limited ("the Company") is a private company, limited by shares, domiciled and incorporated in England and Wales. The Company is primarily involved in long term protection insurance.

The financial Statements were approved for issue by the Board of Directors on 27 March 2013.

1. Accounting Policies

a Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted for use in the European Union. The financial statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

All new standards and interpretations released by the International Accounting Standards Board (IASB) have been considered and of these the following new and amended standards have been adopted by the Company during the period -

IAS 1 (amended), 'Presentation of Items of Other Comprehensive Income'. The amendments require that an entity present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. They also preserve the existing option to present the profit or loss and other comprehensive income in two statements.

In addition, the following is a list of standards that are in issue but are not effective in 2012, and have not yet been adopted in the EU, together with the effective date of application to the Company.

- IFRS 13 Fair Value Measurement (effective 1 January 2013)
- IFRS 7 Amendments: Disclosures on Offsetting Financial Assets and Financial Liabilities (effective 1 January 2013)
- IAS 32 Amendments: Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014)

The implications of these standards and interpretations are under review and are not expected to have a significant impact on the Company.

The financial statements have been prepared on a going concern and historical cost basis as modified by the inclusion of certain assets and liabilities at fair value as permitted or required by IFRS. The Company is satisfied that the going concern basis is appropriate as the Company's additional solvency and working capital requirements were met through a subordinated debt agreement with an Ageas Group company, Ageas (UK) Limited in 2012 and further funding for 2013 is agreed through the group's multiyear budget. The Company, in the opinion of the directors, believes it will meet all debts as they fall due, has significant net assets and will be able to meet its regulatory Solvency I requirements for a period of at least twelve months from the date of approval of these financial statements.

The Company presents its statement of financial position in order of liquidity in accordance with IAS 1 Presentation of Financial Statements. The disclosures in the notes for these classifications are distinguished as follows:

- Amounts expected to be recovered in less than one year are referred to as current
- Amounts expected to be received in more than one year are referred to as non-current

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported

amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

The accounting policies are set out below and have been applied consistently to the year presented in these financial statements.

The comparative figures for 2011 have been re-presented to conform to the presentation for 2012, where 'Insurance Contract Liabilities' and 'Reinsurers' Share of Insurance Contract Liabilities' have been grossed up by £39.9 million. Previously these items did not contain the estimated future cash flows relating to policies where a claim had not been incurred at the balance sheet date. A corresponding change has been made to 'Increase in insurance contract liabilities, before reinsurance' and 'Increase in reinsurance share of insurance contract liabilities'. There is no impact on the loss for the period or on shareholders' equity.

All amounts shown in the financial statements are shown in thousands of Pounds Sterling which is the Company's functional currency. All financial information presented in Pounds Sterling has been rounded to the nearest thousand.

b. Classification of contracts

The Company classifies its products for accounting purposes as insurance contracts and includes whole of life, term assurance, critical illness and income protection. They are non-linked, non-profit long term insurance contracts.

c. Revenue

i) Premiums

Premiums received and reinsurance premiums paid relate to insurance contracts and are accounted for on an accruals basis. Accruals are calculated using the date that policies are on risk and presented in the statement of comprehensive income on a gross basis.

ii) Investment Income

Investment income comprises interest income and net realised gains and losses from available for sale financial assets earned in the period. Interest income is recognised as it accrues in the statement of comprehensive income, using the effective interest method.

d. Claims

Claims paid and reinsurance recoveries relate to insurance contracts and are accounted for when due for payment. Death and other claims are accounted for when incurred.

e. Income tax

Income tax expense in the statement of comprehensive income for the year comprises current and deferred tax, except to the extent that it relates to items recognised directly in equity, in which case the related income tax is also recognised in equity. Both current and deferred tax are calculated using tax rates enacted at the statement of financial position date.

i) Current tax

Current tax is the tax payable on the taxable income for the period and any adjustment to tax payable in respect of previous years.

ii) Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes as well as revaluation on deferred tax.

assets The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

f. Property, plant and equipment

Plant and equipment consisting of computer equipment and office equipment are stated at cost less accumulated depreciation. Cost comprises the fair value of the consideration paid to acquire the asset and includes directly related expenditure. These assets are depreciated on a straight line basis over their estimated useful lives. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives are as follows:

- i) Leasehold improvement 5 years
- ii) Furniture & Fixture 3 years
- iii) IT Equipment 3 years

g. Intangible assets

i) Development expenditure

An intangible asset is an identifiable non-monetary asset and is recognised at cost if, and only if, it will generate future economic benefits and if the cost of the asset can be measured reliably. Intangible assets with definitive lives are amortised over the estimated useful life.

The Company capitalises internally generated intangible assets when the following can be demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete the intangible asset and use or sell it
- Its ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development

The Company's only intangible asset is in respect of internally generated computer systems which are being amortised using the straight line method over 5 years.

ii) Deferred acquisition costs

The method of calculating the deferred acquisition costs assumes that acquisition costs, comprising all direct and indirect costs, will be recovered from future premiums payable.

Types of Acquisition Costs and Qualification for Deferral

- Expenses related to the actual sale of insurance contracts, for example commissions to agents, and
- Expenses related to business submitted by agents and for setting up the necessary records including costs incurred to underwrite the policy, for example salaries of employees involved in the underwriting and policy issuance, medical and inspection fees

The balance of acquisition costs to be recovered from the margins in future premiums of existing contracts are shown as deferred acquisition costs in these accounts. When a deferred acquisition cost asset is created, the rate of amortisation of the asset is consistent with a prudent assessment of the expected pattern of receipt of the relevant future margins over 5 years in which the contracts are expected to be in force. Any balances not considered recoverable are written off.

h. Commission

Commission payable to agents are incurred for acquiring new and renewal insurance business. The initial commission payable and receivable are recognised as acquisition costs in the statement of comprehensive income. The initial commission deferred is capitalised at the point of sale.

i. Reinsurance

The Company seeks to reduce its exposure to potential losses by reinsuring certain levels of risk with reinsurance companies. Reinsurance contracts that meet the requirements to be classified as insurance contracts are classified as reinsurance contracts held.

Premiums ceded and benefits reimbursed are presented in the statement of comprehensive income and statement of financial position on a gross basis.

Reinsurance assets represent short term amounts due from reinsurers and longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Reinsurance liabilities represent premiums payable for reinsurance.

j. Financial assets

Financial assets on the statement of financial position, all of which are non-derivative financial assets, are classified as available for sale or as loans and receivables.

Available for sale investments are recognised initially at fair value without any deduction for transaction costs the Company may incur on disposal. Purchases of available for sale financial assets are recognised on the trade date, which is when the Company commits to purchase the assets.

Realised gains and losses are included in the statement of comprehensive income in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in other comprehensive income, except for foreign exchange gains and losses on monetary items such as debt securities, which are recognised in profit and loss. When available for sale financial assets are sold or impaired, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit and loss. Where these investments are interest bearing, interest calculated using the effective interest method is recognised in profit and loss.

The Company classifies insurance and other receivables, as loans and receivables. The directors have determined that their carrying amounts reasonably approximate their fair values as they are short term in nature.

k. Financial liabilities

Financial liabilities include payables to related parties and interest-bearing loans and borrowings and other payables. Financial liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs and recognised in the income statement over the year of the borrowings on an effective interest basis. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

l. Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of an available for sale financial asset is calculated by reference to its fair value.

All impairment losses are recognised in the statement of comprehensive income. Any cumulative loss in respect of an available for sale financial asset recognised previously in other comprehensive income is transferred to the statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss recognised. For financial assets measured at amortised cost and available for sale financial assets that are debt securities, the reversal is recognised in profit and loss. The Company does not hold available for sale financial assets that are equity securities.

m. Insurance contracts

The insurance contract liabilities are determined annually in accordance with regulatory requirements. A gross premium valuation method is used which brings into account the full premiums receivable under the contracts written, estimated renewal and maintenance expenses and contractually guaranteed benefits. Contracts are permitted to have negative reserves where there are no contractual surrender guarantees and these negative reserves can be offset against positive reserves to a minimum of £nil. The estimation techniques and assumptions are periodically reviewed, with any changes in estimates reflected in the statement of comprehensive income as they occur.

n. Liability Adequacy Testing

The adequacy of insurance liabilities, reinsurance assets and associated deferred acquisition costs are tested based on the best estimates assumptions of the cash flows for insurance policies and related investments using a risk free discount rate with an adjustment for the illiquid nature of liabilities.

The key measurement estimates at the reporting date are shown in the table below.

Estimation uncertainty

- | | |
|--|---|
| <ul style="list-style-type: none"> • Liabilities for Life Insurance contracts | <ul style="list-style-type: none"> - Actuarial assumptions on mortality, morbidity lapse rates and expenses - Interest rate used in liability adequacy test |
|--|---|

o. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

p. Operating leases

Rentals payable under operating leases are charged to the statement of comprehensive income over the term of the lease.

q. Finance costs

Finance costs comprise interest payable on borrowings calculated on the effective interest basis and are expensed in the statement of comprehensive income in the period to which they relate.

r. Employee benefits

A defined contribution plan is a post employment benefit plan under which a company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expenses in the statement of comprehensive income when they are due.

s. Non-Insurance provisions

A provision is recognised in the Statement of financial position where there is a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability. No provision is established where a reliable estimate cannot be made.

t. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

u. Dividends

Dividends payable on ordinary shares are recognised when they are paid.

2. Analysis of premiums

It is the opinion of the Board that the Company operates in a single business segment, which is the provision of life assurance products. All business is written in the United Kingdom. Gross earned premiums written relate to direct business from continuing operations.

	2012	2011
	£'000	£'000
Gross earned premiums		
Regular premiums	69,425	44,599

3. Investment returns

	2012	2011
	£'000	£'000
Investment income		
Income from investments	1,278	1,414
Realised gain/(loss)	0	1,070
Interest on cash and cash deposits	14	153
	1,292	2,637

4. Operating expenses by type

	2012	2011
	£'000	£'000
Acquisition costs		
Operational expenses	19,013	17,760
Commission *	51,230	43,369
Change in deferred acquisition costs	(24,379)	(28,095)
Sub total	45,864	33,034
Administrative expenses		
Maintenance expenses	3,704	3,036
Other operational expenses		
Sub total	3,704	3,036
	2012	2011
	£'000	£'000
Depreciation of property, plant and equipment	531	666
Amortisation of intangible assets	2,439	2,428

* Includes Bad Debts Provisions

	2012	2011
	£'000	£'000
Auditor's remuneration (net of VAT)		
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	69	68
Fees payable to the Company's Auditor and its associates for other services	-	-
Other services supplied pursuant to legislation	-	-
Audit related assurance services	23	23
Total	92	91

5. Staff costs

The average number of persons (including executive directors) employed by the Group during the year was

	2012	2011
	Number	Number
Sales and sales support	168	129
Administration	48	49
	216	178

The aggregate remuneration payable in respect of the above employees was

	2012	2011
	£'000	£'000
Wages and salaries	9,147	7,782
Social security costs	1,031	788
Other pension costs	657	559
	10,835	9,129

6 Tax income / (expense)

Tax has been provided as follows

	Notes	2012	2011
		£'000	£'000
Tax has been provided as follows			
UK Corporation tax charge			
Current		6,375	8,388
Prior year adjustment		885	778
Prior year tax settlement		(387)	
Deferred tax	16	(2,781)	(5,213)
Tax income / (expense)		4,092	3,953

The UK corporation tax rate reduced to 26% with effect from April 2011 and 24% from April 2012. The UK Government has announced further reductions to 23% from April 2013. This rate reduction has been substantively enacted and a rate of 23.25% is therefore used in the calculation of deferred tax, which forms part of the statement of Financial Position.

Further annual reductions have been announced to 22% from April 2014 and 20% from April 2015. The effects of the announced changes are not reflected in the financial statements for the year ended 31 December 2012 as they were not enacted at the balance sheet date.

Tax on the Company's result before tax differs from the theoretical amount that would arise using the weighted average tax rate of 24.5% (2011: 26.5%) applicable to profits as follows

	2012	2011
	£'000	£'000
Loss before tax	(4,936)	(5,207)
Tax calculated at the standard rate of corporate tax in the UK at 24.5% / 26.5%	1,209	1,380
Under/(Over) Provided in Prior years	885	778
Changes in Current year	1,998	1,796
	4,092	3,954

7. Claims

	2012	2012	2011	2011
	£'000	£'000	£'000	£'000
	Claims	Reinsured	Claims	Reinsured
Paid	16,674	15,460	8,183	6,577

8. Deferred acquisition costs

	2012	2011
	£'000	£'000
Cost		
At 1 of January	154,384	90,610
Additions	75,551	63,774
At 31 December	229,935	154,384
Amortisation and impairment		
At 1 of January	72,535	36,856
Charge for the year	46,072	30,979
Impairment	5,100	4,700
At 31 December	123,707	72,535
Net Book Value at 31 December	106,228	81,849

9. Development Expenditure

	Internal Software	Purchased Software	Other	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2012	10,777	1,208	282	12,267
Additions	-	-	-	-
At 31 December 2012	10,777	1,208	282	12,267
Amortisation				
At 1 January 2012	7,093	845	198	8,136
Amortisation for the year	2,141	242	56	2,439
At 31 December 2012	9,234	1,087	254	10,575
Net Book Value at 31 December 2012	1,543	121	28	1,692

	Internal Software	Purchased Software	Other	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2011	10,244	1,208	282	11,734
Additions	534	-	-	533
At 31 December 2011	10,778	1,208	282	12,267
Amortisation				
At 1 January 2011	4,963	604	141	5,708
Amortisation for the year	2,131	242	56	2,429
At 31 December 2011	7,094	846	197	8,135
Net Book Value at 31 December 2011	3,684	363	85	4,131

10. Loans and receivables, including insurance receivables

	2012	2011
	£'000	£'000
Amounts due from customers	5,392	3,829
Amounts due from brokers	2,295	662
Amounts due from reinsurers	3,741	255
Other receivables	579	467
	12,007	5,213

11. Property, plant and equipment

	Leasehold	Furniture & Fixture	IT Equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2012	383	617	1,466	2,466
Additions	12	70	364	446
At 31 December 2012	395	687	1,830	2,912
Depreciation				
At 1 January 2012	155	325	1,056	1,536
Charge for the period	77	139	315	531
At 31 December 2012	232	464	1,371	2,067
Net book value at 31 December 2012	163	223	459	845

	Leasehold	Furniture & Fixture	IT Equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2011	362	567	1,336	2,265
Additions	21	49	130	200
At 31 December 2011	383	616	1,466	2,466
Depreciation				
At 1 January 2011	80	171	619	870
Charge for the period	75	154	437	666
At 31 December 2011	155	325	1,056	1,535
Net book value at 31 December 2011	229	292	410	929

12. Investments, cash and cash equivalents

a) Cash and Cash equivalents

	2012	2011
	£'000	£'000
Bank balances and Short term Deposits	34,354	25,700

b) Investments

Debt securities-Fixed Rate

	2012	2011
	£'000	£'000
UK Government Securities	14,192	14,116
Agencies	6,438	15,954
Corporate Bonds	16,138	8,348
Supranationals	3,245	5,738
	40,013	44,156

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs)

31 December 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Supranationals, Agencies and Corporate Bonds	-	25,821	-	25,821
UK Government Securities	14,192	-	-	14,192
Available for sale financial assets	14,192	25,821	-	40,013

31 December 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Supranationals, Agencies and Corporate Bonds	-	30,040	-	30,040
UK Government Securities	14,116	-	-	14,116
Available for sale financial assets	14,116	30,040	-	44,156

13. Insurance contract liabilities and reinsurance assets

	Insurance contract liabilities, gross of reinsurance £'000	Reinsurer's share of insurance liabilities £'000	Insurance contract liabilities, net of reinsurance £'000
At 1 January 2012	52,119	51,447	672
New business	-	-	-
Changes in Technical Provision	36,495	36,495	-
Claims paid	(16,674)	(15,460)	(1,214)
Claims incurred	22,806	20,526	2,280
At 31 December 2012	94,746	93,008	1,738

	Insurance contract liabilities, gross of reinsurance	Reinsurer's share of insurance liabilities	Insurance contract liabilities, net of reinsurance
	£'000	£'000	£'000
At 1 January 2011	5,364	4,695	669
New business	-	-	-
Changes in Technical Provision	39,962	39,962	-
Claims paid	(8,183)	(6,577)	(1,606)
Claims incurred	14,976	13,367	1,609
At 31 December 2011	52,119	51,447	672

	Insurance contract liabilities, gross of reinsurance	Reinsurer's share of insurance liabilities	Insurance contract liabilities, net of reinsurance
	£'000	£'000	£'000
Technical Provision	76,457	76,457	0
Claims Payable	14,693	13,427	1,266
IBNR	3,596	3,124	472
At 31 December 2012	94,746	93,008	1,738
Technical Provision	39,962	39,962	0
Claims Payable	10,020	9,629	391
IBNR	2,137	1,856	281
At 31 December 2011	52,119	51,447	672

14. Insurance contract liabilities and reinsurance assets – valuation assumptions

The assumptions used to determine insurance contract liabilities are set by the Board of Directors based on advice given by the Actuarial Function Holder. These assumptions are updated at least at each reporting date to reflect latest estimates. The assumptions used are as follows:

a. Mortality and morbidity

Mortality and morbidity assumptions are set for each product based on the anticipated future experience of the business. The rates are based on published industry tables adjusted to take account of the distribution channels and socio-economic profile. Future trends in mortality experience are only allowed for where they would increase the liability. The assumptions include margins for adverse deviations as required by FSA rules. The Company's principal mortality rates are based on TM00/F00 and the morbidity rates are based on CIBT93 for Critical Illness and CMIR12 for income protection. These tables are public data table set by the Continuous Mortality Investigation supported by Institute and Faculty of Actuaries.

b. Persistency

Persistency assumptions vary principally by duration of policy and type of contract to reflect the anticipated experience of the business. The assumptions have been set based on a combination of the Company's own and other Independent Financial Advisors (IFA) offices experience and include margins for adverse deviations as required by FSA rules.

c. Expenses

The contracts are valued using our long term expense assumptions which reflect the projected expense cost of the Company. Future expense inflation of 4.0% per annum is assumed to reflect

the mix of salary based inflation and inflation on goods. At 31 December 2012 the renewal expense assumption for the primary contracts is £14.10, (2011: £13.42), per policy.

d. Economic

Discount rates used to value insurance contract liabilities and reinsurance assets are based on risk free yields as at 31 December 2012 derived from the swap yield curve with a 10bps deduction for credit risk. These yields are capped in accordance with FSA rules on the maximum interest rates permitted for contracts where reserves are positive.

15. Payables and other financial liabilities

	2012	2011
	£'000	£'000
Amounts due to customers	10	6
Amounts due to brokers	760	761
Trade creditors	800	224
Amounts due to Group companies	1,246	818
Other creditors	4,763	3,096
Other payables	1,611	1,538
Total	9,190	6,444

16. Deferred tax liabilities

Deferred tax liabilities are re-valued using tax rate of 23.25% at 31 December 2012.

	1 January 2011	Recognised in Statement of Comprehensive Income	31 December 2011
	£'000	£'000	£'000
Deferred acquisition expenses	14,711	5,438	20,149
Closure reserve	2,447	(1,058)	1,389
Deferred tax on unrealised investment income	167	220	387
Transfer to current tax	(221)	221	-
Adjustments in respect of bad debts	(826)	826	-
Adjustments in respect of prior years	87	(87)	-
	16,364	5,560	21,924
Deferred tax not recognised in the Statement of Financial Position			
Revaluation of unrealised gain on investments	-	(347)	-
	16,364	5,213	21,924

	1 January 2012	Recognised in Statement of Comprehensive Income	31 December 2012
	£'000	£'000	£'000
Deferred acquisition expenses	20,149	3,785	23,934
Closure reserve	1,389	(618)	771
Deferred tax on unrealised investment income	387	(387)	-
Transfer to current tax	-	-	-
Adjustments in respect of bad debts	-	-	-
Adjustments in respect of prior years	-	-	-
	21,925	2,780	24,705
Deferred tax not recognised in the Statement of Financial Position			
Revaluation of Unrealised gain on investments	-	(72)	-
	21,925	2,708	24,705

17. Loans and Borrowings

The Company's additional solvency and working capital requirements were met through a Subordinated Debt Agreement with an Ageas Group company, Ageas (UK) Limited. £26 million was drawn down under the agreement during 2012, of which £11 million (drawn in December 2012) was related to its 2013 capital requirements. The subordinated debt bears interest at 3.5% + 3 month LIBOR and it has no maturity date.

18. Operating leases

The total value of non-cancellable operating lease rentals payable is as follows:

	2012	2011
	£'000	£'000
Less than one year	459	598
Between one and five years	1,038	1,097
More than five years	-	-

The Company leases an office building under an operating lease, which has an initial lease period of five years. During the year £280,000 was recognised as an expense in the statement of comprehensive income in respect of operating leases (2011: £280,000).

19. Current Tax Assets

The current tax assets of £3,504K (2011: asset of £4,647K) represents the amount of Group Relief Receivable in respect of the current year plus an adjustment in respect of prior years.

20. Parent company

The Company's results are consolidated into the accounts of the immediate parent company, Ageas Insurance International N.V., a company incorporated in The Netherlands.

The ultimate holding company of Ageas Protect Limited is Ageas SA/NV, incorporated in Belgium.

Copies of the above accounts can be obtained from the Company Secretary, Ageas Protect Limited, Ageas House, Tollgate, Eastleigh, Hampshire, SO53 5YA.

21. Share Capital

	Ordinary Shares £'000
In issue at 31 December 2012	160,110
In issue at 31 December 2011	160,110

At 31 December 2012, the authorised share capital comprised 160,110,000 ordinary shares. The ordinary shares have a par value of £1 and were fully paid up at the end of the year.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

22. Related party transactions

The Company has a related party relationship with its key management personnel who are all Executive Directors of the Company.

In addition to their salaries, the Company also provides non-cash benefits to the Directors and contributes to a post-employment defined contribution plan on their behalf. The Directors' compensation is as follows:

	2012	2011
	£'000	£'000
Short-term employee benefits	381	501
Post-employment benefits	66	89
Total	447	590
In respect of the highest paid Executive Director	288	289
Short-term employee benefits	247	241
Post-employment benefits	41	48

In the ordinary course of business the Company carries out transactions with related parties as defined in IAS 24, Related Party Disclosures

	2012	2011
	£'000	£'000
Fellow subsidiary company transactions	675	874

A fellow subsidiary company, Ageas (UK) Limited, provides the Company with administration and management services. The Company pays the rent to Ageas (UK) Limited for the office building it leases. The Company also charges rent to a fellow subsidiary company, Tesco Underwriting Limited and pays commissions to a fellow subsidiary company Ageas 50 Limited for Guaranteed Whole Of Life products, Castle Cover Limited for Over 50s Life plan and Kwik-Fit Insurance Services Limited for Instant Life cover. At 31 December 2012 the amount included within Payables and financial liabilities in respect of these transactions was £840K (2011 £720K)

23 Risk management

Effective risk management is fundamental to the business activities of the Company. While we remain committed to providing appropriate solutions to our customers and delivering an acceptable return to our owners by developing and growing our business within our determined risk appetite, we are mindful of achieving this objective in line with the interests of all stakeholders.

We therefore continually seek to achieve an appropriate balance between risk and reward in our business, and continue to consider and enhance as required the risk management capabilities that assist in delivering our growth plans in a controlled environment.

Risk management is central to the operating structure of the business. We seek to limit adverse variations in earnings and capital by managing risk exposures within agreed levels of risk appetite. Our risk management approach includes minimising undue concentrations of exposure, limiting potential losses from adverse events and the prudent management of investments.

Our risk management processes have proven effective throughout 2012, despite a tough economic environment. Senior management has remained closely involved with important risk management initiatives, which last year focused particularly on understanding what changes needed to be made in advance of the forthcoming Solvency II regime.

Responsibility and accountability for risk management resides at all levels within Ageas, from the UK board down through the Company's organisation to each business manager and 2nd line specialist, be they risk or compliance specialists. Risks are controlled at the level of individual exposures and at portfolio level, as well as in aggregate across all businesses and risk types.

Ageas Protect uses the three lines of defence model:

First line of defence	Business management	Primarily responsible for risk management Assessment, evaluation and measurement of risk is an on-going process that is integrated into the day-to-day activities of the business This process includes implementing the Ageas Protect Limited risk management framework, identifying issues and taking remedial action where required and reporting
Second line of defence	Ageas Protect risk and compliance functions are independent of business management	The risk management function is primarily accountable for ensuring the risk management framework is appropriate, providing independent oversight and support to executive management through risk reporting via bodies such as the risk & audit committee(s), and Board The Ageas Protect Limited risk management function implements the Ageas risk management framework and policies in the business, oversight risk mandates and provides an independent overview of the effectiveness of risk management by the first line of defence
Third line of defence	Internal audit function	Provides an independent assessment of the adequacy and effectiveness of the overall internal control framework and reports to the Board through the Ageas Protect (AP) Risk Committee and UK Risk & Audit committee

UK Corporate Governance Manual

The governance arrangements and standards set by Ageas (UK) Governance manual ensure that the Ageas Protect business is being managed in accordance with the relevant legislative and regulatory requirements and the policies and standards of the wider Ageas Group This manual is formally reviewed, updated and adopted by the Board of Ageas (UK) and by the Ageas Protect Limited Board annually

Risk management framework

Supporting these governance arrangements is an Ageas ERM Policy Framework which incorporates the key principles and standards set by Ageas Group The UK determines policies which are required by each entity and then the Company is required to adopt and to adhere to these policies

The policies in place set out the high level principles and approach, supported by guidance documents and any other supporting materials as may be considered helpful to ensure consistent interpretation and application of each policy Processes are specific to the Company reflecting the individual needs of the business but must respect the minimum standards set out within the relevant policies and guidance

A master list of all risk policies in place is maintained by Risk (Risk policy library) and all policies and guidance documentation is reviewed on at least an annual cycle and/or updated on an ad hoc basis as circumstances demand All change requests are managed and controlled through Risk Management with Ageas UK Risk interfacing with Group and Operating companies as appropriate

Model & Risk Methodology Framework

Risk policies define high level requirements on the analysis and information which need to be calculated and reported. The methodologies to calculate these and the models to do so are documented to ensure consistent application and use across all Ageas Operating companies that they are used by. The Key Risk Reporting (KRR) and Liability adequacy methodology (LAT) methodologies are two examples of this.

Risk Reporting

The Company monitors all risks through a combination of reports. The main ones include: Formal solvency reports such as ICA, Key Risk Report (qualitative), Internal Risk Reporting (financial risk), Investment Breaches Report, Liability Adequacy report, Risk Appetite, Policy Review, Business Continuity Report, Risk incident reporting, Stress and Scenario testing, Reverse Stress Testing, Own Risk & Solvency Assessment Report (ORSA dry run completed in 2012) as well as various legal, audit and compliance reports. These reports are complemented with reports produced during the annual budget cycle.

The Risk Management Framework is formalised through the implementation of our corporate governance and risk policy framework. The policies formalise the risk governance structure and also set high level requirements for the model & methodology framework and risk reporting.

Risk Committee

The Company has established a formal governance structure to manage risk.

The Risk Committee's role is to oversee the risk management processes of the Company on behalf of the Board, ensuring that all risks are formally evaluated and categorised, that plans for the management of such risks are effective, and that the Board and Audit Committee are informed of the results of this analysis and monitoring work.

The major risks faced by the Company are categorised within the Company's Risk Taxonomy as Financial risk, Insurance risk, Operational risk and Strategic risk. These categories and the risk mitigation undertaken by the Company in order to manage them are outlined below.

a. Financial risk

Financial risks relate to the impacts of the external markets on the business and potential losses from another party if they fail to meet their obligations to the Company. There are three main subcategories of financial risk that are managed within the Company each of which are detailed below.

Market risk

Market risk arises from the possibility that the fair value of cash flows from the Company's financial investments change as a result of interest rates and other market movements. The Company manages its market risk using techniques consistent with its risk appetite and cash flow matching. This balances the risks relating to the liabilities within its insurance contracts against the risks inherent in its assets and capital available.

i) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows will vary as market rates on interest vary. For the Company this risk arises from the holding of assets and liabilities with differing maturities, creating an exposure to changes in the level of interest rates. Exposure to interest rate risk is monitored by scenario testing and stress testing. A 1% decrease in interest rates would prospectively reduce the profit/loss of the Company by £753 K (2011: £696K).

ii) **Currency risk**

Currency risk is defined as the risk that the fair value or future cash flows of an asset or liability will change due to a change in foreign exchange rates. As the Company operates in the UK its assets and liabilities are denominated in sterling pounds. At 31 December 2012 the Company had no significant exposure to currency fluctuations.

Credit risk

Credit risk is defined as the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. Exposure to credit risk may arise in connection with a single transaction or to an aggregation of transactions, not necessarily of the same type, with a single counterparty.

The Company's primary exposure to credit risk is in respect of its investments with third parties, commission payments made to brokers and reinsurance agreements. Investment and commission exposures to individual counterparties are monitored on a regular basis. At 31 December 2012 there are assets past their due date in respect of commission recoveries from a broker which have been provided for. The Company does not have any exposure to Sovereign debts issued by Portugal, Italy, Ireland, Greece and Spain.

At the 31 December 2012 the credit ratings of the investment institutions are as follows

Credit rating – Standard & Poor	2012 £'000	2011 £'000
AAA	60,217	55,663
AA+	4,458	2,189
AA	194	7,945
A+	2,283	2,259
A	7,216	1,800
Total	74,368	69,856

Credit exposures for reinsurance contracts are monitored as part of the overall credit risk policy, taking into account external rating information and collateral that is available. The Company manages this risk through a combination of using only A-or better grade reinsurers based on S&P ratings, or a group company with the benefit of a parent company guarantee, coupled with measures that will protect the Company if these ratings are downgraded. These ratings are regularly monitored by the Company.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and other receivables, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure to the carrying amount of these assets. All receivables on the balance sheet at 31 December 2012 are within terms and no amounts are overdue.

Liquidity risk

Liquidity risk is the risk that adequate liquid funds are not available to settle liabilities as they fall due. This is managed by maintaining forecasts of cash requirements and by adjusting investment management strategies as appropriate to meet these requirements, both in the short and longer term. In most instances, liquidity risk is avoided by holding sufficient assets in investments which are readily marketable in a sufficiently short timeframe to be able to settle liabilities as they fall due.

The future estimated undiscounted payment profile for insurance contracts, gross of reinsurance recoverable, is as follows. Volatility in the claim payments are mitigated by reinsurance shown under sub note (f), page 31. Customers are required to continue paying premiums for the policies to stay in-force.

Payment period	2012	2012	2011	2011
	£'000	%	£'000	%
0 – 1 year	36,566	4	23,963	4
2 – 10 years	311,513	38	211,423	37
10 years +	477,112	58	335,384	59
Total	825,191	100	570,770	100

b. Insurance risk

Insurance risk arises from the uncertainty over the occurrence, amount and timing of claims payments arising under insurance contracts. The exposure of the Company depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to the date of the claim. The amount of such future obligations is assessed by reference to assumptions with regard to future mortality and morbidity rates, persistency rates, expenses, investment returns, interest rates and tax rates. Each rate is monitored against the Company's risk appetite limits on a 1 in 10 year basis. The impact is calculated by applying a scaling factor of 60% to the capital determined based on Solvency II Standard Formula. For example, under Solvency II Standard Formula, mortality risk capital is calculated by applying a 15% permanent increase in mortality term structure which results in a capital requirement before diversification of £4.3m and the post-tax impact on earning is estimated to be £2.0 million ($£4.3 \text{ million} \times 60\% \times (1 - 23.25\%)$).

The main insurance risks can be summarised as follows:

- **Mortality** – the risk that policyholder death experience is different from that expected. For life assurance the risk is that policyholders die earlier than expected. The impact of a 9% increase to the frequency of claims in the year would prospectively reduce the result by £1.9 million.
- **Morbidity** – the risk that policyholder health experience is different from that expected. For life assurance the risk is that policyholders have a greater frequency of illness. The impact of a 15% increase to the frequency of claims in the year would prospectively reduce the result by £2.6 million.
- **Persistency** – the risk that policies do not remain in force and are for any reason lapsed, prior to maturity from that expected. For life assurance the risk is that policyholder's lapse earlier than expected. The impact of a 24% increase in mass lapse rate would prospectively reduce the result by £11.0 million.
- **Expenses** – the risk that actual expenses are different from those expected. For life assurance the risk is that expenses are greater than expected. The impact of a 6% increase in our renewal cost assumption in the year would prospectively reduce the result by £3.1 million.

Insurance risks are managed through the following mechanisms:

- The use of guidelines, limits and authority levels for concluding insurance contracts, assuming insurance risks and handling insurance claims.
- Regular monitoring of actual exposure compared to the agreed limits to ensure that the insurance risk accepted remains within the appetite.
- The use of reinsurance to mitigate exposures in excess of risk appetite, to limit the Company's exposure to large single claims and to alleviate the impact of new business strain.
- Control over product and pricing.

These techniques are supported by the use of actuarial models, to calculate premiums and monitor claims patterns. Past experience and statistical methods are also used to determine appropriate assumptions for those models.

Concentration risk

The Company writes its business in the United Kingdom and so the results are sensitive to demographic and economic changes arising in the United Kingdom. Concentrations of insurance risk are considered by the Risk Committee.

c Operational risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. Operational risks include, but are not limited to, information technology, human resources, project management, tax, legal, fraud and compliance. Senior management has primary responsibility for the management of operational risks through developing policies, procedures and controls across the activities, processes and systems under their control and for the allocation of responsibilities.

Strategic risk

Strategic risks cover external and internal factors that can impact Ageas Protect Limited's ability to meet its business plan and also to position itself for achieving on-going growth and value creation. This includes changes in the external environment, including regulatory changes, the competitive landscape and risk from its distribution channels.

Managing risks

Each function within the Company is responsible for implementing and maintaining controls within its remit and for achieving its business objectives within the Company's operational risk methodology. This methodology assesses the risks the Company faces, analyses the likelihood and impact of each risk, and the strength of the mitigating controls and any actions proposed. Details of risks on an inherent, (before controls), and residual, (after controls), basis are maintained on the Company's Risk Register. This is used for review and challenge by the Risk Committee. Management attention is focussed upon those controls identified as not working as effectively as desired and upon action plans which are put in place when any weaknesses are identified.

d Capital management

i Aims of capital management policy

The Company has established standards for the efficient management of capital, to meet the needs of the business and return on capital requirements of shareholders. This includes the capital required to support the new business and the risk appetite identified in the Company's Risk Policies, in full compliance with the requirements of the FSA.

ii. Definitions of capital management (and supporting terms)

Capital Management is the collection of processes and activities undertaken to ensure that sufficient capital is maintained to ensure the organisation's ability to meet its liabilities and ultimately ensure its survival, particularly in case of losses arising from adverse events.

Capital Management includes the assessment of capital required to support the Company's plans and objectives, the structure of its shareholders' funds, arrangements to secure capital and the on-going monitoring of capital against business requirements, as well as the assessments required by the FSA, minimum capital requirement (MCR), Individual capital assessment (ICA).

iii. Approach to capital management

The Company develops an Operating Business Plan, which is a component part of the Ageas UK Strategic Plan, and is reviewed and revised each year and then formally approved by the Company's Board.

A key factor in the formulation of the Strategic Plan is the assessment of the capital required to support the business objectives (i.e. growth and profit targets) and the appropriateness of the supporting capital structure

Overall capital requirements and structure are assessed taking account of the following

- Capital required to support the planned growth in new business
- The required rate of return on capital employed
- FSA capital requirements based on MCR formulae and ICA methodologies
- As of 31 December 2012, the Company has capital resources of £72.6 Million which is 156% of MCR

In the event of failure to meet the capital requirements, the Company would revert to its parent company (or other Ageas group companies) for an injection of funds to ensure compliance

e Group risk

Group risk is defined as the potential impact on the firm of risks arising in other parts of the Company's group as well as the Company's impact on the group. This is managed and controlled through the Board of Directors which currently includes three representatives from a fellow subsidiary in the United Kingdom,

The Company's Statement of financial position at 31 December 2012 has net assets of £137.0 Million, (2011: £137.6 Million). The 2012 business plans for the Company included quarterly injections of subordinated loan from Ageas (UK) Limited to continue to enable it to expand its distribution beyond that achieved in 2011. The subordinated loan injections did take place throughout the year. The Company therefore fully met its capital requirements as required by the FSA.

The 2013 business plans for the Company also require additional injections of capital to enable continued growth of the business. The parent company, Ageas Insurance International NV, is fully aware of the capital requirements of the Company, which are included in the Group's multiyear budget.

f. Reinsurance

Where appropriate, the Company also enters into reinsurance contracts to limit their exposure to underwriting losses. This reinsurance may be on a policy-by-policy basis (per risk).

Reinsurance companies are selected based primarily on pricing and counterparty risk considerations. The management of counterparty risk is integrated into the overall management of credit risk.

The major uses of external reinsurance include the mitigation of the large single claims from policies with high limits as well as multiple claims on income protection.

The table below provides details of reinsurance recovery rate by product line for current new business

% Reinsurance	Product line
100%	Life Level Term
90%	Critical Illness cover / Life Decreasing terms / Life benefit under a Real Life Cover
75%	Guaranteed Whole of Life / Guaranteed Accepted Terms
60%	Income Protection / non-Life benefits under Real Life Cover

g. Sensitivity to key business drivers

The most significant impacts on the Company's profitability are changes in interest rates, new business volume, an increase in operating expenses and a reduction in persistency levels of policies

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of Ageas Protect Limited

We have audited the financial statements of Ageas Protect Limited for the year ended 31 December 2012 set out on pages 7 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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 auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 33, 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 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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 loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

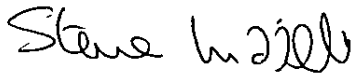
Opinion on other matter prescribed by the Companies Act 2006

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



Steve Liddell (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

15 Canada Square
London
E14 5GL

27 March 2013