Registered Number: 00078950

AXA INSURANCE UK PLC

Annual Financial Report

for the year ended 31 December 2019

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

Registered Number: 00078950

AXA Insurance UK plc

Contents

Company Information	1
Strategic Report	2
Directors' Report	9
Corporate Governance Report	12
Independent Auditor's Report	18
Profit and Loss Account	24
Statement of Comprehensive Income	26
Balance Sheet	27
Statement of Changes in Equity	29
Notes to the Financial Statements	30

Registered Number: 00078950

AXA Insurance UK plc

Company Information

Directors

J. S. Wheway (Chairman)
R. Becker
D. J. Davies
C. Gienal
P. F. Hazell
M. R. Jackson
L. Matras
M. A. Pain
J. P. Walker

Company Secretary

J. P. Small

Independent Auditor

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

AXA Insurance UK plc

Strategic Report

The directors present their Strategic Report on AXA Insurance UK plc ("the Company") for the year ended 31 December 2019.

REVIEW OF THE BUSINESS

The Company's principal and ongoing activity is the writing of general insurance business in the United Kingdom. The business conducted is principally property and motor in both commercial and personal lines, together with liability insurance and other commercial lines insurance products (commercial) and travel and other personal lines insurance products (retail).

Results and performance

The profit before tax in 2019 is £234m, a decrease of £49m from the 2018 result. The underwriting profit for the year is £33m (2018: loss £16m).

During the year, gross written premiums have increased by £70m, or 3%, to £2,313m (2018: £2,243m).

- Non-direct retail premiums are favourable to the prior year primarily due to Motor, representing price changes increasing volumes and panel share on the prior year.
- Commercial lines showed growth during 2019, with favourable performance across the portfolio, but particularly in Commercial Property driven by increased retention rates and Motor Non Fleet due to new business growth.
- Direct lines premiums increased significantly due primarily to Motor, driven by strong new business from new machine learning models, footprint expansion actions and market conditions. Household premiums also improved due to improved retention rates.

The combined operating ratio has improved by 2.2%, compared with 2018.

- The stable net loss ratio, including reinsurance, is due to an increase in earned premiums of £53m in line with the increase in gross written premiums, favourable weather and Ogden partly offset by claims inflation within motor and increased claims handling costs.
    - The new Ogden rate of -0.25% was announced by the Lord Chancellor in July 2019 for England and Wales (with Scotland remaining at -0.75% at the present time). For those claims impacted by Ogden, associated reserves reflect the government enacted rate.
- The reduction in net operating expenses is due to a one off impairment to intangible assets in the previous year, a reduction in provisions compared to the previous year, a reduction in levies partly offset by higher investment in projects.

The investment result for the year, recorded within the Profit and Loss Account, is a profit of £201m (2018: £299m). Further analysis is provided in notes 5, 6 and 7. The lower investment performance is mainly due to a decrease in the dividend received from an underlying subsidiary of £70m to £100m (2018: £170m), lower assets under management following the transfer of all employer and public liability policies issued by the Company prior to 1 January 2020 to RiverStone completed end of 2018, plus a reduction in income from debt securities of £35m, lower equity realised gains due to higher than usual equity gains in the prior year and falls in value of the fair value through P&L funds due to lower performance. These are partially offset by a reduction in equity impairment charges, and more favourable foreign exchange movements, net of currency hedging.

The procedures, outlined in the principal risks and uncertainties, put in place by the Company identified all the significant exposures to risk arising out of the current financial market conditions. The valuation of financial instruments, where the market liquidity was negatively affected or where no active market exists, was considered specifically, and all credit events that have occurred prior to 31 December 2019 have been considered.

AXA Insurance UK plc

Strategic Report (continued)

Business environment

The UK P&C insurance market is the second largest in Europe and is considered a highly sophisticated and competitive market worth £43.7bn in 2018, with the top six insurers making up 45.0% of total market GWP. AXA was the second largest player in the market in 2018 with a total market share of 8.1%. Aviva are the largest player in the market with a share of 11.5% with RSA (7.4%), Direct Line (7.3%), Zurich (5.5%) and Allianz (4.7%) being significant market competitors. AXA UK&I has developed a strong market position across multiple sectors of the UK and Ireland insurance market.

Strategy

AXA's strategy for 2020 will focus on five core themes which resonate with each of the four business units (retail, commercial, health and Ireland) and drive value for the UK&I business as a whole.

- Closer to the customer – Building attractive propositions direct and via brokers and tailored to customers and incorporating customer-led design into our ways of working.
- Stronger foundations - Build a more efficient business to better serve customers, while continuously improve our operations with greater focus on strategic priorities, combined with change delivery excellence.
- People and culture – Encourage collaborative working across businesses for collective benefit, while harnessing a wider array of knowledge/expertise to build market leading capability. Leverage AXA's brand & values to attract/retain talent & increase employee engagement.
- Data driven insights - Re-engineer how we collect and analyse data across the business and develop data driven insights to support richer customer relationships.
- New propositions - Broaden our offering to customers with a greater focus on non-insurance services, such as providing guidance or supporting risk prevention.

Key performance indicators ("KPIs")

The Board monitors the progress of the Company by reference to the following KPIs:

	2019	2018	
Gross written premium	**£2,313m**	**£2,243m**	Reflected in the General Business technical account
Profit before tax	**£234m**	**£283m**	Reflected in the Profit and Loss Account
Loss ratio	**(66.8%)**	**(66.6%)**	Ratio of claims incurred net of reinsurance, to earned premiums net of reinsurance including other operating income
Combined operating ratio	**(98.5%)**	**(100.7%)**	Ratio of claims incurred net of reinsurance including acquisition costs, administration expenses, other operating expenses; to earned premiums net of reinsurance including other operating income
Underwriting result	**£33m**	**(£16m)**	Result of insurance activities reflected in technical account, and other operational income and expenses reflected in the non-technical account
Investment result	**£201m**	**£299m**	Result of investment activities
Equity shareholders' funds	**£2,524m**	**£2,848m**	Reflected on the Balance Sheet

AXA Insurance UK plc

Strategic Report (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

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

The principal risks from the general insurance business arise mainly from events outside of the Company's control, such as fluctuations in the timing, frequency and severity of claims compared to expectations. Underwriting, reserving and reinsurance strategies may also give rise to risk and uncertainty through inaccurate pricing, inadequate reinsurance protection and inadequate reserving; these are largely within management's control and strategies are communicated clearly throughout the business through policy statements and guidelines. In addition, the business is exposed to a range of operational risks with both internal and external drivers, which are managed through the same overarching risk management framework. These include conduct risk and the treatment of vulnerable customers, the uncertainty and potential impacts of COVID-19, Brexit, risks concerning cyber and data protection management, as well as challenges on retail market pricing and the delivery of competitive and fair prices.

Financial risk management, including the impact of risk on economic capital, is discussed in the Management of Financial Risk note set out on cs 70 to 85 of the financial statements.

FUTURE DEVELOPMENTS

The Company has a clear strategic business model focusing on traditional insurance and has maintained a strong Balance Sheet. Careful financial risk management strategies, along with well established liquidity management practices, will ensure this is maintained in the future. As mentioned in the Directors' Report the impact of the COVID-19 pandemic is being monitored and plans are being established and implemented to manage the effects of the outbreak and assess disruptions and other risks to its operations. The Directors are also monitoring potential adverse effects of the spread of COVID-19 on the Company's business activities, in particular, the scope and severity of any further downturn in global financial markets and the global economy and consequential impacts on our investment portfolio; the extent of insurance coverage impacted, and on new business. Depending on the rate of transmission and related mortality, COVID-19 may have significant adverse effects on our business, operations and financial results. The directors consider that the financial impact of the COVID-19 virus on the UK economy and the Company is not currently estimable with any degree of certainty.

In 2020, the Commercial Lines Business will continue to invest in transforming the business and improving capabilities to ensure sustainable profitability and enable the business to target top line growth.

The Retail Business will continue to focus on improving efficiency, simplifying the customer journey and controlling of cost.

BREXIT

The implications to the Company of the United Kingdom's departure from the European Union on 31 January 2020 have been considered, specifically the effects this could have on estimations and judgements made in the preparation of the financial statements, including an assessment of the impact a hard Brexit could have on earnings. Whilst this assessment is ongoing with management carefully monitoring the latest events, as described above the Company has in place robust and effective capital and risk management processes, and the risks arising from Brexit are being managed alongside a range of risks inherent to its business. The directors anticipate limited operational impacts arising from Brexit.

Section 172 statement

The company, its stakeholders and relevant issues

The directors of AXA Insurance UK plc (the "Company") consider, both individually and collectively, that they have acted in the way that would most likely promote the success of the Company for the benefit of its members as a whole (having regard to relevant stakeholders and matters set out in section 172(1)(a-f) of the Companies Act 2006) in the decisions taken during the year ended 31 December 2019.

In coming to this conclusion, the directors have considered who the stakeholders of the business are and issues it needs to take into consideration and concluded that the following are material to the Company:

- *Customers*: The customers of the Company and the quality and pricing of the products and services sold to them which have a major influence on the reputation of the Company.

- *Employees*: Though the Company does not directly employ its workforce (these are largely employed by another subsidiary within the group; AXA Services Limited) the workforce's culture, values, behaviours, performance, and engagement drive how it serves its customers and interacts with suppliers.

- *Suppliers and third parties*: The Company manages and promotes strong relationships with its suppliers (either internal or external to the AXA Group ("AXA")) to ensure good service, cost effectiveness, use of economies of scale and effective collaboration.

- *Regulators*: The Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and PRA. Ensuring there is a strong and positive relationship with the Company's regulators is key to the Company's business. It determines its licence to operate, its ability to recruit and retain senior staff and its reputation with customers.

- *The environment*: The Company aims to minimise its impact on the environment in order to maintain its reputation and licence to operate. It is committed to reducing its impact on the environment by actively managing energy, paper and water consumption, as well as carbon emissions and waste.

- *Communities*: The Company understands that it has a vital role to play in being a responsible corporate citizen and believes this is important to the reputation of the Company and its licence to operate.

- *Shareholder*: The Company has one immediate shareholder; Guardian Royal Exchange plc which provided its equity capital. AXA SA is the ultimate shareholder. The shareholder expects a financial return on its investment, and this is delivered through regular dividends.

Methods of engagement

For each of these groups or issues the Company seeks to ensure it understands concerns or salient matters through a process of engagement:

- *Customers*: The Company strives to build trusted relationships with customers and to always treat them fairly, providing commitment to its customers that the business delivers against its purpose, empowering them to live better lives. Customer experience tracking enables feedback to be gained from customers at a number of different points in the customer journey enabling action plans and changes to customer experiences where necessary. The Company actively encourages customers to give feedback externally on sites like Feefo (where the Company maintains a Gold Trusted Accreditation) and Trustpilot. NPS survey findings are also used to improve customer engagement with knowledge being shared across all the business. Customer focus groups are led by the Customer Insights team. There is a close presence to our customer, through events such as BIBA, fostering deeper relationships with our partners and creating interactions that provide an update on core business strategies, priorities and new propositions.

AXA Insurance UK plc

Strategic Report (continued)

Section 172 statement (Continued)

- *Employees*: The Company is committed to enabling its workforce at all levels of the organisation to actively contribute and participate in decisions where appropriate. Two specific forums were used in 2019 to help facilitate this, the CEO Forum and 2020 Group. The Company's workforce participated in these initiatives and engaged in matters relevant to the Company's activities. The CEO Forum, which operates at an AXA UK & Ireland Group level, focussed specifically on empowerment, identifying local actions and initiatives, and engaging with senior leaders on the strategy. The 2020 Group is a collection of employees, of varying grades and tenure, brought together from within the AXA UK Group to help challenge and provide input to the strategy. They were brought together to challenge traditional thought processes and provide insight into the strategic review contributing and reviewing proposals before they were submitted to the Board. They also helped to communicate the strategy to peers across the wider organisation.

  Feedback from the workforce is sought through quarterly Pulse surveys, where staff can provide their views on how the business is performing against its strategic objectives and key values. AXA recognises the union Unite for the purposes of negotiation and consultation on issues affecting the Company's workforce.

  The Company has access to five employee resource groups (ERGs) providing an opportunity for employee-communities to promote positive cultural change within the business and the Company participates in and facilitates these. The ERGs are focused on Working Families, Gender Equality, Pride (supporting our LGBT community), BAME (focusing on the under-representation of black, Asian and minority ethnic staff) and ABLE (raising awareness about disabilities and careers and promoting change and support).

- *Suppliers*: The Company promotes strong relationships with its network of suppliers which are managed through an AXA UK Group company-wide procurement approach to ensure economies of scale and collaboration with suppliers can be achieved.

- *Regulators*: The Company aims to maintain strong, effective relationships with the PRA and FCA, working in a collaborative and transparent manner to enable good customer outcomes. Proper governance and effective communication are key in fostering these relationships. The openness and cooperativity of this relationship is set by the tone at the top where there is continuous engagement with the regulators. It is vital that these relationships are well maintained as this is directly linked to our business being able to operate in the UK.

- *Environment*: From a Group perspective, AXA has sent a clear message by agreeing to the RE100, stating a commitment to have 100% renewable energy by 2025. The Company's directors are committed to implementing this within the company. AXA UK already procures 67% of its energy from renewable sources through REGO certification. As a global organisation AXA has quadrupled green and clean investments target to €12billion, twice as high as the COP21 recommendation of 1% of assets and actively divested funds away from carbon-intensive industries such as our pledge to divest from companies which derive more than 30% of their revenues from coal, have a coal-based energy mix that exceeds 30%, or produce more than 20 million tonnes of coal per year .

  At an entity level, the Company is committed to reducing its impact on the environment by actively managing the use of energy, paper and water consumption, as well as carbon emissions and waste. In addition, the AXA Research Fund, which was created in 2007 encourages scientific research that helps understanding and prevention of environmental, life and socio-economic risks.

- *Community*: The Company strives to play a positive role in society and actively supports communities it operates in. From volunteering and mentoring to fundraising or sharing business expertise, the Company encourages its employees to get involved wherever possible. Community partnership programmes such as Hearts in Action are designed to build a link between the business and local communities.

Section 172 statement (Continued)

The AXA UK Group has achieved over 100 apprenticeship hires, which have been filled by individuals from a diverse range of backgrounds and in support of wider societal issues, such as mental health. There are over 190 mental health first aiders across the AXA UK Group and at least one in every site.

- *Shareholders*: The Company engages with its ultimate shareholder through regular briefing of group directors on its performance and upward reporting through management information systems.

Key decisions and consideration of stakeholders

- A newly created role of Chief Operating Officer ("COO") at the UK & Ireland Group level was created to ensure there was sufficient operational oversight across the AXA UK & Ireland businesses. The purpose of this role was to ensure consistency in practises concerning customers, suppliers and other business relationships across all operating companies and business units, and to provide a holistic view of the overall landscape to the Board. The Company's customers, suppliers and other business relationships form a substantial proportion of the COO's responsibilities and the Company's directors consider ensuring consistency and high standards of business across the AXA UK Group to be consistent with their duty under section 172 of the Companies Act and are in the Company's interests in supporting the relationships listed above.

- The directors consider that the AXA UK Group's employee engagement programmes, explained above, continue to serve the Company's requirement in enabling employees from all levels of the organisation to actively contribute and participate in decisions where appropriate.

- The Company supports the Group's environmental policy and evaluates and monitors its environmental impacts, seeking to reduce them year on year. A new internal mail process was implemented across AXA Insurance to improve tracking of internal paper and mailing usage; encouraging employees to consider different ways of communicating internally. This has helped to reduce paper, energy and wastage. During the year, the Company's Ipswich office was consolidated from seven floors to four and a half floors which will reduce its carbon emissions by 20%.

- In June 2019, the Board approved its annual Slavery & Human Trafficking Statement pursuant to Section 54 of the UK Modern Slavery Act 2015 ("MSA"). The AXA Group has a long history of adhering to and promoting strong professional ethics and is committed to conducting its business according to the highest standards of honesty and fairness. This commitment to observing such ethical standards is designed not only to ensure compliance with applicable laws and regulations in the various jurisdictions where AXA operates but also to earning the trust of its clients, shareholders, personnel and business partners. The directors believe that the Company's success and reputation is not only dependant on the quality of its products and the services provided to its customers, but also on the way it does business. The Company ensures that it works with suppliers that meet the AXA standards with respect to ethics and corporate responsibility through a clearly documented process for supplier selection and contracting.

- During the year the Board approved the payment of two interim dividends totalling £650 million; £550 million which was paid in April 2019 and £100 million which was paid in December 2019. These payments were funded through profits made during the year and/or drawn from available reserves and were made in accordance with the principles and practices of the AXA UK Capital Management Policy, which the directors consider appropriate to the Company, including:
  - Maintaining a level of capital consistent with Board approved risk appetite statements
  - Maintaining sufficient resources to fund planned growth and liquidity
  - Compliance with Solvency 2 rules and regulations
  - Compliance with any additional local regulatory capital management rules and requirements.

AXA Insurance UK plc

Strategic Report (continued)

Section 172 statement (Continued)

The directors took into account all relevant matters set out in Part 23, Chapter 1 of the Companies Act concerning the payment of dividends, including reviewing the Company's distributable reserves and its ability to pay its debts as they fall due, having regard to the entirety of the Company's business and the actual and contingent liabilities (present and future) inherent in that business. The directors concluded that neither the long-term interests of the Company nor the interests of its creditors were significantly prejudiced by payment of the interim dividends and that distributable reserves were sufficient to cover the dividends.

Signed on behalf of the Board by

C. Gienal
Director
17 April 2020

AXA Insurance UK plc

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2019.

FUTURE DEVELOPMENTS

Future developments are discussed in the Strategic Report.

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The ability to cope with unexpected risks to the financial position is shown within the Management of financial risk note set out on pages 70 to 85 of the financial statements.

The Company has considerable financial resources and detailed budgets, plans and forecasts have been prepared and reviewed setting out the continued financial position of the Company for the next 12 months and a strategic plan to 2023. The directors therefore believe that the Company is well placed to manage its business risks despite the current uncertain economic outlook arising from the current COVID-19 pandemic, and, the directors have a reasonable expectation, based on sensitivity analysis, that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Financial Report.

NON-ADJUSTING EVENT OCCURING AFTER THE REPORTING PERIOD

During December 2019, a number of cases of pneumonia associated with the Coronavirus, now called COVID-19 by the World Health Organization ("WHO"), were reported in the People's Republic of China. In the early part of 2020 this virus subsequently spread to many other countries, and it is currently not possible to know or to predict the extent to which the current levels of reported cases reflect the actual transmission of the virus within populations, and accordingly the scale of the pandemic may be significantly larger than is presently recorded.

Authorities in many countries, including the UK, have taken stringent measures (including travel restrictions, home quarantine, lockdowns, and school closures) to contain the pace and scale of its spread. This has led to significant disruptions in the global travel and hospitality industries, and in global trade and supply chains more broadly; has resulted in decreased economic activity and lowered estimates for future economic growth; has created severe strains on local, national and supra-national medical and healthcare systems and institutions; and has caused global financial markets to experience significant volatility and the worst downturn since the 2008 crisis.

The Company is in the process of establishing and implementing plans to address how it will manage the effects of the outbreak and assess disruptions and other risks to its operations. These include the protection of employees, sustaining our services to our customers and other stakeholders and ensuring effective processes are in place to communicate and execute such plans.

The directors are closely monitoring the Company's exposures to the COVID-19 outbreak, including (i) the operational impact on its business, (ii) the consequences from a deterioration in macroeconomic conditions and a slowdown in the flow of people, goods and services, especially on new business volumes, (iii) exposure through its policies (following, for example, increased business interruptions, travel and event cancellations and higher medical costs), and (iv) change in asset prices and financial conditions (including interest rates). No material claims have been reported at this stage.

Information in this section should be read in conjunction with note 39 Management of Financial Risks.

DIVIDENDS

During the year the Company declared and paid £650m (2018: £380m) of dividends.

AXA Insurance UK plc

Directors' Report (continued)

DIRECTORS

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on page 1. The directors who have served for part of the year or were appointed before the Annual Financial Report was signed are given below:

A. M. Breitburd was appointed as a director of the Company on 1 January 2019 and resigned as a director of the Company on 31 March 2020
R. Becker was appointed as a director of the Company on 22 July 2019
L. Matras was appointed as a director of the Company on 1 October 2019
J. S. Wheway was appointed as a director of the Company on 1 February 2020
G. R. Howell resigned as a director of the Company on 13 February 2019
H. M. Posner resigned as a director of the Company on 31 January 2020

Directors' qualifying third party and pension scheme indemnity provisions

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

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

FINANCIAL RISK MANAGEMENT

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in the Management of financial risk note set out on pages 70 to 85 of the financial statements. In particular the Company's exposure to market risk, credit risk and liquidity risk are separately disclosed in that note.

BRANCHES OUTSIDE THE UK

The Company does not operate branches outside the UK.

POLITICAL DONATIONS

The Company made no donations for political purposes.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITOR

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

a) so far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101").

AXA Insurance UK plc

Directors' Report (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES (continued)

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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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.

Signed on behalf of the Board by

C. Gienal
Director
17 April 2020

AXA Insurance UK plc

Corporate Governance Report

For the year ended 31 December 2019, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website). The directors have adopted the Wates Principles as an appropriate framework in which to disclose the Company's corporate governance arrangements.

Principle 1 – Purpose and leadership
The Company's principal activities are described in the Strategic Report.

AXA Insurance is a subsidiary within AXA, a worldwide leader in insurance. As one of the largest global insurers, AXA's purpose is to "empower people to live a better life". The Company is aligned to AXA's core values of Customer First, Integrity, Courage (we speak our mind and act to make things happen), and One AXA (being together and being different makes us better).

AXA's values are underpinned by commitments to help influence the way decisions are made and how business is conducted. They guide how the Company serves its customers, interacts with suppliers, makes decisions and recruits, promotes and manages employees. The values and commitments drive the behaviours at AXA, defining and shaping the One AXA culture.

AXA's values are integral to the Company's strategic ambition. In 2019, the Company completed the final year of the current Ambition 2020 strategy, which was launched in 2016 with a focus on the evolving needs of AXA's customers and was underpinned by two strategic priorities:

- Focus - taking actions to deliver sustainable growth; and,
- Transform – accelerating the transformation of AXA's business model to prepare for the future.

The directors consider AXA's purpose and values appropriate to the Company and apply them to the business where relevant. The Company's strategy is set by the Board and led by the Management Committee, but also draws on expertise from across the business, including AXA Group and the top 150 leaders within the AXA UK Group, at different stages of the process. 2019 has been a transitional year as the Company approached the end of the current strategic operating plan, looking forward to its strategy beyond 2020. The strategic process has involved key teams throughout the AXA UK Group, as well as a group of 20 UK Group employees (the "20/20 Group"), of varying grades and tenure, who volunteered to be a part of the process and brought diverse insights from different parts of the business, as well as challenge and feedback, and have helped to communicate the strategy to peers across the wider organisation.

Though the Company does not directly employ its workforce the Company strives to act responsibly towards its workforce, placing workforce engagement at the heart of its business. Achieving this means creating a workplace built on AXA's values that fosters diversity and equal opportunities for all, promotes participation, encourages professional development, and supports well-being. The Company recognises the importance of workforce unions and engages with them regularly to maintain positive working relationships. Feedback is sought through quarterly Pulse surveys, where staff can provide their views on how the business is performing against its strategic objectives and key values.

Diversity and inclusion are key to creating a culture of trust and respect. The UK Group has a Diversity & Inclusion Board, which meets quarterly and is sponsored by a member of the Management Committee. As well as news articles, blogs and vlogs, a number of local events are run across all locations within the AXA UK Group. These include workshops, panel discussions and talks with senior leaders. Diversity and inclusion focused forums are also held, providing UK Group employees with the opportunity to speak to senior leaders about topics that matter to them.

The Company has access to five employee resource groups ("ERGs") providing an opportunity for employee-communities to promote positive cultural change within the business and the Company participates in and facilitates these. The ERGs are focussed on Working Families, Gender Equality, Pride (supporting our LGBT community), BAME (focusing on the under-representation of black, Asian and minority ethnic staff) and ABLE (raising awareness about disabilities and carers and promoting change and support). These ERGs help influence AXA UK Group policies, recent examples include the introduction of a Transitioning at Work Policy and the Family Friendly Policy.

Being part of a large global organisation, the Company understands that it has a vital role to play in being a responsible corporate citizen. The AXA Cares initiative is based on four areas: People, Community, Environment and Customer. AXA UK has a network of AXA Cares Champions around the business to help drive the corporate social responsibility mission. The Company also has access to a community partnership programme (Hearts in Action) which is designed to link the business with local communities, as well as a community grant scheme and charity partnerships.

The Company is committed to reducing its impact on the environment by actively managing energy, paper and water consumption, as well as carbon emissions and waste. The Company's business is focussed on protecting people from unexpected events and the Company is committed to using its business expertise to help build an understanding of the risks faced by individuals and society at large. To support this the AXA Research Fund was created in 2007 to encourage scientific research that helps understanding and prevention of environmental, life and socio-economic risks.

The Company strives to build trusted relationships with customers and to always treat them fairly, providing commitment to our customers that the business delivers against its purpose (see Principle 6 – Stakeholders, on page 16).

Principle 2 – Board Composition
The Board of AXA Insurance UK plc comprises an Independent Chairman, five Independent Non-Executive Directors (of varying tenure), the Chief Executive Officer, Chief Financial Officer and two Executive Directors. The Directors consider the size and composition of the Board to be proportionate to the scale and complexity of the business.

The roles of Chairman and Chief Executive Officer are separate, to ensure that the balance of responsibilities, accountabilities and decision-making abilities are upheld. This separation places the Chairman in an independent position which facilitates a better environment for Board, director and management effectiveness.

The Company's Non-Executive Directors bring experience in insurance, customer relations, technology, marketing, relationship management, operations, banking, asset management, pensions and other skills ancillary to financial services. All directors have equal voting rights. The Company Secretary is the first point of contact for directors seeking advice and services. Directors can also take professional advice at the Company's expense.

The Company's directors continue to keep their knowledge, skills and familiarity with the business current and up to date by engaging with senior management, attending appropriate external seminars, and internal and external training courses. All new directors undergo individually tailored induction (depending on their current skillset, experience and knowledge). This is also designed to ensure that the collective Board has the correct tools to address and balance stakeholders' interests with the company's business needs.

AXA UK values diversity and inclusion and continues to create and develop an inclusive culture. We are committed to ensuring equality of opportunities, with the aim of promoting diversity throughout the company including at the most senior levels, with a diversity and inclusion agenda that goes beyond the protected characteristics of the Equality Act 2010. Recruitment processes (including those for directors) follow the diversity and equal opportunities policy.

The Boards of AXA UK plc, AXA Insurance UK plc and AXA PPP healthcare limited participated in an externally-facilitated Board evaluation in 2019 to identify opportunities to improve and ensure that each Board remains effective, whilst eliminating duplication of information. Recommendations included:

- Combined board agendas to be organised thematically with clear actions to Management and rigorous Executive review of papers
- Board objectives to reflect key priorities
- Development of the collegiality of the Board
- Continued focus on the governance agenda including stakeholder engagement.

The Board is committed to addressing these findings and continuing to review and challenge how it can improve.

Principle 3 – Director Responsibilities Accountability

Accountability

The Board delegates certain decision-making powers to Committees and individuals. This allows those with appropriate knowledge and industry experience to make effective decisions whilst Board oversight is maintained. The Board has adopted a Corporate Authorities document which clearly sets out the Board's terms of reference, matters that are reserved to the Board, signing authorities and delegation to Committees and individuals. This is reviewed at least annually (and whenever there is a significant change) and is considered and re-approved as necessary by the Board each year. Each director has a clear understanding of their accountability and responsibilities. The Board has a programme of at least seven meetings every year with further meetings held as necessary.

The Company Secretary maintains a Register of Director's Interests, which is updated when a change occurs. All directors complete a conflicts of interest questionnaire annually and are regularly reminded of their statutory duties and personal obligations to avoid conflicts. An extract of the Register of Interests is reviewed by the Board at least quarterly so that directors can confirm that the information is correct or disclose any additional interests of which the Board should be aware.

Committees

The Board delegates certain of its duties to AXA UK Group Committees (Audit, Investment, Risk, Remuneration & Nomination), which operate under clearly defined terms of reference. Board Committees are chaired by the Non-Executive Directors of the Company and the membership of the Audit and Risk Committees are comprised solely of independent Non-Executive Directors. This allows the Non-Executives to constructively challenge the executives. The Independent Non-Executive Directors are wholly independent in that they have no material business or relationships with the Company that might influence their independence or judgement. Although the Board delegates a range of tasks, the Board itself retains ultimate responsibility for the affairs and management of the Company.

Integrity of information

The Board receives regular reports from management at its meetings. It reviews the information provided and provides appropriate enhancements and challenge. This makes available the necessary data relating to all key aspects of the business, which includes but is not limited to financial performance, risks and opportunities, customers, strategy, operational matters and updates on market conditions and sustainability.

Key financial information is collated from AXA UK's various accounting systems. AXA UK's finance function is appropriately qualified to ensure the integrity of this information and is provided with the necessary training to keep up to date with regulatory changes. Financial information is currently externally audited by Mazars LLP on an annual basis, and financial controls are reviewed by the AXA UK internal audit function.

The Audit Committee is aware of, and comfortable with, the scope of work planned by the internal auditors. The Committee receives a summary of the proposed audit plan, highlighting the budget and resource available, the rationale for the plan, and any limitations in its scope. Once agreed by the Committee any significant changes proposed to the plan are notified to the Committee by the Head of Internal Audit.

Principle 4 – Opportunity and Risk

The Board seeks out opportunity whilst mitigating risk and is responsible for strategic decision-making and risk management. In March 2019, the AXA UK plc Board decided to change the AXA UK risk governance structure by combining regulated entity board risk committees to form a single AXA UK Group Risk Committee to assist each of the subsidiary boards within the UK business in their responsibility for the oversight and management of risk. The AXA UK Group Risk Committee has adopted a forward-looking approach, anticipating changes in business conditions as well as reviewing the risk profile of the operating entities and the AXA UK Group as a whole. It also considers the effectiveness of its risk management framework, use of the capital model and relevant regulatory requirements.

The AXA UK Group Risk Committee, which meets at least quarterly, is comprised of Independent Non-Executive Directors, ensures that inherent and emerging risks are identified and managed appropriately and in a timely manner. The Directors of the Company have considered the terms of reference and the membership of the AXA UK Group Risk Committee and concluded that it is an appropriate body to consider the Company's risks. The Board monitors and implements the Committee's decisions where appropriate.

Opportunity
Long term strategic opportunities are considered and agreed by the Board each year. The Company's key operational risks and mitigations are outlined in the Strategic Report (see pages 2 to 8.) Risk registers are maintained by the Risk Function and considered by the AXA UK Group Risk Committee at each quarterly meeting.

The Chief Risk Officer reports key risk matters directly to the Group Risk Committee, which establishes the risk control framework by validating both risk policy and risk strategy. The framework is based on the five following pillars and is cemented by a strong risk culture: Risk Management independence and comprehensiveness; Common risk appetite framework; Systematic second opinion on key processes; Robust Internal Model; and, Proactive Risk Management.

Responsibilities
AXA Group has developed a formal set of standards (the "AXA Group Standards") in order to promote a consistent approach to governance, supported by an effective risk management framework. AXA Insurance has adopted and complies with all relevant AXA Group Standards, including those relating to internal control, risk management and solvency management.

AXA UK (and in turn, the Company) has a comprehensive system of internal controls designed to ensure that executives are informed of significant risks on a timely and continuing basis and have the necessary information and tools to appropriately analyse and manage these risks. The Company complies with the established Internal Control Framework covering the financial statements under IFRS and Solvency II Capital Requirement and Available Financial Resources.

The Chief Risk Officer reports to the Board at least annually with an assessment of the adequacy and effectiveness of risk management and Internal Control frameworks, including the effectiveness of controls over financial reporting.

Each year, the Board considers the Own Risk and Solvency Assessment ("ORSA"), which encompasses processes to identify, assess, monitor, manage and report the short-to medium-term risks of the Company and to ensure the level of own funds adequacy against its solvency targets, taking into account the risk profile, approved risk tolerance limits and business strategy.

The Company's systems and controls are designed to provide reasonable reassurance to the Board and senior management regarding the achievement of objectives, ensuring effectiveness and efficiency of operations, reliable financial and non-financial reporting, and compliance with laws, regulations and policies.

Principle 5 – Remuneration
The Board delegates authority to the AXA UK Remuneration & Nomination Committee, which has clearly defined terms of reference and is responsible for making recommendations to the Board in accordance with the AXA Group Remuneration Policy and as required by regulation. In 2019 the Committee was comprised of the Chairman of AXA UK, two Independent Non-Executive Directors and a Non-Executive Director from within the AXA Group.

The AXA Group Remuneration Policy sets out the remuneration principles applicable to all AXA Group companies and their employees. It is designed to support the Group's long-term business strategy and to align the interests of its employees and other stakeholders by: (i) establishing a clear link between performance and remuneration over the short-, medium- and long-term; (ii) ensuring that the AXA Group can offer competitive compensation arrangements across the multiple markets in which it operates while avoiding potential conflicts of interest that may lead to undue risk taking for short-term gain; and, (iii) ensuring compliance with Solvency II regulations and any other applicable regulatory requirements.

Pay is aligned with performance and takes into account fair pay and conditions across the AXA UK Group's workforce. Executive remuneration is reviewed annually and in the event of significant change in the structure and size of the Company's operations, with reference to market data and trends. AXA UK has formally adopted the Willis Towers Watson methodology for job grading for all levels (executive and other employees), an approach that aligns with AXA Group. A full benchmarking review will next take place in 2021 ahead of the 2022 annual remuneration review process, unless significant changes occur in the meantime in the business and its structure.

AXA Insurance UK plc

Corporate Governance Report (continued)

The AXA UK Group is an equal opportunities employer and promotes an environment of diverse cultures, ideas, people and perspectives. It reports on Gender Pay, has signed the Women in Finance Charter and demonstrates its commitment to gender equality by setting a target of 40% of senior management roles to be held by women by the end of 2020. This currently at stands at 30% across the AXA UK Group.

Principle 6 – Stakeholders
The Board understands that good governance and effective communication are critical factors to ensure that the Company's brand, reputation and relationships with all stakeholders, including shareholders, customers, employees, suppliers and the local communities are effective and supportive of the way in which the Company wants to work. The Board participates in all relevant AXA UK Group engagement initiatives, delegating responsibility to group staff and Committees as appropriate.

The Company's key stakeholders and how it engages with them are described in the Strategic Report (see pages 2-8).

Stakeholders
Stakeholder engagement is a key part of AXA's overall strategy and its approach to sustainability.

Engagement improves AXA's understanding of its operating environment and helps the business to take better business decisions. Accountability and transparency are key with all external stakeholders and with representatives of government and other opinion leaders, whilst maintaining an open and visible presence in the media. The Company's fundamental purpose of protecting people and empowering them to live better lives is demonstrated and supported in active engagement across industry bodies and our stakeholder community.

The Company strives to play a positive role in society and actively supports communities it operates in. From volunteering and mentoring to fundraising or sharing business expertise, the Company encourages its employees to get involved wherever possible. Community partnership programmes such as Hearts in Action are designed to build a link between the business and local communities. The AXA UK Group has achieved over 100 apprenticeship hires, which have been filled by individuals from a diverse range of backgrounds and in support of wider societal issues, such as mental health, and has over 190 mental health first aiders across the organisation and at least one in every site.

The Company strives to build trusted relationships with customers and to always treat them fairly, providing commitment to our customers that the business delivers against its purpose, empowering them to live better lives. Customer experience tracking enables feedback to be gained from customers at a number of different points in the journey enabling action plans and changes to customer experiences where necessary. The Company actively encourages customers to give feedback externally on sites like Feefo (where the Company maintains a Gold Trusted Accreditation) and Trustpilot. NPS survey findings are also used to improve customer engagement with knowledge being shared across all of our business. Events are often staged for customers to connect with the business. There is always a close presence to our customer, through events such as BIBA, fostering deeper relationships with our partners and creating interactions that provide an update on core business strategies, priorities and new propositions.

The Company promotes strong relationships with its network of suppliers which are managed through an AXA UK Group company-wide procurement approach to ensure economies of scale and collaboration with suppliers can be achieved.

Ensuring there is a strong and positive regulatory relationship is key to achieving everything that is required. This is set by the tone at the top where continuous engagement with the regulator takes place. The tone adopted throughout the Company aims to maintain strong, effective relationships with the PRA and FCA, working in a collaborative and transparent manner to enable good customer outcomes. Proper governance and effective communication are key in fostering these relationships. It is vital that these are well maintained as this is directly linked to our business being able to operate in the UK.

Engagement with wider industry bodies is critical to upholding the responsible enterprise position that the Company strives to achieve. This is evidenced through commitment and engagement with a number of bodies. AXA has for example policies on investment in tobacco and fossil fuels, responsible insurance products, and data protection. The AXA Research Fund was created in 2007 to encourage scientific research that helps understanding and prevention of environmental, life and socio-economic risks. Additionally, the Company (as part of the AXA UK Group) engages with key industries bodies often lobbying for change on critical issues. The body this is most closely worked with is the ABI on an ongoing basis across the organisation.

Employees

The Company aims to create an empowering, innovative, flexible and supportive working environment for its workforce. Diversity and inclusion is actively promoted and supported, allowing the workforce to contribute to the business's success in their own unique way.

Employees are listened to through quarterly engagement surveys, which are taken in addition to ongoing conversations. The surveys ask employees questions to gauge their confidence in the Company's strategic direction, whether they see AXA'S values alive, to consider their own sense of empowerment and to measure employee satisfaction.

Employees are actively encouraged to undertake suitable professional development. AXA UK also supports holistic employee wellbeing across the dimensions of physical, mental, financial and social health and a new proposition is being launched to our people in this space in 2020, including new benefit offerings. These new additions will complement the benefits already in place such as free eye tests, flu vaccinations, online support to reduce health risks and a free confidential Employee Assistance Programme (BeSupported).

Employee briefings are live-streamed across all geographic locations to update the workforce on the Company's performance. More regular, but structured interactions, are in place across the organisation to better understand local challenges offering the opportunity for a more location-specific update from the CEO, along with the opportunity for individuals to raise questions and concerns. A detailed communications strategy is in place to engage employees on an ongoing basis, including news stories, blogs from Executive Committee members, and sharing of financial or employee survey results.

Environment

Corporate responsibility is key area of focus for the Company both as a business and as part of AXA's global organisation. There is a clear recognition of the role the business can play in avoiding negative contribution or contributing positively to the environment.

From a Group perspective, AXA has sent a clear message by agreeing to the RE100, stating a commitment to have 100% renewable energy by 2025. AXA UK already procures 67% of its energy from renewable sources through REGO certification. As a global organisation AXA has quadrupled green and clean investments target to €12billion, twice as high as the COP21 recommendation of 1% of assets and actively divested funds away from carbon-intensive industries such as our pledge to divest from companies which derive more than 30% of their revenues from coal, have a coal-based energy mix that exceeds 30%, or produce more than 20 million tonnes of coal per year. At an entity level, AXA Insurance is committed to reducing its impact on the environment by actively managing the use of energy, paper and water consumption, as well as carbon emissions and waste.

AXA Insurance UK plc

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF AXA INSURANCE UK PLC

Opinion

We have audited the financial statements of AXA Insurance UK plc ("the Company") for the year ended 31 December 2019 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in arriving at our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures.

These matters together with our findings were communicated to those charged with governance.

Area of focus	How our audit addressed the area of focus
Non-Life Technical provisions The estimation of the Company's insurance contract liabilities involves a significant degree of judgement. The provision for claims outstanding and loss adjustment expenses at 31 December 2019 was £2,801m (see Note 24 of the financial statements). The assessment is underpinned by a best-estimate ultimate cost calculation of all claims incurred but not settled at a given date, whether reported or not, together with the related costs of handling the claims. A range of stochastic processes and statistical methods are used to determine these provisions. Underlying these methods are a number of assumptions (both explicit and implicit) relating to the expected settlement amounts and the settlement patterns of claims.	We evaluated the directors' assessment of the valuation of insurance contract liabilities by performing the following procedures: • We assessed the design and implementation and tested the operating effectiveness of controls around the governance process in place to determine the insurance contract liabilities; and • On a sample basis, we performed data integrity testing in relation to claims. We engaged a specialist actuarial team as part of the audit team. The actuarial specialists: • Evaluated the methodology and assumptions selected by management on the remaining classes of business. This involved meeting with senior management involved in the reserving process to discuss the reserving methodology, changes in assumptions from the previous year-end, and questions arising from the review of reserving reports; and • Performed independent re-projections on selected classes of business. Classes selected were those with the largest and most uncertain claims liabilities. We compared our projected claims liabilities to those calculated by management. We reviewed the disclosures in the financial statements and checked for compliance with the relevant accounting standards. Key observations We found the technical provisions established by the company acceptable and the disclosures appropriate.
Valuation / impairment of goodwill The Company recognises goodwill of £203m (see Note 12 of the financial statements) as part of the historic 'hive up' of assets from GBI (Holdings) Limited and its subsidiary company. The Company performs impairment testing on the goodwill valuation at least annually (see accounting policy XIII c) in the notes to the financial statements). The valuation is sensitive to the underlying valuation assumptions, we therefore consider that there is a risk that assumptions applied may not be reasonable and lead to a material misstatement of the valuation of goodwill.	We performed the following procedures: • We examined the impairment methodology to assess whether it is in accordance with IFRS requirements; • We assessed the appropriateness of the forecast information included in the projections; • We tested management's application of the methodology by reperforming the impairment calculation; • We considered managements sensitivity analysis on the key assumptions used in their impairment assessment and performed our own further sensitivity analysis; and • We assessed the adequacy and completeness of the relevant disclosures within the financial statements.

	Key observations We found that the carrying value of goodwill is considered acceptable and the disclosures appropriate.
Impact of the outbreak of COVID-19 on the financial statements Since the balance sheet date there has been a global pandemic from the outbreak of coronavirus 'COVID-19'. The potential impact of COVID-19 became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK. The directors' consideration of the impact on the financial statements is disclosed in the Directors' Report, the Strategic Report and Note 1 of these Financial Statements. Whilst the situation is evolving, based on the information available at this point in time, the directors have assessed the impact of COVID-19 on the business and have concluded that adopting the going concern basis of preparation is appropriate. The directors have concluded that COVID-19 is a non-adjusting post balance sheet event in note 37 of these Financial Statements.	Our audit procedures included: We assessed the directors' conclusion that the matter be treated as a non-adjusting post balance sheet event and that adopting the going concern basis for preparation of the financial statements is appropriate. We considered: • The timing of the development of the outbreak across the world and in the UK; and • How the financial statements and business operations of the Company might be impacted by the disruption. In forming our conclusions over going concern, we evaluated how the directors' going concern assessment considered the impacts arising from COVID-19 as follows: • We held discussions with senior management involved in the assessment of the impact of COVID-19, and other matters arising from ongoing updates from the market and regulators; • We reviewed the approved directors' going concern assessment including COVID-19 implications. • We made enquiries of directors to understand the period of assessment, the scenarios taken into account and the implication of those scenarios on the Company's projected financial performance; • We assessed the governance process around the COVID-19 projections prepared by the directors; • We evaluated the key assumptions underpinning the scenarios considered by the directors, and where practicable whether they were consistent with the most recent management information; • We assessed the potential impact of COVID-19 on the Company's solvency position; • We considered whether the directors' conclusion that adequate solvency headroom remained in modelled scenarios was reasonable; and • We evaluated the adequacy and appropriateness of the directors' disclosure in respect of COVID-19 implications, in particular disclosures within the post balance sheet events and basis of preparation notes. Key observations Our conclusions on going concern are set out under 'Conclusions relating to going concern' above.

AXA Insurance UK plc

Independent Auditor's Report (continued)

Our application of materiality

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

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	Our overall materiality was £22.3m
How we determined it	1% earned premiums, net of reinsurance.
Rationale for benchmark applied	In determining our materiality, we considered financial metrics which we believed to be relevant, and concluded that earned premiums, net of reinsurance was the most relevant benchmark. We believe that the benchmark of earned premiums, net of reinsurance is a fair reflection of revenue from the Company's operations.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Performance materiality of £16.8m was applied in the audit.
Reporting threshold	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.1m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit including extent to which the audit was considered capable of detecting irregularities, including fraud

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the Company, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements.

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

- at planning stage, we gained an understanding of the legal and regulatory framework applicable to the Company, the industry in which it operates and considered the risk of acts by the Company which were contrary to the applicable laws and regulations;
- we discussed with management the policies and procedures in place regarding compliance with laws and regulations;
- we discussed amongst the engagement team the identified laws and regulations, and remained alert to any indications of non-compliance; and

- during the audit, we focused on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the directors (as required by auditing standards), from inspection of the Company's regulatory and legal correspondence and review of minutes of directors' meetings in the year. We identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the Prudential Regulation Authority and the Financial Conduct Authority. We also considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Companies Act 2006 and UK tax legislation.

Our procedures in relation to fraud included but were not limited to:

- inquiries of management as to whether they have knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risk related to fraud;
- discussion amongst the engagement team regarding risk of fraud such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, (in particular in relation to the valuation of claims outstanding and loss adjustment expenses), and significant one-off or unusual transactions; and
- addressing the risk of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

As a result of our procedures, we did not identify any "Key audit matters" relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

AXA Insurance UK plc

Independent Auditor's Report (continued)

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept, 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.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed on 19 December 2013 to audit the financial statements of the Company for the year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is 7 years, covering the years ended 31 December 2013 to 31 December 2019.

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

Our audit opinion is consistent with the additional report to the audit committee.

AXA Insurance UK plc

Independent Auditor's Report (continued)

Use of the audit report

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

Steve Liddell

Steve Liddell (Senior Statutory Auditor)

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

17 April 2020

AXA Insurance UK plc

Profit and Loss Account
for the year ended 31 December 2019

General business technical account

	Note	2019 £m	2018 £m
Gross premiums written	2	**2,313**	2,243
Outward reinsurance premiums		**(131)**	(145)
Net premiums written		**2,182**	2,098
Change in provision for unearned premiums			
-gross amount		**(26)**	9
-reinsurers' share		**(3)**	(7)
Net change in provision for unearned premiums		**(29)**	2
Earned premiums, net of reinsurance		**2,153**	2,100
Claims paid			
-gross amount		**(1,522)**	(2,041)
-reinsurers' share		**19**	42
Total claims paid		**(1,503)**	(1,999)
Change in provision for claims			
-gross amount		**18**	526
-reinsurers' share		**(4)**	32
Total change in provision for claims		**14**	558
Claims incurred, net of reinsurance		**(1,489)**	(1,441)
Acquisition costs	3	**(535)**	(529)
Administration expenses	4	**(168)**	(211)
Net operating expenses	2	**(703)**	(740)
Balance on the technical account for general business		**(39)**	(81)

All transactions relate to continuing operations.

AXA Insurance UK plc

Profit and Loss Account (continued)
for the year ended 31 December 2019

Non-technical account

	Note	2019 £m	2018 £m
Balance on the technical account for general business		**(39)**	(81)
Investment income	5	**270**	482
Unrealised gains/(losses) on investments at fair value through profit and loss	6	**105**	(122)
Investment expenses and charges	7	**(174)**	(61)
Other operating income	8	**76**	76
Other operating expenses	9	**(4)**	(11)
Total balance on the non-technical account		**273**	364
Profit on ordinary activities before tax		**234**	283
Tax on profit on ordinary activities	11	**(15)**	(23)
Profit for the financial year		**219**	260

All transactions relate to continuing operations.

The information on pages 31 to 85 forms an integral part of these financial statements.

AXA Insurance UK plc

Statement of Comprehensive Income
for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Profit for the financial year after tax		**219**	260
Other comprehensive income:			
Items that may be subsequently reclassified to profit and loss			
Investments *classified as available for sale*			
Fair value gains/(losses)		**108**	(89)
Fair value losses transferred to profit and loss on disposal		**7**	(51)
Fair value gains/(losses) on derivatives in a cash flow hedge		**18**	(8)
Tax effect of items recognised in other comprehensive income – current tax and deferred tax	11	**(22)**	30
Other comprehensive income net of tax		**111**	(118)
Total comprehensive income for the year attributable to the equity shareholders of the Company		**330**	142

All transactions relate to continuing operations.

The information on pages 31 to 85 forms an integral part of these financial statements.

AXA Insurance UK plc

Balance Sheet
as at 31 December 2019

	Note	2019 £m	2018 £m
ASSETS			
Intangible assets			
Goodwill	12	**203**	203
Total intangible assets		**203**	203
Investments			
Land and buildings	13	**124**	106
Investment in group undertakings	14	**355**	355
Other financial investments			
Shares and other variable yield securities	15	**1,258**	1,214
Debt and other fixed income securities	15	**3,391**	3,908
Derivative financial instruments	15, 27	**302**	97
Loans and receivables	15	**135**	120
Deposits with ceding undertakings		**54**	56
Total investments		**5,619**	5,856
Reinsurers' share of technical provisions			
Provision for unearned premiums	16	**15**	18
Claims outstanding and loss adjustment expenses	16	**140**	144
Total reinsurers' share of technical provisions		**155**	162
Debtors			
Debtors arising from direct insurance operations	17	**641**	578
Debtors arising from reinsurance operations	17	**3**	55
Other debtors	18	**145**	211
Total debtors		**789**	844
Other assets			
Tangible assets	19	**7**	5
Cash at bank and in hand		**107**	122
Total other assets		**114**	127
Prepayments and accrued income			
Deferred acquisition costs	20	**237**	234
Deferred tax asset	21	**27**	46
Prepayments and accrued income		**4**	6
Total prepayments and accrued income		**268**	286
TOTAL ASSETS		**7,148**	7,478

AXA Insurance UK plc

Balance Sheet (continued)
as at 31 December 2019

	Note	2019 £m	2018 £m
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	22	**122**	122
Share premium	22	**799**	799
Revaluation reserve	23	**204**	93
Capital contribution reserve	23	**875**	875
Profit and loss account		**524**	959
Equity shareholders' funds		**2,524**	2,848
Technical provisions			
Provision for unearned premiums	24	**1,061**	1,036
Claims outstanding and loss adjustment expenses	24	**2,801**	2,807
Total technical provisions		**3,862**	3,843
Provisions for other risks			
Other provisions	25	**48**	79
Creditors			
Creditors arising from direct insurance operations	26	**66**	50
Creditors arising from reinsurance operations	26	**29**	21
Derivative financial instruments	27	**193**	220
Other creditors including tax and social security	28	**271**	288
Borrowings	29	**141**	115
Total creditors		**700**	694
Accruals and deferred income	30	**14**	14
TOTAL EQUITY AND LIABILITIES		**7,148**	7,478

The financial statements on pages 25 to 85 were approved and authorised for issue by the Board of Directors on 17 April 2020 and were signed on behalf of the Board by:

C. Gienal
Director

AXA Insurance UK plc

Statement of Changes in Equity
for the year ended 31 December 2019

2019	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total £m
Balance as at 1 January	122	799	968	959	2,848
Change to opening position on adoption of new accounting policies	-	-	-	(4)	**(4)**
Revised opening position	122	799	968	955	**2,844**
Profit for the year	-	-	-	219	**219**
Other comprehensive income:					
Fair value gains on available for sale financial assets	-	-	115	-	**115**
Fair value gains on derivatives in a cash flow hedge	-	-	18	-	**18**
Tax effect of items recognised in other comprehensive income	-	-	(22)	-	**(22)**
Total comprehensive income for the year	**-**	**-**	**111**	**219**	**330**
Transactions with owners:					
Dividends paid	-	-	-	(650)	**(650)**
Balance as at 31 December	**122**	**799**	**1,079**	**524**	**2,524**

2018	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total £m
Balance as at 1 January	122	799	1,086	1,079	**3,086**
Profit for the year	-	-	-	260	**260**
Other comprehensive income:					
Fair value losses on available for sale financial assets	-	-	(140)	-	**(140)**
Fair value losses on derivatives in a cash flow hedge	-	-	(8)	-	**(8)**
Tax effect of items recognised in other comprehensive income – deferred tax	-	-	30	-	**30**
Total comprehensive income for the year	**-**	**-**	**(118)**	**260**	**142**
Transactions with owners:					
Dividends paid	-	-	-	(380)	**(380)**
Balance as at 31 December	**122**	**799**	**968**	**959**	**2,848**

The information on pages 31 to 85 forms an integral part of these financial statements.

General Information

The Company's principal and ongoing activity is the writing of general insurance business in the United Kingdom ("UK"). The business conducted is principally property and motor in both commercial and personal lines, together with liability insurance and other commercial lines insurance products (commercial) and travel and other personal lines insurance products (personal).

The Company is a public company limited by shares under the Companies Act 2006, with the entire share capital held by its parent AXA Insurance plc, and is incorporated and domiciled in the UK. The address of its registered office is 5 Old Broad Street, London, EC2N 1AD.

1. Principal Accounting Policies

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

I. Basis of preparation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of available for sale financial investments and financial instruments at fair value through profit and loss, and in accordance with the Companies Act 2006.

The Company has considerable financial resources and detailed budgets, plans and forecasts have been prepared and reviewed setting out the continued financial position of the Company for the next 12 months and a strategic plan to 2023. The directors consider that the financial impact of the COVID-19 virus on the UK economy and the company is not currently estimable with any degree of certainty. In considering the potential impact on the company, the directors have prepared various financial projections which incorporate the impact on trading, unemployment levels, financial markets and GDP, covering short, medium and longer-term time scales. Further information is provided in note 37 'Non-adjusting event occurring after the reporting period' on page 70.

The directors believe that the Company is well placed to manage its business risks despite the current uncertain economic outlook, and the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Financial Report.

The preparation of financial statements in compliance with FRS 101 requires management to monitor and exercise judgment in the selection and application of appropriate accounting policies and in the use of accounting estimates. Those areas that could have a significant impact to the financial statements are set out on accounting policy XXV.

Certain prior year balances have been reclassified to conform with current year presentation. The Company has offset assets and liabilities where they have a legally enforceable right to set off. This has resulted in a reduction of the prior year debtors arising from direct insurance operations and creditors arising from direct insurance operations of £136m. In addition, £62m of salvage recoveries in 2018 have been reclassified from technical provisions to other debtors. The directors believe that the current year presentation for the above is appropriate and has not impacted the result or net assets of the Company.

The Company holds goodwill at cost less any impairment losses, whilst this represents a departure from the treatment prescribed by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 to hold goodwill at cost less accumulated amortisation, the directors believe that this accounting policy choice provides a true and fair view. The ability to apply a true and fair override when selecting an accounting policy, is set out in FRS 101, with specific instances, such as goodwill, referenced within Appendix II. The effect of non-amortisation is an increase in profit for the year by £14m (2018: £13m), with the cumulative effect on net assets being an increase of £68m (2018: £54m).

I. Basis of preparation (continued)

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

(a) The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment'; disclosing the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined.

(b) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

(c) The requirements of paragraph 52, 58 and paragraphs 90, 91 and 93 of IFRS 16 leases.

(d) The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
   (i) paragraph 79(a)(iv) of IAS 1;
   (ii) paragraph 73(e) of IAS 16 'Property, Plant and Equipment';
   (iii) paragraph 118(e) of IAS 38 'Intangible Assets'; and
   (iv) paragraphs 76 and 79(d) of IAS 40 'Investment Property'.

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

(f) The requirements of IAS 7 'Statement of Cash Flows'.

(g) The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (the requirement for the disclosure of information when an entity has not applied a new standard that has been issued but is not yet effective).

(h) The requirements of paragraphs 17 and 18A of IAS 24 'Related Party Disclosures'.

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

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

The Company has taken advantage of section 400 of the Companies Act 2006 and has not produced consolidated financial statements on the basis that it is a subsidiary undertaking of AXA SA, which prepares consolidated financial statements and is established under the laws of an EEA State.

II. Deferral of IFRS 9 *Financial Instruments*

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, however, the amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' permits entities which meet certain requirements to defer the implementation of IFRS 9 until the effective date of IFRS 17 'Insurance Contracts', 1 January 2021. On 17 March 2020 it was agreed by the IASB to extend the effective date of IFRS 17 to 1 January 2023, at the same time the fixed expiry date for the optional *temporary exemption from applying* IFRS 9 granted to insurers, was also deferred by two years to 2023. These amendments will now go through the balloting process. The IASB members have confirmed that they do not intend to dissent, therefore it is expected that the two year extension to 2023 will be enacted.

The Company is eligible for the temporary exemption and has opted to defer the implementation of IFRS 9. The eligibility conclusion is based on an analysis of the percentage of the total consolidated carrying amount of liabilities connected with insurance activities relative to the total consolidated carrying amount of all liabilities, which indicates the Company's activities are predominately connected with insurance. The amendments permitting the temporary exemption are effective for annual periods beginning on or after 1 January 2019.

In the context of the deferral of the implementation of IFRS 9, additional disclosures relating to the Solely Payments of Principal and Interest ("SPPI") test and to the credit quality of financial instruments that pass the SPPI test are required during the deferral period, commencing 1 January 2019. The required disclosures are shown within the Management of Risk note on pages 75 and 76.

III. Changes in accounting standards, accounting policies and disclosures

IFRS 16 'Leases'

IFRS 16 Leases was issued on 13 January 2016 and was endorsed by the EU in 31 October 2017. It replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the *Substance of Transactions Involving the Legal Form of a Lease.*

The main effect on the Company is that IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for almost all leases and therefore resulted in an increase in Land and Buildings and total Financial Debt as at 1 January 2019.

The cumulative effect of initially applying IFRS 16 relates entirely to property leases and totalled £3m. It was recognised as a reduction to the opening balance of the profit and loss account reserve on 1 January 2019. The adjustment represented the difference between the recognition of a right of use asset of £30m and a lease liability of £43m, offset by the release of a vacant lease and rent free provisions of £11m, derecognition of prepayments of £1m, recognition of deferred tax of £1m and differences in the pattern of run off of the lease liability and right of use asset.

At the transition date, discount rates ranged from 0.2% to 2.7% depending on the duration of the leases.

The difference between the amount of lease commitments reported as at 31 December 2018 of £52m and the lease liability of £43m arises mainly from the discount impact, as the lease liability is calculated at the present value of future lease payments. Further details are shown in note 40 'Transition to IFRS 16'.

IFRIC 23 'Uncertainty over tax treatment'

IFRIC 23 was issued on 7 June 2017 and clarifies how to account for income tax when it is unclear whether the tax authority will accept the tax treatment applied in the tax return. This is to be applied to the determination of taxable profit, tax bases, unused tax losses, unused tax creditors and tax rates, when there is uncertainty over income tax treatments under IAS 12. The effect of initially applying IFRIC 23 totalled a decrease in retained earnings of £1.1m, following the re-assessment of the facts and circumstances on which the estimate was based. IFRIC 23 also requires uncertain tax positions to be presented in current and deferred taxes, therefore the amount of uncertain tax positions reported at 1 January 2019 of £1.4m was reclassified from other provisions to deferred tax. The closing balance at 31 December 2019 is £2.5m.

Other amendments

The other amendments to accounting standards, effective for annual periods beginning on or after 1 January 2019 did not have a material impact on the Company's financial statements.

IV. Divisional reporting

The Company does not apply the requirements of IFRS 8 'Operating segments', as its shares are not publicly traded. In accordance with Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Company has disclosed the basis through which the business is reported, by class of business and geographic region. Class of business represents the main classes of insurance that are subject to risks and returns that are distinct from those applying to other classes. A geographical segment, groups risk and return by geographic region.

V. Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in Sterling, which is the Company's functional and presentational currency.

V. Foreign currency translation (continued)

b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of non-investment related activities denominated in foreign currencies are recognised in the Profit and Loss Account in either 'other operating income' or 'other operating expenses' depending on the net position calculated at the year end. Foreign exchange gains and losses resulting from the settlement of investment related activities denominated in foreign currencies are recognised in the Profit and Loss Account within investment income.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the Profit and Loss Account. Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in amortised cost are recognised in the Profit and Loss Account, and other changes in carrying amount are recognised in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Translation differences on non-monetary items measured at fair value through profit and loss are recognised in the Profit and Loss Account as part of the fair value gain or loss.

VI. Product classification

The Company issues contracts that transfer insurance risk. A contract which transfers significant insurance risk is an insurance contract whether or not it also transfers financial risk. An insurance contract is a contract under which the Company (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of the insured event that are more than the benefits payable if the insured event did not occur.

The Company has no investment contracts, i.e. contracts that carry financial risk with no significant insurance risk.

VII. *General insurance contracts - recognition and measurement*

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

a) Insurance premiums

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

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

VII. *General insurance contracts - recognition and measurement (continued)*

b) Insurance claims

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

c) Technical provisions

A provision is made at the year-end for the estimated cost of claims incurred but not settled, including the cost of IBNR claims and IBNER to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction is made for other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company (that is, the IBNER provision), where more information about the claim event is generally available.

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

In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

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

- changes in Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- regulatory change affecting the cost of claims;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of such claims, the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case-by-case basis or large claims projected in aggregate, but separately to other losses in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible, the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes.

The most appropriate estimation techniques are selected and combined, taking into account the characteristics of the business class and the extent of the development of each accident year.

VII. General insurance contracts - recognition and measurement (continued)

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

Property, aviation and accident business

Property, aviation and accident business is short tail, that is, there is not generally a significant delay between the occurrence of the claim and the claim being reported to the Company. The costs of claims notified to the Company at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim.

The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications. Adjustments are made to allow for movements in the variables described above.

Motor business

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

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

Liability and marine business

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

1. A combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula, whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio, based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort.
2. Using the costs of claims notified to the Company at the balance sheet date which are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications. Adjustments are made to allow for movements in the variables described above.
3. As per method 2 above but splitting the total case-by-case cost of notified claim size bands to reflect the different claims development patterns observed within each size band.
4. By splitting the total case-by-case cost of notified claims into four band sizes (attritional, medium, large and very large). The ultimate expected cost of claims in each band is then estimated by reference to the projected number of claims (based on statistics showing how the number of notified claims have been developed over time) and the anticipated average final cost of notified and IBNR claims (based on historical levels adjusted to allow for movements in the variables described above).

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

VII. General insurance contracts - recognition and measurement (continued)

Disease-related and pollution claims arising from liability business
The claims provisions include amounts in respect of potential claims relating to diseases including those associated with exposure to asbestos, noise-induced hearing loss and environmental pollution. Legislative and judicial actions to date have failed to determine the basis of liability to indemnify losses. These claims are not expected to be notified and settled for many years and there is considerable uncertainty as to the amounts at which they will ultimately be settled.

The level of the provision has been set on the basis of the information that is currently available including potential outstanding loss advices, experience of development of similar claims and case law.

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

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

d) Salvage and subrogation
Salvage applies to the proceeds of repaired, recovered, or scrapped property that the Company is permitted to sell, such as property which is acquired in settling a claim. Subrogation refers to the proceeds recovered through negotiation or legal action against third parties.

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

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

f) Liability adequacy test
At each balance sheet date, the Company evaluates its unexpired risks to assess whether there are sufficient unearned premiums, after taking account of future investment income on the investments, to cover expected future claims and expenses. To perform this assessment contracts are grouped in line with internal reporting metrics. If following these assessments a deficiency is identified, the full deficiency is recognised as an unexpired risk reserve within claims outstanding and loss adjustment expenses.

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

VIII. Intangible assets

Goodwill

Goodwill represents the excess of the consideration transferred over the proportionate interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

Goodwill is initially recognised at cost and is subsequently measured at cost less accumulated impairment losses. Goodwill is reviewed for impairment on an annual basis. The recoverable amount is calculated and compared to the carrying value. The recoverable amount is the greater of the value in use and the fair value less costs of disposal.

If the recoverable amount is less than the carrying value, impairment is recognised immediately as an expense and is not subsequently reversed.

IX. Land and buildings

a) Owner occupied properties

These properties are occupied by the Company and are stated at historical cost less accumulated depreciation and an allowance for impairment, where appropriate. Historical cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

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

Also included within this balance is the right of use asset relating to leased properties, further detail is included within accounting policy XXII.

b) Investment properties

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

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

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

X. Tangible assets

a) Leasehold improvements

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

b) Plant and equipment

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

Plant and equipment are depreciated using the straight line method on the basis of their expected useful lives, after taking into account the estimated residual value. The expected useful economic life of plant and equipment ranges from 5 to 25 years.

XI. Financial assets

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

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

a) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss include financial assets held for trading and those designated upon initial recognition at fair value through profit and loss. Investments acquired principally for the purpose of selling in the short term are classified as held for trading. These financial assets are recognised initially at their fair value, with transaction costs expensed in the Profit and Loss Account; and subsequently re-measured at fair value with movements in fair value recognised in profit and loss.

b) Available for sale financial assets

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

c) Loans and receivables

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

Private loans are carried at amortised cost, less impairment, using the effective interest method.

d) Fair value estimation

The fair value of financial assets is best established through quoted prices in an active market. An active market is where quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency; and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the market for a financial instrument is not active, the Company uses recognised valuation techniques to determine fair value. Transfers between the levels of fair value hierarchy are deemed to occur at the date of the assessment.

Valuation techniques for level 1 instruments are quoted prices in active markets for identical assets. Valuation techniques for level 2 investments largely consist of evidence of arm's length transactions in similar assets. Valuation techniques for level 3 investments include discounted cash flow analysis, option pricing models and, where available, evidence of arm's length transactions in similar assets.

The inputs to these models are largely derived from observable market data; but where observable market data are not available, management judgement is applied to factors including model risks, liquidity risk and counterparty credit risk.

Level 1 and 2 valuation techniques

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

XI. Financial assets (continued)

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

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

Level 3 valuation techniques

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

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

XII. Investments in subsidiary companies

Investments in subsidiary companies are recorded at cost unless their value has been impaired, in which case they are valued at their recoverable amount, being the higher of fair value less costs of disposal and value in use. The investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The reviews use discounted cash flow projections under different scenarios.

XIII. Impairment of assets

a) Financial assets carried at amortised cost

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

An impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through an allowance account and the amount of the loss is recognised in the Profit and Loss Account.

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

b) Available for sale financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset has been impaired. For debt securities, the Company applies the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a 'significant' or 'prolonged' decline in the fair value of the security below its cost is evidence that the assets are impaired. The Company treats 'significant' generally as 20% and 'prolonged' generally as greater than six months.

In the event of such evidence surfacing for available for sale financial assets, the cumulative loss that had been recognised in other comprehensive income is reclassified from equity to profit and loss as a reclassification adjustment even though the financial asset has not been derecognised. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss.

XIII. Impairment of assets (continued)

Available for sale financial assets (continued)

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

c) Non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

XIV. Derivative financial instruments

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

Derivative financial instruments are designated as held for trading and measured at fair value, with gains and losses recognised in the Profit and Loss Account, unless they are designated and effective hedging instruments.

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

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

a) Hedge accounting

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

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

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

XIV. Derivative financial instruments (continued)

b) Fair value hedge

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

Derivative financial instruments used for hedging purposes and the movements on fair value hedges are disclosed in note 27.

c) Cash flow hedge

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

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

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

Derivative financial instruments used for hedging purposes and the movements on cash flow hedges are disclosed in note 27.

d) Ineffective hedge

At the end of each month the hedge relationship is assessed using a retrospective effectiveness test. In those instances where it is determined that a hedge relationship is no longer effective, hedge accounting ceases to be applied for that accounting period, with the accounting treatment reverting back to that applied for equivalent non-hedged items. Movements in the fair value of hedging instruments that represent ineffective proportions of qualifying hedge relationships are recognised in profit and loss immediately.

XV. Cash at bank and in hand

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

XVI. Share capital

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

XVII. Borrowings

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

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

XVIII. Offsetting

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

XIX. Current and deferred tax

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

Current tax

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Current and deferred tax for the year

Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

XX. Employee benefits

Pension obligations

Staff engaged in the Company's activities are members of the AXA UK Pension Scheme ("the Scheme"). The Scheme supports a number of companies in the AXA UK Group, through both defined benefit and defined contribution schemes. The defined benefit schemes share risks between the companies in the AXA UK Group and are not facilitated by a contractual agreement or stated policy to charge the individual companies the net defined benefit cost. As the outcome of various restructuring activities and movement of staff between companies in the AXA UK Group, it is not feasible to allocate the defined benefit scheme assets and liabilities to individual participating companies. Consequently, the Company recognises its contribution payable for the period as permitted by IAS 19 'Employee benefits (revised 2011)' for defined benefit plans that share risks between companies under common control.

The charge for pension costs principally represents the costs of providing pension benefits to the Company's staff in respect of their service during the year. The staff are largely employed by AXA Services Limited and the associated costs of providing pensions are recharged to the Company, as the contributions become payable in accordance with the rules of the relevant scheme.

XXI. Provisions

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

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

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

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

XXII. Leases

Lessee accounting

The Company made an assessment of whether a contract is or contains a lease at inception of the contract. Where there is a lease, the Company recognises a right of use asset and a lease liability at the commencement of the lease.

The right of use asset is initially measured at cost, which comprises the initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or the site on which it is located and the cost of obligation to refurbish the asset, less any incentives received. The right of use asset is subsequently depreciated over the lease term. The right of use asset is subject to testing for impairment if there is an indicator for impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The weighted average incremental borrowing rate used to measure the lease liability at initial application was 2.42%. The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in lease term, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

The Company presents right of use assets in land and buildings and leased liabilities in other creditors liabilities in the Balance Sheet.

Non-lease components, including service charges, rates and utilities, have been separated from the lease payments and reported as expenses when incurred.

Lessor accounting

The Company enters into lease agreements as lessor with respect to some of its land and buildings. All of these leases are classified as operating leases as a significant proportion of the risks and rewards of ownership of the asset concerned are retained by the lessor. Payments made under operating leases, less any incentives received from the lessor, are charged to the Profit and Loss Account on a straight- line basis over the lease term.

XXIII. Dividend distributions

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

XXIV. Revenue recognition

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

a) Premiums

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

b) Services rendered

The Company receives commission from other insurers where insurance is offered by the Company in support of its own policies but is underwritten elsewhere. Such commission is recognised in the Profit and Loss Account when it becomes due.

c) Interest income

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

d) Rental income

Rental income from investment properties is recognised in the Profit and Loss Account on a straight line basis over the lease term, from the point at which it becomes due.

e) Interest charges made to policyholders

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

f) Dividend income

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

XXV. Critical accounting estimates and judgements in applying accounting policies

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

a) Claims outstanding and loss adjustment expenses

The carrying value of technical provisions at the reporting date is £2,801m (2018: £2,807m). The judgements, estimates and assumptions employed in the assessment of the adequacy of provisions for outstanding claims are set out in accounting policy VII and note 24.

b) Intangible assets

The carrying value at the reporting date of goodwill is £203m (2018: £203m). In accordance with accounting policy VIII 'intangible assets', impairment reviews occur at least on an annual basis where the recoverable amounts are determined of the respective specific assets. Details of the key assumptions used in the estimation of the recoverable amounts are contained in note 12.

XXV. Critical accounting estimates and judgements in applying accounting policies (continued)

c) Fair value of financial assets and derivative financial instruments

Where fair value cannot be derived from active markets or quoted prices, it is determined using valuation techniques. The inputs to these valuation techniques are largely derived from observable market data, but where observable market data is not available, management judgement is applied to factors including model risks, liquidity risk and counterparty credit risk. These are set out in accounting policy XI 'financial assets', XIII 'impairment of assets' and XIV 'derivative financial instruments', and notes 15 and 27. Sensitivity information for financial assets and derivative financial instruments are set out in the 'Management of financial risk' note on pages 70 to 85.

d) Other provisions

The carrying value at the reporting date of other provisions in £48m (2018: £79m). The judgements, estimates and assumptions employed in the assessment of the adequacy of these provisions are set out in the accounting policy XXI and note 25.

e) Deferred tax

The carrying value at the reporting date of the net deferred tax asset is £27m (2018: £46m), further details of which are disclosed in accounting policy XIX and note 21. A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Significant management judgement is applied to determine the deferred tax asset that can be recognised and is based on the probability of future taxable profits.

f) Leases

The carrying value at the reporting date of the lease liability is £43m, further details of which are disclosed in accounting policy XXII and note 28. An estimation has been used in determining the incremental borrowing rate from which to discount the liability to its present value.

2. Divisional information

Geographical analysis

Substantially all gross written premiums in respect of direct and reinsurance business are written in the United Kingdom.

Class of business analysis

	Gross written premiums		Gross earned premiums	
	2019	2018	2019	2018
	£m	£m	£m	£m
Direct and reinsurance accepted				
Motor	1,068	1,017	1,040	1,007
Accident and health	128	118	127	118
Third party liability	246	266	255	269
Fire and other damage to property	807	783	802	798
Marine, aviation and transport	8	8	8	8
Miscellaneous	56	51	55	52
Total	**2,313**	**2,243**	**2,287**	**2,252**

	Gross claims incurred		Net operating expenses	
	2019	2018	2019	2018
	£m	£m	£m	£m
Direct and reinsurance accepted				
Motor	(827)	(791)	(257)	(263)
Accident and health	(110)	(114)	(21)	(33)
Third party liability	(139)	(134)	(89)	(96)
Fire and other damage to property	(410)	(416)	(309)	(322)
Marine, aviation and transport	8	(23)	(2)	(4)
Miscellaneous	(26)	(37)	(25)	(22)
Total	**(1,504)**	**(1,515)**	**(703)**	**(740)**

	2019	2018
	£m	£m
Reinsurance outwards		
Motor	(13)	(18)
Third party liability	(1)	17
Fire and other damage to property	(98)	(83)
Marine, aviation and transport	(1)	-
Miscellaneous	(6)	6
Total	**(119)**	**(78)**

3. Acquisition costs

	2019	2018
	£m	£m
Movement of deferred acquisition costs (note 20)	3	1
Costs incurred for the acquisition of insurance contracts		
- Expensed in the year	(540)	(532)
- Attributable to reinsurers	2	2
Total expenses for the acquisition of insurance contracts	**(535)**	**(529)**

The total commission expense relating to direct insurance business was £394m (2018: £386m).

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2019

4. Administration expenses

	2019 £m	2018 £m
Marketing and administrative expenses	(162)	(191)
Depreciation of property, plant and equipment (note 13 & 19)	(6)	(1)
Amortisation and impairment of intangible assets (note 12)	-	(19)
Total administration expenses	**(168)**	**(211)**

5. Investment income

	2019			
£m	Investment income	Realised gains relating to investments at cost and at fair value through shareholders' equity	Realised gains relating to investments at fair value through profit and loss	Total
Investment in real estate property at amortised cost less accumulated depreciation, less accumulated impairment	2	4	-	**6**
Debt instruments – available for sale	85	5	-	**90**
Equity instruments – available for sale	7	12	-	**19**
Subsidiaries [(1)]	100	-	-	**100**
Non-consolidated investment funds	41	1	-	**42**
Non-consolidated investment funds available for sale	18	1	-	19
Non-consolidated investment funds designated as at fair value through profit and loss	23	-	-	23
Loans	3	-	-	**3**
Derivative instruments	9	-	-	**9**
Other	1	-	-	**1**
Investment income	**248**	**22**	**-**	**270**

[(1)] The Company received dividends of £100m from subsidiary AXA PPP healthcare limited during the current year (2018: £170m).

5. Investment income (continued)

£m	Investment income	2018 Realised gains relating to investments at cost and at fair value through shareholders' equity	Realised gains relating to investments at fair value through profit and loss	Total
Investment in real estate property at amortised cost less accumulated depreciation, less accumulated impairment	2	-	-	**2**
Debt instruments – available for sale	119	4	-	**123**
Equity instruments – available for sale	7	27	-	**34**
Subsidiaries	170	-	-	**170**
Non-consolidated investment funds	38	1	1	**40**
Non-consolidated investment funds available for sale	17	1	-	18
Non-consolidated investment funds designated as at fair value through profit and loss	21	-	1	22
Loans	3	-	-	**3**
Derivative instruments	9	-	-	**9**
Cash	1	-	-	**1**
Net effect of unrealised foreign exchange gains	100	-	-	**100**
Investment income	**449**	**32**	**1**	**482**

6. Unrealised gains/(losses) on investments at fair value through profit and loss

	2019 £m	2018 £m
Debt securities in hedge relationships	60	(12)
Derivatives	46	(122)
Non-consolidated investment funds designated as fair value through profit and loss	(1)	12
Net unrealised gains/(losses) on investments at fair value through profit and loss	**105**	**(122)**

7. Investment expenses and charges

	2019 £m	2018 £m
Investment management expenses	(11)	(14)
Expenses relating to repurchase arrangements	(1)	-
Expenses relating to total return swap agreement	(1)	(1)
Realised losses relating to investments at fair value through profit and loss	(2)	-
Foreign exchange losses	(127)	(2)
Losses on derivative instruments	(24)	(20)
Impairment charges	(8)	(24)
Total investment expenses	**(174)**	**(61)**

8. Other operating income

	2019 £m	2018 £m
Instalment income	51	55
Other income	25	21
Other operating income	**76**	**76**

9. Other operating expenses

	2019 £m	2018 £m
Other expenses	(4)	(7)
Foreign exchange losses	-	(4)
Other operating expenses	**(4)**	**(11)**

10. Audit Fees

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

	2019 £m	2018 £m
Audit services:		
Fees payable to the Company's auditor for the audit of the statutory accounts	(0.4)	(0.4)
Non-audit services:		
Audit related assurance services from the Company's auditor, including the audit of the regulatory return	(0.2)	(0.2)
	(0.6)	**(0.6)**

11. Tax

	2019 £m	2018 £m
Current Tax:		
Current tax on profit for the year	(12)	(6)
Adjustments in respect of previous years	(3)	2
Total current tax	**(15)**	**(4)**
Total deferred tax (note 21)	-	(19)
Total tax expense	**(15)**	**(23)**

Corporation tax is calculated at 19% (2018: 19%) of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

11. Tax (continued)

The charge for the year can be reconciled to the profit in the income statement as follows:

	2019 £m	2018 £m
Profit before tax	**234**	**283**
Tax calculated at UK tax rates applicable to profits 19% (2018: 19%)	(44)	(54)
Tax effects of:		
- Expenses that are not deductible in determining taxable profit	-	-
- Income not taxable in determining taxable profit	21	34
- Adjustments to tax charge in respect of previous periods	1	(5)
- Impact of rate change	(1)	2
- Deferred tax on previously unrecognised losses	9	-
- Extra payment for group tax losses	-	2
- Reallocation to OCI	(1)	(2)
Tax expense for the year	**(15)**	**(23)**

Changes to the UK corporation tax rate were enacted in the Finance Act 2016. These include reductions to the main rate, to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted rates reflected int these financial statements.

It was announced in the budget on the 11 March 2020 that the above noted corporation tax rate reduction will be repealed. The effect of this change would be to increase the deferred tax asset at 31 December 2019 by £3.6m. The budget announcement was substantively enacted on 17 March 2020. Deferred taxes at the balance sheet date continue to be measured at the enacted rate at the end of the reporting period of 17%.

No deferred tax has been recognised in respect of tax losses of £nil (2018: £51m), as it was not considered probable that there would be future taxable profits available.

In addition to the amount charged to the Profit and Loss Account, the following amounts relating to tax have been recognised in other comprehensive income:

	2019 £m	2018 £m
Current tax		
Current tax on available-for-sale and cash flow hedge financial asset gains arising during the year	(3)	-
Deferred tax		
Items that may be subsequently reclassified to profit and loss:		
Deferred tax on available-for-sale and cash flow hedge financial asset gains arising during the year	(20)	28
Reallocation from income statement	1	2
Total income tax recognised in other comprehensive income	**(22)**	**30**

12. Intangible assets

	Goodwill £m
Cost	
Balance as at 1 January 2019	203
Additions at cost	-
Balance as at 31 December 2019	**203**
Accumulated amortisation	
Balance as at 1 January 2019	-
Charge for the year	-
Impairment	-
Balance as at 31 December 2019	**-**
Net book value as at 31 December 2019	**203**
Net book value as at 31 December 2018	203

Amortisation charges of £nil (2018: £5m) have been charged to administration expenses (note 4).

a) **Goodwill** was acquired as part of the hive up assets from GBI (Holdings) Limited and its subsidiary companies through a corporate reorganisation transaction on 1 July 2013. The goodwill has been allocated to the direct business cash generating unit. The recoverable amount was determined using value-in-use calculations. The value-in-use was calculated through cash flow projections based on business plans approved by management covering a four year period and a pre-tax risk-adjusted discount rate of 7% (2018: 8.3%). Cash flows beyond that period were extrapolated using a steady 1% growth rate. The key assumptions used in the cash flow projections are the increases in premiums, claims and expenses. These assumptions were determined based on historical rates.

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

13. Land and buildings

	Owner occupied £m	Investment properties £m	Total £m
Cost			
Balance as at 1 January 2019	15	140	155
Recognised on application of IFRS 16	66	-	66
Additions	4	-	4
Disposals	-	(6)	(6)
Balance as at 31 December 2019	85	134	219
Accumulated depreciation and impairment			
Balance as at 1 January 2019	3	46	49
Recognised on application of IFRS 16	36	-	36
Charge for the year	5	2	7
Disposals	-	(1)	(1)
Impairment movement	-	4	4
Balance as at 31 December 2019	44	51	95
Net book value as at 31 December 2019	**41**	**83**	**124**
Net book value as at 31 December 2018	12	94	106

The investment properties were valued at £102m (2018: £121m) on a fair value basis by CB Richard Ellis Limited, who are independent chartered surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

The rental income arising from investment properties amounted to £5m (2018: £5m), whilst the associated operating expenses were £1m (2018: £1m). Both amounts, along with the depreciation expense of £2m (2018: £2m) are recorded in the Profit and Loss Account within investment income.

The owner occupied properties relating to freehold properties were valued at £16m as at 31 December 2019 (2018: £15m) on a fair value basis by Cushman & Wakefield, who are independent chartered surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

Included within owner occupied property is £29m of assets recognised as leases under IFRS 16. Depreciation expense of £5m (2018: nil) has been charged to administration expenses (note 4).

Further details of these leases are disclosed below.

Net book value of right of use assets

	Buildings £m
Recognised on adoption of IFRS 16	30
Additions	4
Depreciation charge	(5)
Balance as at 31 December 2019	29

The additions within the year relate to a new property lease agreement.

14. Investment in group undertakings

Particulars of subsidiary companies

Insurance companies	Address of the registered office	Holding of ordinary shares
AXA General Insurance Limited	5 Old Broad Street, London, EC2N 1AD, UK	100%
AXA PPP healthcare limited	5 Old Broad Street, London, EC2N 1AD, UK	100%
Swiftcover Insurance Services Limited	5 Old Broad Street, London, EC2N 1AD, UK	100%

Investment in subsidiary companies

	2019 £m	2018 £m
Carrying value as at 1 January and 31 December	**355**	355
Total investment in subsidiary undertakings	**355**	355

15. Other financial investments

	2019 £m	2018 £m
Shares and other variable yield securities	1,258	1,214
Debt and other fixed income securities	3,391	3,908
Derivative financial instruments	302	97
Loans and receivable	135	120
Total financial assets	**5,086**	**5,339**

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

	2019 £m	2018 £m
Available for sale	4,138	4,633
Fair value through profit and loss	699	564
- Held for trading	188	75
- Debt and other fixed income securities	21	15
- Share and other variable yield securities	490	474
Derivatives in hedge relationships	114	22
Loans and receivables	135	120
Total financial assets	**5,086**	**5,339**

Available for sale financial assets	2019 £m	2018 £m
Shares and other variable yield securities - equity securities:		
- listed	181	192
- unlisted	2	2
Shares and other variable yield securities - mutual funds:		
- listed	37	94
- unlisted	548	452
Debt and other fixed income securities – mutual funds:		
- listed	3,312	3,865
- unlisted	58	28
Total available for sale financial assets	**4,138**	**4,633**

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2019

15. Other financial investments (continued)

Included within available for sale assets - Debt and other fixed income securities are bonds with a fair value of £147m (2018: £121m), which form part of a total return swap agreement. A corresponding liability has been recorded within borrowings (note 29) for £141m (2018: £115m), representing the amount repayable on maturity of the agreements. The bonds continue to be recognised on the basis that all the risks and rewards associated with the bonds are retained by the Company. The total return swaps have maturity periods ranging from 2021 to 2028.

Loans and receivables	2019 £m	2018 £m
Broker loans	-	1
Real estate private loans – secured by mortgages	110	110
Secured loan facility	25	9
Total loans and receivables	**135**	**120**

Net unrealised gains in the Balance Sheet relating to investments at fair value through profit and loss are summarised in the table below:

	2019 £m	2018 £m
Derivatives held for trading	169	60
Derivatives in a hedging relationship	57	21
Mutual funds	69	91
Debt securities	(1)	1
Net unrealised gains in the balance sheet on investments at fair value through profit and loss	**294**	**173**

16. Reinsurers' share of technical provisions

	2019 £m	2018 £m
Reinsurers' share of provision for claims outstanding and loss adjustment expenses	140	144
Reinsurers' share of provision for unearned premiums	15	18
Reinsurers' share of technical provisions	**155**	**162**

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

	2019 £m	2018 £m
Settlement period for reinsurers' share of claims outstanding and long-term technical provisions		
Less than 12 months	7	7
Greater than 12 months	133	137
Balance as at 31 December	**140**	**144**

	2019 £m	2018 £m
Balance as at 1 January	144	111
Reinsurers' share of claims payments made in year	(19)	(42)
Increase/(decrease) in recoverable	15	74
Exchange and other movements	-	1
Balance as at 31 December	**140**	**144**

16. Reinsurers' share of technical provisions (continued)

Reinsurers' share of provision for unearned premiums

	2019 £m	2018 £m
Balance as at 1 January	18	25
Premiums written in the year	131	145
Premiums earned in the year	(134)	(152)
Balance as at 31 December	**15**	**18**

17. Debtors arising from insurance and reinsurance operations

	2019 £m	2018 £m
Debtors arising from direct insurance operations	641	578
Policyholders	340	348
Intermediaries	301	230
Debtors arising from reinsurance operations	3	55
Total debtors arising from insurance and reinsurance operations	**644**	**633**

An age analysis of these debtors is included within the Management of Financial Risk note on page 75.

18. Other debtors

	2019 £m	2018 £m
Amounts owed from intermediate parent companies	5	-
Amounts owed from subsidiary undertakings	2	1
Amounts owed from fellow subsidiary undertakings	14	89
Salvage and subrogation	111	94
Other	13	27
Total other debtors	**145**	**211**

An age analysis of these debtors is included within the Management of Financial Risk note on page 77.

19. Tangible assets

	Leasehold improvements £m	Plant and equipment £m	Total £m
Cost			
Balance as at 1 January 2019	7	21	28
Additions at cost	-	3	3
Balance as at 31 December 2019	7	24	31
Accumulated depreciation			
Balance as at 1 January 2019	7	16	23
Charge for the year	-	1	1
Balance as at 31 December 2019	7	17	24
Net book value as at 31 December 2019	**-**	**7**	**7**
Net book value as at 31 December 2018	-	5	5

Depreciation expense of £1m (2018: £1m) has been charged to administration expenses (note 4).

20. Deferred acquisition costs

	2019 £m	2018 £m
Deferred acquisition costs as at 1 January	234	233
Credit to profit and loss account in the year	3	1
Acquisition costs deferred during the year	524	517
Amortisation charged during the year	(521)	(516)
Deferred acquisition costs as at 31 December	**237**	**234**

21. Deferred tax

The movement on the deferred assets and liabilities is as follows:

Deferred tax assets	Accelerated tax depreciation £m	Tax losses £m	Other assets £m	Share based payments £m	Total £m
Balance as at 1 January 2018	11	78	9	-	98
(Charged) to the profit and loss account	1	(20)	(5)	-	(24)
Balance as at 1 January 2019	12	58	4	-	74
(Charged)/credited to other comprehensive income	-	(3)	-	-	(3)
(Charged)/credited to the profit and loss account	(3)	(1)	(2)	1	(5)
Effect of adoption of IFRS 16: Leases	1	-	-	-	1
Balance as at 31 December 2019	**10**	**54**	**2**	**1**	**67**

Deferred tax liabilities	Equalisation reserve £m	Other liabilities £m	Total £m
Balance as at 1 January 2018	(18)	(45)	(63)
Credited to the profit and loss account	5	-	5
Credited to other comprehensive income	-	30	30
Balance as at 1 January 2019	(13)	(15)	(28)
Credited to the profit and loss account	4	1	5
Charged to other comprehensive income	-	(16)	(16)
Charged direct to equity	-	(1)	(1)
Balance as at 31 December 2019	**(9)**	**(31)**	**(40)**

The equalisation reserve relates to an equalisation provision that was released in 2015, following the adoption of IFRS. In accordance with the Finance Act 2012 s26 (4) – (8) and s27 the reserve was frozen at the end of 2015 and relief is given in equal instalments over 6 years.

The net deferred tax asset of £27m (2018: £46m) arises primarily from trade tax losses carried forward for utilisation in future accounting periods totalling £317m (2018: £324m).

It is expected that these future tax losses will be fully utilised by 2022, this assessment being based on management approved forecasts for the period 2020 to 2023 which identify sufficient profits to utilise 100% of the losses.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

21. Deferred tax (continued)

	2019 £m	2018 £m
Deferred tax liabilities	(40)	(28)
Deferred tax assets	67	74
Total deferred tax	**27**	**46**

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate, to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

It was announced in the budget on 11 March 2020 that the above noted corporation tax rate reduction will be repealed. The effect of this change would be to increase the deferred tax asset at 31 December 2019 by £4m.

The budget announcement does not constitute a substantive enactment and therefore deferred taxes at the balance sheet date continue to be measured at the enacted rate of 17%.

22. Called up share capital and share premium

	2019 Shares	£m	2018 Shares	£m
Issued, authorised and fully paid Ordinary shares, par value 25p, at 31 December	489,056,602	122	489,056,602	122

Share premium account	2019 £m	2018 £m
Balance as at 31 December	**799**	799

23. Other reserves

2019	Capital contribution reserve £m	Revaluation reserve AFS assets £m	Revaluation reserve Cash flow hedge £m	Total £m
Balance as at 1 January	875	118	(25)	93
Fair value gains on AFS assets	-	115	-	115
Fair value gains on cash flow hedge			18	18
Tax on movements taken directly to equity – current and deferred tax	-	(19)	(3)	(22)
Balance as at 31 December	**875**	214	(10)	**204**

2018	Capital contribution reserve £m	Revaluation reserve AFS assets £m	Revaluation reserve Cash flow hedge £m	Total £m
Balance as at 1 January	875	228	(17)	211
Fair value loss on AFS assets	-	(140)	-	(140)
Fair value losses on cash flow hedge	-	-	(8)	(8)
Tax on movements taken directly to equity – deferred tax	-	30	-	30
Balance as at 31 December	**875**	118	(25)	**93**

Capital contributions for the current year are £nil; the balance brought forward represents capital contributions received in 2003, 2011, 2013 and 2014 from the immediate parent, AXA Insurance plc.

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2019

23. Other reserves (continued)

The revaluation reserve represents the movement in the financial assets as disclosed in accounting policy XI(b).

Movements in revaluation reserve

	2019 £m	2018 £m
Balance as at 1 January	93	211
Fair value gains/(losses)	115	(140)
Fair value gains/(losses) on AFS assets	115	(141)
Amortisation charge	17	15
Amortisation release	(34)	(22)
Impairment charge	4	20
Impairment release	(15)	(13)
Net realised (losses)/gains	28	1
Fair value gains/(losses) on cash flow hedge	18	(8)
Tax	(22)	30
Balance as at 31 December	**204**	**93**

24. Technical provisions

	2019 £m	2018 £m
Provision for claims outstanding and loss adjustment expenses	2,801	2,807
Provision for unearned premiums	1,061	1,036
Total technical provisions	**3,862**	**3,843**
Settlement period for claims outstanding		
Less than 12 months	1,007	985
Greater than 12 months	1,794	1,822
Balance as at 31 December	**2,801**	**2,807**

Provision for claims outstanding and loss adjustment expenses

	2019 £m	2018 £m
Balance as at 1 January	2,807	3,267
Total claims payments made in the year	(1,522)	(2,041)
Increase in liabilities	1,503	1,585
Exchange and other movements	13	(4)
Balance as at 31 December	**2,801**	**2,807**

Provision for unearned premiums

	2019 £m	2018 £m
Balance as at 1 January	1,036	1,044
Premiums written in the year	2,313	2,243
Premiums earned in the year	(2,287)	(2,252)
Exchange and other movements	(1)	1
Balance as at 31 December	**1,061**	**1,036**

24. Technical provisions (continued)

Discounting

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

	Rate		Mean term of liabilities	
	2019 %pa	**2018 %pa**	**2019 Years**	**2018 Years**
Periodic Payment basis	**4.0**	4.3	**37**	37

Total outstanding claims provision before discounting was £3,400m (2018: £3,457m). The period of time which will elapse before the liabilities are settled has been estimated by reference to medical experts' reports during claim settlement and Ogden 7 tables view of life expectancy on a claim by claim basis. The assets held in respect of reinsurers' share of technical provisions have also been discounted in respect of periodic payment order claims.

Claims development tables

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

Accident year - Gross	**2011 £m**	**2012 £m**	**2013 £m**	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**Total £m**
Estimate of ultimate claims costs:										
- at end of accident year	1,369	1,349	1,265	1,338	1,388	1,427	1,471	1,475	1,621	12,702
- one year later	1,430	1,487	1,391	1,434	1,593	1,687	1,699	1,663		12,384
- two years later	1,340	1,409	1,308	1,409	1,513	1,608	1,581			10,168
- three years later	1,317	1,371	1,258	1,403	1,447	1,495				8,291
- four years later	1,293	1,320	1,251	1,349	1,410					6,622
- five years later	1,268	1,308	1,209	1,337						5,121
- six years later	1,208	1,298	1,198							3,704
- seven years later	1,204	1,299								2,503
- eight years later	1,205									1,205
Current estimate of cumulative claims	1,205	1,299	1,198	1,337	1,410	1,495	1,581	1,663	1,621	12,809
Cumulative payments to date	1,193	1,270	1,161	1,259	1,286	1,254	1,142	1,083	643	10,292
Liability recognised in the balance sheet	12	29	37	77	124	241	439	580	977	2,517
Liability in respect of prior years										284
Total liability included in the balance sheet										**2,801**

24. Technical provisions (continued)

Accident year - Net	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Estimate of ultimate claims costs:										
- at end of accident year	1,366	1,337	1,250	1,324	1,375	1,411	1,455	1,421	1,607	12,546
- one year later	1,426	1,482	1,379	1,421	1,578	1,671	1,677	1,625		12,259
- two years later	1,336	1,405	1,300	1,396	1,491	1,592	1,557			10,077
- three years later	1,312	1,366	1,248	1,389	1,429	1,479				8,224
- four years later	1,288	1,317	1,243	1,333	1,396					6,576
- five years later	1,265	1,305	1,204	1,321						5,095
- six years later	1,205	1,295	1,185							3,684
- seven years later	1,201	1,287								2,488
- eight years later	1,197									1,197
Current estimate of cumulative claims	1,197	1,287	1,185	1,321	1,396	1,479	1,557	1,625	1,607	12,654
Cumulative payments to date	1,190	1,267	1,156	1,244	1,272	1,238	1,121	1,071	641	10,199
Liability recognised in the balance sheet	7	20	29	77	124	241	436	555	966	2,454
Liability in respect of prior years										206
Total liability included in the balance sheet										**2,661**

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

25. Other provisions

	MIB provision £m	Vacant space provision £m	Other provisions £m	Total £m
Balance as at 1 January 2019	22	20	37	79
Charged to profit and loss account	18	2	30	50
Change in accounting policies	-	(11)	-	(11)
Released during the year	(4)	-	-	(4)
Utilised during year	(19)	(2)	(45)	(66)
Balance as at 31 December 2019	**17**	**9**	**22**	**48**

	2019 £m	2018 £m
To be settled within 12 months	38	51
To be settled after 12 months	10	28
Total	**48**	79

a) Motor Insurers' Bureau (MIB) provision

The MIB provision relates to the levy payable in respect of 2019 premiums. The provision is assessed on 2019 premiums and information available from the MIB at the time.

b) Vacant space provision

The vacant space provision relates to future expenses for leasehold property where the property is vacant. On adoption of IFRS 16 Leases on 1 January 2019, £8m of the provision relating to rent expense was derecognised as these costs are included within the impairment of the right of use asset. A further £3m of the provision was derecognised which related to a rent free provision, these costs are included within the calculation of the right of use asset.

25. Other provisions (continued)

c) Other provisions

Other provisions include:

Fire Brigade levy, £3m

The cumulative position represents the estimated 2019 charge of £3m.

Onerous Contract Provision, £15m

The provision represents an onerous contract for travel business in relation to the future period in 2020. There was a £12m decrease during the year.

Restructuring provision, £1m

An opening provision of £3m, with £4m added for restructuring programmes and £6m utilised during the year.

Regulatory fees and levies, £2m

An opening provision of £5m, with £22m added and £24m utilised during the year.

26. Creditors arising from insurance and reinsurance operations

	2019	**2018**
	£m	**£m**
Direct insurance liabilities	66	50
Reinsurance liabilities	29	21
Total insurance and reinsurance liabilities	**95**	71

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

27. Derivative financial instruments and hedging

Whilst only a small number of derivative instruments, namely interest rate, asset swaps and cross-currency swaps, are designated for hedge accounting, the primary objective for holding derivative instruments is to provide economic hedging of a risk.

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

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

As of 31 December 2019, the notional amount of all derivative instruments totalled £15,815m (2018: £10,811m). Their net fair value as of 31 December 2019 totalled £109m liability (2018: £123m liability).

Instruments designated for hedge accounting

During the year the Company used one type of fair value hedge, a macro hedge (portfolio basis), as part of its risk management strategy to reduce its exposure to interest rate fluctuations of fixed income securities.

The portfolio hedge represents a portfolio of fixed income securities with similar risk profiles, which are hedged using a number of interest rate swaps and interest rate swap forwards. A portfolio hedge allows the designation of the whole, or part, of a portfolio of assets with similar risk exposures. The hedged item

27. Derivative financial instruments and hedging (continued)

is designated based on interest rate sensitivities, taking into account the expected maturity, to match the hedging derivative.

The cash flow hedges effectively hedge the income stream from inflation linked bonds over the lifetime of the asset, which mature between 2021 and 2058. There was no ineffectiveness recorded from the cash flow hedges during the period. The movement in fair value is recognised in other comprehensive income at the end of the reporting period.

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

	2019			2018		
Derivative financial instruments	**Contractual/ Notional Amount**	**Asset**	**Liability**	**Contractual/ Notional Amount**	**Asset**	**Liability**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Asset swaps – cash flow hedge	166	-	(17)	166	-	(30)
Cross currency swap – cash flow hedge	150	4	(2)	106	-	(4)
Interest rate swaps – fair value hedge	8,081	110	(76)	4,134	22	(35)
Total	**8,397**	**114**	**(95)**	4,406	22	(69)

Unrealised gains/(losses) on fair value hedges

	2019	2018
	£m	£m
Hedged items attributable to interest rate risk	60	(11)
Hedge instruments – macro	(85)	(13)
	(25)	(24)

Instruments not designated for hedge accounting

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

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

Fair value through profit and loss

	2019			2018		
Derivative financial instruments	**Contractual/ Notional Amount**	**Asset**	**Liability**	**Contractual/ Notional Amount**	**Asset**	**Liability**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Foreign exchange forwards	3,256	73	(31)	2,706	5	(81)
Credit default swaps	909	10	(5)	811	8	(2)
Currency swaps	314	2	(3)	808	-	(17)
Interest rate swaps	636	81	(56)	642	46	(30)
OTC options	456	5	-	639	12	-
Swaptions	634	-	-	-	-	-
Return swap	137	-	-	116	-	-
OTC currency options	1,051	17	(3)	683	4	(21)
Index futures	25	-	-	-	-	-
Total	**7,418**	**188**	**(98)**	6,405	75	(151)

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2019

28. Other creditors including tax and social security

	2019 £m	2018 £m
Amounts owed to intermediate parent company	-	178
Amounts owed to fellow subsidiary undertakings	1	-
Current tax liabilities	32	13
Other tax payables	68	69
Lease liabilities	43	-
Other liabilities	127	28
Total other creditors including tax and social security	**271**	288

Amounts expected to be settled within one year £234m (2018: £288m).
Amounts expected to be settled after one year £37m (2018: £nil).

The movement in the lease liability incorporates an interest expense of £1m relating to the unwind of the discounted value, reported within other operating expenses. Total cash outflows relating to lease liabilities during the year were £6m (2018: £8m).

A maturity analysis of the lease liabilities is included within the management of financial risk note.

29. Borrowings

	2019 £m	2018 £m
Liability under total return swap	141	115
Total Borrowings	**141**	115

30. Accruals and deferred income

	2019 £m	2018 £m
Total accruals and deferred income	**14**	14

All accruals and deferred income are expected to be settled within one year of the date of the financial statements.

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2019

31. Retirement benefit obligations

AXA UK Pension Scheme

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

Responsibility for the governance of the plan, including investment decisions, contribution schedules and scheme administration, lies with a single trustee board consisting of company appointed directors and member nominated directors. Additionally, the Law debenture pension trust corporation is a director, acting on behalf of the Trustee board with Special Director Status.

The AXA UK Group pension scheme is targeted to be fully funded over a ten year time horizon (2028), contributions are payable in the event that the funding deficit is below a pre-agreed anticipated level. The level of contributions to be paid under the funding deficit recovery plan are based on the actuarial valuation performed every three years, however, these may change more frequently if significant events occur in the year. Following the 2018 triennial actuarial valuation, it was agreed between the Trustee and AXA UK that over the next annual reporting period the contributions to be paid will be nil (2018: £66m payable in 2019). The assumptions adopted for the triennial actuarial valuations are determined by the Trustee and are normally more prudent than the assumptions adopted for IAS 19 purposes, which are on a best estimate basis.

An internal review by AXA UK of the defined benefit scheme, revealed an IAS 19 surplus of £263m as at 31 December 2019 (£293m surplus as at 31 December 2018) after reflecting the investment in SLP. This represents a snapshot of the present cost of meeting pension obligations that will crystallise over a period of many years. The Scheme invests in a wide range of assets, including equities, which over the long term, are expected by the Directors to meet the liabilities of the scheme.

The total pension cost which has been charged to the Profit and Loss Account of the Company is £26m (2018: £59m). There were no outstanding contributions as at 31 December 2019 (2018: £nil).

The principal assumptions used by the actuaries were:

	2019	2018
Discount rate	**1.95%**	2.80%
Future pension increases	**2.80%**	3.20%
Inflation assumption for deferred members (CPI)	**1.95%**	2.20%

The discount and inflation rates disclosed within the above table represent single equivalent rates based on the cashflow profile of the scheme. The 2019 and 2018 valuations have been calculated on a full yield curve rather than a single rate, as this methodology provides a more accurate approach that is better aligned with a general move in the market to use a market consistent approach in valuing the liabilities.

The key risk to the entity is the valuation of the scheme liabilities, where a decrease in corporate bond yields, or an increase in inflation rates, or an increase in life expectancy will result in an increase in plan liabilities. This effect will be partially offset by the hedging strategy in place which seeks to align the asset portfolio with the inherent risk of the liabilities, in addition to entering into a longevity swap transaction with the aim of hedging longevity risk inherent within the pensioner population of the scheme. An increase in plan liabilities could lead to the calling on, of additional contributions to fund any scheme shortfalls.

31. *Retirement benefit obligations (continued)*

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

	2019 £m	2018 £m
Present value of obligation as at 1 January	5,055	5,335
Remeasurements:		
Service cost	5	6
Interest cost	124	112
Actuarial losses/(gains) – financial assumptions	553	(186)
Actuarial (gains)/losses – experience losses	(10)	4
Actuarial (gains) – demographic assumptions	(88)	-
Benefits paid	(206)	(216)
Present value of obligation as at 31 December	**5,433**	5,055

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

	2019 £m	2018 £m
Fair value of plan assets as at 1 January	5,348	5,487
Remeasurements:		
Expected return on plan assets	131	116
Benefits paid	(206)	(216)
Actuarial gains/(losses)	399	(111)
Employer contributions paid by AXA UK plc	5	12
Employer contributions paid by other participating entities	-	41
Asset backed contribution	19	19
Fair value of plan assets as at 31 December	**5,696**	5,348

Analysis of assets by category:

	2019 £m	2018 £m
Equities	11	14
Debt securities	3,183	2,915
Government	2,436	2,198
Corporate	439	407
Securitised debt	308	310
Property funds	351	359
Other assets	1,834	1,751
Derivatives	246	(30)
Cash	19	142
Loans	126	82
Investment funds	1,443	1,557
Investment in limited partnership	316	311
Longevity hedge	1	(2)
Fair value of plan assets as at 31 December	**5,696**	5,348

31. Retirement benefit obligations (continued)

	2019 Total Quoted £m	2019 Total Unquoted £m	2019 Total £m	2018 Total Quoted £m	2018 Total Unquoted £m	2018 Total £m
Equities	**-**	**11**	**11**	-	14	14
Debt securities	**3,183**	**-**	**3,183**	2,915	-	2,915
Government	2,436	-	2,436	2,198	-	2,198
Corporate	439	-	439	407	-	407
Securitised debt	308	-	308	310	-	310
Property funds	**-**	**351**	**351**	-	359	359
Other assets	**265**	**1,569**	**1,834**	112	1,639	1,751
Derivatives	246	-	246	(30)	-	(30)
Cash	19	-	19	142	-	142
Loans	-	126	126	-	82	82
Investment funds	-	1,443	1,443	-	1,557	1,557
Investment in limited partnership	**-**	**316**	**316**	-	311	311
Longevity Hedge	**-**	**1**	**1**	-	(2)	(2)
Fair value of plan assets as at 31 December	**3,448**	**2,248**	**5,696**	3,027	2,321	5,348

32. Commitments

a) Pledged securities and collateralised commitments given

The Company pledged £34m (2018: £209m) government bonds as collateral for derivative contracts with various parties including LCH Clearnet, Natixis, Societe Generale and BNP Paribas.

The Company pledged assets of £34m (2018: £33m) for ceded technical reserves under a reinsurance agreement with Swiss Re. The collateral is set at 80% of the prior year closing technical reserves and is updated annually.

b) Pledged securities and collateralised commitments received

The Company received pledges of £95m (2018: £22m) government bonds as collateral to derivative contracts with Barclays, Credit Suisse and GS group.

c) Financial commitments

Outstanding commitments at 31 December 2019 are listed in the table. These have been translated at the exchange rates prevailing at year end.

	2019 £m	2018 £m
Debt securities (2019: €13m) (2018: €30m)	11	27
Real Estate Loans £	47	-
Alternative credit fund (2019: AUD 5m) (2018: AUD nil)	3	-
Alternative credit fund £	23	27
Alternative credit fund (2019: €121m) (2018: €47m)	103	42
Alternative credit fund (2019: $153m) (2018: $183m)	115	144
	302	240

33. Leases

Operating lease rental receivable

The rental receivable relates to income from the leasing out of investment properties. These leases have been classified as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Note 13 sets out information about the operating leases of investment property. The carrying amount of the associated assets is £83m (2018: £94m) shown within note 13.

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

Operating Leases under IFRS 16 **Expiry Date**	**2019** **£m**
No later than 1 year	7
Later than 1 year and no later than 2 years	6
Later than 2 years and no later than 3 years	5
Later than 3 years and no later than 4 years	3
Later than 4 years and no later than 5 years	3
Later than 5 years	15
Total	**39**

Operating leases under IAS 17 **Expiry Date**	**2018** **£m**
No later than 1 year	8
Later than 1 year and no later than 5 years	20
Later than 5 years	19
Total	**47**

34. Directors' emoluments

The directors are employed and paid by companies in the AXA Group and their directorships are held as part of that employment. The emoluments of certain directors disclosed below are in respect of qualifying services to the AXA Group as a whole.

	2019 **£'000**	**2018** **£'000**
Aggregate emoluments excluding amounts receivable under long-term incentive schemes	**917**	793
Amounts receivable (excluding gains on exercise of share options and value of shares received) under long-term incentive schemes	**-**	71
Aggregate pension contributions: Defined Contribution	**2**	1
Aggregate compensation paid to directors for loss of office	**60**	-
Amounts attributable to highest paid director		
Aggregate emoluments	**609**	305
Defined contribution scheme pension: Pension contributions during the year	**2**	-

Mr. R. Becker, Mrs. A. M. Breitburd, Mrs. D. J. Davies, Mr. C. Gienal, Mr. M. A. Pain, Mr. H. M. Posner, Mr. P. F. Hazell and Mr. M. R. Jackson were also directors of AXA UK plc, during the year and their emoluments, which relate to their services to the AXA Group as a whole, are disclosed in the financial statements of that company.

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2019

34. Directors' emoluments (continued)

Share Options

No directors exercised share options or employee sharesave options in AXA UK plc during the year (2018: one).

Retirement Benefits

Retirement benefits are accruing to one director (2018: one) under a defined contribution pension scheme and to no directors under a defined benefit scheme (2018: none).

Directors' interests in transactions

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

Loans to directors and connected persons

No loans or quasi-loans exceeding £10,000 to directors and connected persons were made or subsisted during the year (2018: none).

35. Related party transactions

The Company has taken advantage of the exemption granted under FRS 101 where subsidiary undertakings do not have to disclose transactions with fellow wholly owned Group companies, provided that any subsidiary which is party to the transaction is wholly owned by such a member.

The Company entered into the following transactions with related parties which do not qualify for the exemption under FRS 101. Such transactions are included in the profit and loss account and balance sheet under the following captions:

	2019 £m	2018 £m
Profit and Loss Account		
Reinsurance ceded	**2**	9
Reinsurance assumed	**19**	17
Investment expenses and charges	**-**	(2)
Net profit and loss related party transactions	**21**	24
Balance Sheet		
Reinsurance debtors	**78**	79
Amounts receivable	**1**	14
Technical provisions	**(53)**	(56)
Accruals and deferred income	**-**	(1)

The above represents reinsurance and receivables are with AXA France IARD and AXA Global Services. The technical provisions with AXA Global Services and the accruals with AXA France IARD.

Reinsurance ceded is with AXA France IARD, reinsurance assumed is with AXA Global Services and investment management fees payable relate to Alliance Bernstein Limited and AXA Investment Managers UK Limited.

36. Contingent liabilities

Mutual guarantee

With the approval of the PRA, the Company, its immediate parent, AXA Insurance plc, and one of its subsidiaries, AXA PPP healthcare limited, have entered into a mutual guarantee whereby each company guarantees payment of all liabilities incurred by the others in respect of general insurance business. AXA Insurance plc receives no benefit from the guarantee.

37. Non-adjusting event occurring after the reporting period

During December 2019, a number of cases of pneumonia associated with the Coronavirus, now called COVID-19 by the World Health Organization ("WHO"), were reported in the People's Republic of China. In the early part of 2020 this virus subsequently spread to many other countries, and it is currently not possible to know or to predict the extent to which the current levels of reported cases reflect the actual transmission of the virus within populations, and accordingly the scale of the pandemic may be significantly larger than is presently recorded.

Authorities in many countries, including the UK, have taken stringent measures (including travel restrictions, home quarantine, lockdowns, and school closures) to contain the pace and scale of its spread. This has led to significant disruptions in the global travel and hospitality industries, and in global trade and supply chains more broadly; has resulted in decreased economic activity and lowered estimates for future economic growth; has created severe strains on local, national and supra-national medical and healthcare systems and institutions; and has caused global financial markets to experience significant volatility and the worst downturn since the 2008 crisis.

The Company is in the process of establishing and implementing plans to address how it will manage the effects of the outbreak and assess disruptions and other risks to its operations. These include the protection of employees, sustaining our services to our customers and other stakeholders and ensuring effective processes are in place to communicate and execute such plans.

The directors are closely monitoring the Company's exposures to the COVID-19 outbreak, including (i) the operational impact on its business, (ii) the consequences from a deterioration in macroeconomic conditions and a slowdown in the flow of people, goods and services, especially on new business volumes, (iii) exposure through its policies (following, for example, increased business interruptions, travel and event cancellations and higher medical costs), and (iv) change in asset prices and financial conditions (including interest rates). No material claims have been reported at this stage.

38. Immediate and ultimate parent

The Company's immediate parent is AXA Insurance plc, a company registered in England.

The Company's ultimate parent and controlling undertaking is AXA SA, a company incorporated in France. The parent undertaking of the largest group which includes the Company and for which group financial statements are prepared is AXA SA. Copies of the AXA Group financial statements can be obtained from 25, avenue Matignon, 75008 Paris, France.

39. Management of financial risk

I. Financial risk management objectives and policies

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

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

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

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

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2019

39. Management of financial risk (continued)

II. Market risk

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

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

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

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

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

Industry analysis

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

Equity analysis by industry	2019 £m	%	2018 £m	%
Financial	90	7.2%	171	14.1%
Consumer	76	6.0%	89	7.3%
Energy	17	1.4%	14	1.2%
Manufacturing & Pharmaceuticals	19	1.5%	21	1.7%
Utilities	5	0.4%	4	0.3%
Basic materials	9	0.7%	10	0.8%
Technology & Telecommunications	33	2.6%	33	2.7%
Others(1)	1,009	80.2%	872	71.9%
Total	**1,258**	**100.0%**	**1,214**	**100.0%**

(1) Other investments include interests in mutual funds of £1,007m (2018: £871m).

39. Management of financial risk (continued)

II. Market risk (continued)

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

Debt securities analysis by industry	2019 £m	%	2018 £m	%
Financial	909	26.8%	1,117	28.6%
Consumer	456	13.4%	599	15.3%
Energy	101	3.0%	136	3.5%
Manufacturing & Pharmaceuticals	215	6.3%	272	7.0%
Utilities	340	10.0%	445	11.4%
Basic materials	73	2.2%	83	2.1%
Technology & Telecommunications	292	8.6%	332	8.5%
Government securities	914	27.0%	864	22.1%
Others	91	2.7%	60	1.5%
Total	**3,391**	**100.0%**	**3,908**	**100.0%**

a) Interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument, specifically debt securities with fixed interest rates, will fluctuate because of changes in market interest rates at the reporting date. An increase of 100 basis points in interest rates would result in reduced profit for the period of £81m (2018: £114m reduced profit) plus unrealised losses in the other comprehensive income of £169m (2018: £143m). A decrease of 100 basis points in interest rates would result in increased profit for the period of £92m (2018: £134m increased profit) plus unrealised gains in the other comprehensive income of £216m (2018: £180m).

An increase of 100 basis points in interest rates would increase the fair value of derivatives through income by £90m (2018: £135m). A decrease of 100 basis points in interest rates would decrease the fair value of derivatives through income by £105m (2018: £155m).

The fair value of debt securities is exposed to future interest rate fluctuations. Included in debt securities of £3,391m (2018: £3,908m) is £43m (2018: £22m) in respect of variable rate debentures and £546m (2018: £496m) in respect of index-linked debentures. Debt securities with fixed interest rate are exposed to fair value interest rate risk but not cash flow interest rate risk. Ignoring the credit risk, debt securities with variable interest rates are exposed to cash flow interest rate risk but not fair value interest rate risk.

b) Equity price risk

Equity price risk is managed through the use of OTC options as shown within note 27 derivative financial instruments and hedging.

Listed equity securities represent 17.2% (2018: 23.6%) of total equity investments, including mutual funds.

If equity valuations had increased by 10%, with all other variables constant, the operating result for the year would remain unchanged (2018: unchanged). Unrealised gains recorded through the other comprehensive income would increase by £20m (2018: £19m).

If equity valuations had decreased by 10%, with all other variables constant, the operating result for the year would decrease by £1m (2018: £7m). Unrealised gains recorded through the other comprehensive income would decrease by £19m (2018: £13m).

An increase of 10% in the relevant market indices would decrease the fair value of equity hedging derivatives through income by £7m (2018: £6m). A decrease of 10% in the relevant market indices would increase the fair value of equity hedging derivatives through income by £10m (2018: £10m).

39. Management of financial risk (continued)

c) Currency risk

The Company is exposed to currency risk in respect of portfolios denominated in other currencies, principally the US dollar and euro. At 31 December 2019, if the pound had weakened by 1%, with all other variables constant, the operating result for the year would have been £2m higher (2018: £3m), and if the pound had strengthened by 1%, with all other variables constant, the operating result for the year would have been £2m lower (2018: £2m). Despite the currency volatility experienced during the year, the Company's exposure to currency risk is not significant due to adequate hedge mechanisms.

The concentration of financial assets by currency is analysed as follows:
2019

	AUD		CAD		EUR		GBP		USD		JPY		Other		Total	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
AFS equities incl. mutual funds	23	3.0	3	0.4	249	32.4	371	48.3	102	13.3	8	1.0	12	1.6	**768**	**100.0**
AFS debt securities	7	0.2	16	0.5	573	17.0	1,883	55.9	772	22.9	119	3.5	-	-	**3,370**	**100.0**
FVTPL derivatives	-	-	-	-	105	34.7	140	46.4	54	17.9	3	1.0	-	-	**302**	**100.0**
FVTPL funds	-	-	-	-	19	3.9	19	3.9	452	92.2	-	-	-	-	**490**	**100.0**
FVTPL debt securities	-	-	-	-	21	100.0	-	-	-	-	-	-	-	-	**21**	**100.0**
Loans	-	-	-	-	82	60.7	53	39.3	-	-	-	-	-	-	**135**	**100.0**
	30	**0.6**	**19**	**0.4**	**1,049**	**20.6**	**2,466**	**48.5**	**1,380**	**27.1**	**130**	**2.6**	**12**	**0.2**	**5,086**	**100.0**

The concentration of financial assets by currency is analysed as follows:
2018

	CAD		EUR		GBP		USD		JPY		Other		Total	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
AFS equities incl. mutual funds	3	0.4	129	17.4	432	58.3	153	20.7	10	1.4	13	1.8	**740**	**100.0**
AFS debt securities	16	0.4	617	15.8	2,160	55.5	1,019	26.2	74	1.9	7	0.2	**3,893**	**100.0**
FVTPL derivatives	-	-	25	25.8	50	51.5	22	22.7	-	-	-	-	**97**	**100.0**
FVTPL funds	-	-	5	1.1	26	5.5	443	93.4	-	-	-	-	**474**	**100.0**
FVTPL debt securities	-	-	15	100.0	-	-	-	-	-	-	-	-	**15**	**100.0**
Loans	-	-	74	61.7	37	30.8	9	7.5	-	-	-	-	**120**	**100.0**
	19	**0.4**	**865**	**16.2**	**2,705**	**50.6**	**1,646**	**30.8**	**84**	**1.6**	**20**	**0.4**	**5,339**	**100.0**

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

III. Credit risk

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

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

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

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

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2019

III. Credit risk (continued)

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

2019	Note	**AAA** £m	**AA** £m	**A** £m	**BBB** £m	**BB** £m	**B** £m	**NR** £m	**Total** £m
Debt securities	15	284	994	1,029	1,002	4	1	77	**3,391**
Loans	15	-	8	81	46	-	-	-	**135**
Derivatives	15	-	13	252	30	-	-	7	**302**
Cash		-	-	88	-	-	-	-	**88**
Total		**284**	**1,015**	**1,450**	**1,078**	**4**	**1**	**84**	**3,916**
Percentage		**7.3%**	**25.9%**	**37.0%**	**27.5%**	**0.1%**	**0.1%**	**2.1%**	**100%**

Financial assets, including insurance and reinsurance receivables and other receivables, have not been presented within the above table on the basis they would all be classified as not rated.

2018	Note	**AAA** £m	**AA** £m	**A** £m	**BBB** £m	**BB** £m	**B** £m	**NR** £m	**Total** £m
Debt securities	15	267	1,039	1,177	1,344	21	5	55	3,908
Loans	15	-	-	-	8	-	-	112	120
Derivatives	15	-	7	68	17	-	-	5	97
Cash		-	87	38	6	-	-	(9)	122
Total		**267**	**1,133**	**1,283**	**1,375**	**21**	**5**	**163**	**4,247**
Percentage		**6.3%**	**26.7%**	**30.2%**	**32.4%**	**0.5%**	**0.1%**	**3.8%**	**100%**

Financial assets, including insurance and reinsurance receivables and other receivables, have not been presented within the above table on the basis they would all be classified as not rated.

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2019

39. Management of financial risk (continued)

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

	Not past due or impaired £m	Overdue less than 6 months £m	Overdue 6 – 12 months £m	Overdue over 1 year £m	Provided for £m	Carrying value £m
2019						
Direct insurance operations	**613**	**24**	**4**	**2**	**(2)**	**641**
Reinsurance operations	**-**	**2**	**1**	**1**	**(1)**	**3**
2018						
Direct insurance operations	542	23	14	10	(11)	578
Reinsurance operations	33	7	5	11	(1)	55

IFRS 9 deferral disclosures

In accordance with the IFRS 9 deferral information reported within the basis of preparation, the two tables below provide information on the financial instruments that pass the SPPI test and the credit quality of those financial instruments passing the SPPI test.

1 **Credit risk information for financial instruments passing the SPPI test**

2019	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	Other £m	Total £m
Debt instruments								
Available for sale								
Gross carrying amount	278	856	976	955	4	1	57	3,127
Fair value	284	993	1,026	994	4	1	56	3,358

2019	Current £m	Total £m
Loans		
At cost		
Gross carrying amount	110	110
Fair value	109	109

2018	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	Other £m	Total £m
Debt instruments								
Available for sale								
Gross carrying amount	261	954	1,154	1,330	21	5	35	3,760
Fair value	267	1,039	1,174	1,344	21	5	34	3,884

2018	Current £m	Total £m
Loans		
At cost		
Gross carrying amount	120	120
Fair value	119	119

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2019

39. Management of financial risk (continued)

2 SPPI test

2019	Pass the SPPI test Fair value £m	Pass the SPPI test Change in fair value £m	Other financial assets Fair value £m	Other financial assets Change in fair value £m
Debt instruments				
Available for sale	3,358	105	12	-
Fair value through profit and loss	-	-	21	-
Derivatives				
Held for trading	-	-	188	149
In hedge relationships	-	-	114	(3)
Equity instruments				
Available for sale	-	-	183	27
Mutual funds				
Available for sale	-	-	585	(17)
Fair value through profit and loss	-	-	490	(1)
Loans				
At cost	109	-	25	-
Total	3,467	105	1,618	155

2018	Pass the SPPI test Fair value £m	Pass the SPPI test Change in fair value £m	Other financial assets Fair value £m	Other financial assets Change in fair value £m
Debt instruments				
Available for sale	3,884	(108)	9	-
Fair value through profit and loss	-	-	15	-
Derivatives				
Held for trading	-	-	75	(33)
In hedge relationships	-	-	22	(8)
Equity instruments				
Available for sale	-	-	194	(34)
Mutual funds				
Available for sale	-	-	546	2
Fair value through profit and loss	-	-	474	30
Loans				
At cost	119	-	-	-
Total	4,003	(108)	1,335	(43)

Financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis have been included within other financial assets.

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2019

39. Management of financial risk (continued)

IV. Liquidity risk

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

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

The table below analyses the maturity of the Company's financial assets and financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date.

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

2019	Less than 1 year £m	1-2 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
Financial assets						
Equities and mutual funds	-	-	-	-	1,258	**1,258**
Debt Securities	86	216	918	2,171	-	**3,391**
Loans and receivables	32	4	54	45	-	**135**
Other debtors	125	9	9	2	-	**145**
Cash at bank and in hand	107	-	-	-	-	**107**
Total non-derivative financial assets	**350**	**229**	**981**	**2,218**	**1,258**	**5,036**
Derivative financial instruments	95	10	32	165	-	**302**
Total financial assets (note 15, 18 & 27)	**445**	**239**	**1,013**	**2,383**	**1,258**	**5,338**

39. *Management of financial risk (continued)*

2019	Less than 1 year £m	1- 5 Years £m	Over 5 years £m	Total £m
Financial liabilities				
Claims outstanding*	1,007	1,184	1,209	**3,400**
Direct insurance operations (note 26)	66	-	-	**66**
Reinsurance operations (note 26)	29	-	-	**29**
Other liabilities	148	23	17	**188**
Lease liabilities*	7	23	17	**47**
Other liabilities	141	-	-	**141**
Borrowings (note 29)	4	61	76	**141**
Total non-derivative financial liabilities	**1,254**	**1,268**	**1,302**	**3,824**
Derivative financial instruments (note 27)	31	27	135	**193**
Total financial liabilities	**1,285**	**1,295**	**1,437**	**4,017**

* The claims outstanding and lease liabilities amounts represent the undiscounted cash flows, in contrast to the balance sheet which is on a discounted basis.

Claims outstanding over 5 years are based on expected claims patterns, lease liability repayments are based on the payment schedules within the signed lease.

2018	Less than 1 year £m	1-2 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
Financial assets						
Equities and mutual funds	-	-	-	-	1,214	1,214
Debt Securities	216	199	1,158	2,335	-	3,908
Loans and receivables	4	9	65	42	-	120
Other debtors	133	13	3	-	-	149
Cash at bank and in hand	122	-	-	-	-	122
Total non-derivative financial assets	475	221	1,226	2,377	1,214	5,513
Derivative financial instruments	9	16	7	65	-	97
Total financial assets (note 15, 18 & 27)	484	237	1,233	2,442	1,214	5,610

39. Management of financial risk (continued)

2018	Less than 1 year £m	1- 5 Years £m	Over 5 years £m	Total £m
Financial liabilities				
Claims outstanding*	985	1,226	1,245	3,456
Direct insurance operations (note 26)	50	-	-	50
Reinsurance operations (note 26)	21	-	-	21
Other liabilities (note 28 & 30)	233	-	-	233
Borrowings (note 29)	-	61	54	115
Total non-derivative financial liabilities	1,289	1,287	1,299	3,875
Derivative financial instruments (note 27)	89	37	94	220
Total financial liabilities	1,378	1,324	1,393	4,095

* The claims outstanding amounts represent the undiscounted cash flows, in contrast to the total amount reported within note 24 which is on a discounted basis.

V. Capital management

The Company is regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA") and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities.

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

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

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

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

39. Management of financial risk (continued)

The reconciliation movement in capital resources between FRS101 and Solvency II is as follows:

	2019 £m	2018 £m
Equity shareholders' funds	**2,524**	2,848
Full market value of assets	**68**	44
Intangible assets and Deferred acquisition costs	**(400)**	(397)
Best estimate liabilities and market value margin	**156**	183
Other	**-**	-
Solvency II financial capital resources	**2,348**	2,678
SCR	**1,452**	1,380
MCR	**451**	439
Solvency II financial capital resources/SCR	**147.9%**	154.2%

The Company has reviewed capital resources and requirements on an economic basis as at the end of 2019. In performing this review, both the regulatory requirements and Executive Management's internal objective - including ability to meet key shareholder's requirements - have been considered. The Company ensures that the level of capital is appropriate to ensure an adequate position of the Company from a competitive point of view.

At 31 December 2019, the Company had a foreseeable dividend of £200m which reduces the Eligible Own Funds from £2,348m to £2,148m.

VI. Insurance and reinsurance risk

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

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

For a portfolio of insurance contracts, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are unpredictable and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

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

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

The UK Property & Casualty segment includes direct commercial employee liability claims outstanding of £288m (2018: £305m) and other liability claims outstanding of £418m (2018: £413m) within the total Insurance liabilities of £3,862m (2018: £3,843m).

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

39. Management of financial risk (continued)

General insurance contracts: assumptions and change in assumptions

a) Process used to decide on assumptions

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

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

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

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

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

- Methods based on the development of claims (paid or incurred) using triangulation methods (e.g. chain ladder and link ratio) for which past experience is applied to each loss occurrence or underwriting year, in order to make reserves projections until their estimated final development.
- The average cost per claim method which applies an estimated average cost to the final number of claims expected to be notified in each loss occurrence or underwriting year.
- Methods based on claims ratios (such as the ultimate claims ratio or the additional claims ratio).
- Hybrid methods (such as Bornhuetter-Ferguson and Cape Cod).
- For asbestos-related diseases (mesothelioma claims), models released by The Health and Safety Executive and an Actuarial Working Party as well as high level projections available from Professor Sir Richard Peto, an epidemiology expert.
- Methods based on frequency and severity estimates.
- Catastrophic injury claims settled, or expected to settle, as a periodic payment order, which are reserved for on an expected future payments basis for each individual claim, are subject to discounting (note 24).

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

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

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

b) Change in assumptions

No significant changes in assumptions were made in 2019 for the estimation of general insurance claims.

39. Management of financial risk (continued)

VII. Fair value estimation

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

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

Financial assets and financial liabilities recognised at fair value in the fair value measurement hierarchy at 31 December 2019

Description	2019 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets at fair value through profit and loss	**699**	89	561	49
Derivative financial instruments	188	89	99	-
Mutual funds	490	-	441	49
Debt securities	21	-	21	-
Available for sale financial assets	**4,138**	2,948	1,180	10
Equity investments	183	171	10	2
Debt securities	3,370	2,777	593	-
Mutual funds	585	-	577	8
Derivative financial instruments for hedging	**114**	-	114	-
Total financial assets at fair value	**4,951**	**3,037**	**1,855**	**59**
Financial liabilities at fair value through profit and loss	**193**	42	151	-
Derivative financial instruments	98	42	56	-
Derivative financial instruments for hedging	95	-	95	-
Total financial liabilities at fair value	**193**	**42**	**151**	**-**

Fair value of investments recognised at amortised cost presented in the fair value measurement hierarchy at 31 December 2019

Description	2019 £m	Level 1 £m	Level 2 £m	Level 3 £m
Fair value of investments at amortised cost				
Investment property (note 13)	102	-	102	-
Total	**102**	**-**	**102**	**-**

39. Management of financial risk (continued)

Financial assets and financial liabilities recognised at fair value in the fair value measurement hierarchy at 31 December 2018

Description	2018 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets at fair value through profit and loss	**564**	12	541	11
Derivative financial instruments	75	12	63	-
Mutual funds	474	-	463	11
Debt securities	15	-	15	-
Available for sale financial assets	**4,633**	3,608	1,008	17
Equity investments	194	187	5	2
Debt securities	3,893	3,421	472	-
Mutual funds	546	-	531	15
Derivative financial instruments for hedging	**22**	-	22	-
Total financial assets at fair value	**5,219**	**3,620**	**1,571**	**28**
Financial liabilities at fair value through profit and loss	**220**	83	137	-
Derivative financial instruments	151	83	68	-
Derivative financial instruments for hedging	69	-	69	-
Total financial liabilities at fair value	**220**	**83**	**137**	**-**

Fair value of investments recognised at amortised cost presented in the fair value measurement hierarchy at 31 December 2018

Description	2018 £m	Level 1 £m	Level 2 £m	Level 3 £m
Fair value of investments at amortised cost				
Investment property (note 13)	121	-	121	-
Total	**121**	**-**	**121**	**-**

£119m (2018: £36m) of debt securities were transferred from Level 1 to Level 2 during the year and £43m (2018: £171m) of debt securities were transferred from Level 2 to Level 1. £7m (2018: £nil) of derivative liabilities were transferred from Level 2 to Level 1 during the year. £6m (2018: £nil) of derivative assets were transferred from Level 2 to Level 1 during the year. Both transfers from Level 1 to Level 2 and transfers from Level 2 to Level 1 occur primarily due to changes in the availability of pricing information. This assessment occurs on a semi-annual basis.

Other financial instruments carrying values do not differ significantly from their fair value.

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

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

Investment in properties are considered as assets not quoted in an active market and the weight of observable inputs in the valuation concludes that the fair value calculations, performed by qualified property surveyors based on inputs from assets, using general assumptions including the estimated rental value and earned yields, which are similar or comparable, are considered as Level 2.

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2019

39. Management of financial risk (continued)

c) Financial instruments in Level 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3. The investments included within level 3 largely relate to funds, these investments have no equivalent market activity and are valued based on the various valuations of the assets within the funds.

The main investment included within Level 3 is the AXA Trireme private equity fund, the investment has no equivalent market activity and is valued on the various valuations of the assets held within the fund. The impact of deterioration in the underlying exposure of 20%, would result in a decrease in the fair value of the asset and other comprehensive income of £0.6m (2018: 2.1m).

The following table presents the changes to Level 3 instruments for the year ended 31 December 2019:

	Available for sale			FVPL	
Description	**Equity securities £m**	**Debt securities £m**	**Mutual funds £m**	**Mutual funds £m**	**Total £m**
Opening balance	2	-	15	11	28
Total gains or losses in other comprehensive income	-	-	-	-	-
Losses recognised in profit and loss	-	-	-	(1)	(1)
Transfers in	-	-	-	15	15
Transfers out	-	-	-	-	-
Purchases	-	-	-	25	25
Settlements	-	-	(7)	(1)	(8)
Closing balance	**2**	**-**	**8**	**49**	**59**

The following table presents the changes to Level 3 instruments for the year ended 31 December 2018:

	Available for sale			FVPL	
Description	**Equity securities £m**	**Debt securities £m**	**Mutual funds £m**	**Mutual funds £m**	**Total £m**
Opening balance	1	-	15	1	17
Total gains or losses in other comprehensive income	1	-	-	-	1
Losses recognised in profit and loss	-	-	(1)	1	-
Transfers in	-	-	-	1	1
Transfers out	-	-	-	(1)	(1)
Purchases	-	-	3	9	12
Settlements	-	-	(2)	-	(2)
Closing balance	**2**	**-**	**15**	**11**	**28**

40. Transition to IFRS 16

This note explains the impact of adoption of IFRS 16 Leases has had on the Company's individual financial statements.

The Company has adopted IFRS 16 retrospectively from 1 January 2019, but as permitted under the standard has chosen not to restate comparatives, but instead report the impact of the adoption of the standard within opening profit and loss account reserve on 1 January 2019.

On transition to IFRS 16 the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

On applying IFRS 16, the Company has chosen to utilise the below practical expedients

- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review. 5 contracts were considered onerous at 1 January 2019.
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.
- Excluding initial direct costs for the measurement of the right-of-use-asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Measurement of right-of-use-assets

The right-of-use assets for property leases were measured on a retrospective basis as if the standard had always been applied, but discounted using the lessee's incremental borrowing rate at the date of initial application.

Measurement of lease liabilities

	2019 **£m**
Operating lease commitments disclosed as at 31 December 2018	52
Discounted using the lessee's incremental borrowing rate at the date of initial application	(5)
Differences in the timing of cash payments	(4)
Lease liability recognised as at 1 January 2019	43
Of which are:	
Current lease liabilities	6
Non-current lease liabilities	37
	43