Registered Number: 00078950

AXA INSURANCE UK PLC

Annual Financial Report

for the year ended 31 December 2020

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

Registered Number: 00078950

AXA Insurance UK plc

Contents

Registered Number: 00078950

AXA Insurance UK plc

Company Information

Directors

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

Company Secretary

C. A. Riddy

Independent Auditor

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

Registered Number: 00078950

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 2020.

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 COVID-19 pandemic negatively impacted performance in the year, with the profit before tax in 2020 is £207m, being a decrease of £27m from the 2019 result. The underwriting profit for the year is £48m (2019: profit £33m).

During the year, gross written premiums have decreased by £51m, or 2.2%, to £2,262m (2019: £2,313m).

- Retail increased through volumes growth within the motor intermediary channel, along with improvements in household. This was partially offset by a decrease in direct motor new business sales due to the impact of COVID-19, where lower claims frequency has led to strong competitor pricing.
- Commercial lines decreased from 2019, across the portfolio due to the impact of COVID-19 and particularly in Motor, partly offset by rate increases across the portfolio.

The combined operating ratio has improved by 0.7%, compared with 2019.

- The net loss ratio improved by 2.1%, primarily reflecting lower motor claims frequency across both Retail and Commercial businesses due to COVID-19, partly offset by a deterioration in household due to adverse weather in Retail and increases in business interruption claims within Commercial due to the pandemic.
- The expense ratio deteriorated by 1.4%, primarily due to an increase in levies and administration expenses a reflection of inflationary increases.

The investment result for the year, is a profit of £159m (2019: £201m). 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 £30m to £70m (2019: £100m), in addition to a decrease in investment income from debt instruments of £21m, due to interest rates falling significantly throughout the year in accordance with market evolution and increased impairments of equity securities following the decline in markets during the first half of the year.

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 2020 have been considered.

Business environment

The UK P&C insurance market is the second largest in Europe and is considered a highly sophisticated and competitive market worth £45.5bn in 2019 with the top six insurers making up 42% of total market GWP. AXA was the second largest player in the market in 2019 with a total market share of 8.0%. Aviva are the largest player in the market with a share of 11.4% with Direct Line (7.0%), RSA (6.2%), Allianz (4.8%) and AIG (4.7%) being significant market competitors. AXA UK&I continues to maintain a strong market position across multiple sectors of the UK and Ireland despite the economic slowdown and the fierce competition.

AXA Insurance UK plc

Strategic Report (continued)

Strategy

AXA Insurance has demonstrated both high agility and strong resilience over the past year, despite a significant level of uncertainty in the markets within which it operates. Customer feedback is at par with the market - both AXA Retail and AXA Commercial retaining their *Platinum Trusted* Feefo accreditation, the highest Feefo accreditation. Employee engagement within AXA Insurance improved by 17pts in 2020 with the final Employee NPS score at +30pts. The business has also made progress on the delivery of the strategic roadmap with the right level of traction in the areas we have prioritised.

AXA Insurance's strategy for 2021 will continue to focus on five core themes which resonate with both its retail and commercial lines businesses and drive collective value for the UK & Ireland business as a whole:

- **Closer to the customer –** Building attractive propositions direct and via brokers and tailored to customers.
- **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, 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:

	2020	**2019**	
Gross written premium	**£2,262m**	**£2,313m**	Reflected in the General Business technical account
Profit before tax	**£207m**	**£234m**	Reflected in the Profit and Loss Account
Loss ratio	**(64.7%)**	**(66.8%)**	Ratio of claims incurred net of reinsurance, to earned premiums net of reinsurance including other operating income
Combined operating ratio	**(97.8%)**	**(98.5%)**	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	**£48m**	**£33m**	Result of insurance activities reflected in technical account, and other operating income and expenses reflected in the non-technical account
Investment result	**£159m**	**£201m**	Result of investment activities
Equity shareholders' funds	**£2,581m**	**£2,524m**	Reflected on the Balance Sheet

AXA Insurance UK plc

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 ongoing impacts of COVID-19, continuing Brexit related uncertainty, 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 pages 68 to 81 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. The COVID-19 pandemic has been monitored throughout the year, with plans implemented to manage the effects of the outbreak and assess disruptions and other risks to its operations. The Directors are continuing to monitor potential adverse effects 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. To date the significant impacts on the business have been through a reduction in motor claims and increases in business interruption claims. The ultimate financial impact of the pandemic on the UK economy and the Company is continually monitored, but the directors consider that is not currently estimable with any degree of certainty.

In 2021, 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 have been considered, specifically the effects this could have on estimations and judgements made in the preparation of the financial statements. A trade deal between the UK and EU was signed into UK law on 30 December 2020, taking effect on 31 December 2020. The implications of this new trade deal are being worked through as part of the Company's robust and effective capital and risk management processes, and the risks arising therefrom are being managed alongside a range of risks inherent to its business. Mitigating actions have been taken in prior years with amendments made to international agreements where appropriate, thereby limiting any impact that could arise from (for example) the removal of reciprocal agreements within the financial services sector. The directors anticipate limited operational impacts and immaterial financial impacts, arising from Brexit.

Section 172 statement

The Company, its stakeholders and relevant issues

AXA Insurance UK plc ("AXA Insurance") writes general insurance business in the UK and is part of the "AXA UK Group" (UK Group). 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).

The directors of AXA Insurance UK plc ("AXA Insurance" or 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 2020.

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, pricing and appropriateness 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 managing energy, paper and water consumption, as well as carbon emissions and waste. The Company monitors the ESG score and carbon footprint of its invested assets, and the implementation of the AXA Group "Green Investment Plan", pursuant to which investment restrictions and sectoral exclusions (such as coal and oil sands) are adhered to.

- *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; AXA Insurance 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:

Section 172 statement (continued)

- *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, to act for human progress by protecting what matters. Delivering on this purpose helps to enhance AXA's reputation, both in the eyes of customers, and other external stakeholders such as the regulators and media. 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 Trustpilot and Feefo (where the Company has now been awarded Platinum Trusted accreditation after achieving a Gold Trusted rating for three consecutive years). 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. These insights help shape customer experience and communications to make sure they are relevant and useful to our customers. Usually, there is a close presence with our broker customers, through events such as BIBA, however, this was unfortunately cancelled in 2020 as a result of the COVID-19 pandemic. In 2020, due to the COVID-19 pandemic, virtual events and personal communications were deployed to foster deeper relationships with our partners and create interactions that provide an update on core business strategies, priorities and new propositions.

- *Employees:* The Company is committed to enabling its workforce at all levels of the organisation to actively contribute and participate in decisions where appropriate. Feedback from the workforce is sought through regular Pulse surveys, where staff can provide their views on how the business is performing. Five Pulse surveys were conducted in 2020. The surveys usually focus on the Company's strategic objectives and key values. In 2020, additional survey questions gathered feedback from employees on wellbeing and team connections during the pandemic, as well as a survey focused on diversity and inclusion. AXA recognises the union Unite for the purposes of negotiation and consultation on issues affecting the Company's workforce. Local Consultation Forums (LCF) are held for AXA Insurance. The forum is comprised of employees from all levels and parts of the business to ensure all views are represented. The forums seek feedback from employees, to identify where progress can be made, contributing to the business' action plans.

  The Company has access to four 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 Balance (supporting working families and gender equality), Pride (supporting our LGBT community), REACH (focusing on the under-representation of staff due to race, ethnicity & culture heritage) and ABLE (raising awareness about disabilities and carers and promoting change and support). There has been a significant increase in membership of these groups in 2020 and a new inclusion allies program has been launched across the business. There are regular online diversity and inclusion live exchanges and a number of focus groups have been conducted with employees on ethnicity, gender and disability.

- *Suppliers:* The Company promotes strong relationships with its network of suppliers which are actively and consistently managed in accordance with AXA UK Group company-wide policies and a procurement process to manage third party risk. These processes ensure that AXA and its customers receive the agreed standards in service, quality and performance. During 2020, AXA's supplier payment performance remained strong and AXA has worked closely with all of its key suppliers to ensure that they could operate effectively so as to allow AXA to continue to support its customers.

- *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 cooperative and open nature of this relationship is set by the tone at the top where there is continuous engagement and the relationship with both regulators is a positive one. Regulatory engagement has been more frequent during the pandemic, by way of regular calls and information requests with both the PRA and FCA; alongside the usual supervisory cycle of meetings. It is vital that these relationships are well maintained as this is directly linked to our business being able to operate in the UK.

Section 172 statement (continued)

- *The environment:* As a global organisation AXA has set stretching carbon targets in 2020 to further align its business with the Paris Agreement. AXA Group has increased its green investment target to €24 billion by 2023 and has committed to an investment "warming potential" target of 1.5 °C by 2050. From a Group perspective, AXA has sent a clear message by signing up to the RE100, stating a commitment to source 100% renewable electricity by 2025. The Company's directors are committed to implementing this within the Company. The Company matches 75% of the electricity used across their UK operations against renewable generation (REGO certified). 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.

- 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. *The Company is contributing towards a new AXA Group absolute carbon target of -25% by 2025.* This target aligns AXA's scope 1 and 2 emissions with 1.5 degrees science-based target. During 2020 the Company has been actively collaborating with high value suppliers, through workshops and round tables to reduce scope 3 carbon emissions and intend to widen the remit for this in 2021.

- *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 where possible. To support this, a volunteering policy from January 2021 will provide 3 days volunteering per employee per annum moving forward. A new Corporate Responsibility Strategy was launched in September 2020 made up of 3 pillars; Promote Good Health, Progress in Society, Protect the Planet with goals and measures agreed against each. 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.

- *Shareholder:* 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

- During 2020, the directors monitored the impact of the COVID-19 pandemic on the Company's operations, its people, customers and financial position. Early during the pandemic, an AXA Group decision was taken not to make any employees redundant during the initial lockdown period or use government funded support schemes, such as furlough, at any time. Employees were given the equipment and technology required to work from home, where possible, and extended emergency leave was also given to support employees with caring responsibilities. Employees of AXA Insurance were regularly consulted through new employee 'checking in' surveys, as well as the usual global employee surveys. Feedback from the surveys demonstrated overwhelming support for the policies and decisions taken by the business, with engagement and values measures reaching record numbers in 2020. In December 2020, an all employee survey was run to understand employee appetite for increased remote working post pandemic. The results of this survey will help inform decisions on future ways of working. The directors also monitored the progress of, and potential outcomes for the business, of the COVID-19 Business Interruption insurance test case.

- In 2020, as a result of the COVID-19 crisis and action taken by AXA UK to enable remote working capability for its staff, a number of areas across the risk universe came under pressure and additional risk acceptance decisions were taken. In Q2 2020, at the request of the Board, KPMG reviewed AXA UK's risk acceptance decisions and its response to the pandemic from a Customer perspective and concluded that AXA UK had taken positive and impactful steps to ensure customers were treated fairly given the circumstances created by COVID-19. Although areas for improvement were identified, KPMG observed a proactive approach to the oversight of COVID-19 related risks and noted that Senior Management had had good involvement in key discussions and decisions.

Section 172 statement (continued)

- Business Interruption (BI) insurance has remained an issue of reputational risk throughout the COVID-19 pandemic. The BI test case and reporting of it created a degree of customer misunderstanding and confusion, increasing the number of enquiries into AXA and claim repudiation levels. Customer uncertainty was mitigated by regular communication made available to brokers and customers and the Commercial business delivered several customer centric initiatives to provide insurance cover and payment flexibility. A booking in respect of BI claims relating to COVID-19 business closures under the UK lockdown has been aligned to forecast expectations, offset to a certain extent by expected reinsurance recovery reserves.

- On introduction of the UK government's COVID-19 restrictions, AXA UK accelerated supplier payments, releasing monies ahead of the expected settlement date, once the business had confirmed the supply of goods or services had taken place to alleviate the cashflow pressures that some of AXA's supply partners may have been facing at that time. As a result, the average number of days taken to pay suppliers reduced markedly to under four days from submission of the invoice. This has ensured a continuous flow of funds to AXA's supplier base during this unprecedented period.

- In September 2020, a simplification and restructuring of the Claims function was announced to deliver expense and indemnity efficiencies whilst maintaining good customer outcomes and operational stability. This programme of work was not related to the COVID-19 pandemic, and in fact the initial planned commencement in April 2020 was postponed to later in the year to minimise the impact on staff in a period of uncertainty. Union consultation was conducted and a dedicated sub-committee of the union (with representatives from Unite, management and employee representatives with a mix of skills and knowledge, including claims expertise) was consulted. The Directors considered the proposal with due consideration of the impact on employees and customer service.

- 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.

- In June 2020, 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 and keeping the continued 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.

- In April 2020, the Board approved the payment of a £200 million interim dividend. Payment of the interim dividend was made through profits made during the year and/or drawn from available reserves and was 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
    - 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. Full consideration was given to the impact of the pandemic on the Company's solvency position. 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

R. J. A. Moquet
Director
24 March 2021

AXA Insurance UK plc

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2020.

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 68 to 81 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 2024. In recognition of the uncertainty arising through the COVID-19 pandemic, plans and forecasts have been re-modelled using sensitivity analysis to assess a range of possible outcomes.

The directors therefore believe that the Company is well placed to manage its business risks despite the current uncertain economic outlook arising from the ongoing COVID-19 pandemic, its impacts so far, 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.

DIVIDENDS

During the year the Company declared and paid £200m (2019: £650m) of dividends.

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 resigned as a director of the Company on 31 March 2020
T. M. T. Foley was appointed as a director 8 December 2020
L. Matras resigned as a director 26 November 2020
R. J. A. Moquet was appointed as a director 21 April 2020
H. M. Posner resigned as a director 31 January 2020
J. S. Wheway was appointed as a director of the Company on 1 February 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 68 to 81 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.

AXA Insurance UK plc

STREAMLINED ENERGY AND CARBON REPORTING

The Company reports on its energy usage and carbon dioxide equivalent ("CO2e") emissions for the year ended 31 December 2020 in accordance with the Companies Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Further details in connection with the energy commitments of the Company and AXA Group can be found in the Section 172 Statement within the Strategic Report.

The methodology used to calculate our energy usage and CO2e emissions is in accordance with the GHG Protocol Corporate Accounting and Reporting Standard, using the operational control approach in determining the Company's sources of emissions. Data has been calculated using the UK Government GHG Conversion Factors for Company Reporting. All emission and energy data are UK based.

Emissions data is split between scopes 1 to 3 as defined by the GHG Protocol corporate Accounting and Reporting Standard:

(a) Scope 1 - emissions directly into the atmosphere as a result of the activities of the Company and deriving from sources owned or controlled by the Company, such as boilers used for the heating of offices and business mileage in company cars;
(b) Scope 2 - emissions into the atmosphere associated with the Company's consumption of purchased electricity. Location-based represents the average emissions deriving from the electricity grid serving our locations and market-based reflects the actual emissions emanating from the electricity the Company has purchased which includes renewable sources;
(c) Scope 3 - emissions into the atmosphere as a consequence of the activities of the Company and derived from sources not owned or controlled by the Company, such as business travel undertaken by employees in their own cars.

Usage (kWh)	
Company energy consumption used to calculate emissions	**8,902,396**
Emissions (tonnes CO2e)	
Scope 1	
Emissions from combustion of gas	**612**
Scope 2	
Emissions from purchased electricity (location)	**1,340**
Emissions from purchased electricity (market)	**332**
Scope 3	
Emissions from business travel in contract hire cars or employee-owned vehicles	**37**
Total gross emissions	
Location-based	**1,990**
Market-based	**981**
Intensity Ratio (tonnes CO2e)	
Scope 1 and 2 gross emissions per m2 of office space	
Location based	**0.045**
Market based	**0.022**
Scope 3 gross emissions per thousand miles travelled	**0.275**

Energy efficiency

During the year the Company has installed LED lighting at its Ipswich and Bolton sites, replacing circa 2000 fittings. Calculated savings are deemed to be circa 410,000 kWh per annum based on pre-COVID-19 occupation levels.

The Company has benefited from an AXA UK refresh of on-site IT network equipment which has replaced legacy devices with new products up to 60% more efficient with regards to power and air conditioning services.

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.

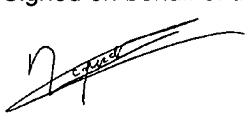
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including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

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



R. J. A. Moquet
Director
24 March 2021

AXA Insurance UK plc

Corporate Governance Report

For the year ended 31 December 2020, 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
AXA Insurance UK plc ("AXA Insurance") writes general insurance business in the UK and is part of the "AXA UK Group" (UK Group). 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).

AXA Insurance is a subsidiary within AXA, a worldwide leader in insurance. As one of the largest global insurers, AXA's purpose is to "act for human progress by protecting what matters". This purpose is not only embedded into the Company's values and strategy, AXA Insurance actively plays a role in protecting societal and community interests. In 2020, AXA Insurance partnered with Business in the Community, The Prince's Responsible Business Network, to help protect communities through the current pandemic, by co-founding the National Business Response Network. This is designed to support communities through the COVID-19 pandemic by identifying national and local community needs and connecting business resources to meet them. 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 2020, the Company completed the first year of the 2020-23 strategy, which will focus on five core themes to drive value for the AXA UK & Ireland business as a whole:

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

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, as well as a group of employee volunteers from across the business (the "20/20 Group"), of varying grades and tenure, who volunteered to be a part of the planning 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.

2020 has been in many aspects an unprecedented one, triggered by the COVID-19 pandemic and its consequences within society, government and the economy. Despite a significant level of uncertainty in which the business operates, the Company has demonstrated both high agility and strong resilience during the year with a stable financial outlook for 2021 and beyond, customer feedback within the market average and employee engagement was very strong compared to previous years.

The Company has also made progress on the delivery of the strategic roadmap with the right level of traction in the areas that were prioritised. As part of identifying a solid transition path into the "new normal", focus areas were identified and embedded in the revised roadmaps and project portfolio which include Customer, Smart Working, Property, Digital Workplace and Cloud Migration.

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 Tracy Garrad, CEO AXA Health and a member of the AXA UK & Ireland Management Committee. As well as news articles, blogs and vlogs, a number of virtual events were run for all employees across the AXA UK Group. These include panel discussions and D&I live exchanges, providing opportunities for employees to ask questions to senior leaders. A number of focus groups have also been conducted with employees on ethnicity, gender and disability.

The Company has access to four 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. Further details are included in the Section 172 Statement.

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.

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. All directors have equal voting rights. 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. They 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. 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 Board adopted a Board Diversity Policy in 2020 which provides a high-level indication of the approach to diversity taken in the consideration of Board appointments. The AXA UK Remuneration & Nomination Committee takes a leading role in reviewing the structure, size and composition (including the skills, knowledge and experience) required of the Board and makes recommendations to the Board regarding any changes.

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.

In addition to the introduction of our own Ethnicity Action Plan and committing to Business in the Community's Race at Work charter, in October 2020, AXA UK plc (the Company's intermediate parent company) signed the CBI's Change the Race Ratio. This aims to increase racial and ethnic participation in business. The commitments include increasing racial and ethnic diversity among Board members and senior leadership, being transparent on targets and action and creating an inclusive culture in which talent from all diversities can thrive. AXA UK plc has committed to having at least one racially and ethnically diverse board member by the end of 2024 and is tracking and regularly reporting progress against all three commitments (Change the Race Ratio, our own Ethnicity Action Plan and BITCs Race At Work Charter) to both the AXA UK & Ireland Diversity & Inclusion Board, and the AXA UK & Ireland Management Committee, with updates on key developments reported to the Board on a quarterly basis.

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.

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 on an annual basis, and financial controls are reviewed by the AXA UK internal audit function. In 2020 the Financial Reporting Council's Audit Quality Review (AQR) team completed a review of Mazars' audit of the 2019 Financial Statements and concluded that limited improvements were required. Mazars has amended their audit procedures accordingly.

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 for the AXA UK Group, 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 and has delegated authority to the AXA UK Combined Boards Risk Committee to assist in its oversight of risk. The AXA UK Combined Boards Risk Committee adopts 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.

In 2020, as a result of the COVID-19 crisis and action taken by AXA UK to enable remote working capability for its staff, a number of areas across the risk universe came under pressure and additional risk acceptance decisions were taken. These were later brought back within risk tolerance. The business reacted quickly to create and implement conduct principles to minimise the impact on customers and steps were taken to ensure that these principles and additional risk acceptances were made following appropriate escalation and internal process. The impact of COVID-19 was seen in a number of areas, such as productivity levels impacted by operational challenges and increases in claims; however, improvements were seen throughout the year and the business has demonstrated resilience in maintaining operations through an unprecedented crisis.

The AXA UK Combined Boards Risk Committee, which meets at least quarterly, is comprised of Independent Non-Executive Directors, and ensures that inherent and emerging risks are identified and managed appropriately and in a timely manner.

In October 2020, a Climate Change Working Group was established to oversee AXA UK's approach to the management of climate risk and to ensure regulatory compliance. This working group meets monthly and quarterly updates will be provided to both the AXA UK Risk Management Committee and the AXA UK Combined Boards Risk Committee and, where appropriate, to the AXA UK Combined Board, from Q1 2021. This working group focuses on governance, risk management, scenario analysis, disclosure, innovation, operations and communications and is chaired by Jon Walker, CEO AXA Commercial and one of the Climate Change SMFs (Senior Management Function holder). A 2021 action plan has been agreed by the working group, which includes determining climate change risk appetite statements and Board training on climate change.

Opportunity

Long term strategic opportunities are considered and agreed by the Board each year. Risk registers are maintained by the Risk Function and considered by the AXA UK Combined Boards Risk Committee at each quarterly meeting.

The Chief Risk Officer reports key risk matters directly to the AXA UK Combined Boards 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.

AXA Insurance UK plc

Corporate Governance Report (continued)

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. In May 2020, the AXA UK Risk Management Committee was established to facilitate Management Committee oversight of risks before they are presented to the Board. This Committee meets quarterly, in advance of AXA UK Combined Boards Risk Committee meetings.

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 2020, the Committee was comprised of the Chairman of AXA UK, five 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.

The AXA UK Group is an equal opportunities employer and promotes an environment of diverse cultures, ideas, people and perspectives. It continued to report on Gender Pay in 2020, despite the suspension of mandatory gender pay reporting, and has signed the Women in Finance Charter (WIFC).

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.

AXA Insurance UK plc

Corporate Governance Report (continued)

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 acting for human progress to protect what matters is demonstrated and supported in active engagement across industry bodies and our stakeholder community.

For further details, please refer to the Section 172 report on pages 5-9 of the annual report and financial statements.

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.

For further details, please refer to the Section 172 report on pages 5-9 of the annual report and financial statements.

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.

For further details, please refer to the Section 172 report on pages 5-9 of the annual report and financial statements.

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 2020 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 2020 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our audit procedures to evaluate the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Company's ability to continue as a going concern;
- Obtaining an understanding of the relevant processes and controls relating to the directors' going concern assessment, in particular budgeting and forecasting processes;
- Evaluating the directors' method to assess the company's ability to continue as a going concern;
- Reviewing the directors' going concern assessment, which incorporated severe but plausible scenarios;
- Evaluating the key assumptions used and judgements applied by the directors in forming their conclusions on going concern; and
- Reviewing the appropriateness of the directors' disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

AXA Insurance UK plc

Independent Auditor's Report (continued)

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 forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	How our scope addressed this matter
Valuation of 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 2020 was £2,827m (see Note 23 and Note 37 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. 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 considered the directors' assessment of the valuation of insurance contract liabilities by performing the following procedures: • Assessed the design and implementation and tested the operating effectiveness of controls around the valuation of the insurance contract liabilities; • On a sample basis, we performed data integrity testing and confirmed that the data used in the reserving models was consistent with the audit work performed over claims paid; and • Tested IT general controls and tested the completeness and accuracy of key system-generated reports used in calculating the insurance contract liabilities. Our audit team included actuarial specialists. In conjunction with the actuarial specialists, we: • Evaluated the methodology and assumptions selected by management. This included meeting with senior management involved in the reserving methodology, and reviewing changes in assumptions from the previous year end; • Performed independent projections on selected classes of business and compared the results with the reserves calculated by the company; and • Performed an actual vs. expected analysis on the paid claims data. **Our observations** We found the technical provisions established by the company to be acceptable.

Key Audit Matter	How our scope addressed this matter
Valuation / impairment of goodwill The company recognises goodwill of £203m (see Note 11 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 changes in management's key underlying assumptions. There is a risk that these assumptions may not be reasonable, which could lead to a material misstatement.	We performed the following procedures: • Examined management's impairment methodology to assess whether it is in accordance with applicable accounting requirements; • Assessed the appropriateness of key inputs to management's forecasts; • Tested management's application of the impairment methodology by reperforming the impairment calculation; • Engaged internal valuation experts to assist us in our review of management's discounted cash flow calculations, including discount rate; and • Considered management's sensitivity analysis on the key assumptions used in their impairment assessment and performed our own further sensitivity analysis. **Our observations** We found that the carrying value of goodwill to be acceptable.
Impact of the outbreak of COVID-19 on the valuation of provisions for the business interruption claims The COVID-19 pandemic has had a significant impact on the company, largely since mid-March 2020. Business Interruption ("BI") claims are one of the areas highly impacted by the pandemic. The impact of the BI claims at the year-end is significant and was based on management assumptions which, if inappropriate, could lead to a material misstatement.	We reviewed management's BI assessment around policy wording in light of the FCA test case on the validity of the BI claims and assessed the overall impact following the judgment. We performed the following procedures: • Assessed the design and implementation of key controls around BI claims; • Evaluated the methodology and assumptions used by management to determine the impact of the BI claims; and • Reviewed the key data inputs that were used to determine the impact of the business interruptions on the technical provisions. **Our observations** We found that the amount of provision booked in relation to the business interruption risk is reasonable.

Our application of materiality and an overview of the scope of our audit

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 £21.2m
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 £15.9m 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.

As part of designing our audit, we 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.

The Company has also established certain operational shared service centres overseas. This includes shared services in France, such as 'Centre of Excellence' investment management, and performance of certain financial control activities to support the production of the Company's financial information including IT functionality and controls. Specified procedures were performed over these shared service centres respectively by our component auditors who are based in France, in accordance with our instructions.

We determined the level of involvement we needed as the company auditor in the audit work of the component auditors to be able to conclude whether sufficient and appropriate audit evidence was obtained to provide a basis for our opinion on the financial statements as a whole. We maintained regular and timely communication with our component audit teams, including discussions, phone calls and written instructions, and reviewed their work, where appropriate.

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.

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 Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 12, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding of the Company and its industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the PRA and FCA, UK tax legislation, and the Companies Act 2006. We also identified other laws and regulations, such as the Data Protection Act, the UK GDPR, Health and Safety Act, the Bribery Act, and the Proceeds of Crime and Anti-Money Laundering Act, and considered the extent to which non-compliance might have a material effect on the financial statements.

AXA Insurance UK plc

Independent Auditor's Report (continued)

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 the planning stage of our audit, gaining 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;
- Discussing with the directors and management the policies and procedures in place regarding compliance with laws and regulations;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- During the audit, focusing 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.

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

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks were 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 technical provisions, the presumed risk of fraud in revenue recognition (which we pinpointed to inappropriately recording revenue in the wrong period, due to either the estimation of pipeline premium or the calculation of unearned premiums), and significant one-off or unusual transactions; and
- Addressing the risks 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 fraud, are discussed under "Key audit matters" within this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities.

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 for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 December 2013 to 31 December 2020.

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.

Lionel Cazali
Lionel Cazali (Mar 24, 2021 20:19 GMT)

Lionel Cazali (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

24 March 2021

Registered Number: 00078950

AXA Insurance UK plc

Profit and Loss Account
for the year ended 31 December 2020

General business technical account

	Note	2020 £m	2019 £m
Gross premiums written	2	**2,262**	2,313
Outward reinsurance premiums		**(155)**	(131)
Net premiums written		**2,107**	2,182
Change in provision for unearned premiums			
-gross amount		**17**	(26)
-reinsurers' share		**1**	(3)
Net change in provision for unearned premiums		**18**	(29)
Earned premiums, net of reinsurance		**2,125**	2,153
Claims paid			
-gross amount	2	**(1,524)**	(1,522)
-reinsurers' share		**19**	19
Total claims paid		**(1,505)**	(1,503)
Change in provision for claims			
-gross amount	2	**(6)**	18
-reinsurers' share		**86**	(4)
Total change in provision for claims		**80**	14
Claims incurred, net of reinsurance		**(1,425)**	(1,489)
Acquisition costs	3	**(528)**	(535)
Administration expenses	4	**(192)**	(168)
Net operating expenses	2	**(720)**	(703)
Balance on the technical account for general business		**(20)**	(39)

All transactions relate to continuing operations.

AXA Insurance UK plc

Profit and Loss Account (continued)
for the year ended 31 December 2020

Non-technical account

	Note	2020 £m	2019 £m
Balance on the technical account for general business		**(20)**	(39)
Investment income	5	**239**	270
Unrealised gains on investments at fair value through profit and loss	6	**124**	105
Investment expenses and charges	7	**(204)**	(174)
Other operating income	8	**78**	76
Other operating expenses		**(10)**	(4)
Total balance on the non-technical account		**227**	273
Profit on ordinary activities before tax		**207**	234
Tax on profit on ordinary activities	10	**(23)**	(15)
Profit for the financial year		**184**	219

All transactions relate to continuing operations.

The information on pages 32 to 81 forms an integral part of these financial statements.

Registered Number: 00078950

AXA Insurance UK plc

Statement of Comprehensive Income
for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Profit for the financial year after tax		**184**	219
Other comprehensive income:			
Items that may be subsequently reclassified to profit and loss			
Investments classified as available for sale			
Fair value gains		**38**	108
Fair value gains transferred to profit and loss on disposal		**24**	7
Fair value gains on derivatives in a cash flow hedge		**22**	18
Tax effect of items recognised in other comprehensive income – current tax and deferred tax	10	**(11)**	(22)
Other comprehensive income net of tax		73	111
Total comprehensive income for the year attributable to the equity shareholders of the Company		**257**	330

All transactions relate to continuing operations.

The information on pages 32 to 81 forms an integral part of these financial statements.

Registered Number: 00078950

AXA Insurance UK plc

Balance Sheet
as at 31 December 2020

	Note	2020 £m	2019 £m
ASSETS			
Intangible assets			
Goodwill	11	203	203
Other intangible assets	11	4	-
Total intangible assets		207	203
Investments			
Land and buildings	12	106	124
Investment in group undertakings	13	355	355
Other financial investments			
Shares and other variable yield securities	14	1,286	1,258
Debt and other fixed income securities	14	3,444	3,391
Derivative financial instruments	14, 26	280	302
Loans and receivables	14	104	135
Deposits with ceding undertakings		47	54
Total investments		5,622	5,619
Reinsurers' share of technical provisions			
Provision for unearned premiums	15	16	15
Claims outstanding and loss adjustment expenses	15	226	140
Total reinsurers' share of technical provisions		242	155
Debtors			
Debtors arising from direct insurance operations	16	635	641
Debtors arising from reinsurance operations	16	3	3
Other debtors	17	155	145
Total debtors		793	789
Other assets			
Tangible assets	18	5	7
Cash at bank and in hand		116	107
Total other assets		121	114
Prepayments and accrued income			
Deferred acquisition costs	19	220	237
Deferred tax asset	20	15	27
Prepayments and accrued income		4	4
Total prepayments and accrued income		239	268
TOTAL ASSETS		7,224	7,148

Registered Number: 00078950

AXA Insurance UK plc

Balance Sheet (continued)
as at 31 December 2020

	Note	2020 £m	2019 £m
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	21	122	122
Share premium	21	799	799
Revaluation reserve	22	277	204
Capital contribution reserve	22	875	875
Profit and loss account		508	524
Equity shareholders' funds		2,581	2,524
Technical provisions			
Provision for unearned premiums	23	1,044	1,061
Claims outstanding and loss adjustment expenses	23	2,827	2,801
Total technical provisions		3,871	3,862
Provisions for other risks			
Other provisions	24	42	48
Creditors			
Creditors arising from direct insurance operations	25	79	66
Creditors arising from reinsurance operations	25	52	29
Derivative financial instruments	26	183	193
Other creditors including tax and social security	27	258	271
Borrowings	28	141	141
Total creditors		713	700
Accruals and deferred income	29	17	14
TOTAL EQUITY AND LIABILITIES		7,224	7,148

Included within land and buildings is the following classified as held for sale, see note 12.

	2020 £m
Assets classified as held for sale	3

The financial statements on pages 26 to 81 were approved and authorised for issue by the Board of Directors on 24 March 2021 and were signed on behalf of the Board by:

R. J. A. Moquet
Director

Registered Number: 00078950

AXA Insurance UK plc

Statement of Changes in Equity
for the year ended 31 December 2020

2020	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	1,079	524	2,524
Profit for the year	-	-	-	184	**184**
Other comprehensive income:					
Fair value gains on available for sale financial assets	-	-	62	-	**62**
Fair value gains on derivatives in a cash flow hedge	-	-	22	-	**22**
Tax effect of items recognised in other comprehensive income	-	-	(11)	-	**(11)**
Total comprehensive income for the year	**-**	**-**	**73**	**184**	**257**
Transactions with owners:					
Dividends paid	-	-	-	(200)	**(200)**
Balance as at 31 December	**122**	**799**	**1,152**	**508**	**2,581**

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	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**

The information on pages 32 to 81 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 2024. The directors consider that the final 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, as well as taking account of the impact to date, 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.

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.

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 (2019: £14m), with the cumulative effect on net assets being an increase of £82m (2019: £68m).

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.

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 72 to 74.

III. Changes in accounting standards, accounting policies and disclosures

Other amendments

The other amendments to accounting standards, effective for annual periods beginning on or after 1 January 2020 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.

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.

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.

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

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.

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.

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

3. 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.
4. 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.
5. By splitting the total case-by-case cost of notified claims into four band sizes (attritional, medium, large and very large). The ultimate expected cost of claims in each band is then estimated by reference to the projected number of claims (based on statistics showing how the number of notified claims have been developed over time) and the anticipated average final cost of notified and IBNR claims (based on historical levels adjusted to allow for movements in the variables described above).

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

Disease-related and pollution claims arising from liability business
The claims provisions include amounts in respect of potential claims relating to diseases including those associated with exposure to asbestos, noise-induced hearing loss and environmental pollution. 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.

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

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 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.

XI. Financial assets (continued)

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.

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.

XIII. Impairment of assets (continued)

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.

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.

XIV. Derivative financial instruments (continued)

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.

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 26.

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 26.

XIV. Derivative financial instruments (continued)

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 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 for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, 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.

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 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.

XIX. Current and deferred tax (continued)

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.

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 assesses 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 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.

XXII. Leases (continued)

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

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 included in 'accruals and deferred income' in note 29.

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.

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

The directors consider the following areas to involve significant estimates or judgments:

a) estimates of claims outstanding and loss adjustment expenses – notes 23, 37 VI

b) estimate of impairment of intangible assets – note 11

c) estimates of the fair value of Level 3 financial assets – note 37 VIIc

d) judgment of recoverability of deferred tax assets – note 20

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	
	2020	2019	2020	2019
	£m	£m	£m	£m
Direct and reinsurance accepted				
Motor	1,035	1,068	1,058	1,040
Accident and health	100	126	103	124
Third party liability	210	235	220	246
Fire and other damage to property	816	794	803	789
Marine, aviation and transport	7	7	7	8
Credit and suretyship	2	1	1	1
Legal	11	10	11	10
Miscellaneous	81	72	76	69
Total	**2,262**	**2,313**	**2,279**	**2,287**

	Gross claims incurred		Net operating expenses	
	2020	2019	2020	2019
	£m	£m	£m	£m
Direct and reinsurance accepted				
Motor	(670)	(809)	(276)	(256)
Annuities	(43)	(16)	-	-
Accident and health	(86)	(106)	(13)	(21)
Third party liability	(105)	(131)	(83)	(87)
Fire and other damage to property	(585)	(415)	(311)	(304)
Marine, aviation and transport	(2)	8	(2)	(2)
Legal Expenses	(1)	(1)	(1)	(1)
Miscellaneous	(38)	(34)	(34)	(32)
Total	**(1,530)**	**(1,504)**	**(720)**	**(703)**

	2020	2019
	£m	£m
Reinsurance outwards		
Motor	(17)	(20)
Annuities	12	7
Third party liability	(6)	(2)
Fire and other damage to property	(38)	(99)
Marine, aviation and transport	-	(1)
Miscellaneous	-	(4)
Total	**(49)**	**(119)**

3. Acquisition costs

	2020 £m	2019 £m
Movement of deferred acquisition costs (note 19)	(17)	3
Costs incurred for the acquisition of insurance contracts		
- Expensed in the year	(513)	(540)
- Attributable to reinsurers	2	2
Total expenses for the acquisition of insurance contracts	**(528)**	**(535)**

The total commission expense relating to direct insurance business was £367m (2019: £394m).

4. Administration expenses

	2020 £m	2019 £m
Marketing and administrative expenses	(184)	(162)
Depreciation of property, plant and equipment (note 12 & 18)	(8)	(6)
Total administration expenses	**(192)**	**(168)**

5. Investment income

	2020			
£m	Investment return	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 and impairment	1	-	-	**1**
Debt instruments – available for sale	64	-	-	**64**
Equity instruments – available for sale	4	29	-	**33**
Subsidiaries [(1)]	70	-	-	**70**
Non-consolidated investment funds	36	-	-	**36**
Non-consolidated investment funds available for sale	16	-	-	16
Non-consolidated investment funds designated as at fair value through profit and loss	20	-	-	20
Loans	2	-	-	**2**
Derivative instruments	19	-	-	**19**
Net effect of unrealised foreign exchange gains	13	-	-	**13**
Other	1	-	-	**1**
Investment income	**210**	**29**	**-**	**239**

[(1)] The Company received dividends of £70m from subsidiary AXA PPP healthcare limited during the current year (2019: £100m).

5. Investment income (continued)

£m	2019 Investment return	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 and 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**

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

	2020 £m	2019 £m
Debt securities in hedge relationships	67	60
Derivatives	68	46
Non-consolidated investment funds designated as fair value through profit and loss	(11)	(1)
Net unrealised gains/(losses) on investments at fair value through profit and loss	**124**	**105**

7. Investment expenses and charges

	2020 £m	2019 £m
Investment management expenses	(9)	(11)
Expenses relating to repurchase arrangements	-	(1)
Expenses relating to total return swap agreement	(1)	(1)
Realised loss relating to investments at cost and at fair value through shareholders' equity	(5)	-
Realised losses relating to investments at fair value through profit and loss	(2)	(2)
Foreign exchange losses	(6)	(127)
Losses on derivative instruments	(156)	(24)
Impairment charges	(25)	(8)
Total investment expenses	**(204)**	**(174)**

8. Other operating income

	2020 £m	2019 £m
Instalment income	44	51
Other income	32	25
Foreign exchange gains	2	-
Other operating income	**78**	**76**

9. Audit Fees

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

	2020 £m	2019 £m
Audit services:		
Fees payable to the Company's auditor for the audit of the statutory accounts	(0.6)	(0.4)
Non-audit services:		
Non-Audit related assurance services from the Company's auditor, including validation of IMA and SFCR	(0.3)	(0.2)
	(0.9)	**(0.6)**

10. Tax

	2020 £m	2019 £m
Current Tax:		
Current tax on profit for the year	(14)	(12)
Adjustments in respect of previous years	(6)	(3)
Total current tax	(20)	(15)
Total deferred tax (note 20)	(3)	-
Total tax expense	**(23)**	**(15)**

Corporation tax is calculated at 19% (2019: 19%) of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit in the profit and loss account as follows:

	2020 £m	2019 £m
Profit before tax	**207**	**234**
Tax calculated at UK tax rates applicable to profits 19% (2019: 19%)	(39)	(44)
Tax effects of:		
- Expenses that are not deductible in determining taxable profit	-	-
- Income not taxable in determining taxable profit	15	21
- Adjustments to tax charge in respect of previous periods	3	1
- Impact of rate change	6	(1)
- Deferred tax on previously unrecognised losses	-	9
- Other	(1)	-
- Reallocation to OCI	(7)	(1)
Tax expense for the year	**(23)**	**(15)**

10. Tax (continued)

The tax rate for the current year is the same as the prior year.

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19%, rather than reducing to 17%, as previously enacted. This new law was substantively enacted on 17 March 2020. Deferred taxes at the balance sheet date are measured at the enacted rate at the end of the reporting period of 19%.

Subsequent to the balance sheet date, it was announced in the Budget on 3 March 2021 the rate of corporation tax would be increased to 25% with effect from 1 April 2023. If this increased rate were in force at the balance sheet date the effect of this change would be to increase the deferred tax asset at 31 December 2020 by £1.4m. Legislation is intended to be included in the Finance Bill 2021 to effect this change.

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:

	2020 £m	2019 £m
Current tax		
Current tax on available-for-sale and cash flow hedge financial asset gains arising during the year	(2)	(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	(16)	(20)
Reallocation from profit and loss account	7	1
Total income tax recognised in other comprehensive income	**(11)**	**(22)**

11. Intangible assets

	Goodwill £m	Other intangible assets Software development	Total
Cost			
Balance as at 1 January 2020	203	-	203
Additions at cost	-	4	4
Balance as at 31 December 2020	**203**	**4**	**207**
Accumulated amortisation			
Balance as at 1 January 2020	-	-	-
Charge for the year	-	-	-
Impairment	-	-	-
Balance as at 31 December 2020	**-**	**-**	**-**
Net book value as at 31 December 2020	**203**	**4**	**207**
Net book value as at 31 December 2019	203	-	203

Amortisation charges of £nil (2019: £nil) have been charged to administration expenses (note 4).

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 three to five year period and a risk-adjusted discount rate of 6.9% (2019: 7%). The discount rate of 6.9% has been calculated in line with the Capital asset pricing model, in which the rate is set equal to the cost of equity. Cash flows beyond that period were extrapolated using a steady 2.6% growth rate.

11. Intangible assets (continued)

The medium-term growth assumptions used in the cash flow projections are the increases in premiums (3%), claims (2.5%) and expenses (1.5%). These assumptions were determined by the Head of Planning and Analysis and referenced back to the forecast/plan.

Impairment testing of this valuation indicated that the carrying amount is expected to be fully recoverable and hence no impairment is considered necessary for the 2020 year-end.

12. Land and buildings

	Owner occupied £m	Investment properties £m	Total £m
Cost			
Balance as at 1 January 2020	85	134	219
Changes to lease terms in right of use assets	1	-	1
Disposals	-	(10)	(10)
Balance as at 31 December 2020	86	124	210
Accumulated depreciation and impairment			
Balance as at 1 January 2020	44	51	95
Charge for the year	6	2	8
Disposals	-	(4)	(4)
Impairment movement	-	5	5
Balance as at 31 December 2020	50	54	104
Net book value as at 31 December 2020	**36**	**70**	**106**
Net book value as at 31 December 2019	41	83	124

The investment properties were valued at £88m (2019: £102m) 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 £4m (2019: £5m), whilst the associated operating expenses were £1m (2019: £1m). Both amounts, along with the depreciation expense of £2m (2019: £2m) are recorded in the Profit and Loss Account within investment income.

The owner occupied properties relating to freehold properties were valued at £15m as at 31 December 2020 (2019: £16m) 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 £25m (2019: £29m) of assets recognised as leases under IFRS 16. Depreciation expense of £5m (2019: £5m) 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
Balance as at 1 January 2020	29
Net increase after changes to lease terms	1
Depreciation charge	(5)
Balance as at 31 December 2020	25

Assets held for sale

Included within owner occupied property is £3m of property at Seafresh in Lytham which is now classified as held for sale because the Company is in the process of arranging its sale. No loss has been recognised on its classification as held for sale.

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2020

13. Investment in group undertakings

Particulars of subsidiary companies

Insurance companies	Address of the registered office	Holdings 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

	2020 £m	2019 £m
Carrying value as at 1 January and 31 December	**355**	355
Total investment in subsidiary undertakings	**355**	355

14. Other financial investments

	2020 £m	2019 £m
Shares and other variable yield securities	1,286	1,258
Debt and other fixed income securities	3,444	3,391
Derivative financial instruments	280	302
Loans and receivable	104	135
Total financial assets	**5,114**	**5,086**

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

	2020 £m	2019 £m
Available for sale	4,249	4,138
Fair value through profit and loss	706	699
- Held for trading	225	188
- Debt and other fixed income securities	21	21
- Share and other variable yield securities	460	490
Derivatives in hedge relationships	55	114
Loans and receivables	104	135
Total financial assets	**5,114**	**5,086**

Available for sale financial assets	2020 £m	2019 £m
Shares and other variable yield securities - equity securities:		
- listed	165	181
- unlisted	2	2
Shares and other variable yield securities - mutual funds:		
- listed	10	37
- unlisted	649	548
Debt and other fixed income securities:		
- listed	3,367	3,312
- unlisted	56	58
Total available for sale financial assets	**4,249**	**4,138**

14. Other financial investments (continued)

Included within available for sale assets - Debt and other fixed income securities are bonds with a fair value of £154m (2019: £147m), which form part of a total return swap agreement. A corresponding liability has been recorded within borrowings (note 28) for £141m (2019: £141m), 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	2020 £m	2019 £m
Real estate private loans – secured by mortgages	101	110
Secured loan facility	3	25
Total loans and receivables	**104**	**135**

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

	2020 £m	2019 £m
Derivatives held for trading	201	169
Derivatives in a hedging relationship	50	57
Mutual funds	38	69
Debt securities	(1)	(1)
Net unrealised gains in the balance sheet on investments at fair value through profit and loss	**288**	**294**

15. Reinsurers' share of technical provisions

	2020 £m	2019 £m
Reinsurers' share of provision for claims outstanding and loss adjustment expenses	226	140
Reinsurers' share of provision for unearned premiums	16	15
Reinsurers' share of technical provisions	**242**	**155**

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

	2020 £m	2019 £m
Settlement period for reinsurers' share of claims outstanding and long-term technical provisions		
Less than 12 months	41	7
Greater than 12 months	185	133
Balance as at 31 December	**226**	**140**

	2020 £m	2019 £m
Balance as at 1 January	140	144
Reinsurers' share of claims payments made in year	(19)	(19)
Increase in recoverable	105	15
Balance as at 31 December	**226**	**140**

15. Reinsurers' share of technical provisions (continued)

Reinsurers' share of provision for unearned premiums

	2020 £m	2019 £m
Balance as at 1 January	15	18
Premiums written in the year	155	131
Premiums earned in the year	(154)	(134)
Balance as at 31 December	**16**	**15**

16. Debtors arising from insurance and reinsurance operations

	2020 £m	2019 £m
Debtors arising from direct insurance operations	635	641
Policyholders	297	340
Intermediaries	338	301
Debtors arising from reinsurance operations	3	3
Total debtors arising from insurance and reinsurance operations	**638**	**644**

An age analysis of these debtors is included within the Management of Financial Risk note on page 72.

17. Other debtors

	2020 £m	2019 £m
Amounts owed from intermediate parent companies	-	5
Amounts owed from subsidiary undertakings	-	2
Amounts owed from fellow subsidiary undertakings	7	14
Salvage and subrogation	130	111
Other	18	13
Total other debtors	**155**	**145**

An age analysis of these debtors is included within the Management of Financial Risk note on page 74.

18. Tangible assets

	Leasehold improvements £m	Plant and equipment £m	Total £m
Cost			
Balance as at 1 January 2020	7	24	31
Balance as at 31 December 2020	7	24	31
Accumulated depreciation			
Balance as at 1 January 2020	7	17	24
Charge for the year	-	2	2
Balance as at 31 December 2020	7	19	26
Net book value as at 31 December 2020	**-**	**5**	**5**
Net book value as at 31 December 2019	-	7	7

Depreciation expense of £2m (2019: £1m) has been charged to administration expenses (note 4).

19. Deferred acquisition costs

	2020 £m	2019 £m
Deferred acquisition costs as at 1 January	237	234
Credit to profit and loss account in the year	(17)	3
Acquisition costs deferred during the year	501	524
Amortisation charged during the year	(518)	(521)
Deferred acquisition costs as at 31 December	**220**	**237**

20. 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 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 1 January 2020	10	54	2	1	67
(Charged)/credited to other comprehensive income	-	(2)	-	-	(2)
(Charged)/credited to the profit and loss account	(1)	3	(2)	-	-
Balance as at 31 December 2020	**9**	**55**	**-**	**1**	**65**

Deferred tax liabilities	Equalisation *reserve* £m	Other *liabilities* £m	*Total* £m
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 1 January 2020	(9)	(31)	(40)
Credited/(charged) to the profit and loss account	4	(7)	(3)
Charged to other comprehensive income	-	(7)	(7)
Charged direct to equity	-	-	-
Balance as at 31 December 2020	**(5)**	**(45)**	**(50)**

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 £15m (2019: £27m) arises primarily from trade tax losses carried forward for utilisation in future accounting periods totalling £292m (2019: £317m).

It is expected that these future tax losses will be fully utilised by 2024, this judgment is based on management approved forecasts for the period 2021 to 2024 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.

20. Deferred tax (continued)

The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2020 £m	2019 £m
Deferred tax liabilities	(50)	(40)
Deferred tax assets	65	67
Total deferred tax	**15**	**27**

21. Called up share capital and share premium

	2020 Shares	2020 £m	2019 Shares	2019 £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	2020 £m	2019 £m
Balance as at 31 December	799	799

22. Other reserves

2020	Capital contribution reserve £m	Revaluation reserve AFS assets £m	Revaluation reserve Cash flow hedge £m	Total £m
Balance as at 1 January	875	214	(10)	204
Fair value gains on AFS assets	-	62	-	62
Fair value gains on cash flow hedge	-	-	22	22
Tax on movements taken directly to equity – current and deferred tax	-	(7)	(4)	(11)
Balance as at 31 December	**875**	269	8	**277**

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**

22. Other reserves (continued)

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.

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

Movements in revaluation reserve

	2020 £m	2019 £m
Balance as at 1 January	204	93
Fair value gains	62	115
Fair value gains on AFS assets	44	115
Amortisation charge	25	17
Amortisation release	(8)	(34)
Impairment charge	19	4
Impairment release	(3)	(15)
Net realised (losses)/gains	(15)	28
Fair value gains/(losses) on cash flow hedge	22	18
Tax	(11)	(22)
Balance as at 31 December	**277**	**204**

23. Technical provisions

	2020 £m	2019 £m
Provision for claims outstanding and loss adjustment expenses	2,827	2,801
Provision for unearned premiums	1,044	1,061
Total technical provisions	**3,871**	**3,862**

Settlement period for claims outstanding		
Less than 12 months	998	1,007
Greater than 12 months	1,829	1,794
Balance as at 31 December	**2,827**	**2,801**

Provision for claims outstanding and loss adjustment expenses

	2020 £m	2019 £m
Balance as at 1 January	2,801	2,807
Total claims payments made in the year	(1,524)	(1,522)
Increase in liabilities	1,530	1,503
Exchange and other movements	20	13
Balance as at 31 December	**2,827**	**2,801**

Insurance provisions are estimates, actual experience of claims costs and expenses may vary from figures anticipated in the reserving estimates. The following table shows the impact on profit before tax of reasonably possible variations in the assumptions used to calculate the carrying value of the insurance contract liabilities at the year end.

	Increase in claims	Increase in expenses
2020		
Change in variable	5%	10%
Reduction in profit net of reinsurance before tax	£130m	£22m
2019		
Change in variable	5%	10%
Reduction in profit net of reinsurance before tax	£131m	£16m

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2020

23. Technical provisions (continued)

Provision for unearned premiums

	2020 £m	2019 £m
Balance as at 1 January	1,061	1,036
Premiums written in the year	2,262	2,313
Premiums earned in the year	(2,279)	(2,287)
Exchange and other movements	-	(1)
Balance as at 31 December	**1,044**	**1,061**

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	
	2020 %pa	2019 %pa	2020 Years	2019 Years
Periodic Payment basis	**3.3**	4.0	**36**	37

Total outstanding claims provision before discounting was £3,411m (2019: £3,400m). 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	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	Total £m
Estimate of ultimate claims costs:										
- at end of accident year	1,349	1,265	1,338	1,388	1,427	1,471	1,475	1,624	1,623	12,960
- one year later	1,487	1,391	1,434	1,593	1,687	1,699	1,663	1,615		12,569
- two years later	1,409	1,308	1,409	1,513	1,608	1,581	1,596			10,425
- three years later	1,371	1,258	1,403	1,447	1,495	1,505				8,479
- four years later	1,320	1,251	1,349	1,410	1,446					6,776
- five years later	1,308	1,209	1,337	1,395						5,248
- six years later	1,298	1,198	1,329							3,825
- seven years later	1,299	1,202								2,501
- eight years later	1,296									1,296
Current estimate of cumulative claims	1,296	1,202	1,329	1,395	1,446	1,505	1,596	1,615	1,623	13,008
Cumulative payments to date	1,273	1,165	1,283	1,321	1,337	1,238	1,228	1,061	616	10,523
Liability recognised in the balance sheet	23	37	46	73	109	267	369	554	1,007	2,485
Liability in respect of prior years										341
Total liability included in the balance sheet										**2,827**

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2020

23. Technical provisions (continued)

Accident year - Net	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	Total £m
Estimate of ultimate claims costs:										
- at end of accident year	1,337	1,250	1,324	1,375	1,411	1,455	1,421	1,611	1,528	12,712
- one year later	1,482	1,379	1,421	1,578	1,671	1,677	1,625	1,602		12,435
- two years later	1,405	1,300	1,396	1,491	1,592	1,557	1,559			10,299
- three years later	1,366	1,248	1,389	1,429	1,479	1,482				8,393
- four years later	1,317	1,243	1,333	1,396	1,431					6,719
- five years later	1,305	1,204	1,321	1,381						5,211
- six years later	1,295	1,192	1,301							3,788
- seven years later	1,296	1,186								2,482
- eight years later	1,287									1,287
Current estimate of cumulative claims	1,287	1,186	1,301	1,381	1,431	1,482	1,559	1,602	1,528	12,756
Cumulative payments to date	1,270	1,159	1,265	1,307	1,321	1,217	1,215	1,056	612	10,422
Liability recognised in the balance sheet	17	27	36	73	109	265	344	546	917	2,335
Liability in respect of prior years										266
Total liability included in the balance sheet										**2,601**

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.

24. Other provisions

	MIB provision £m	Vacant space provision £m	Other provisions £m	Total £m
Balance as at 1 January 2020	17	9	22	48
Charged to profit and loss account	31	5	20	56
Utilised during year	(23)	(3)	(36)	(62)
Balance as at 31 December 2020	**25**	**11**	**6**	**42**

	2020 £m	2019 £m
To be settled within 12 months	30	38
To be settled after 12 months	12	10
Total	**42**	**48**

a) Motor Insurers' Bureau (MIB) provision

The MIB provision relates to the levy payable in respect of 2020 premiums. The provision is assessed on 2020 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.

24. Other provisions (continued)

c) Other provisions

Other provisions include:

Fire Brigade levy, £2m

The cumulative position represents the estimated 2020 charge. There was a £1m decrease during the year.

Restructuring provision, £2m

An opening provision of £1m, with £5m added for restructuring programmes and £4m utilised during the year.

Regulatory fees and levies, £2m

An opening provision of £2m, with £2m added and £2m utilised during the year.

25. Creditors arising from insurance and reinsurance operations

	2020 £m	2019 £m
Direct insurance liabilities	79	66
Reinsurance liabilities	52	29
Total insurance and reinsurance liabilities	**131**	**95**

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

26. 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 2020, the notional amount of all derivative instruments totalled £8,951m (2019: £15,815m). Their net fair value as of 31 December 2020 totalled £97m asset (2019: £109m asset).

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.

26. Derivative financial instruments and hedging (continued)

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

The cash flow hedges effectively hedge the income stream from inflation linked bonds over the lifetime of the asset, for which maturity ranges 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.

Derivative financial instruments	2020 Contractual/ Notional Amount £m	2020 Asset £m	2020 Liability £m	2019 Contractual/ Notional Amount £m	2019 Asset £m	2019 Liability £m
Asset swaps – cash flow hedge	166	1	(23)	166	-	(17)
Cross currency swap – cash flow hedge	167	28	(4)	150	4	(2)
Interest rate swaps – fair value hedge	2,784	26	(13)	8,081	110	(76)
Total	**3,117**	**55**	**(40)**	**8,397**	**114**	**(95)**

Unrealised gains/(losses) on fair value hedges	**2020 £m**	**2019 £m**
Hedged items attributable to interest rate risk	68	60
Hedge instruments – macro	(71)	(85)
	(3)	(25)

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

Derivative financial instruments	2020 Contractual/ Notional Amount £m	2020 Asset £m	2020 Liability £m	2019 Contractual/ Notional Amount £m	2019 Asset £m	2019 Liability £m
Foreign exchange forwards	3,326	100	(61)	3,256	73	(31)
Credit default swaps	210	2	-	909	10	(5)
Currency swaps	16	-	(3)	314	2	(3)
Interest rate swaps	516	93	(76)	636	81	(56)
OTC options	524	5	-	456	5	-
Swaptions	-	-	-	634	-	-
Return swap	143	-	-	137	-	-
OTC currency options	1,075	25	(3)	1,051	17	(3)
Index futures	24	-	-	25	-	-
Total	**5,834**	**225**	**(143)**	**7,418**	**188**	**(98)**

27. Other creditors including tax and social security

	2020 £m	2019 £m
Amounts owed to intermediate parent company	1	-
Amounts owed to fellow subsidiary undertakings	86	1
Current tax liabilities	-	32
Other tax payables	66	68
Lease liabilities	37	43
Other liabilities	68	127
Total other creditors including tax and social security	**258**	**271**

Amounts expected to be settled within one year £225m (2019: £234m).
Amounts expected to be settled after one year £33m (2019: £37m).

Included within amounts owed to fellow subsidiary undertakings in 2020 is £35m relating to group relief settlements. The prior year has not been restated.

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 £7m (2019: £6m).

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

28. Borrowings

	2020 £m	2019 £m
Liability under total return swap	141	141
Total Borrowings	**141**	**141**

29. *Accruals and deferred income*

	2020 £m	2019 £m
Total accruals and deferred income	17	14

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

30. 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.

30. Retirement benefit obligations (continued)

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 (2019: £nil). 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 £283m as at 31 December 2020 (£263m surplus as at 31 December 2019). 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 £23m (2019: £26m). There were no outstanding contributions as at 31 December 2020 (2019: £nil).

The principal assumptions used by the actuaries were:

	2020	2019
Discount rate	**1.45%**	1.95%
Future pension increases	**2.75%**	2.80%
Inflation assumption for deferred members (CPI)	**1.88%**	1.95%

The discount and inflation rates disclosed within the above table represent single equivalent rates based on the cashflow profile of the scheme. The 2020 and 2019 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.

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

	2020 £m	2019 £m
Present value of obligation as at 1 January	5,433	5,055
Current service cost	6	5
Past service cost	4	-
Interest cost	93	124
Benefits paid	(215)	(206)
Remeasurements:		
Actuarial losses – financial assumptions	491	553
Actuarial (gains) – experience losses	(29)	(10)
Actuarial losses/(gains) – demographic assumptions	15	(88)
Present value of obligation as at 31 December	**5,798**	5,433

30. Retirement benefit obligations (continued)

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

	2020 £m	2019 £m
Fair value of plan assets as at 1 January	5,696	5,348
Expected return on plan assets	98	131
Benefits paid	(215)	(206)
Actuarial gains	476	399
Employer contributions paid by AXA UK plc	6	5
Asset backed contribution	20	19
Fair value of plan assets as at 31 December	**6,081**	**5,696**

Analysis of assets by category:

	2020 £m			2019 £m		
	Total Quoted £m	Total Unquoted £m	Total £m	Total Quoted £m	Total Unquoted £m	Total £m
Equities	**-**	**7**	**7**	**-**	**11**	**11**
Debt securities	**3,777**	**-**	**3,777**	**3,183**	**-**	**3,183**
Government	2,638	-	2,638	2,436	-	2,436
Corporate	833	-	833	439	-	439
Securitised debt	306	-	306	308	-	308
Property funds	**-**	**293**	**293**	**-**	**351**	**351**
Other assets	**321**	**1,356**	**1,677**	**265**	**1,569**	**1,834**
Derivatives	244		244	246	-	246
Cash	77		77	19	-	19
Loans	-	178	178	-	126	126
Investment funds	-	1,178	1,178	-	1,443	1,443
Investment in limited partnership	**-**	**319**	**319**	**-**	**316**	**316**
Longevity Hedge	**-**	**8**	**8**	**-**	**1**	**1**
Fair value of plan assets as at 31 December	**4,098**	**1,983**	**6,081**	**3,448**	**2,248**	**5,696**

31. Commitments

a) Pledged securities and collateralised commitments given

The Company pledged £100m (2019: £34m) government bonds as collateral for derivative contracts with various parties including LCH Clearnet, Natixis, Societe Generale and BNP Paribas.

The Company pledged assets of £27m (2019: £34m) 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 £87m (2019: £95m) government bonds as collateral to derivative contracts with Barclays, Credit Suisse and GS group.

31. Commitments (continued)

c) Financial commitments

Outstanding commitments at 31 December 2020 are listed in the table. These have been translated at the exchange rates prevailing at year end.

	2020 £m	2019 £m
Debt securities (2020: €nil) (2019: €13m)	-	11
Real Estate Loans £	-	47
Alternative credit fund (2020: AUD 1m) (2019: AUD 5m)	-	3
Alternative credit fund £	6	23
Alternative credit fund (2019: €73m) (2019: €121m)	65	103
Alternative credit fund (2019: $146m) (2019: $153m)	107	115
	178	**302**

32. 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 12 sets out information about the operating leases of investment property. The carrying amount of the associated assets is £70m (2019: £83m) shown within note 12.

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

Operating Leases under IFRS 16 **Expiry Date**	**2020** **£m**	**2019** **£m**
No later than 1 year	6	7
Later than 1 year and no later than 2 years	5	6
Later than 2 years and no later than 3 years	4	5
Later than 3 years and no later than 4 years	3	3
Later than 4 years and no later than 5 years	2	3
Later than 5 years	11	15
Total	**31**	**39**

33. 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.

	2020 £'000	2019 £'000
Aggregate emoluments excluding amounts receivable under long-term incentive schemes	**1,114**	917
Aggregate pension contributions: Defined Contribution	-	2
Aggregate compensation paid to directors for loss of office	-	60
Amounts attributable to highest paid director		
Aggregate emoluments	**551**	609
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. P. F. Hazell, Mr. M. R. Jackson, Mr. R. J. A. Moquet, Mr. M. A. Pain, Mr. H. M. Posner, and Mr. J. S. Wheway 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.

Share Options

No directors exercised share options or employee sharesave options during the year (2019: none).

Retirement Benefits

Retirement benefits are accruing to no directors (2019: one) under a defined contribution pension scheme and to no directors under a defined benefit scheme (2019: 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 (2019: none).

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 (2019: none).

34. 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:

	2020 £m	2019 £m
Profit and Loss Account		
Reinsurance ceded	-	2
Reinsurance assumed	**34**	19
Investment expenses and charges	**(4)**	(5)
Administrative expenses	**(19)**	(21)
Net profit and loss related party transactions	**11**	(5)
Balance Sheet		
Reinsurance debtors	**93**	84
Amounts receivable	**7**	8
Technical provisions	**(46)**	(53)
Amounts payable	**(37)**	(3)
Accruals and deferred income	**(11)**	(8)

The above reinsurance and receivables are with AXA France IARD, AXA Assicurazioni S.P.A, AXA Assistance and AXA Global Services. The technical provisions with AXA Global Services, the payables with AXA Tech Germany and the accruals with AXA France IARD, AXA Tech Germany, AXA Business Services, AXA Assistance and AXA Investment Managers UK Limited.

Reinsurance ceded is with AXA France IARD, reinsurance assumed is with AXA Global Services, investment management fees payable relate to Alliance Bernstein Limited and AXA Investment Managers UK Limited, administrative expenses relate to AXA Tech Germany, AXA Business Services, AXA Assistance and AXA Real Estate Investment Manager France and AXA Group losses including AXA XL.

35. 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.

36. 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.

37. 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.

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.

37. Management of financial risk (continued)

II. Market risk (continued)

Industry analysis

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

Equity analysis by industry	2020 £m	%	2019 £m	%
Financial	176	13.7	90	7.2%
Consumer	76	5.9	76	6.0%
Energy	10	0.8	17	1.4%
Manufacturing & Pharmaceuticals	18	1.4	19	1.5%
Utilities	7	0.5	5	0.4%
Basic materials	5	0.4	9	0.7%
Technology & Telecommunications	33	2.6	33	2.6%
Others(1)	961	74.7	1,009	80.2%
Total	**1,286**	**100.0**	**1,258**	**100.0%**

(1) Other investments include interests in mutual funds of £960m (2019: £1,007m).

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

Debt securities analysis by industry	2020 £m	%	2019 £m	%
Financial	953	27.7	909	26.8%
Consumer	455	13.2	456	13.4%
Energy	110	3.2	101	3.0%
Manufacturing & Pharmaceuticals	192	5.6	215	6.3%
Utilities	326	9.4	340	10.0%
Basic materials	68	2.0	73	2.2%
Technology & Telecommunications	272	7.9	292	8.6%
Government securities	989	28.7	914	27.0%
Others	79	2.3	91	2.7%
Total	**3,444**	**100.0**	**3,391**	**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 £119m (2019: £81m reduced profit) plus unrealised losses in the other comprehensive income of £125m (2019: £169m). A decrease of 100 basis points in interest rates would result in increased profit for the period of £139m (2019: £92m increased profit) plus unrealised gains in the other comprehensive income of £172m (2019: £216m).

An increase of 100 basis points in interest rates would increase the fair value of derivatives through income by £92m (2019: £72m). A decrease of 100 basis points in interest rates would decrease the fair value of derivatives through income by £106m (2019: £80m).

37. Management of financial risk (continued)

a) Interest rate risk (continued)

The fair value of debt securities is exposed to future interest rate fluctuations. Included in debt securities of £3,444m (2019: £3,391m) is £46m (2019: £43m) in respect of variable rate debentures and £629m (2019: £546m) 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 26 derivative financial instruments and hedging.

Listed equity securities represent 13.6% (2019: 17.2%) 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 (2019: unchanged). Unrealised gains recorded through the other comprehensive income would increase by £17m (2019: £20m).

If equity valuations had decreased by 10%, with all other variables constant, the operating result for the year would decrease by £5m (2019: £1m). Unrealised gains recorded through the other comprehensive income would decrease by £12m (2019: £19m).

An increase of 10% in the relevant market indices would decrease the fair value of equity hedging derivatives through income by £6m (2019: £7m). A decrease of 10% in the relevant market indices would increase the fair value of equity hedging derivatives through income by £9m (2019: £10m).

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 2020, if the pound had weakened by 10%, with all other variables constant, the operating result for the year would have been £9m higher (2019: 1% weakening, £2m higher), and if the pound had strengthened by 10%, with all other variables constant, the operating result for the year would have been £7m lower (2019: 1% strengthening, £2m lower). 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:

2020

	AUD		CAD		EUR		GBP		USD		JPY		Other		Total	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
AFS equities incl. mutual funds	26	3.1	2	0.2	266	32.3	432	52.4	82	9.9	7	0.8	11	1.3	**826**	**100.0**
AFS debt securities	7	0.2	14	0.4	686	20.0	1,849	54.0	754	22.1	113	3.3	-	-	**3,423**	**100.0**
FVTPL derivatives	-	-	-	-	44	15.7	109	38.9	98	35.0	29	10.4	-	-	**280**	**100.0**
FVTPL funds	-	-	-	-	31	6.7	15	3.3	414	90.0	-	-	-	-	**460**	**100.0**
FVTPL debt securities	-	-	-	-	21	100.0	-	-	-	-	-	-	-	-	**21**	**100.0**
Loans	-	-	-	-	84	80.8	20	19.2	-	-	-	-	-	-	**104**	**100.0**
	33	**0.6**	**16**	**0.3**	**1,132**	**22.1**	**2,425**	**47.4**	**1,348**	**26.5**	**149**	**2.9**	**11**	**0.2**	**5,114**	**100.0**

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2020

37. Management of financial risk (continued)

II. Market risk (continued)

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 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.

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

2020	Note	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**NR**	**Total**
		£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities	14	275	1,092	1,070	961	23	2	21	**3,444**
Loans	14	-	9	50	42	-	-	3	**104**
Derivatives	14	-	19	218	43	-	-	-	**280**
Cash		-	-	107	9	-	-	-	**116**
Total		**275**	**1,120**	**1,445**	**1,055**	**23**	**2**	**24**	**3,944**
Percentage		**7.0%**	**28.4%**	**36.6%**	**26.7%**	**0.6%**	**0.1%**	**0.6%**	**100%**

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2020

37. Management of financial risk (continued)

III. Credit risk (continued)

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.

2019	Note	AAA	AA	A	BBB	BB	B	NR	Total
		£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	14	284	994	1,029	1,002	4	1	77	**3,391**
Loans	14	-	8	81	46	-	-	-	**135**
Derivatives	14	-	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.

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
2020						
Direct insurance operations	**640**	**-**	**-**	**-**	**(5)**	**635**
Reinsurance operations	**-**	**-**	**2**	**2**	**(1)**	**3**
2019						
Direct insurance operations	613	24	4	2	(2)	641
Reinsurance operations	-	2	1	1	(1)	3

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.

a Credit risk information for financial instruments passing the SPPI test

2020	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	Other £m	Total £m
Debt instruments								
Available for sale								
Gross carrying amount	272	891	1,018	908	23	3	-	3,115
Fair value	275	1,092	1,067	952	23	2	-	3,411

2020	Current £m	Total £m
Loans		
At cost		
Gross carrying amount	104	104
Fair value	104	104

37. Management of financial risk (continued)

III. Credit risk (continued)

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

b SPPI test

2020	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	3,411	65	12	1
Fair value through profit and loss			21	(1)
Derivatives				
Held for trading	-	-	225	146
In hedge relationships	-	-	55	(120)
Equity instruments				
Available for sale	-	-	167	(19)
Mutual funds				
Available for sale	-	-	659	15
Fair value through profit and loss	-	-	460	(12)
Loans				
At cost	104	1	-	-
Total	**3,515**	**66**	**1,599**	**10**

37. Management of financial risk (continued)

III. Credit risk (continued)

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**

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.

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.

2020	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	-	-	-	-	1,286	**1,286**
Debt Securities	164	357	829	2,094	-	**3,444**
Loans and receivables	4	29	46	25	-	**104**
Other debtors	145	10	-	-	-	**155**
Cash at bank and in hand	116	-	-	-	-	**116**
Total non-derivative financial assets	**429**	**396**	**875**	**2,119**	**1,286**	**5,105**
Derivative financial instruments	92	26	33	129	-	**280**
Total financial assets (note 14, 17 & 26)	**521**	**422**	**908**	**2,248**	**1,286**	**5,385**

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2020

37. Management of financial risk (continued)

IV. Liquidity risk (continued)

2020	Less than 1 year £m	1-5 Years £m	Over 5 years £m	Total £m
Financial liabilities				
Claims outstanding*	998	1,135	1,278	**3,411**
Direct insurance operations (note 25)	79	-	-	**79**
Reinsurance operations (note 25)	52	-	-	**52**
Other liabilities	225	33	-	**258**
Lease liabilities*	6	31	-	**37**
Other liabilities	219	2	-	**221**
Borrowings (note 28)	4	77	60	**141**
Total non-derivative financial liabilities	**1,358**	**1,245**	**1,338**	**3,941**
Derivative financial instruments (note 26)	65	3	115	**183**
Total financial liabilities	**1,423**	**1,248**	**1,453**	**4,124**

* 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.

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 14, 17 & 26)	445	239	1,013	2,383	1,258	5,338

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 25)	66	-	-	**66**
Reinsurance operations (note 25)	29	-	-	**29**
Other liabilities	148	23	17	**188**
Lease liabilities*	7	23	17	**47**
Other liabilities	141	-	-	**141**
Borrowings (note 28)	4	61	76	**141**
Total non-derivative financial liabilities	**1,254**	**1,268**	**1,302**	**3,824**
Derivative financial instruments (note 26)	31	27	135	**193**
Total financial liabilities	**1,285**	**1,295**	**1,437**	**4,017**

* The claims outstanding amounts represent the undiscounted cash flows, in contrast to the total amount reported within note 23 which is on a discounted basis.

37. Management of financial risk (continued)

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.

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

	2020 **£m**	**2019** **£m**
Equity shareholders' funds	**2,581**	2,524
Full market value of assets	**65**	68
Intangible assets and Deferred acquisition costs	**(385)**	(400)
Best estimate liabilities and market value margin	**(35)**	156
Other	**(10)**	-
Solvency II financial capital resources	**2,216**	2,348
SCR	**1,448**	1,452
MCR	**449**	451
Solvency II financial capital resources/SCR	**143.4%**	147.9%

The Company has reviewed capital resources and requirements on an economic basis as at the end of 2020. 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 2020, the Company had a foreseeable dividend of £140m which reduces the Eligible Own Funds from £2,216m to £2,076m.

37. Management of financial risk (continued)

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 following table provides a breakdown into the key classes of business.

Technical provisions by class of business	**2020 £m**	**2019 £m**
Motor	**1,778**	1,903
Annuities	**202**	173
Accident and health	**53**	59
Third party liability	**745**	785
Fire and other damage to property	**916**	782
Marine, aviation and transport	**58**	60
Credit and suretyship	**1**	1
Legal	**8**	6
Miscellaneous	**110**	93
Total technical provisions	**3,871**	3,862

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.

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.

37. Management of financial risk (continued)

General insurance contracts: assumptions and change in assumptions (continued)

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 ultimate loss ratio roll-forward methods).
- 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 23).

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 2020 for the estimation of general insurance claims. The allowance of uncertainties is reviewed annually considering the evolution of risks and uncertainties.

37. 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 2020

Description	2020 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets at fair value through profit and loss	**706**	-	649	57
Derivative financial instruments	225	-	225	-
Mutual funds	460	-	403	57
Debt securities	21	-	21	-
Available for sale financial assets	**4,249**	2,725	1,514	10
Equity investments	167	157	8	2
Debt securities	3,423	2,568	855	-
Mutual funds	659	-	651	8
Derivative financial instruments for hedging	**55**	-	55	-
Total financial assets at fair value	**5,010**	**2,725**	**2,218**	**67**

Description	2020 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial liabilities at fair value through profit and loss	**183**	-	183	-
Derivative financial instruments	143	-	143	-
Derivative financial instruments for hedging	40	-	40	-
Total financial liabilities at fair value	**183**	**-**	**183**	**-**

Fair value of investments recognised at amortised cost presented in the fair value measurement hierarchy at 31 December 2020

Description	2020 £m	Level 1 £m	Level 2 £m	Level 3 £m
Fair value of investments at amortised cost				
Investment property (note 12)	88	-	88	-
Total	**88**	**-**	**88**	**-**

37. Management of financial risk (continued)

VII. Fair value estimation (continued)

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**	-	650	49
Derivative financial instruments	188	-	188	-
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**	**2,948**	**1,944**	**59**
Financial liabilities at fair value through profit and loss	**193**	-	193	-
Derivative financial instruments	98	-	98	-
Derivative financial instruments for hedging	95	-	95	-
Total financial liabilities at fair value	**193**	**-**	**193**	**-**

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 12)	**102**	**-**	**102**	**-**
Total	**102**	**-**	**102**	**-**

Derivative financial assets of £89m and derivative financial liabilities of £42m that were incorrectly disclosed within Level 1 in the prior period have been classified as Level 2 in the tables above. £174m (2019: £119m) of debt securities were transferred from Level 1 to Level 2 during the year and £35m (2019: £43m) of debt securities were transferred from Level 2 to Level 1. £nil (2019: £7m) of derivative liabilities were transferred from Level 2 to Level 1 during the year. £nil (2019: £6m) 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.

37. *Management of financial risk (continued)*

VII. Fair value estimation (continued)

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 XI(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.

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 Ardian Global Debt 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% of the Level 3 instruments, would result in a decrease in the fair value of the asset and other comprehensive income of £13.4m (2019: 11.8m).

The following table presents the changes to Level 3 instruments for the year ended 31 December 2020:

	Available for sale			FVPL	
Description	**Equity securities £m**	**Debt securities £m**	**Mutual funds £m**	**Mutual funds £m**	**Total £m**
Opening balance	2	-	8	49	59
Total gains or losses in other comprehensive income	-	-	1	-	1
Losses recognised in profit and loss	-	-	-	(2)	(2)
Transfers in	-	-	-	13	13
Transfers out	-	-	-	(15)	(15)
Purchases	-	-	-	12	12
Settlements	-	-	(1)	-	(1)
Closing balance	**2**	**-**	**8**	**57**	**67**

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
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**