Registered Number: 03148119

AXA PPP HEALTHCARE LIMITED

Annual Financial Report

for the year ended 31 December 2020

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

Registered Number: 03148119

AXA PPP healthcare limited

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AXA PPP healthcare limited

Company Information

Directors

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

Company Secretary

C. A. Riddy

Independent Auditor

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

AXA PPP healthcare limited

Strategic Report

The directors present their Strategic Report on AXA PPP healthcare limited ("AXA Health" or "the Company") for the year ended 31 December 2020.

REVIEW OF THE BUSINESS

The Company's principal and ongoing activity is the writing of medical insurance business.

Results and performance

The results of the Company for the year show a profit on ordinary activities before tax of £116m (2019: £125m).

The underwriting result, equal to the balance on the technical account for general business including other operational income and expenses, shows a profit of £102m (2019: £118m). Premiums have decreased by £27m (2%) from prior year due to the pandemic impact on both UK and International business, plus lower demand for travel insurance. The provision for unearned premiums has increased by £124m due both to an amendment in the earning pattern of premiums from a time apportioned basis to mainly a risk incidence basis to account for the expected catch-up of delayed treatments, plus a provision for the return of premiums expected to members arising from AXA Health's Customer Promise.

Delayed treatments from the restrictions on access to hospitals during the year has meant claims incurred net of reinsurance have decreased by £151m (14%). As the lockdown restrictions are lifted claims costs are expected to largely catch-up in 2021 and has been accounted for within the adjustment to the earning pattern of premiums.

There has been an increase in administration expenses of £12m (9%) largely due to costs associated with increased homeworking alongside wage inflation.

The investment return for the year, relating to the investment amounts in the non-technical result, is a profit of £14m (2019: £7m), further analysis is provided in notes 6, 7 and 8. The increase in the investment return is mainly due to higher realised gains on equities due to increased disposals in the current year, plus foreign exchange gains. This is partially offset by decreases in the values of fair value through profit and loss funds and reduced income from debt securities.

Other operating income of £25m (2019: £24m) relates to non-insurance business administration fees. Other operating expenses of £32m (2019: £31m) includes restructuring costs of £4m (2019: £4m), foreign exchange losses of £2m (2019: £2m), current year contributions to the AXA UK Pension Scheme of £nil (2019: £1m) and £26m (2019: £24m) relating to non-insurance business.

The procedures, outlined in the principal risks and uncertainties, put in place by the Company identified 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 significant credit events that have occurred prior to 31 December 2020 have been considered.

Business environment

The private medical insurance market remains challenging and competitive, with affordability providing considerable challenge, in particular to the acquisition and retention of individual customers.

Strategy

The Company follows the AXA Health group strategy that supports its members to live life well as a health partner rather than just a health payer; guiding members through their health & wellbeing journey. Amidst the challenges posed by the pandemic in 2020, AXA Health demonstrated a strong performance throughout, including a significant improvement in customer satisfaction and NPS, achieving the highest ever satisfaction scores from AXA Health members; an NPS of +31 was achieved on Individual (at market average) and +23 on Group (+2 vs market average). AXA Health's current strategy continues to be valid and implementation remains on track with a shift in focus and slight change of pace for certain initiatives in response to COVID-19.

AXA PPP healthcare limited

Strategic Report (continued)

AXA Health's strategy for 2021 will continue to focus on five core themes 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 premiums written	**£1,557m**	£1,584m	Reflected in the General Business technical account
Profit before tax	**£116m**	£125m	Reflected in the Profit and Loss account
Loss ratio	**(64.8%)**	(68.0%)	Ratio of claims incurred net of reinsurance, to earned premiums net of reinsurance including other operating income
Equity shareholder's funds	**£360m**	£336m	Reflected on the Balance Sheet

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 healthcare business arise mainly from events outside of the Company's control, such as fluctuations in the timing, frequency and severity of claims compared to expectations. Underwriting, reserving and reinsurance strategies may also give rise to risk and uncertainty through inaccurate pricing, inadequate reinsurance protection and inadequate reserving; these are largely within management's control and strategies are communicated clearly throughout the business through policy statements and guidelines. In addition, the business is exposed to a range of operational risks with both internal and external drivers, which are managed through the same overarching risk management framework. These include conduct risk and the treatment of vulnerable customers, the uncertainty and potential impacts of COVID-19, Brexit, risks concerning cyber and data protection management, as well 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 55 to 68 of the financial report.

FUTURE DEVELOPMENTS

The Company has a number of initiatives to develop business capability and to strengthen the customer proposition, in line with its strategic goals.

Over the coming years, AXA PPP will focus on developing both new and improved propositions which meet broad customer health needs, including through better leverage of data. In parallel, the business will invest in programmes to simplify and strengthen the foundations and capabilities of the business.

As mentioned in the Directors' Report the impact of the COVID-19 pandemic is being monitored and plans are being established and implemented to manage the effects of the outbreak and assess disruptions and other risks to its operations.

The Directors are monitoring potential adverse effects of the spread of COVID-19 on the Company's business activities, in particular, the scope and severity of any further downturn in global financial markets and the global economy and consequential impacts on our investment portfolio; the extent of insurance coverage impacted, and on new business. Depending on the rate of transmission and related mortality, COVID-19 may have significant adverse effects on our business, operations and financial results. To date the largest impact is the "Customer Promise" not to profit from the pandemic. The directors consider that the financial impact of the COVID-19 virus on the UK economy and the Company is not currently estimable with any degree of certainty.

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

The principal and ongoing activity of AXA PPP healthcare limited ("AXA Health" or the "Company") is the writing of medical insurance business.

The directors 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 PPP Healthcare Group 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.

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Strategic Report (continued)

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

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

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

Methods of engagement

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

- *Customers:* The Company strives to build trusted relationships with customers and to always treat them fairly, providing commitment to its customers that the business delivers against its purpose, 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 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 once again been awarded Platinum Trusted accreditation). NPS survey findings are also used to improve customer engagement with knowledge being shared across all of our business. Customer focus groups are led by the Customer Insights team. These insights help shape customer experience, service and communications to make sure they are relevant and useful to our customers.

- *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.

  Vox is AXA Health's consultative body representing all employees and managers. It meets every month to discuss new ideas, policy changes and business matters affecting employees and managers.

  Within AXA Health, additional employee forums were established in 2020:
  - 'Not the usual suspects' - used to help develop retail propositions
  - 'The sounding board' - used to gather feedback on the business' transition into its new brand 'AXA Health'.

  The forums seek feedback from employees, to identify where progress can be made, contributing to the business' action plans. Regular, usually monthly, live exchange telephone sessions are held with the CEO and leadership team. These sessions enable two-way dialogue between the leadership team and employees through Question and Answer sessions. The 'Switch It' campaign used for the internal launch of AXA Health has been a key method of engagement, encouraging employees to have the courage to think differently about the small changes they can make to 'switch things up'.

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 as so allow AXA to continue to support its customers.

  The Company reports bi-annually on its payment practices in accordance with Section 3 of the Small Business, Enterprise and Employment Act 2015. For the six-month period to 31 December 2020 the Company made 99% of its payments to suppliers within 30 days or less (2019: 97%).

  Engagement with hospital providers increased during the pandemic to inform comprehensive communications that were issued internally and externally. This was particularly useful for Customer Service, allowing for appropriate member communication and direction, and to inform and engage AXA Health's Intermediary community.

- *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.

- *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 95% of the electricity used across its UK operations against renewable generation (REGO certified) and also has a number of solar generation installations on its estate. 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 a 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.

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Strategic Report (continued)

- *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. The Company has supported society during a time of national crisis in the pandemic, by allowing some of its clinically trained staff the opportunity to volunteer with the NHS.

- *Investors:* The Company engages with its 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 Health 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.

- 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.

- 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 April 2020, in response to the pandemic and subject to terms and conditions, the Company announced the 'customer promise' to address customers' concerns about premium payments whilst they were unable to claim for private treatment costs. The scheme committed to provide a rebate of premium to its small corporate and individual policyholders should the average claims ratio over 2020 and 2021 be less than that for 2019. For larger corporate schemes, a longer-term two-year case-by-case approach to reviewing clients' funding was made available to clients, with either any COVID-19 exceptional profit to be shared retrospectively or with premium payments smoothed, to ensure stable pricing while delayed treatments catch up. In each case, the fair and consistent treatment of customers was paramount, engagement of the Regulators was sought and internal representatives from Corporate, SME and Individual Sales, who were in in close contact with customers and brokers as the situation evolved, were consulted.

- During the pandemic, AXA Health extended a range of value-enhancing services to customers, including virtual GP, the Thrive app (for mental health), enhanced cash benefits if customers were hospitalised and clinical support services to deliver remote specialist consultations and diagnostics.

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Strategic Report (continued)

- Towards the end of 2019, the Company announced plans to rationalise a number of existing brands under a new "AXA Health" identity, following an extensive brand review which engaged various stakeholders including customers, prospective clients and broker communities to understand how the business is perceived by the market and how the Company can serve its stakeholders better. The more unified, simpler approach to brand was announced to the market during October 2020, with key partners and regulators informed at the same time as employees to ensure early information was available to all. Work continues on the proposed two-year implementation programme to simplify the Company's legal entities and integrate brands, people and business lines. The project is formed of several workstreams to ensure that all relevant stakeholders are engaged at the right stage of the project. Understanding there will be a transition period for our customers, all customer groups (Individual, SME and Corporate), as well as brokers, partners, affiliates and providers, were proactively contacted to reassure them that the consolidation of companies and brands will enable AXA Health to serve them more efficiently.

- 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.

- During the year the Board approved the payment of two interim dividends totalling £70 million; £40 million in April 2020 and £30 million in December 2020. These payments were funded through profits made during the year and/or drawn from available reserves and were made in accordance with the principles and practices of the AXA UK Capital Management Policy, which the directors consider appropriate to the Company, including:

  - Maintaining a level of capital consistent with Board approved risk appetite statements
  - Maintaining sufficient resources to fund planned growth
  - Compliance with Solvency 2 rules and regulations
  - Compliance with any additional local regulatory capital management rules and requirements

  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
31 March 2021

AXA PPP healthcare limited

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 55 to 68 of the financial report.

The Company has considerable financial resources and detailed budgets have been prepared and reviewed setting out the continued financial position of the Company for the next 12 months together with a strategic plan to 2024. The directors therefore believe that the Company is well placed to manage its business risks despite the current uncertain economic outlook arising from the current COVID-19 pandemic, and, the directors have a reasonable expectation, based on sensitivity analysis, that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual financial report.

DIVIDENDS

Total dividends paid in the year were £70m (£40m in May 2020 and £30m in December 2020). Both were settled in cash.

DIRECTORS

The directors of the Company who were in office during the year and up to the date of signing the financial report are shown on page 1. The directors who have served for part of the year are given below:

H. M. Posner resigned as a director of the Company on 31 January 2020
J. S. Wheway was appointed as chairman of the Company on 1 February 2020
A. M. Breitburd resigned as a director of the Company on 31 March 2020
R. J. Moquet was appointed as a director of the Company on 21 April 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 report.

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 55 to 68 of the financial report. 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 operates a branch in Malta, which accounts for 0% (2019: 0%) of gross written premium. The branch ceased selling direct insurance from 31 March 2019. Therefore no new business is being sold but the branch is in run off until all outstanding claims are settled.

POLITICAL DONATIONS

The Company made no donations for political purposes.

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Directors' Report (continued)

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	**5,418,221**
Emissions (tonnes CO2e)	
Scope 1	
Emissions from combustion of gas	**284**
Scope 2	
Emissions from purchased electricity (location)	**916**
Emissions from purchased electricity (market)	**46**
Scope 3	
Emissions from business travel in contract hire cars or employee-owned vehicles	**24**
Total gross emissions	
Location-based	**1,224**
Market-based	**354**
Intensity Ratio (tonnes CO2e)	
Total gross emissions per m2 of office floor space	
Location based	**0.046**
Market based	**0.013**
Scope 3 gross emissions per thousand miles travelled	**0.271**

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Directors' Report (continued)

Energy efficiency

During the year over 110,000 kwh of energy has been generated using solar energy at the Company's Bristol and Tunbridge Wells sites.

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
31 March 2021

AXA PPP healthcare limited

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXA PPP HEALTHCARE LIMITED

Opinion

We have audited the financial statements of AXA PPP healthcare limited (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;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Company's future financial performance;
- Challenging the appropriateness of the directors' key assumptions in their forecasts, as described in Note 1.l, by understanding key assumptions, assessing the directors' consideration of severe but plausible scenarios and performing alternative scenario analysis to stress the forecasts;
- Assessing the historical accuracy of forecasts prepared by the directors;
- Considering the consistency of the directors' forecasts with other areas of the financial statements and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

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.

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 healthcare claims outstanding and loss adjustment expenses:	
The estimation of the liability to customers which the Company may have to pay in respect of outstanding healthcare claims and associated loss adjustment expenses that have been incurred but not reported (IBNR) involves significant estimate and judgement, with £177m provided at 31 December 2020. Further details are set out in accounting policy note 24 in the financial statements. This involves management making a best-estimate of the ultimate cost of all claims incurred but not reported at 31 December 2020, together with the related costs of settling the claims. A range of statistical and actuarial methods are used to build models which estimate the liability for claims not yet reported or where an insufficient amount has been provided. Healthcare claims tend to be paid relatively quickly and the assumptions underlying the estimate are related to the historical cost of claims notified, cost of settling the claim and the pattern of the timing of the payment of claims historically, which are used in the models to project what might be paid out to customers. An additional amount is provided by management to reflect the risk that using historical data may not capture all future uncertainties.	We considered the directors' assessment of the valuation of healthcare claims by performing the following procedures: • Assessed the design and implementation and tested the operating effectiveness of the key controls around the valuation of the healthcare contract liabilities; • For a sample of business types, 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 technical provision. Our audit team included actuarial specialists who performed the following procedures: • 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; • Performed an actual vs. expected analysis on the paid claims data; and • Benchmarked the Company's loss ratios against the UK medical expense market.

AXA PPP healthcare limited

Independent Auditor's Report (continued)

<table>
<tr><td>Provision is also made where the cost of claims is in dispute with the healthcare provider.</td><td>Our observations

We found the technical provision established by the Company acceptable.</td></tr>
<tr><td>Pandemic response – customer promise and reconsideration of the premium earning pattern

In the year ended 31 December 2020, the Company announced the 'customer promise', which committed the Company to providing a rebate to certain healthcare policyholders in Q1 2022 should the average loss ratio in the years ending 2020 and 2021 combined be lower than the loss ratio in the year ended 31 December 2019 with the rebate being the total amount of the claim shortfall. The rebate applies only to UK small and medium companies and individual policy holders. This resulted in the recognition of an additional £31.1m in the provision for unearned premium.

As private hospitals in the United Kingdom focussed on providing support to the NHS in 2020 due to the Covid-19 pandemic, the Company experienced a lower level of healthcare claims incurred in the year in comparison to previous years. However, the Company expects a higher than normal level of claims incurred in the year ended 31 December 2021, due to the 'catch up' on treatments that would otherwise have been completed and claimed in the year ended 31 December 2020 if there had been no Covid-19 pandemic in addition to treatments that are generally expected to be completed in the year. This resulted in the recognition of an additional £91.3m in the provision for unearned premium.

We deemed this arrangement as complex due to its unique nature, its accounting treatment and in determining the appropriate assumptions and value to recognise in the financial statements.</td><td>We considered the directors' assessment of the impact of the Customer Promise by performing the following procedures:

• Assessed the design and implementation of the key controls around customer promise;
• Challenged management's accounting treatment of the customer promise and ensured that the recognition is in line with the requirements of the accounting standards;
• Evaluated the methodology and assumptions selected by management in determining the impact of the customer promise rebate and the premium earning pattern;
• Reviewed the key data inputs that were used to determine the impact of the customer promise and the premium earning pattern on the provision for unearned premiums; and
• Reviewed the disclosures in the financial statements in respect of the customer promise and premium earning profile and checked them for compliance with relevant accounting standards.

Our observations

We found the provision for unearned premiums in respect of the customer promise rebate and the reconsideration of the premium earning pattern established by the Company acceptable and the disclosures appropriate.</td></tr>
</table>

Independent Auditor's Report (continued)

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 set at £14.0m
How we determined it	1% of earned premiums, net of reinsurance
Rationale for benchmark applied	In determining our materiality, we considered financial metrics which we believe 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 £10.5m was applied in the audit.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £0.7m 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, it's 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 other information comprises the information included in the Annual Financial Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. 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 course of 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 by the Company, 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 Statement of Directors' Responsibilities set out on page 11, 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 the breaches of regulatory requirements of the PRA and the FCA. We also considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Companies Act 2006 and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements.

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

- At 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 relation to revenue recognition (which we pinpointed to the potential to inappropriately record 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.

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 ending 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 PPP healthcare limited

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.

L Finch
Leanne Finch (Mar 31, 2021 13:14 GMT+1)

Leanne Finch (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

31 March 2021

AXA PPP healthcare limited

Profit and Loss Account
for the year ended 31 December 2020

General business technical account

	Note	2020 £m	2019 £m
Gross premiums written	2	1,557	1,584
Outward reinsurance premiums		(29)	(29)
Net premiums written		1,528	1,555
Change in provision for unearned premiums			
- gross amount		(124)	4
- reinsurers' share		(2)	-
Net change in provision for unearned premiums		(126)	4
Earned premiums, net of reinsurance		1,402	1,559
Claims paid			
- gross amount		(927)	(1,111)
- reinsurers' share		20	22
Total claims paid		(907)	(1,089)
Change in the provision for claims			
- gross amount		(17)	13
- reinsurers' share		(1)	-
Total change in provision for claims		(18)	13
Claims incurred, net of reinsurance		(925)	(1,076)
Acquisition expenses	3	(220)	(222)
Administration expenses	4	(148)	(136)
Net operating expenses		(368)	(358)
Balance on the technical account for general business		109	125

All transactions relate to continuing operations.

AXA PPP healthcare limited

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

Non-technical account

	Note	2020 £m	2019 £m
Balance on the general business technical account		109	125
Investment income	6	29	22
Net unrealised gains on investments at fair value through profit and loss	7	14	9
Investment expenses and charges	8	(29)	(24)
Other operating income	9	25	24
Other operating expenses	10	(32)	(31)
Total balance on the non-technical account		7	-
Profit on ordinary activities before tax		116	125
Tax on profit on ordinary activities	11	(23)	(24)
Profit for the financial year		93	101

All transactions relate to continuing operations.

The information on pages 25 to 68 forms an integral part of these financial statements.

AXA PPP healthcare limited

Statement of Comprehensive Income
for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Profit for the financial year after tax		93	101
Other comprehensive income:			
Items that may be subsequently reclassified through profit and loss			
Investments classified as available for sale			
Fair value gains		5	16
Fair values (losses)/gains transferred to profit and loss on disposal		(7)	2
Fair value gains on derivatives in a cash flow hedge		1	-
Tax effect of items recognised in other comprehensive income – current tax and deferred tax	11	2	(3)
Other comprehensive income net of tax		1	15
Total comprehensive income for the year attributable to the equity shareholders of the Company		94	116

All transactions relate to continuing operations.

The information on pages 25 to 68 forms an integral part of these financial statements.

Registered Number: 03148119

AXA PPP healthcare limited

Balance Sheet
as at 31 December 2020

	Note	2020 £m	2019 £m
ASSETS			
Intangible assets			
Goodwill	13	**8**	8
Other intangible assets	13	**11**	6
Total intangible assets		**19**	14
Investments			
Land and buildings	14	**45**	50
Other financial investments			
Shares and other variable yield securities	15	**217**	159
Debt and other fixed income securities	15	**602**	534
Derivative financial instruments	15,27	**16**	25
Loans and receivables	15	**16**	17
Total investments		**896**	785
Reinsurers' share of technical provisions			
Provision for unearned premiums	16	**6**	8
Claims outstanding and loss adjustment expenses	16	**1**	2
Total reinsurers' share of technical provisions		**7**	10
Debtors			
Debtors arising from direct insurance operations	17	**360**	382
Debtors arising from reinsurance operations	17	**79**	66
Other debtors	18	**35**	35
Total debtors		**474**	483
Other assets			
Tangible assets	19	**1**	2
Cash at bank and in hand		**58**	51
Total other assets		**59**	53
Prepayments and accrued income			
Deferred acquisition costs	20	**75**	77
Deferred tax asset	21	**-**	2
Prepayments and accrued income		**4**	3
Total prepayments and accrued income		**79**	82
TOTAL ASSETS		**1,534**	1,427

AXA PPP healthcare limited

Balance Sheet (continued)
as at 31 December 2020

	Note	2020 £m	2019 £m
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	22	**185**	185
Revaluation reserve	23	**18**	17
Profit and loss account		**157**	134
Equity shareholder's funds		**360**	336
Technical provisions			
Provision for unearned premiums	24	**771**	647
Claims outstanding and loss adjustment expenses	24	**177**	160
Total technical provisions		**948**	807
Provisions for other risks			
Other provisions	25	**12**	12
Creditors			
Creditors arising from direct insurance operations	26	**47**	53
Creditors arising from reinsurance operations	26	**26**	13
Derivative financial instruments	27	**9**	16
Other creditors including tax and social security	28	**99**	146
Total creditors		**181**	228
Accruals and deferred income	29	**33**	44
TOTAL EQUITY AND LIABILITIES		**1,534**	1,427

The financial statements on pages 19 to 68 were approved and authorised for issue by the Board of Directors on 31 March 2021 and were signed on behalf of the Board by:

R. J. A. Moquet
Director

AXA PPP healthcare limited

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

2020	Called up share capital £m	Revaluation reserve £m	Profit and loss account £m	Total £m
Balance as at 1 January	185	17	134	**336**
Profit for the year	-	-	93	**93**
Other comprehensive income:				
Fair value losses on available for sale financial assets	-	(2)	-	**(2)**
Fair value gains on derivatives in a cash flow hedge	-	1	-	**1**
Tax effect of items recognised in other comprehensive income – deferred tax	-	2	-	**2**
Total comprehensive income for the year	**-**	**1**	**93**	**94**
Transactions with owners:				
Dividends paid on equity shares	-	-	(70)	**(70)**
Balance as at 31 December	**185**	**18**	**157**	**360**

2019	Called up share capital £m	Revaluation reserve £m	Profit and loss account £m	Total £m
Balance as at 1 January	185	2	133	**320**
Profit for the year	-	-	101	**101**
Other comprehensive income:				
Fair value gains on available for sale financial assets	-	18	-	**18**
Tax effect of items recognised in other comprehensive income – deferred tax	-	(3)	-	**(3)**
Total comprehensive income for the year	**-**	**15**	**101**	**116**
Transactions with owners:				
Dividends paid on equity shares			(100)	**(100)**
Balance as at 31 December	**185**	**17**	**134**	**336**

The information on pages 25 to 68 forms an integral part of these financial statements.

General Information

The Company underwrites medical insurance business mainly in the United Kingdom ("UK").

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

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 the 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 or 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 financial impact of the COVID-19 virus on the UK economy and the Company is not currently estimable with any degree of certainty. In considering the potential impact on the Company, the directors have prepared various financial projections which incorporate the impact on trading, unemployment levels, financial markets and GDP, covering short, medium and longer-term time scales.

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 in 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 £1m (2019: £1m), with the cumulative effect on net assets being an increase of £5m (2019: £4m).

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'.

I. Basis of preparation (continued)

(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'.
(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.

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 2018. This information is set out in the 'Management of financial risk' note on pages 59 and 60.

III. Changes in accounting standards, accounting policies and disclosures

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 addition, substantially all of the business underwritten represents a single class of insurance and is the basis through which business is reported.

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 either 'investment income' or 'investment expenses and charges'.

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 medical 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 medical 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 risk incidence basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

b) Insurance claims

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and for claims incurred but not enough reported ("IBNR and IBNER" respectively) and related expenses, together with any adjustments to claims from previous years. A claim is recognised at the point eligible medical service costs are incurred by members under the terms of their policy.

c) Technical provisions

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. 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.

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 statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

Allowance is 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;
- changes in the mix of business; and
- the impact of large losses.

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.

Healthcare business is short tail. The total costs of claims paid by the Company at the balance sheet date is used to project the expected total cost for claims incurred by reference to statistics which show how the total cost of claims paid in previous periods have developed over time.

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

d) 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.

e) 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. If following these assessments a deficiency is identified, the full deficiency is recognised as an unexpired risk reserve.

f) 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

a) Goodwill

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

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

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

b) Customer related intangible

Customer related intangible assets arose through the acquisition of the Simplyhealth PMI business and a segment of PMI policies from former fellow subsidiary, Health and Protection Solutions Limited. These assets relate to the future income stream which will be generated through the renewal of insurance policies held by existing customers. The customer related intangible is measured on initial recognition at fair value at the date of acquisition. Following initial recognition, the customer related intangible is carried at cost less any accumulated amortisation and any accumulated impairment losses. The customer related intangible is amortised on a straight line basis over 10 years.

c) Software development

Costs associated with major software developments are capitalised where such expenditure is expected to generate future economic benefits and can be reliably measured. The asset is amortised from the point at which it starts to generate economic benefit on the straight line basis over its estimated useful life, subject to a maximum period of 5 years.

IX. Land and buildings

Land and buildings comprise freehold property occupied by the Company. Land and buildings 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.

X. 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.

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 adjustments from the revaluation reserve are 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 at bank and in hand'.

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 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.

XI. Financial assets (continued)

d) Fair value estimation (continued)

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

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.

Level 3 valuation techniques

Investments in 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. Impairment of assets

a) Financial assets carried at amortised cost

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

An impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through an allowance account and the amount of the loss is recognised in the Profit and Loss Account.

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

b) Available for sale financial assets

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

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

XII. Impairment of assets (continued)

b) Available for sale financial assets (continued)

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

XIII. Derivative financial instruments

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

Derivative financial instruments are designated as held for trading and measured at fair value, with gains and losses recognised in profit and loss, unless they are designated an effective hedging instruments.

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

Embedded derivatives 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

Hedge accounting recognises the offsetting effects on profit and loss of changes in the fair values of the hedging instrument and the hedged item. The Company designates certain derivatives as being held for the purpose of hedging the fair value of recognised assets or liabilities, as a fair value hedge.

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 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 27.

XIII. Derivative financial instruments (continued)

c) Cash flow hedge

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

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

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

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

d) Ineffective hedge

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

XIV. Tangible assets

Tangible assets comprise mainly computer hardware, furniture and fittings. Tangible assets 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.

Tangible assets are depreciated using the straight line method on the basis of their expected useful lives of between 5 and 10 years, after taking into account the estimated residual value.

XV. Cash at bank and in hand

Cash comprises cash in hand, demand deposits with banks and other short term highly liquid investments which are subject to an insignificant risk of a change in value. Bank overdrafts are shown within borrowings in current liabilities.

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. 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.

XVIII. Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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.

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.

XIX. 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 a result 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 employed by AXA PPP Healthcare Group Limited, a fellow subsidiary, 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.

XX. Accruals and deferred income

Accruals are recognised when goods or services have been received or supplied but not invoiced. The amount recognised is the best estimate of the expenditure required to settle the obligation, however the uncertainty is much less than for provisions. These will be recognised as creditors once invoiced.

Deferred income is money received for services that have not yet been provided. Deferred income relating to insurance policies will be derecognised once the policies are written. Deferred income relating to advanced payments received for rents will be derecognised over the lease period that the payments relate to.

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.

XXII. Leases

Lessee accounting

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

The right of use asset is initially measured at cost, which comprises the initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or the site on which it is located and the cost of obligation to refurbish the asset, less any incentives received. The right of use asset is subsequently depreciated over the useful life of the underlying asset. 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.

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

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

Lessor accounting

Leases are classified as operating leases where a significant proportion of the risks and rewards of ownership of the asset concerned are retained by the lessor. Payments made under operating leases, less any incentives received from the lessor, are charged 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) 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.

XXV. Revenue recognition (continued)

c) Rental income

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

d) 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.

e) Non-insurance business administration fees

Non-insurance business administration fees are a management charge to recover expenses incurred by the Company from fellow subsidiary trust companies. They are recognised in the Profit and Loss Account when costs have been incurred and then recharged.

XXV. Critical accounting estimates and judgements in applying accounting policies

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

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

a) estimate of the claims outstanding and loss adjustment expenses provision – notes 24, 37

b) estimates of the fair value of certain financial assets and derivatives – note 37 VIIc

c) estimate of the earning pattern of the unearned premium reserves – note 24

2. Gross Premiums Written - Divisional information

	2020 £m	2019 £m
Primary geographical markets		
United Kingdom	**1,156**	1,244
Rest of Europe	**94**	85
Rest of the world	**307**	255
Total	**1,557**	1,584

3. Acquisition expenses

	2020 £m	2019 £m
Movement in deferred acquisition costs (note 20)	(2)	(9)
Costs incurred for the acquisition of insurance contracts:		
- Expensed in the year	(221)	(218)
- Attributable to reinsurers	3	5
Total expenses for the acquisition of insurance contracts	**(220)**	(222)

Included in the total of £220m (2019: £222m) there was £167m of commissions (2019: £166m) relating to direct insurance business.

4. Administration expenses

	2020 £m	2019 £m
Marketing and administrative expenses	(144)	(133)
Depreciation of property, plant and equipment (note 14 & 19)	(3)	(2)
Amortisation of other intangible assets (note 13)	(1)	(1)
Total administrative expenses	**(148)**	**(136)**

5. Audit Fees

During the year, the Company received 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	(0.2)	(0.1)
Non-audit services:		
Audit related assurance services from the Company's auditor, including the audit of the regulatory return	(0.1)	(0.1)
	(0.3)	(0.2)

6. Investment income

£m	2020 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 cost less depreciation	1	-	-	**1**
Debt instruments – available for sale	8	-	-	**8**
Equity instruments – available for sale	-	9	-	**9**
Non-consolidated investment funds	5	-	1	**6**
Non-consolidated investment funds available for sale	1	-	-	1
Non-consolidated investment funds designated as at fair value through profit and loss	4	-	1	5
Derivative instruments	1	-	-	**1**
Foreign exchange gains	4	-	-	**4**
Investment income	**19**	**9**	**1**	**29**

6. 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 cost less depreciation	1	-	1	**2**
Debt instruments – available for sale	13	-	-	**13**
Equity instruments – available for sale	-	1	-	**1**
Non-consolidated investment funds	5	-	-	**5**
Non-consolidated investment funds available for sale	2	-	-	2
Non-consolidated investment funds designated as at fair value through profit and loss	3	-	-	3
Derivative instruments	1	-	-	**1**
Investment income	**20**	**1**	**1**	**22**

7. Net unrealised gains on investments at fair value through profit and loss

	2020 £m	2019 £m
Debt securities in hedge relationships	12	9
Non-consolidated investment funds designated as fair value through profit and loss	(2)	-
Derivatives	4	-
Net unrealised gains on investments at fair value through profit and loss	**14**	**9**

8. Investment expenses and charges

	2020 £m	2019 £m
Investment management expenses	(2)	(2)
Foreign exchange losses	-	(16)
Impairment charges	(3)	(1)
Realised losses on investments:		
Debt	(1)	-
Derivatives	(22)	(4)
Non-consolidated funds	(1)	(1)
Total investment expenses	**(29)**	**(24)**

9. Other operating income

	2020 £m	2019 £m
Other income from non-insurance business	25	24
Other operating income	**25**	**24**

Other income from non-insurance business is a management charge to recover expenses incurred by the Company from fellow subsidiary trust companies.

10. Other operating expenses

	2020 £m	2019 £m
Restructuring costs	(4)	(4)
Contribution to pension surplus	-	(1)
Foreign exchange losses attributable to underwriting	(2)	(2)
Other expenses from non-insurance business	(26)	(24)
Other operating expenses	**(32)**	**(31)**

Restructuring costs include £3m relating to an increase in the restructuring provision, as shown in note 25, and £1m relating to restructuring costs directly expensed during the year.

11. Tax

	2020 £m	2019 £m
Current Tax:		
Current tax on profit for the year	(22)	(23)
Adjustments in respect of previous years	2	(1)
Total current tax	**(20)**	**(24)**
Origination and reversal of temporary difference (note 21)	(2)	-
Adjustment in respect of prior years	(1)	-
Total deferred tax	**(3)**	**-**
Total tax expense	**(23)**	**(24)**

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 and Loss Account as follows:

	2020 £m	2019 £m
Profit before tax	**116**	**125**
Tax at the UK rate of 19% (2019: 19%)	(22)	(24)
Re-measurement of deferred tax – change in the UK tax rate	(1)	-
Adjustment in respect of prior periods	1	-
Higher tax rates on overseas earnings	(1)	-
Tax charge for the period	**(23)**	**(24)**

Tax rate for the current year remains at 19%.

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 periond of 19%.

AXA PPP healthcare limited

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

11. Tax (continued)

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. Legislation will be included in the Finance Bill 2021 to effect this change. The effect of this change would be to increase the deferred tax asset at 31 December 2020 by £1m.

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: Items that may be reclassified subsequently to profit and loss:		
Available-for-sale financial assets: gains arising during the year	1	-
Deferred tax: Items that may be reclassified subsequently to profit and loss:		
Available-for-sale financial assets: gains/(losses) arising during the year	1	(3)
Total income tax recognised directly in other comprehensive income	**2**	**(3)**

12. Dividends paid on equity shares

	2020 £m	2019 £m
Dividends paid on equity shares	**70**	**100**

13. Intangible assets

	Goodwill £m	Software £m	Customer related intangible £m	Total £m
Cost				
Balance as at 1 January 2020	8	7	10	**25**
Additions at cost	-	6	-	**6**
Balance as at 31 December 2020	**8**	**13**	**10**	**31**
Accumulated amortisation				
Balance as at 1 January 2020	-	7	4	**11**
Charge for the year	-	-	1	**1**
Balance as at 31 December 2020	**-**	**7**	**5**	**12**
Net book value as at 31 December 2020	**8**	**6**	**5**	**19**
Net book value as at 31 December 2019	8	-	6	14

Amortisation charges of £1m (2019: £1m) have been charged to administration expenses (note 4).

a) **Goodwill** was acquired as part of the acquisition of the Simplyhealth PMI business in 2015. The goodwill has been allocated to the healthcare 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 five year period and a pre-tax risk-adjusted discount rate of 8.6% (2019: 8%). Cash flows beyond that period were extrapolated using a steady 2.6% growth rate. The key assumptions used in the cash flow projections are the increases in premiums, claims and expenses. These assumptions were determined based on historical rates.

13. Intangible assets (continued)

Impairment testing of this valuation indicated that the carrying value is expected to be fully recoverable and hence no impairment is considered necessary.

b) **Software** is all internally developed and is being amortised on a straight line basis over its estimated useful life, subject to a maximum period of 5 years. The additions in the year relate to the Health and Wellbeing mobile app, the Patient journey platform and Health and Marketing cloud systems.

c) **Customer related intangible** relates to the acquisition of the Simplyhealth PMI business and the purchase of the renewal rights of a segment of PMI policies from former fellow subsidiary, Health and Protection Solutions Limited. Both customer related intangible assets are being amortised on a straight line basis over 10 years.

14. Land and buildings

	Owner Occupied Property £m	Investment Property £m	Total £m
Cost			
Balance as at 1 January 2020	58	24	**82**
Disposals	-	(2)	**(2)**
Balance as at 31 December 2020	**58**	**22**	**80**
Accumulated depreciation			
Balance as at 1 January 2020	23	9	**32**
Charge for the year	2	-	**2**
Impairment movement	-	1	**1**
Balance as at 31 December 2020	**25**	**10**	**35**
Net book value as at 31 December 2020	**33**	**12**	**45**
Net book value as at 31 December 2019	35	15	50

Depreciation expenses of £2m (2019: £1m) have been charged to administration expenses.

The owner occupied properties relating to freehold properties were valued at £41m as at 31 December 2020 (2019: £45m) 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 £2m of assets recognised under IFRS16. Further details of these leases are disclosed below.

Net book value of right of use assets

	Buildings £m
Balance as at 1 January 2020	2
Balance as at 31 December 2020	2

The investment properties were valued at £16m as at 31 December 2020 (2019: £18m) 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 £1m (2019: £1m). This has been recorded in the Profit and Loss Account within investment income.

AXA PPP healthcare limited

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

15. Other financial investments

	2020 £m	2019 £m
Shares and other variable yield securities	217	159
Debt and other fixed income securities	602	534
Derivative financial instruments	16	25
Loans and receivables	16	17
Total financial assets	**851**	**735**

The Company's financial assets are summarised by measurement category in the tables to follow:

	2020 £m	2019 £m
Available for sale	731	593
Fair value through profit and loss	103	110
- Derivatives held for trading	15	10
- Debt and other fixed income securities	5	5
- Shares and other variable yield securities	83	95
Derivatives in hedge relationships	1	15
Loans and receivables	16	17
Total financial assets	**851**	**735**

Available for sale financial assets	2020 £m	2019 £m
Shares and other variable yield securities – equity securities		
- listed	38	32
Debt and other fixed income securities:		
- listed	597	528
- unlisted	-	1
Shares and other variable yield securities – mutual funds		
- listed	-	7
- unlisted	96	25
Total available for sale financial assets	**731**	**593**

Loans and receivables	2020 £m	2019 £m
Broker loans	1	1
Real estate private loans	15	16
Total loans and receivables	**16**	**17**

16. Reinsurers' share of technical provisions

	2020 £m	2019 £m
Reinsurers' share of provision for claims outstanding and loss adjustment expenses	1	2
Reinsurers' share of provision for unearned premiums	6	8
Reinsurers' share of technical provisions	**7**	**10**

All amounts shown as Reinsurers' share of provision for claims outstanding and loss adjustment expenses are expected to be settled within one year.

16. Reinsurers' share of technical provisions (continued)

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

	2020 £m	2019 £m
Balance as at 1 January	2	2
Reinsurers' share of claims payments made in year	(20)	(22)
Increase in recoverables	19	22
Balance as at 31 December	**1**	**2**

Reinsurers' share of provision for unearned premiums

	2020 £m	2019 £m
Balance as at 1 January	8	8
Premiums written in the year	29	29
Premiums earned in the year	(31)	(29)
Balance as at 31 December	**6**	**8**

17. Debtors arising from insurance and reinsurance operations

	2020 £m	2019 £m
Debtors arising from direct insurance operations	360	382
Policyholders	302	322
Intermediaries	58	60
Debtors arising from reinsurance operations	79	66
Total debtors arising from insurance and reinsurance operations	**439**	**448**

An age analysis of these debtors is included within the Management of financial risk note on page 58.

18. Other debtors

	2020 £m	2019 £m
Amounts owed from fellow subsidiary undertakings	28	26
Other	7	9
Total other debtors	**35**	**35**

All amounts shown as other debtors are expected to be settled within one year.

19. Tangible assets

	Plant and equipment £m
Cost	
Balance as at 1 January 2020	8
Balance as at 31 December 2020	**8**
Accumulated depreciation	
Balance as at 1 January 2020	6
Charge for the year	1
Balance as at 31 December 2020	**7**
Net book value as at 31 December 2020	**1**
Net book value as at 31 December 2019	2

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19. Tangible assets (continued)

Depreciation expenses of £1m (2019: £1m) have been charged to administration expenses.

20. Deferred acquisition costs

	2020 £m	2019 £m
Deferred acquisition costs as at 1 January	77	86
Credit to the Profit and Loss Account in the year	(2)	(9)
Acquisition costs deferred during the year	208	206
Amortisation charged during the year	(210)	(215)
Deferred acquisition costs as at 31 December	**75**	**77**

21. Deferred tax

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

Deferred tax assets	**Fixed asset temporary differences £m**	**Revaluation of financial assets £m**	**Other £m**	**Total £m**
Balance at 1 January 2020	2	1	2	**5**
Charge to profit and loss	-	(1)	(1)	**(2)**
Balance as at 31 December 2020	**2**	**-**	**1**	**3**

Deferred tax liabilities	**Revaluation of financial assets £m**	**Total £m**
Balance at 1 January 2020	(3)	(3)
Charge to profit and loss	(1)	(1)
Credit to other comprehensive income	1	1
Balance as at 31 December 2020	**(3)**	**(3)**

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so.

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

	2020 £m	2019 £m
Deferred tax liabilities	(3)	(3)
Deferred tax assets	3	5
Total deferred tax	-	2

22. Called up share capital

	2020 Shares	2020 £m	2019 Shares	2019 £m
Issued and fully paid Ordinary shares at 31 December (Ordinary shares of £1 each)	**185,000,000**	**185**	185,000,000	185

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23. Revaluation reserve

	Revaluation reserve		
2020	**AFS assets £m**	**Cash flow hedge £m**	**Total £m**
Balance as at 1 January	18	(1)	**17**
Fair value losses on AFS assets	(2)	-	**(2)**
Fair value gains on derivatives in a cash flow hedge recycled to profit and loss	-	1	**1**
Tax on movements taken directly to equity – deferred tax	2	-	**2**
Balance as at 31 December	**18**	**-**	**18**

	Revaluation reserve		
2019	**AFS assets £m**	**Cash flow hedge £m**	**Total £m**
Balance as at 1 January	3	(1)	**2**
Fair value gains on AFS assets	18	-	**18**
Tax on movements taken directly to equity – deferred tax	(3)	-	**(3)**
Balance as at 31 December	**18**	**(1)**	**17**

The revaluation reserve contains the movement in the financial assets as described in the accounting policy in note 1 XI (b).

Movements in revaluation reserve for available for sale investments

	2020 £m	**2019 £m**
Balance as at 1 January	17	2
Fair value (losses)/gains	(2)	18
Amortisation charge	7	5
Amortisation release	(4)	(6)
Net realised (losses)/gains	(11)	4
Fair value gains on AFS assets	6	15
Fair value gains on cash flow hedge recycled to profit and loss	1	-
Tax	2	(3)
Balance as at 31 December	**18**	**17**

24. Technical provisions

	2020 £m	**2019 £m**
Provision for claims outstanding and loss adjustment expenses	177	160
Provision for unearned premiums	771	647
Total technical provisions	**948**	**807**
Settlement period for claims outstanding		
Less than 12 months	162	142
Greater than 12 months	15	18
Balance as at 31 December	**177**	**160**

24. Technical provisions (continued)

Provision for claims outstanding and loss adjustment expenses

	2020 £m	2019 £m
Balance as at 1 January	160	173
Total claims payments made in the year	(927)	(1,111)
Increase in liabilities	944	1,098
Balance as at 31 December	**177**	**160**

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	£9m	£0.4m
2019		
Change in variable	5%	10%
Reduction in profit net of reinsurance before tax	£8m	£0.3m

Provision for unearned premiums

	2020 £m	2019 £m
Balance as at 1 January	647	651
Premiums written in the year	1,557	1,584
Premiums earned in the year	(1,433)	(1,588)
Balance as at 31 December	**771**	**647**

The proportion of written premiums earned in the year has fallen due to a change in the assumed earning pattern of premiums and a new rebate provision for the return of premiums expected to members arising from AXA Health's Customer Promise.

The insurance risk profile of in-force contracts has altered in the year due to treatment delays arising from the disruption experienced within private healthcare systems both in the UK and internationally. Earned premiums have been deferred into 2021 by an additional £91.3m to align with the expected catch-up in incurred claims as the impact of the pandemic lessens. The revised earning pattern reflects the exceptional change in risk profile of contracts due to the pandemic impact by aligning to the forecast of incurred claims including the expected catch-up. The adjustment is based on the estimation of the value of deferred treatments and the expected timing of the catch-up. A combination of prior claims experience as well as judgement on the future availability and capacity of healthcare services for treatments in 2021 has been made.

The same experience and judgements have been used to project forward to a best estimate rebate provision for the AXA Health Customer Promise of £31.1m. The Customer Promise applies to UK Individual, SME and Dental members. The final rebate payable to these members will be dependent on the level and ultimate cost of deferred treatments that catch-up in 2021. If the treatment catch-up was different to that assumed so half the expected forecast value is incurred in 2021 for example, the final rebate value would increase to £61.3m.

Claims development tables

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half 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 half of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

24. Technical provisions (continued)

An accident-year basis is considered to be most appropriate for the business written by the Company.

Accident year - Gross	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	Total £m
Estimate of ultimate claims costs:						
- at end of accident year	1,031	1,057	1,070	1,118	955	5,231
- one year later	1,024	1,037	1,054	1,109		4,224
- two years later	1,014	1,034	1,052			3,100
- three years later	1,013	1,034				2,047
- four years later	1,015					1,015
Current estimate of cumulative claims	1,015	1,034	1,052	1,109	955	5,165
Cumulative payments to date	1,014	1,034	1,048	1,099	793	4,988
Liability recognised in the balance sheet	1	-	4	10	162	**177**

Accident year - Net	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	Total
Estimate of ultimate claims costs:						
- at end of accident year	1,014	1,038	1,054	1,097	940	5.143
- one year later	1,007	1,019	1,036	1,084		4,146
- two years later	998	1,017	1,033			3,048
- three years later	997	1,016				2,013
- four years later	999					999
Current estimate of cumulative claims	999	1,016	1,033	1,084	940	5,072
Cumulative payments to date	998	1,016	1,029	1,074	779	4,896
Liability recognised in the balance sheet	1	-	4	10	161	**176**

25. Other provisions

	International IPT Provision £m	Restructuring provision £m	Share based payments £m	Total £m
Balance as at 1 January 2020	7	4	1	**12**
Charged to the Profit and Loss Account	2	4	-	**6**
Utilised during the year	-	(3)	(1)	**(4)**
Released during year	(1)	(1)	-	**(2)**
Balance as at 31 December 2020	**8**	**4**	**-**	**12**

	2020 £m	2019 £m
To be settled within 12 months	12	12
Total	**12**	**12**

25. Other provisions (continued)

a) International IPT provision

Provision in respect of insurance premium related tax due to foreign tax authorities where the value and timing of the payments are uncertain.

b) Restructuring provision

The restructuring provision relates to costs associated with an internal business review.

c) Share based payments

Share based payments relate to the share-based compensation provision, and comprises the future costs of certain employee share schemes. The provision is expected to be utilised in line with the 3 year performance period attached to the particular share-based payment scheme.

26. Creditors arising from insurance and reinsurance operations

	2020 £m	2019 £m
Direct insurance liabilities	47	53
Reinsurance liabilities	26	13
Total insurance and reinsurance liabilities	**73**	**66**

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

27. Derivative financial instruments and hedging

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

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

In the narrative and tables below, both notional and fair value amounts are shown. The notional amount is the most commonly used measure of volume in the derivatives market. However, it is not used as a measure of risk because the notional amount greatly exceeds the possible credit market loss that could arise from such transactions, as it does not represent the amounts actually exchanged by the parties. The 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 £1,373m (£2,488m at the end of 2019). Their net fair value as of 31 December 2020 totalled £7m (£9m at the end of 2019).

Instruments qualifying for hedge accounting

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

The portfolio hedge represents a portfolio of fixed income securities with similar risk profiles, which are hedged using a number of interest rate swaps and interest rate swap forwards. A portfolio hedge allows the designation of the whole or part of a portfolio of assets with similar risk exposures. The hedged item is designated based on interest rate sensitivities, taking into account the expected maturity, to match the hedging derivative.

27. Derivative financial instruments and hedging (continued)

The cash flow hedges effectively hedge the income stream from inflation linked UK treasury bonds over the lifetime of the asset, which mature in 2024 and 2028. 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 table below.

	2020			2019		
Derivative financial instruments	**Contractual/ Notional Amount £m**	**Asset £m**	**Liability £m**	**Contractual/ Notional Amount £m**	**Asset £m**	**Liability £m**
Interest rate swaps – fair value hedge	463	1	(2)	1,696	14	(11)
Asset swaps – cash flow hedge	20	-	-	20	-	-
Cross currency swaps – cash flow hedge	13	-	-	31	1	-
Total	**496**	**1**	**(2)**	**1,747**	**15**	**(11)**

Losses on fair value hedges

	2020 £m	2019 £m
Hedged items attributable to interest rate risk	12	9
Hedge instruments – macro	(13)	(10)
	(1)	(1)

Instruments not qualifying for hedge accounting

A number of derivative instruments either do not qualify for hedge accounting as set out by IAS 39 'Financial instruments: Recognition and Measurement', or the 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

	2020			2019		
Derivative financial instruments	**Contractual/ Notional Amount £m**	**Asset £m**	**Liability £m**	**Contractual/ Notional Amount £m**	**Asset £m**	**Liability £m**
Foreign exchange forwards	617	14	(7)	488	7	(5)
Credit default swaps	19	-	-	30	-	-
Cross currency swaps	-	-	-	56	1	-
Interest rate swaps	-	-	-	23	1	-
Index options	241	1	-	144	1	-
Total	**877**	**15**	**(7)**	**741**	**10**	**(5)**

28. Other creditors including tax and social security

	2020 £m	2019 £m
Current income tax payable	-	66
Amounts due to immediate parent company	-	2
Amounts owed to fellow subsidiary undertakings	61	30
Other tax payables	37	39
Lease liabilities	1	2
Other	-	7
Total other creditors including tax and social security	**99**	**146**

Included within amounts owed to fellow subsidiary undertakings is £42m in respect of current tax liabilities due to be group relieved.

29. Accruals and deferred income

	2020 £m	2019 £m
Total accruals and deferred income	**33**	44

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.

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 payable in 2020). 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 £16m (2019: £16m), of which £15m relate to the defined contribution scheme. The outstanding contributions as at 31 December 2020 are £1m (2019: £1m).

30. Retirement benefit obligations (continued)

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**

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
Remeasurements:		
Expected return on plan assets	98	131
Actuarial gains	476	399
Benefits paid	(215)	(206)
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**

30. Retirement benefit obligations (continued)

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

Other post-retirement benefits

AXA PPP Healthcare Group Limited, a fellow subsidiary, offers certain healthcare benefits on a non-contributory basis to the staff (for those who were employed prior to June 1989) of the Company upon retirement. The expected costs of the benefits have been assessed in accordance with IAS 19 (Retirement Benefits) and the advice of an independent qualified actuary at 31 December 2020.

Particulars of the valuation are contained in the financial statements of AXA PPP Healthcare Group Limited.

31. Commitments

a) Pledged securities and collateralised commitments given

The Company pledged £15m (2019: £15m) government bonds as collateral for derivative contracts with various entities including LCH Limited £13m.

b) Other agreements

The Company had outstanding commitments to invest a further £47m (2019: £50m) in investment funds, as summarised in the table below:

	2020 £m	2019 £m
Debt securities (2020: Nil) (2019: €6m)	-	5
Real Estate Loans (2020: Nil) (2019: £12m)	-	12
Investment funds (2020: $35m) (2019: $32m)	26	24
Investment funds (2020: €9m) (2019: €4m)	8	4
Investment funds (2020: Nil) (2019: £5m)	-	5
Real Estate Funds (2020 €15m) (2019: Nil)	13	-
Total	**47**	**50**

c) Pledged securities and collateralised commitments received

The Company received pledges of £3m (2019: £4m) government bonds as collateral to derivative contracts with JP Morgan, Barclays, BNP Paribas, Citigroup, Goldman Sachs, Morgan Stanley and NatWest Markets PLC.

32. Leases

Operating lease rental receivable – where the Company is the lessor

The rental receivable relates to investment properties and are subject to rent reviews. The carrying amount of the associated assets is £12m (2019: £15m) shown within note 14.

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

	2020 £m	2019 £m
No later than 1 year	1	1
Later than 1 year and no later than 5 years	2	3
Later than 5 years	2	3
Total	**5**	**7**

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 directors did not receive any emoluments or other benefits from the Company or from any other company in the AXA Group in respect of qualifying services to the Company in the current year (2019: £68,000).

	2020 £'000	2019 £'000
Aggregate emoluments excluding amounts receivable under long-term incentive schemes	-	**68**
Amounts receivable (excluding gains on exercise of share options and value of shares received) under long-term incentive schemes	-	-
Aggregate pension contributions:		
Defined Contribution	-	-
Amounts attributable to highest paid director		
Aggregate emoluments and benefits	-	**68**
Pension contributions during the year	-	-

Mr. R. Becker, Mrs. A. M. Breitburd, Mrs. D. J. Davies, Mrs. T. N. Garrad, 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: none) 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.

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).

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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 fellow subsidiaries 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:

	Related Party	2020 £m	2019 £m
Income			
Gross earned premium	Fellow subsidiaries	**92**	136
Outward reinsurance premiums	Fellow subsidiaries	**(20)**	(12)
Total		**72**	124
Expenses			
Gross claims paid	Fellow subsidiaries	**(55)**	(88)
Reinsurers' share claims paid	Fellow subsidiaries	**13**	11
Gross change in the provision for claims	Fellow subsidiaries	**2**	(10)
Acquisition expenses	Fellow subsidiaries	**(21)**	(14)
Administration expenses	Fellow subsidiaries	**(24)**	(25)
Investment expenses and charges	Fellow subsidiaries	**(1)**	(1)
Total		**(86)**	(127)
Insurance related assets			
Debtors arising from direct insurance operations	Fellow subsidiaries	**26**	26
Debtors arising from reinsurance operations	Fellow subsidiaries	**30**	17
Provision for unearned premiums – reinsurers share	Fellow subsidiaries	**5**	4
Deferred acquisition costs	Fellow subsidiaries	**8**	5
Total		**69**	52
Insurance related liabilities			
Provision for unearned premiums	Fellow subsidiaries	**35**	87
Claims outstanding and loss adjustment expenses	Fellow subsidiaries	**20**	33
Creditors arising from direct operations	Fellow subsidiaries	**2**	2
Creditors arising from reinsurance operations	Fellow subsidiaries	**14**	5
Total		**71**	127
Assets managed by fellow subsidiaries			
Shares and other variable yield securities		**217**	159
Debt and other fixed income securities		**602**	534
Derivative financial instruments		**16**	25
Loans and receivables		**15**	16
Investment property		**12**	15
Total		**862**	749
Liabilities managed by fellow subsidiaries			
Derivative financial instruments		**9**	16
Total		**9**	16

No allowance has been made for impaired receivables in relation to any outstanding balances due from related parties.

35. Contingent liabilities

With the approval of the PRA, the Company, its intermediate parent company, AXA Insurance plc, its immediate parent company, AXA Insurance UK plc, and a fellow subsidiary undertaking, 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 UK plc, a company registered in England.

The Company's ultimate parent and controlling company is AXA SA, a company incorporated in France. The parent undertaking of the largest group which includes the Company and for which group financial statements are prepared is AXA SA. Copies of the AXA 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.

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

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

37. Management of financial risk (continued)

II. Market risk (continued)

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

Industry analysis

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

Equity analysis by industry	2020 £m	%	2019 £m	%
Financial	81	37.3	8	5.0
Consumer	16	7.4	13	8.2
Manufacturing & Pharmaceuticals	5	2.3	3	1.9
Basic Materials	1	0.5	2	1.3
Technology & Telecommunications	10	4.6	8	5.0
Others(1)	104	47.9	125	78.6
Total	**217**	**100.0**	**159**	**100.0**

(1) Other investments include interests in mutual funds of £100m (2019: £114m).

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

Debt securities analysis by industry	2020 £m	%	2019 £m	%
Financial	157	26.1	148	27.7
Consumer	100	16.6	70	13.1
Energy	22	3.7	17	3.2
Manufacturing & Pharmaceuticals	32	5.3	32	6.0
Utilities	72	12.0	61	11.4
Basic materials	12	2.0	13	2.5
Technology & Telecommunications	54	9.0	48	9
Government securities	144	23.9	133	24.9
Others	9	1.4	12	2.2
Total	**602**	**100.0**	**534**	**100.0**

a) Interest rate risk

The fair value of debt securities is exposed to future interest rate fluctuations. Included in debt securities of £602m (2019: £534m) is £11m (2019: £7m) in respect of variable rate debentures and £106m (2019: £113.0m) in respect of index linked debentures. Debt securities with fixed interest rates are exposed to fair value interest rate risk but not cashflow interest rate risk. Debt securities with variable interest rates are exposed to cashflow interest rate risk but not fair value 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 a loss for the period of £16m (2019: £14m loss) plus unrealised losses in the Statement of Comprehensive Income of £5m (2019: £6m). A decrease of 100 basis points in interest rates would result in increased profit for the period of £17m (2019: £15m profit) plus unrealised gains in the Statement of Comprehensive Income of £6m (2019: £7m). An increase of 100 basis points in interest rates would increase the fair value of derivatives through income by £18m (2019: £23m), a decrease of 100 basis points would decrease the fair value of derivatives through income by £20m (2019: £25.0m).

The interest rate risk is not significant in cash at bank and in hand balances.

37. Management of financial risk (continued)

II. Market risk (continued)

b) Equity price risk

Equity price risk is managed through the use of derivatives as shown within note 27 derivative financial instruments and hedging. Listed equity securities represent 18% (2019: 24%) 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 £4m (2019: £3m).

If equity valuations had decreased by 10%, with all other variables constant, the operating result for the year would decrease by £1m (2019: unchanged). Unrealised gains recorded through the other comprehensive income would decrease by £3m (2019: £3m).

If the relevant market indices were to increase by 10%, the fair value of equity hedging derivatives through income would remain unchanged (2019: unchanged). A decrease of 10% in the relevant market indices would increase the fair value of equity hedging derivatives through income by £1m (2019: £1m).

c) Currency risk

The Company is exposed to currency risk in respect of portfolios denominated in other currencies, principally the Euro and US Dollar. Mitigation of this risk is achieved by matching assets and liabilities in the same currency and the use of foreign exchange derivatives. At 31 December 2020, if the pound had weakened by 10%, with all other variables constant, the profit before tax would have increased by £1m (2019: 1% weakening, no change in result), and if the pound had strengthened by 10%, with all other variables constant, the profit before tax would have decreased by £1m (2019: 1% strengthening, no change in result). Despite the currency volatility experienced during the year, the Company's exposure to currency risk is not significant due to adequate hedging mechanisms.

Currency analysis of investment in financial assets

2020	**EURO**		**GBP**		**USD**		**Other**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Debt securities	128	21.3	324	53.8	150	24.9	-	-	602	100.0
Equities (including mutual funds)	34	15.7	96	44.2	77	35.5	10	4.6	217	100.0
Derivatives	3	18.8	-	-	13	81.2	-	-	16	100.0
Loans	11	68.7	5	31.3	-	-	-	-	16	100.0
Total	**176**	**20.7**	**425**	**49.9**	**240**	**28.2**	**10**	**1.2**	**851**	**100.0**

2019	**EURO**		**GBP**		**USD**		**Other**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Debt securities	125	23.4	286	53.6	123	23.0	-	-	534	100.0
Equities (including mutual funds)	36	22.6	26	16.4	89	56.0	8	5.0	159	100.0
Derivatives	8	32.0	6	24.0	11	44.0	-	-	25	100.0
Loans	10	58.8	7	41.2	-	-	-	-	17	100.0
Total	**179**	**24.4**	**325**	**44.2**	**223**	**30.3**	**8**	**1.1**	**735**	**100.0**

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

37. Management of financial risk (continued)

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 average of the Moody's, Standard and Poor's and Fitch credit ratings.

The maximum exposure for the Company's assets bearing credit risk is the carrying value.

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 more than 6 months £m	Provided for £m	Carrying value £m
2020					
Direct insurance operations	**352**	**8**	**4**	**(4)**	**360**
Reinsurance operations	**69**	**9**	**1**	**-**	**79**
2019					
Direct insurance operations	374	9	2	(3)	382
Reinsurance operations	55	6	5	-	66

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

2020	Note	AAA £m	AA £m	A £m	BBB £m	BB £m	NR £m	Total £m
Debt securities	15	71	135	179	207	5	5	**602**
Loans	15	-	12	3	-	-	1	**16**
Derivatives	15	-	-	16	-	-	-	**16**
Cash		-	-	58	-	-	-	**58**
Total		**71**	**147**	**256**	**207**	**5**	**6**	**692**
Percentage		**10.2%**	**21.2%**	**37.0%**	**30.0%**	**0.7%**	**0.9%**	**100.0%**

Certain 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 £m	AA £m	A £m	BBB £m	NR £m	Total £m
Debt securities	15	78	110	147	194	5	**534**
Loans	15	-	11	3	2	1	**17**
Derivatives	15	-	1	22	-	2	**25**
Cash		-	21	30	-	-	**51**
Total		**78**	**143**	**202**	**196**	**8**	**627**
Percentage		**12.4%**	**22.8%**	**32.2%**	**31.3%**	**1.3%**	**100.0%**

37. Management of financial risk (continued)

III. Credit risk (continued)

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.

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	71	133	173	201	5	1	-	584
Fair value	71	135	179	207	5	-	-	597

2020	Current £m	90 days and more past due £m	Total £m
Loans			
At cost			
Gross carrying amount	17	-	17
Fair value	16	-	16

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	77	108	142	190	-	-	-	517
Fair value	78	110	146	195	-	-	-	529

2019	Current £m	90 days and more past due £m	Total £m
Loans			
At cost			
Gross carrying amount	17	-	17
Fair value	17	-	17

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37. Management of financial risk (continued)

III. Credit risk (continued)

SPPI TEST

2020	Pass the SPPI Test		Other financial assets	
	Fair value £m	Change in fair value £m	Fair value £m	Change in fair value £m
Debt instruments				
Available for sale	597	1	-	-
Fair value through profit and loss	-	-	5	-
Derivatives				
Held for trading	-	-	15	4
Herding derivatives	-	-	1	(5)
Equity instruments AFS	-	-	38	(3)
Mutual funds				
Available for sale	-	-	96	-
Fair value through profit and loss	-	-	83	(2)
Loans	16	(1)	-	-
TOTAL	**613**	**-**	**238**	**(6)**

2019	Pass the SPPI Test		Other financial assets	
	Fair value £m	Change in fair value £m	Fair value £m	Change in fair value £m
Debt instruments				
Available for sale	529	13	-	-
Fair value through profit and loss	-	-	5	-
Derivatives				
Held for trading	-	-	10	8
Herding derivatives	-	-	15	2
Equity instruments AFS	-	-	32	6
Mutual funds				
Available for sale	-	-	32	(1)
Fair value through profit and loss	-	-	95	-
Loans	17	-	-	-
TOTAL	**546**	**13**	**189**	**15**

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.

Collateral held as security and other credit enhancements

A secured loan of £0.3m was paid to Equipsme Insurance Services Ltd in November 2017. To secure this loan, a debenture was provided to charge it's assets by way of fixed and floating charges for the Company's benefit. The rights under the debenture continue until released by the Company in writing. The Company has also received a personal guarantee from a Director of Equipsme Insurance Services Ltd, covering the payments of the sums due under the above secured loan and a further subordinated loan of £1m, paid to Equipsme Insurance Services Ltd in January 2018. The maximum amount the Company can recover from the Guarantor is £0.5m.

37. Management of financial risk (continued)

IV. Liquidity risk

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

Liquidity risk could arise from illiquid asset holdings, inappropriate asset/liability matching or inexact forecast operating liquidity requirements resulting in insufficient short-term (including intra-day) and longer-term liquidity. This is controlled via regular liquidity risk monitoring and reporting in addition to regular short-term cash flow forecasting. A robust working 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 – OCI	-	-	-	-	134	134
Equities and mutual funds – P&L	-	-	-	-	83	83
Debt securities - OCI	49	56	217	275	-	597
Debt securities - P&L	-	-	-	5	-	5
Loans	1	2	13	-	-	16
Other debtors	35	-	-	-	-	35
Cash at bank and in hand	58	-	-	-	-	58
Total non-derivative financial assets	**143**	**58**	**230**	**280**	**217**	**928**
Derivative financial instruments	7	4	4	1	-	16
Total financial assets	**150**	**62**	**234**	**281**	**217**	**944**

2020	Less than 1 year £m	1 – 5 years £m	Over 5 years £m	Total £m
Financial liabilities				
Claims outstanding	162	15	-	**177**
Direct insurance operations	47	-	-	**47**
Reinsurance operations	26	-	-	**26**
Other liabilities	97	1	-	**98**
Total non-derivative liabilities	**332**	**16**	**-**	**348**
Derivative financial instruments	7	1	1	**9**
Total financial liabilities	**339**	**17**	**1**	**357**

37. Management of financial risk (continued)

IV. Liquidity risk (continued)

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 – OCI	-	-	-	-	64	**64**
Equities and mutual funds – P&L	-	-	-	-	95	**95**
Debt securities - OCI	40	18	196	275	-	**529**
Debt securities - P&L	-	-	-	5	-	**5**
Loans	1	1	15	-	-	**17**
Other debtors	35	-	-	-	-	**35**
Cash at bank and in hand	51	-	-	-	-	**51**
Total non-derivative financial assets	**127**	**19**	**211**	**280**	**159**	**796**
Derivative financial instruments	8	1	5	11	-	**25**
Total financial assets	**135**	**20**	**216**	**291**	**159**	**821**

2019	Less than 1 year £m	1 – 5 years £m	Over 5 years £m	Total £m
Financial liabilities				
Claims outstanding	142	18	-	**160**
Direct insurance operations	53	-	-	**53**
Reinsurance operations	13	-	-	**13**
Other liabilities	144	1	1	**146**
Total non-derivative liabilities	**352**	**19**	**1**	**372**
Derivative financial instruments	4	5	7	**16**
Total financial liabilities	**356**	**24**	**8**	**388**

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.

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Notes to the Financial Statements (continued)
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37. Management of financial risk (continued)

V. Capital management (continued)

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 insurers' 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	**360**	336
Full market value of assets	**13**	15
Intangible assets and Deferred acquisition costs	**(93)**	(91)
Best estimate liabilities and market value margin	**131**	156
Other	**(10)**	(14)
Solvency II financial capital resources	**401**	402
SCR	**258**	247
MCR	**92**	84
Solvency II financial capital resources/SCR	**155.4%**	146.6%

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 2019, the Company had a foreseeable dividend of £40m which reduced the 2019 Eligible Own Funds from £402m to £362m.

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 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.

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

37. Management of financial risk (continued)

VI. Insurance and reinsurance risk (continued)

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the 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 concentration of insurance risk by geographical area is disclosed in divisional information (note 2).

The mean duration of the expected settlement pattern for claims arising from insurance contracts in force at the end of the reporting period is 0.3 years (2019: 0.3 years).

General insurance contracts – assumptions and change in assumptions

a) Process used to decide on assumptions

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

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

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

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

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

- Methods based on the development of claims (paid or incurred) using triangulation methods (e.g. chain ladder and link ratio) for which past experience is applied to each loss occurrence or underwriting year, in order to make reserves projections until their estimated final development.
- The average cost per claim method which applies an estimated average cost to the final number of claims expected to be notified in each loss occurrence or underwriting year.

37. Management of financial risk (continued)

VI. Insurance and reinsurance risk (continued)

- Methods based on claims ratios (such as the ultimate claims ratio or the additional claims ratio).
- Hybrid methods (such as Bornhuetter-Ferguson and Cape Cod).

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 to assumptions were made in 2020, other than the judgment of the pattern of the earning profile, see note 24.

VII. Fair value estimation

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

Financial assets 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				
Derivative instruments	15	-	15	-
Debt instruments	5	-	5	-
Mutual funds	83	-	78	5
Available for sale financial assets				
Equity investments	38	34	4	-
Debt securities	597	446	151	-
Mutual funds	96	-	95	1
Derivative financial instruments for hedging				
Interest rate swaps	1	1	-	-
Total financial assets at fair value	**835**	**481**	**348**	**6**

37. Management of financial risk (continued)

VII. Fair value estimation (continued)

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	16	-	16	-
Total	**16**	**-**	**16**	**-**

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 liabilities at fair value through profit and loss				
Derivative instruments	7	-	7	-
Derivative financial instruments for hedging				
Interest rate swaps	2	-	2	-
Total financial liabilities at fair value	**9**	**-**	**9**	**-**

Financial assets 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				
Derivative instruments	10	-	10	-
Debt instruments	5	-	5	-
Mutual funds	95	-	91	4
Available for sale financial assets				
Equity investments	32	27	5	-
Debt securities	529	429	100	-
Mutual funds	32	-	31	1
Derivative financial instruments for hedging				
Interest rate swaps	15	-	15	-
Total financial assets at fair value	718	456	257	5

37. Management of financial risk (continued)

VII. Fair value estimation (continued)

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	18	-	18	
Total	**18**	**-**	**18**	

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 liabilities at fair value through profit and loss				
Derivative instruments	5	-	5	-
Derivative financial instruments for hedging				
Interest rate swaps	11	-	11	-
Total financial liabilities at fair value	**16**	**-**	**16**	**-**

Level 1 transfers to Level 2 were £32m (2019: £25m) and Level 2 transfers to Level 1 were £9m (2019: £8m) during the year. Both transfers from Level 1 to Level 2 and transfers from Level 2 to Level 1 occur primarily due to changes in the availability of pricing information. This assessment occurs on a semi-annual basis.

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

a) Financial instruments in level 1

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

b) Financial instruments in level 2

The fair value of financial instruments that are not traded in active markets is determined by using recognised valuation techniques, as listed in accounting policy 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.

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37. Management of financial risk (continued)

VII. Fair value estimation (continued)

c) Financial instruments in level 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3. The valuation techniques employed in determining the fair value are listed in accounting policy XI(d) 'fair value estimation'. 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%, would result in a decrease in the fair value of the asset and other comprehensive income of £1.2m (2019: £0.1m).

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

Description	Fair Value through P&L Funds £m	Available for Sale Funds £m
Opening balance	4	1
Purchases	1	-
Closing balance	5	1

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

Description	Fair Value through P&L Funds £m	Available for Sale Funds £m
Opening balance	1	2
Purchases	3	-
Settlements	-	(1)
Closing balance	4	1