

AXA INSURANCE UK PLC

**Annual Financial Report
for the year ended 31 December 2017**



AXA Insurance UK plc

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AXA Insurance UK plc

Company Information

Directors

K. G. Gibbs
P. F. Hazell
M. R. Jackson
H. M. Posner
B. Poupert-Lafarge
T. J. P. Sciard

Company Secretary

J. P. Small

Independent Auditor

Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London
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AXA Insurance UK plc

Strategic Report

The directors present their Strategic Report on AXA Insurance UK plc ("the Company") for the year ended 31 December 2017.

REVIEW OF THE BUSINESS

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

Results and performance

The profit before tax in 2017 is £285m, an increase of £53m from the 2016 result. This consists of a £69m increase in the investment result and a £16m decrease in general business underwriting.

The underwriting loss for the year is £14m (2016: profit £2m). The loss ratio deteriorated due to the impact of the change in discount rate used to calculate lump sum payments in respect of bodily injury claims, which was reduced from 2.5% to minus 0.75% effective from 20 March 2017. There was a further deterioration due to adverse experience on Escape of Water and Theft perils within the Property classes, offset by relatively benign weather experience. An Unexpired Risk Provision and Onerous Contract Provision have also been booked to recognise expected losses under an onerous contract.

During the year, gross written premiums have decreased by £15m, or 0.7%, to £2,261m (2016: £2,276m).

- Personal lines premiums are adverse to the prior year due to Household with a focus on improving profitability through targeted rating and underwriting actions.
- Commercial lines showed strong growth during 2017, with favourable performance across the portfolio, but particularly on Motor Fleet where market conditions have allowed strong tariff increases to be carried.
- Direct lines premiums reduced in comparison to the prior year due to tariff increases in Motor implemented to focus on profitability and to mitigate the impact of the change in discount rate. This was more than offset by falling volumes.

The combined operating ratio has deteriorated by 0.7%, compared with 2016.

- The deterioration in the loss ratio is in line with the underwriting loss, due to the change in discount rate used to calculate lump sum payments in respect of bodily injury claims and due to adverse experience on Escape of Water and Theft perils, partly offset by relatively benign weather experience. An Unexpired Risk Provision and Onerous Contract Provision have also been booked to recognise expected losses under an onerous contract.

The investment return for the year, recorded within the Profit and Loss Account, is a profit of £299m (2016: £230m). Further analysis is provided in notes 6, 7 and 8. An improvement in the investment return compared to prior year is mainly due to the dividend received from subsidiary AXA PPP healthcare limited, a dividend of £50m was received in addition to a dividend of £100m relating to 2016, this is partially offset by various decreases including a decrease in loan income due to an exceptional receipt in 2016 of £21m. There has been a large fall in foreign exchange gains of £466m, which is primarily offset by a corresponding decrease in losses on derivatives of £416m, due to the foreign exchange forwards used to hedge the currency exposure. Prior year foreign currency movements were unusually large due to the Brexit vote in June.

The procedures, outlined in the principal risks and uncertainties, put in place by the Company identified all the significant exposures to risk arising out of the current financial market conditions. The valuation of financial instruments, where the market liquidity was negatively affected or where no active market exists, was considered specifically, and all credit events that have occurred prior to 31 December 2017 have been considered.

AXA Insurance UK plc

Strategic Report (continued)

Business environment

The UK insurance market is highly competitive and the Company has endeavoured to maintain strong positions in the selected markets through developing a far greater customer understanding and focus. The Company has increased its use of e-enabled systems, which allow brokers to interact directly with these systems and improve the overall broker experience. The Company continues to look at ways of improving claims management within an overall risk management approach. During the year a new claims handling system was launched, designed to simplify and improve the claims process for both staff and customers.

Strategy

The Company has in place a variety of methodologies to monitor and manage the risks it accepts and to plan for increasing its involvement in its chosen markets. A number of initiatives are in place to deliver profitable growth in these markets and distribution channels. The Company's strategy is consistent with the AXA Group global strategy of becoming the most trusted insurance partner to businesses, individuals and communities in the UK by 2020.

Solid progress has been made in 2017 towards the strategic targets with the growth in newer products and continued control over operational costs, as well as maintaining the customer focused programmes for employees and improving IT stability.

Key performance indicators ("KPIs")

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

	2017	2016	
Gross written premium	£2,261m	£2,276m	Reflected in the General Business technical account
Profit before tax	£285m	£232m	Reflected in the Profit and Loss Account
Loss ratio	(67%)	(65.6%)	Ratio of claims incurred net of reinsurance, to earned premiums net of reinsurance including other operating income
Combined operating ratio	(100.6%)	(99.9%)	Ratio of claims incurred net of reinsurance including acquisition costs, administration expenses, other operating expenses; to earned premiums net of reinsurance including other operating income
Underwriting result	(£14m)	£2m	Result of insurance activities reflected in technical account, and other operational income and expenses reflected in the non-technical account
Investment result	£299m	£230m	Result of investment activities
Equity shareholders' funds	£3,086m	£2,812m	Reflected on the Balance Sheet

AXA Insurance UK plc

Strategic Report (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

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

The principal risks from the general insurance business arise mainly from events outside of the Company's control, such as fluctuations in the timing, frequency and severity of claims compared to expectations. Underwriting, reserving and reinsurance strategies may also give rise to risk and uncertainty through inaccurate pricing, inadequate reinsurance protection and inadequate reserving; these are largely within management's control and strategies are communicated clearly throughout the business through policy statements and guidelines.

Financial risk management, including the impact of risk on economic capital, is discussed in the Management of Financial Risk note set out on pages 35 to 46 of the financial statements.

FUTURE DEVELOPMENTS

The Company has a clear strategic business model focusing on traditional insurance and has maintained a strong Balance Sheet. Careful financial risk management strategies, along with well established liquidity management practices, will ensure this is maintained in the future.

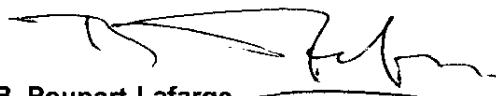
In 2018, the Company aims to remain competitive by controlling costs and improving efficiency. The Personal Lines business will focus on profitable growth in the core lines of Motor, Household and Travel whilst actively managing exposure in non-core lines. There will also be a strong focus on use of data for developing customer propositions and enhancing the claims experience. At the same time the Company will continue to invest for the long term to support the vision of being 'Trusted Market Leader', this will provide a strong foundation for the future. Commercial Lines will continue to target growth in 2018 with further investment in strategic priorities offset by expense savings, thereby enabling sustainable profitability.

On 25 April 2017, the board agreed to transfer all employer and public liability policies issued by the Company prior to 1 January 2002 to RiverStone, while all disease claims related to policies issued between the same date and 31 December 2014 will be reinsured by RiverStone. The transaction is subject to regulatory approval and the High Court agreement of the Part VII transfer and is expected to be completed by the end of 2018.

BREXIT

The implications to the Company of the vote to leave the European Union in June 2016 are currently being considered, specifically the effects this could have on estimations and judgements made in the preparation of the financial statements. The assessment is ongoing, with quantitative impacts yet to be determined.

Signed on behalf of the Board by



B. Poupart-Lafarge

Director

25 April 2018

AXA Insurance UK plc

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2017.

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 35 to 46 of the financial statements.

The Company has considerable financial resources and detailed budgets, plans and forecasts have been prepared and reviewed setting out the continued financial position of the Company for the next 12 months and a strategic plan to 2020. There are no material uncertainties relating to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Consequently, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, 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.

DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: nil).

DIRECTORS

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

A. J. Blanc resigned as a director of the Company on 10 April 2018.

W. U. Malik resigned as a director of the Company on 31 March 2018.

Directors' qualifying third party and pension scheme indemnity provisions

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

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

FINANCIAL RISK MANAGEMENT

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in the Management of Financial Risk note set out on pages 35 to 46 of the financial statements. In particular the Company's exposure to market risk, credit risk and liquidity risk are separately disclosed in that note.

BRANCHES OUTSIDE THE UK

The Company does not operate branches outside the UK.

AXA Insurance UK plc

Directors' Report (continued)

POLITICAL DONATIONS

The Company made no donations for political purposes.

EVENTS OCCURRING AFTER THE REPORTING PERIOD

The Company has no post balance sheet events that require disclosure.

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



B. Poupart-Lafarge

Director

25 April 2018

AXA Insurance UK plc

Independent Auditor's Report

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

Opinion

We have audited the financial statements of AXA Insurance UK plc (the 'Company') for the year ended 31 December 2017 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 (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; 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.

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.

Conclusions relating to going concern

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period, and include the most significant assessed risks of material misstatement. These matters, described below, are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. They were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and therefore we do not provide a separate opinion on these matters.

AXA Insurance UK plc**Independent Auditor's Report (continued)**

Area of focus	How our audit addressed the area of focus
<p>Valuation of non – life technical provisions:</p> <p>The estimation of the Company's insurance contract liabilities involves a significant degree of judgement. The provision for claims outstanding and loss adjustment expenses at 31 December 2017 was £3,267m (see Note 25 of the financial statements).</p> <p>The assessment is underpinned by a best-estimate ultimate cost calculation of all claims incurred but not settled at a given date, whether reported or not, together with the related costs of handling the claims. A range of stochastic processes and statistical methods are used to determine these provisions.</p> <p>Underlying these methods are a number of assumptions (both explicit and implicit) relating to the expected settlement amounts and the settlement patterns of claims.</p>	<p>We evaluated the directors' assessment of the valuation of insurance contract liabilities by performing the following procedures:</p> <ul style="list-style-type: none"> • We assessed the design and implementation of controls around the governance process in place to determine the insurance contract liabilities; and • On a sample basis, we performed data integrity testing in relation to claims. <p>We engaged a specialist actuarial team as part of the audit team. The actuarial specialists:</p> <ul style="list-style-type: none"> • Challenged and benchmarked key actuarial assumptions; • Performed re-projections on selected classes of business. Classes selected were those with the largest and most uncertain claims liabilities. We compared our projected claims liabilities to those calculated by management; and • Evaluated the methodology and assumptions selected by management on the remaining classes of business. This involved meeting with senior management involved in the reserving process to discuss the reserving methodology, changes in assumptions from the previous year-end, and questions arising from the review reserving reports. <p>We reviewed the disclosures in the financial statements and checked for compliance with the relevant accounting standards.</p>
<p>Valuation of financial instruments:</p> <p>Financial assets account for a significant portion of the total assets of the Company. The total financial assets held at 31 December 2017 were valued at £5,673m (see Note 16 and Note 28 of the financial statements) - therefore the valuation of financial investments was a key audit area.</p> <p>The risk of material errors in valuation is greatest for those investments which do not have readily available quoted prices and/or are not frequently traded on recognised markets.</p>	<p>We assessed both the methodology and assumptions used by management in the period end valuations in addition to testing the governance controls in place to monitor these processes.</p> <p>We performed the following procedures:</p> <ul style="list-style-type: none"> • We evaluated the valuation methodology and assumptions used by management; • We checked details of investments held to Custodian reports, and other evidence of ownership; • For a sample of investments, including equities, bonds and investment property we checked the valuation recorded to independent sources; and • We assessed the adequacy and completeness of the relevant disclosures within the financial statements.

AXA Insurance UK plc**Independent Auditor's Report (continued)**

<p>Valuation of Goodwill:</p> <p>The Company recognised goodwill of £203m (see Note 13 of the financial statements) as part of the 'hive up' of assets from GBI (Holdings) Limited and its subsidiary company. The Company performs impairment testing on the goodwill valuation at least annually (see accounting policy XII c) in the notes to the financial statements).</p> <p>The valuation is sensitive to the underlying valuation assumptions, and therefore it is important that appropriate assumptions are chosen.</p> <p>We therefore consider that there is a risk that assumptions applied may not be reasonable and lead to a material misstatement of the valuation of goodwill.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> • We examined the impairment methodology to assess whether it is in accordance with IFRS requirements; • We assessed the appropriateness of the forecast information included in the projections; • We performed a hindsight review to assess the accuracy of prior period forecasting; • We tested management's application of the methodology by reperforming impairment calculation; • We performed a sensitivity analysis on the key assumptions used by management in their impairment assessment; and • We assessed the adequacy and completeness of the relevant disclosures within the financial statements.
<p>Revenue recognition:</p> <p>There is an inherent risk of fraud in the financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> • We tested the Company's controls around the unearned premium reserve, and performed tests of detail around the automatic calculation of the unearned premium reserve; • We tested material manual adjustments between system feeds and the final position of the unearned premium reserve in the accounts; • We tested controls surrounding the pipeline premium estimate and performed tests of detail to assess the post year end recoverability of such estimates; • We tested material manual journals in the accounts; and • Tests of detail were performed for a sample of premium entries.
<p>Valuation of investments in subsidiaries:</p> <p>The Company's investments in subsidiary undertakings amounted to £355m (see Note 15 in the financial statements).</p> <p>Investments in subsidiary undertakings are stated at cost unless their value has been impaired, in which case they are valued at their realisable value or value in use as appropriate.</p> <p>The investments are reviewed for impairment by management whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The assessment involves a significant element of judgement.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> • We obtained management's assessment as to whether a detailed impairment review was necessary, and challenged the key assumptions underlying the Company's conclusion. <p>In relation to the 2017 year end, we concur with management's view that the carrying value of investments is within the expected range and therefore a detailed impairment review was not considered necessary.</p>

AXA Insurance UK plc

Independent Auditor's Report (continued)

<p>Recoverability of deferred tax:</p> <p>The Company recognised a deferred tax asset of £78m relating to prior year tax losses within a net deferred tax asset of £35m (see Note 22 of the financial statements).</p> <p>The recoverability of these assets is dependent on future taxable profits which are determined in management forecasts. This means the value of the deferred tax asset involves a significant degree of judgement.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> • We obtained management's recoverability assessment and agreed it to management approved forecasts, which demonstrated how the losses are expected to be utilised against future taxable profits; • We performed sensitivity analysis on the assumptions used by management in their recoverability assessment; and • We challenged the calculations of projected taxable profits and assess the adequacy and completeness of disclosure in the financial statements.
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Our application of materiality

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

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

Overall materiality	Our overall materiality was £21m
How we determined it	1% net earned premiums.
Rationale for benchmark applied	In determining our materiality, we considered financial metrics which we believed to be relevant, and concluded that net earned premium was the most relevant benchmark. We believe that the benchmark of net earned premiums 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 £16m was applied in the audit.
Reporting threshold	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit

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, taking into account the Company's accounting processes and controls, and the industry in which it operates. We used the outputs of a risk assessment, our understanding of the Company, and we also considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

AXA Insurance UK plc

Independent Auditor's Report (continued)

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 6, 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.

AXA Insurance UK plc

Independent Auditor's Report (continued)

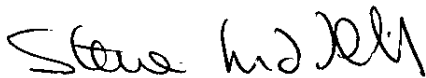
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed during the Annual General Meeting of the Company on 6 June 2017 to audit the financial statements for the year ended 31 December 2017. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2013 to 2017.

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.



Steve Liddell (Senior Statutory Auditor)

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

25 April 2018

AXA Insurance UK plc**Profit and Loss Account
for the year ended 31 December 2017****General business technical account**

	Note	2017 £m	2016 £m
Gross premiums written	3	2,261	2,276
Outward reinsurance premiums		(98)	(105)
Net premiums written		2,163	2,171
Change in provision for unearned premiums			
-gross amount		6	(49)
-reinsurers' share		(12)	(10)
Net change in provision for unearned premiums		(6)	(59)
Earned premiums, net of reinsurance		2,157	2,112
Claims paid			
-gross amount		(1,450)	(1,454)
-reinsurers' share		20	20
Total claims paid		(1,430)	(1,434)
Change in provision for claims			
-gross amount		(43)	(61)
-reinsurers' share		(31)	51
Total change in provision for claims		(74)	(10)
Claims incurred, net of reinsurance		(1,504)	(1,444)
Acquisition costs	4	(536)	(535)
Administration expenses	5	(209)	(203)
Net operating expenses	3	(745)	(738)
Balance on the technical account for general business		(92)	(70)

All transactions relate to continuing operations.

AXA Insurance UK plc**Profit and Loss Account (continued)
for the year ended 31 December 2017****Non-technical account**

	Note	2017 £m	2016 £m
Balance on the technical account for general business		(92)	(70)
Investment income	6	420	578
Unrealised gains on investments at fair value through profit and loss	7	29	25
Investment expenses and charges	8	(150)	(373)
Other operating income	9	89	88
Other operating expenses	10	(11)	(16)
Total balance on the non-technical account		377	302
 Profit on ordinary activities before tax		 285	 232
Tax on profit on ordinary activities	12	(26)	(41)
Profit for the financial year		259	191

All transactions relate to continuing operations.

The information on pages 19 to 69 forms an integral part of these financial statements.

AXA Insurance UK plc**Statement of Comprehensive Income
for the year ended 31 December 2017**

	Note	2017 £m	2016 £m
Profit for the financial year after tax		259	191
Other comprehensive income:			
Items that may be subsequently reclassified to profit and loss			
Investments classified as available for sale			
Fair value gains		40	157
Fair value losses transferred to profit and loss on disposal		(25)	(15)
Fair value losses on derivatives in a cash flow hedge		(2)	(15)
Tax effect of items recognised in other comprehensive income – deferred tax	12	1	(24)
Other comprehensive income net of tax		14	103
Total comprehensive income for the year attributable to the equity shareholders of the Company		273	294

All transactions relate to continuing operations.

The information on pages 19 to 69 forms an integral part of these financial statements.

AXA Insurance UK plc**Balance Sheet
as at 31 December 2017**

	Note	2017 £m	2016 £m
ASSETS			
Intangible assets			
Goodwill	13	203	203
Other intangible assets	13	14	14
Total intangible assets		217	217
Investments			
Land and buildings	14	111	119
Investment in group undertakings	15	355	355
Other financial investments			
Shares and other variable yield securities	16	1,190	1,230
Debt and other fixed income securities	16	4,219	3,865
Derivative financial instruments	16, 28	142	118
Loans and receivables	16	122	126
Deposits with ceding undertakings		74	68
Total investments		6,213	5,881
Reinsurers' share of technical provisions			
Provision for unearned premiums	17	25	37
Claims outstanding and loss adjustment expenses	17	111	142
Total reinsurers' share of technical provisions		136	179
Debtors			
Debtors arising from direct insurance operations	18	706	674
Debtors arising from reinsurance operations	18	44	66
Other debtors	19	139	100
Total debtors		889	840
Other assets			
Tangible assets	20	6	5
Cash at bank and in hand		198	160
Total other assets		204	165
Prepayments and accrued income			
Deferred acquisition costs	21	233	229
Deferred tax asset	22	35	52
Prepayments and accrued income		5	7
Total prepayments and accrued income		273	288
TOTAL ASSETS		7,932	7,570

AXA Insurance UK plc

Balance Sheet (continued)
as at 31 December 2017

	Note	2017 £m	2016 £m
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	23	122	122
Share premium	23	799	799
Revaluation reserve	24	211	197
Capital contribution reserve	24	875	875
Profit and loss account		1,079	819
Equity shareholders' funds		3,086	2,812
Technical provisions			
Provision for unearned premiums	25	1,044	1,050
Claims outstanding and loss adjustment expenses	25	3,267	3,226
Total technical provisions		4,311	4,276
Provisions for other risks			
Other provisions	26	72	48
Creditors			
Creditors arising from direct insurance operations	27	179	168
Creditors arising from reinsurance operations	27	20	36
Derivative financial instruments	28	97	92
Other creditors including tax and social security	29	121	115
Borrowings	30	32	-
Total creditors		449	411
Accruals and deferred income	31	14	23
TOTAL EQUITY AND LIABILITIES		7,932	7,570

The financial statements on pages 13 to 69 were approved and authorised for issue by the Board of Directors on 25 April 2018 and were signed on behalf of the Board by:



B. Poupert-Lafarge
 Director

AXA Insurance UK plc**Statement of Changes in Equity
for the year ended 31 December 2017**

	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total £m
2017					
Balance as at 1 January	122	799	1,072	819	2,812
Profit for the year	-	-	-	259	259
Other comprehensive income:					
Fair value gains on available for sale financial assets	-	-	15	-	15
Fair value losses on derivatives in a cash flow hedge	-	-	(2)	-	(2)
Tax effect of items recognised in other comprehensive income – deferred tax	-	-	1	-	1
Total comprehensive income for the year	-	-	14	259	273
Transactions with owners:					
Share based payments	-	-	-	1	1
Balance as at 31 December	122	799	1,086	1,079	3,086

	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total £m
2016					
Balance as at 1 January	122	799	969	630	2,520
Profit for the year	-	-	-	191	191
Other comprehensive income:					
Fair value gains on available for sale financial assets	-	-	142	-	142
Fair value losses on derivatives in a cash flow hedge	-	-	(15)	-	(15)
Tax effect of items recognised in other comprehensive income – deferred tax	-	-	(24)	-	(24)
Total comprehensive income for the year	-	-	103	191	294
Transactions with owners:					
Share based payments	-	-	-	(2)	(2)
Balance as at 31 December	122	799	1,072	819	2,812

The information on pages 19 to 69 forms an integral part of these financial statements.

AXA Insurance UK plc

Notes to the Financial Statements as at 31 December 2017

General Information

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

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

1. Principal Accounting Policies

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

I. Basis of preparation

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

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

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 policy provides a true and fair view. The effect of non-amortisation is an increase in profit for the year by £13.5m (2016: £13.5m), with the cumulative effect on net assets being an increase of £40.5m (2016: £27.0m).

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 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, a reconciliation of share capital;
 - (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'.
- (b) 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'.
- (c) The requirements of IAS 7 'Statement of Cash Flows'.
- (d) The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.
- (e) The requirements of paragraph 17 and 18A of IAS 24 'Related Party Disclosures'.
- (f) The requirements in IAS 24 'Related Party Disclosures' 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.
- (g) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 'Impairment of Assets', provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

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

AXA Insurance UK plc

Notes to the Financial Statements (continued) as at 31 December 2017

II. Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, with the exception of those amendments published and effective from 1 January 2017. The amendments and interpretations had no impact on the Company's financial statements.

III. Divisional reporting

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

IV. Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Translation differences on non-monetary items measured at fair value through profit and loss are recognised in the Profit and Loss Account as part of the fair value gain or loss. Translation differences on non-monetary items classified as available for sale are included in other comprehensive income.

V. 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.

AXA Insurance UK plc

Notes to the Financial Statements (continued) as at 31 December 2017

V. Product classification (continued)

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

VI. General insurance contracts - recognition and measurement

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

a) Insurance premiums

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

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

b) Insurance claims

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

c) Technical provisions

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

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

Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claim has occurred. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

AXA Insurance UK plc

Notes to the Financial Statements (continued) as at 31 December 2017

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

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

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

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

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

Where possible, the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation techniques are selected and combined, taking into account the characteristics of the business class and the extent of the development of each accident year.

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

Property, aviation and accident business

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

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

Motor business

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

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

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****VI. General insurance contracts - recognition and measurement (continued)****Liability and marine business**

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

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

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

Disease-related and pollution claims arising from liability business

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

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

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

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2017

VI. General insurance contracts - recognition and measurement (continued)**Reinsurance recoveries**

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

d) Salvage and subrogation

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

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

e) Deferred acquisition costs ("DAC")

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

f) Liability adequacy test

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

g) Debtors and other liabilities related to insurance and reinsurance contracts

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

VII. Intangible assets**a) Goodwill**

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

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

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

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****VII. Intangible assets (continued)****b) 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 on the straight line basis over its estimated useful life, subject to a maximum period of 5 years.

VIII. Land and buildings**a) Owner occupied properties**

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

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

b) Investment properties

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

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

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

IX. Tangible assets**a) Leasehold improvements**

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

b) Plant and equipment

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

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

AXA Insurance UK plc

Notes to the Financial Statements (continued) as at 31 December 2017

X. Financial assets

Financial assets are classified in the following categories: at fair value through profit and loss; available for sale; held to maturity; 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, held to maturity investments or financial assets at fair value through profit and loss. These financial assets are recognised initially at their fair value, including transaction costs and subsequently measured at fair value, with unrealised gains or losses recognised in other comprehensive income in the revaluation reserve. When the asset is disposed or impaired, the accumulated fair value adjustment in the revaluation reserve is transferred to the Profit and Loss Account.

c) Loans and receivables

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

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

d) Fair value estimation

The fair value of financial assets is best established through quoted prices in an active market. An active market is where quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency; and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the market for a financial instrument is not active, the Company uses recognised valuation techniques to determine fair value. Valuation techniques include discounted cash flow analysis, option pricing models and, where available, evidence of arm's length transactions in similar assets.

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****X. Financial assets (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.

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

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

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

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

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

XI. Investments in subsidiary companies

Investments in subsidiary companies are recorded at cost, and assessed for impairment at each reporting date.

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.

AXA Insurance UK plc

Notes to the Financial Statements (continued) as at 31 December 2017

XII. Impairment of assets (continued)

b) Available for sale financial assets

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

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

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

c) Non-financial assets

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

XIII. Derivative financial instruments

Derivative financial instruments include futures, 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 the Profit and Loss Account, unless they are designated and effective hedging instruments.

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

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****XIII. Derivative financial instruments (continued)**

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

a) Hedge accounting

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

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

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

b) Fair value hedge

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

Derivative financial instruments used for hedging purposes and the movements on fair value hedges are disclosed in note 28.

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 28.

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.

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****XIV. Cash at bank and in hand**

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

XV. 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.

XVI. Borrowings

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

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

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.

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****XVIII. Current and deferred tax**

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Profit and Loss Account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying value amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and there is an intention to settle the balances on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit and loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****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 the outcome of various restructuring activities and movement of staff between companies in the AXA UK Group, it is not feasible to allocate the defined benefit scheme assets and liabilities to individual participating companies. Consequently, the Company recognises its contribution payable for the period as permitted by IAS 19 'Employee benefits (revised 2011)' for defined benefit plans that share risks between companies under common control.

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

XX. Provisions

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

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

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

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

XXI. Leases

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.

XXII. 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.

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****XXIII. 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 VI(a) of the accounting policies.

b) Services rendered

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

c) Interest income

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

d) Rental income

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

e) Interest charges made to policyholders

Other operating income includes charges made to policyholders under the Consumer Credit Act where premiums are paid by instalments. The interest income is recognised in the Profit and Loss Account as it is earned using the effective interest rate method. The deferred portion is located in the line item 'accruals and deferred income' in note 31.

f) Dividend income

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

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****XXIV. Critical accounting estimates and judgements in applying accounting policies**

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

a) Technical provisions

The carrying value of technical provisions at the reporting date is £4,311m (2016: £4,276m). The judgements, estimates and assumptions employed in the assessment of the adequacy of provisions for unearned premiums and outstanding claims are set out in accounting policy VI and note 25.

b) Intangible assets

The carrying value at the reporting date of goodwill and other intangible assets is £217m (2016: £217m). In accordance with accounting policy VII 'intangible assets', impairment reviews occur at least on an annual basis where the recoverable amounts are determined of the respective specific assets. Details of the key assumptions used in the estimation of the recoverable amounts are contained in note 13.

c) Fair value of financial assets and derivative financial instruments

Where fair value cannot be derived from active markets or quoted prices, it is determined using valuation techniques. The inputs to these valuation techniques are largely derived from observable market data, but where observable market data is not available, management judgement is applied to factors including model risks, liquidity risk and counterparty credit risk. These are set out in accounting policy X 'financial assets', XII 'impairment of assets' and XIII 'derivative financial instruments', and notes 16 and 28. Sensitivity information for financial assets and derivative financial instruments are set out in the 'management of financial risk' note on pages 35 to 46.

d) Other provisions

The carrying value at the reporting date of other provisions is £72m (2016: £48m). The judgements, estimates and assumptions employed in the assessment of the adequacy of these provisions are set out in the accounting policy XX and note 26.

e) Deferred tax

The carrying value at the reporting date of the net deferred tax asset is £35m (2016: £52m), further details of which are disclosed in accounting policy XVIII and note 22. A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Significant management judgement is applied to determine the deferred tax asset that can be recognised and is based on the probability of future taxable profits.

f) Deferred acquisition costs

The carrying value at the reporting date of deferred acquisition costs is £233m (2016: £229m), further details of which are disclosed in accounting policy VI(e) and note 21.

AXA Insurance UK plc

Notes to the Financial Statements (continued) as at 31 December 2017

2. Management of financial risk

I. Financial risk management objectives and policies

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

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

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

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

II. Market risk

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

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

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

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

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

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****Industry analysis**

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

Equity analysis by industry	2017 £m	%	2016 £m	%
Financial	121	10.2%	342	27.8%
Consumer	71	6.0%	56	4.5%
Energy	29	2.4%	28	2.3%
Manufacturing & Pharmaceuticals	23	1.9%	11	0.9%
Utilities	15	1.3%	32	2.6%
Basic materials	22	1.8%	11	0.9%
Technology & Telecommunications	42	3.5%	32	2.6%
Others ⁽¹⁾	867	72.9%	718	58.4%
Total	1,190	100.0%	1,230	100.0%

⁽¹⁾ Other investments include interests in mutual funds of £865m (2016: £718m).

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

Debt securities analysis by industry	2017 £m	%	2016 £m	%
Financial	1,305	30.9%	1,272	32.9%
Consumer	700	16.6%	595	15.4%
Energy	176	4.2%	176	4.6%
Manufacturing & Pharmaceuticals	322	7.6%	271	7.0%
Utilities	503	11.9%	372	9.6%
Basic materials	114	2.7%	116	3.0%
Technology & Telecommunications	376	8.9%	382	9.9%
Government securities	665	15.8%	637	16.5%
Others	58	1.4%	44	1.1%
Total	4,219	100.0%	3,865	100.0%

a) Interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase of 100 basis points in interest rates would result in reduced profit for the period of £67m (2016: £39m reduced profit) plus unrealised losses in the other comprehensive income of £163m (2016: £166m). A decrease of 100 basis points in interest rates would result in increased profit for the period of £72m (2016: £42m increased profit) plus unrealised gains in the other comprehensive income of £195m (2016: £199m).

An increase of 100 basis points in interest rates would increase the fair value of derivatives through income by £51m (2016: £11m). A decrease of 100 basis points in interest rates would decrease the fair value of derivatives through income by £49m (2016: £11m).

The fair value of debt securities is exposed to future interest rate fluctuations. Included in debt securities of £4,219m (2016: £3,865m) is £27m (2016: £58m) in respect of variable rate debentures and £450m (2016: £497m) in respect of index-linked debentures. Debt securities with fixed interest rate are exposed to fair value interest rate risk but not cash flow interest rate risk. Ignoring the credit risk, debt securities with variable interest rates are exposed to cash flow interest rate risk but not fair value interest rate risk.

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****b) Equity price risk**

Listed equity securities represent 26.8% (2016: 22.2%) of total equity investments, including mutual funds.

If equity valuations had increased by 10%, with all other variables constant, the operating result for the year would remain unchanged (2016: unchanged). Unrealised gains recorded through the other comprehensive income would increase by £22m (2016: £20m).

If equity valuations had decreased by 10%, with all other variables constant, the operating result for the year would decrease by £4m (2016: £3m). Unrealised gains recorded through the other comprehensive income would decrease by £18m (2016: £17m).

An increase of 10% in the relevant market indices would decrease the fair value of equity hedging derivatives through income by £3m (2016: £2m). A decrease of 10% in the relevant market indices would increase the fair value of equity hedging derivatives through income by £8m (2016: £7m).

c) Currency risk

The Company is exposed to currency risk in respect of portfolios denominated in other currencies, principally the US dollar and euro. At 31 December 2017, if the pound had weakened by 1%, with all other variables constant, the operating result for the year would have been £1m higher (2016: unchanged), and if the pound had strengthened by 1%, with all other variables constant, the operating result for the year would have been £1m lower (2016: unchanged). Despite the currency volatility experienced during the year, the Company's exposure to currency risk is not significant due to adequate hedge mechanisms.

The concentration of financial assets by currency is analysed as follows:**2017**

	AUD		CAD		EURO		GBP		USD		Other		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
AFS equities	1	0.1	3	0.4	59	8.0	547	74.6	118	16.0	7	0.9	735	100.0
AFS debt securities	7	0.2	16	0.4	586	13.9	2,495	59.2	1,107	26.3	-	-	4,211	100.0
FVTPL derivatives	-	-	-	-	24	16.9	75	53.1	43	30.0	-	-	142	100.0
FVTPL funds	-	-	-	-	4	0.9	30	6.6	421	92.5	-	-	455	100.0
FVTPL debt securities	-	-	-	-	8	100.0	-	-	-	-	-	-	8	100.0
Loans	-	-	-	-	50	41.2	45	36.3	27	22.5	-	-	122	100.0
	8	0.1	19	0.3	731	13.0	3,192	56.3	1,716	30.2	7	0.1	5,673	100.0

The concentration of financial assets by currency is analysed as follows:**2016**

	CAD		EURO		GBP		JPY		USD		Other		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
AFS equities	2	0.3	53	7.2	639	87.4	3	0.4	30	4.2	4	0.5	731	100.0
AFS debt securities	12	0.3	366	9.5	2,376	61.6	-	-	1,102	28.6	1	-	3,857	100.0
FVTPL derivatives	-	-	28	24.2	58	49.0	-	-	32	26.8	-	-	118	100.0
FVTPL funds	-	-	3	0.7	37	7.5	-	-	459	91.8	-	-	499	100.0
FVTPL debt securities	-	-	8	100.0	-	-	-	-	-	-	-	-	8	100.0
Loans	-	-	65	51.7	61	48.3	-	-	-	-	-	-	126	100.0
	14	0.3	523	9.8	3,171	59.3	3	0.1	1,623	30.4	5	0.1	5,339	100.0

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

AXA Insurance UK plc**Notes to the Financial Statements (continued)**
as at 31 December 2017**III. Credit risk**

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

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

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

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

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

Ratings	2017 £m	%	2016 £m	%
AAA	386	6.7%	383	7.2%
AA	1,067	18.5%	941	17.7%
A	1,390	24.2%	1,157	21.7%
BBB	1,505	26.2%	1,386	26.1%
BB	39	0.7%	107	2.0%
B	11	0.2%	35	0.7%
Not rated	1,357	23.5%	1,310	24.6%
Total	5,755	100.0%	5,319	100.0%

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

	Not past due or impaired	Overdue less than 6 months	Overdue 6 - 12 months	Overdue over 1 year	Provided for	Carrying value £m
2017						
Direct insurance operations	673	28	7	-	(2)	706
Reinsurance operations	19	9	6	11	(1)	44
2016						
Direct insurance operations	643	26	7	1	(3)	674
Reinsurance operations	30	10	5	23	(2)	66

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****IV. Liquidity risk**

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

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

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

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

	Less than 1 year £m	1-2 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
2017						
Financial assets						
Equities and mutual funds	-	-	-	-	1,190	1,190
Debt Securities	266	272	1,226	2,455	-	4,219
Loans and receivables	17	5	83	17	-	122
Other debtors	139	-	-	-	-	139
Cash at bank and in hand	198	-	-	-	-	198
Total non-derivative financial assets	620	277	1,309	2,472	1,190	5,868
Derivative financial instruments	26	-	21	95	-	142
Total financial assets (note 16, 19 & 28)	646	277	1,330	2,567	1,190	6,010

	Less than 1 year £m	1- 5 Years £m	Over 5 years £m	Total £m
2017				
Financial liabilities				
Claims outstanding*		1,074	1,343	3,922
Direct insurance operations (note 27)		179	-	179
Reinsurance operations (note 27)		20	-	20
Other liabilities (note 29 & 31)		135	-	135
Borrowings (note 30)		32	-	32
Total non-derivative financial liabilities		1,440	1,343	4,288
Derivative financial instruments (note 28)		6	13	97
Total financial liabilities		1,446	1,356	4,385

* The claims outstanding amounts represent the undiscounted cash flows, in contrast to the total amount reported within note 25 which is on a discounted basis.

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2017

IV. Liquidity risk (continued)

2016	Less than 1 year £m	1-2 years £m	3-5 years £m	Over 5 years £m	Equities £m	Total £m
Financial assets						
Equities and mutual funds	-	-	-	-	1,230	1,230
Debt Securities	251	292	923	2,399	-	3,865
Loans and receivables	6	26	49	45	-	126
Other debtors	100	-	-	-	-	100
Cash at bank and in hand	160	-	-	-	-	160
Total non-derivative financial assets	517	318	972	2,444	1,230	5,481
Derivative financial instruments	16	-	9	93	-	118
Total financial assets (note 16, 19 & 28)	533	318	981	2,537	1,230	5,599

2016	Less than 1 year £m	1- 5 Years £m	Over 5 years £m	Total £m
Financial liabilities				
Claims outstanding*		940	1,203	3,726
Direct insurance operations (note 27)		168	-	168
Reinsurance operations (note 27)		36	-	36
Other liabilities (note 29 & 31)		138	-	138
Total non-derivative financial liabilities		1,282	1,203	4,068
Derivative financial instruments (note 28)		33	6	92
Total financial liabilities		1,315	1,209	4,160

* The claims outstanding amounts represent the undiscounted cash flows, in contrast to the total amount reported within note 25 which is on a discounted basis.

V. Capital management

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

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

AXA Insurance UK plc

Notes to the Financial Statements (continued) as at 31 December 2017

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 insurer's models and any such review may lead to regulatory changes to increase convergence and to strengthen oversight of cross-border groups.

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

	2017 £m	2016 £m
Equity shareholders' funds	3,086	2,812
Full market value of assets	86	120
Intangible assets and Deferred acquisition costs	(450)	(448)
Best estimate liabilities and market value margin	(192)	(235)
Other	(142)	(62)
Solvency II financial capital resources	2,388	2,187
SCR	1,703	1,776
MCR	500	497
Solvency II financial capital resources/SCR	140.2%	123.1%

The Company has reviewed capital resources and requirements on an economic basis as at the end of 2017. 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.

VI. Insurance and reinsurance risk

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

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

AXA Insurance UK plc

Notes to the Financial Statements (continued) as at 31 December 2017

VI. Insurance and reinsurance risk (continued)

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

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

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

The UK Property & Casualty segment includes direct commercial employee liability claims outstanding of £847m (2016: £873m) and other liability claims outstanding of £394m (2016: £301m) within the total Insurance liabilities of £4,311m (2016: £4,276m).

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

Asbestos claims reserves, £421m (2016: £435m) net of reinsurance, are highly sensitive to the assumptions used in the projection methodology. In particular, the inflation rate adopted impacts significantly on the final reserves and timing of future cash flows. The other main sensitivities are around peak year, which could shift the timing of future notifications between years and the ultimate dismissal rate. Changes in the average cost of claims settlements used will also feed directly through to the ultimate liability figure.

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.

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2017

VI. Insurance and reinsurance risk (continued)

General insurance contracts: assumptions and change in assumptions

- The average cost per claim method which applies an estimated average cost to the final number of claims expected to be notified in each loss occurrence or underwriting year.
- Methods based on claims ratios (such as the ultimate claims ratio or the additional claims ratio).
- Hybrid methods (such as Bornhuetter-Ferguson and Cape Cod).
- For asbestos-related diseases (mesothelioma claims), models released by The Health and Safety Executive and an Actuarial Working Party as well as high level projections available from Professor Sir Richard Peto, an epidemiology expert.
- Methods based on frequency and severity estimates.
- Catastrophic injury claims settled, or expected to settle, as a periodic payment order, which are reserved for on an expected future payments basis for each individual claim, are subject to discounting (note 25).

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

Other than the Lord Chancellor's announcement of a change to the Ogden discount rate (used to discount the future cost of care and loss of earnings for injury claims) from +2.5% to -0.75% in the first quarter of 2017, no significant changes to assumptions were made in 2017 for the estimation of general insurance claims other than for claims settled by means of periodical payment orders as disclosed in note 25.

VII. Fair value estimation

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

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

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****VII. Fair value estimation (continued)****Financial assets and financial liabilities recognised at fair value in the fair value measurement hierarchy at 31 December 2017**

Description	2017 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets at fair value through profit and loss	567	25	541	1
Derivative financial instruments	104	25	79	-
Mutual funds	455	-	454	1
Debt securities	8	-	8	-
Available for sale financial assets	4,946	3,764	1,166	16
Equity investments	214	212	-	2
Debt securities	4,211	3,552	659	-
Mutual funds	521	-	507	14
Derivative financial instruments for hedging	38	-	38	-
Total financial assets at fair value	5,551	3,789	1,745	17
Financial liabilities at fair value through profit and loss	97	4	93	-
Derivative financial instruments	41	4	37	-
Derivative financial instruments for hedging	56	-	56	-
Total financial liabilities at fair value	97	4	93	-

Fair value of investments recognised at amortised cost presented in the fair value measurement hierarchy at 31 December 2017

Description	2017 £m	Level 1 £m	Level 2 £m	Level 3 £m
Fair value of investments at amortised cost				
Investment property (note 14)	121	-	121	-
Total	121	-	121	-

Financial assets and financial liabilities recognised at fair value in the fair value measurement hierarchy at 31 December 2016

Description	2016 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets at fair value through profit and loss	596	21	574	1
Derivative financial instruments	89	21	68	-
Mutual funds	499	-	498	0.7
Debt securities	8	-	8	-
Available for sale financial assets	4,588	2,916	1,651	21
Equity investments	195	192	1	2
Debt securities	3,857	2,724	1,133	-
Mutual funds	536	-	517	19
Derivative financial instruments for hedging	29	-	29	-
Total financial assets at fair value	5,213	2,937	2,254	22

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****VII. Fair value estimation (continued)**

Financial liabilities at fair value through profit and loss	92	26	66	-
Derivative financial instruments	70	26	44	-
Derivative financial instruments for hedging	22	-	22	-
Total financial liabilities at fair value	92	26	66	-

Fair value of investments recognised at amortised cost presented in the fair value measurement hierarchy at 31 December 2016

Description	2016 £m	Level 1 £m	Level 2 £m	Level 3 £m
Fair value of investments at amortised cost				
Investment property (note 14)	120	-	120	-
Total	120	-	120	-

£52m (2016: £117m) of debt securities were transferred from Level 1 to Level 2 during the year and £556m (2016: £216m) of debt securities were transferred from Level 2 to Level 1. £0m (£0.1m) of derivative liabilities were transferred from Level 1 to Level 2 during the year. £0m (2016: £1m) of derivative assets were transferred from Level 2 to Level 1 during the year. Transfers between Level 1 and Level 2 occur primarily due to changes in the availability of pricing information.

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

a) Financial instruments in Level 1

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

b) Financial instruments in Level 2

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

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

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****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 investment included within level 3 is the AXA Trirème private equity fund, the investment has no equivalent market activity and is valued based on the various valuations of the assets within the fund.

The following table presents the changes to Level 3 instruments for the year ended 31 December 2017:

Description	Available for sale			FVPL	Total £m
	Equity securities £m	Debt securities £m	Mutual funds £m	Mutual funds £m	
Opening balance	1	-	20	1	22
Total gains or losses in other comprehensive income	-	-	1	-	1
Losses recognised in profit and loss	-	-	(1)	-	(1)
Purchases	-	-	3	-	3
Settlements	-	-	(8)	-	(8)
Closing balance	1	-	15	1	17

The following table presents the changes to Level 3 instruments for the year ended 31 December 2016:

Description	Available for sale			FVPL	Total £m
	Equity securities £m	Debt securities £m	Mutual funds £m	Mutual funds £m	
Opening balance	1	100	20	-	121
Total gains or losses in other comprehensive income	-	(5)	1	-	(4)
Transfers in	-	-	-	-	-
Purchases	-	-	-	1	1
Settlements	-	(95)	(1)	-	(96)
Closing balance	1	-	20	1	22

AXA Insurance UK plc

Notes to the Financial Statements (continued) as at 31 December 2017

3. Divisional information

Geographical analysis

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

Class of business analysis

	Gross written premiums		Gross earned premiums	
	2017 £m	2016 £m	2017 £m	2016 £m
Direct and reinsurance accepted				
Motor	1,001	984	987	940
Accident and health	132	138	132	140
Third party liability	261	275	263	269
Fire and other damage to property	812	834	822	821
Marine, aviation and transport	8	9	9	10
Miscellaneous	47	36	54	47
Total	2,261	2,276	2,267	2,227

	Gross claims incurred		Net operating expenses	
	2017 £m	2016 £m	2017 £m	2016 £m
Direct and reinsurance accepted				
Motor	(781)	(836)	(231)	(223)
Accident and health	(116)	(108)	(57)	(35)
Third party liability	(174)	(144)	(94)	(104)
Fire and other damage to property	(397)	(406)	(341)	(357)
Marine, aviation and transport	2	(4)	(4)	(8)
Miscellaneous	(27)	(17)	(18)	(11)
Total	(1,493)	(1,515)	(745)	(738)

	2017 £m	2016 £m
Reinsurance outwards		
Motor	(39)	33
Third party liability	(6)	1
Fire and other damage to property	(77)	(56)
Marine, aviation and transport	(1)	6
Miscellaneous	2	(28)
Total	(121)	(44)

4. Acquisition costs

	2017 £m	2016 £m
Movement of deferred acquisition costs (note 21)	4	22
Costs incurred for the acquisition of insurance contracts		
- Expensed in the year	(539)	(558)
- Attributable to reinsurers	(1)	1
Total expenses for the acquisition of insurance contracts	(536)	(535)

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****5. Administration expenses**

	2017 £m	2016 £m
Marketing and administrative expenses	(194)	(198)
Depreciation of property, plant and equipment (note 14 & 20)	(2)	(2)
Amortisation of software development (note 13)	(13)	(3)
Total administration expenses	(209)	(203)

The operating lease payments recognised as an expense during the year were £5m (2016: £6m).

6. Investment income

£m	December 2017				Total
	Investment income	Realised gains relating to investments at cost and at fair value through shareholders' equity	Realised gains relating to investments at fair value through profit and loss	Change in investments impairment	
Investment in real estate property at amortised cost less accumulated depreciation, less accumulated impairment	3	1	-	-	4
Debt instruments – available for sale	118	4	-	-	122
Equity instruments – available for sale	9	15	-	-	24
Subsidiaries ⁽¹⁾	150	-	-	-	150
Non-consolidated investment funds	34	3	3	-	40
Non-consolidated investment funds available for sale	13	3	-	-	16
Non-consolidated investment funds designated as at fair value through profit and loss	21	-	3	-	24
Loans at cost	3	-	-	-	3
Derivative instruments	12	-	65	-	77
Investment income	329	23	68	-	420

⁽¹⁾ The Company received dividends of £150m from subsidiary AXA PPP healthcare limited during the current year (2016: £nil).

AXA Insurance UK plc

Notes to the Financial Statements (continued)
as at 31 December 2017

6. Investment income (continued)

£m	December 2016			
	Investment income	Realised gains relating to investments at cost and at fair value through shareholders' equity	Change in investments impairment	Total
Investment in real estate property at amortised cost, less accumulated depreciation, less accumulated impairment	5	8	2	15
Debt instruments – available for sale	119	5	-	124
Equity instruments – available for sale	8	23	-	31
Non-consolidated investment funds	34	-	-	34
Non-consolidated investment funds available for sale	15	-	-	15
Non-consolidated investment funds designated as at fair value through profit and loss	19	-	-	19
Loans at cost	26	-	-	26
Derivative instruments	10	-	-	10
Cash and cash equivalents	(1)	-	-	(1)
Foreign exchange gains	338	-	-	338
Other	1	-	-	1
Investment income	540	36	2	578

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

	2017 £m	2016 £m
Debt securities in hedge relationships	(15)	5
Derivatives	32	22
Non-consolidated investment funds designated as fair value through profit and loss	12	(2)
Net unrealised gains on investments at fair value through profit and loss	29	25

8. Investment expenses and charges

	2017 £m	2016 £m
Investment management expenses	(13)	(12)
Expenses relating to repurchase agreement	-	(1)
Foreign exchange losses	(128)	-
Realised losses on investments at fair value through profit and loss - derivatives	-	(341)
Impairment charges	(9)	(19)
Total investment expenses	(150)	(373)

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****9. Other operating income**

	2017 £m	2016 £m
Other income	80	84
Foreign exchange gains	9	4
Other operating income	89	88

10. Other operating expenses

	2017 £m	2016 £m
Other expenses	(11)	(1)
Foreign exchange losses	-	(15)
Other operating expenses	(11)	(16)

11. Audit Fees

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

	2017 £m	2016 £m
Audit services:		
Fees payable to the Company's auditor for the audit of the statutory accounts	(0.4)	(0.4)
Non-audit services:		
Audit related assurance services from the Company's auditor, including the audit of the regulatory return	(0.3)	(0.2)
	(0.7)	(0.6)

12. Tax

	2017 £m	2016 £m
Current Tax:		
Current tax on profit for the year	(9)	(4)
Adjustments in respect of previous years	1	5
Total current tax	(8)	1
Deferred tax (note 22)	(22)	(42)
Adjustments in respect of previous years	4	-
Total tax expense	(26)	(41)

Corporation tax is calculated at 19.25% (2016: 20.0%) of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

AXA Insurance UK plc**Notes to the Financial Statements (continued)**
as at 31 December 2017**12. Tax (continued)**

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

	2017	2016
	£m	£m
Profit before tax	285	232
Tax calculated at UK tax rates applicable to profits 19.25% (2016: 20%)	(55)	(46)
Tax effects of:		
- Expenses that are not deductible in determining taxable profit	(1)	-
- Income not taxable in determining taxable profit	32	4
Adjustments to tax charge in respect of previous periods	5	16
Impact of rate change	(4)	(2)
Deferred tax not recognised on losses	-	(9)
Extra payment for group tax losses	-	(4)
Reallocation to OCI	(3)	-
Tax expense for the year	(26)	(41)

The standard rate of tax applied to reported profit on ordinary activities is 19.25% (2016: 20.0%). During 2017 the deferred tax balances were re-measured as a result of the changes to the UK corporation tax rate that were enacted in the Finance (No.2) Act 2016. The UK corporation tax rate reduced from 20% to 19% with effect from 1 April 2017 and will be further reduced from 19% to 17% with effect from 1 April 2020.

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:

	2017	2016
	£m	£m
Deferred tax		
Items that may be subsequently reclassified to profit and loss:		
Deferred tax on available-for-sale and cash flow hedge financial asset gains arising during the year	(2)	(24)
Reallocation from income statement	3	-
Total income tax recognised in other comprehensive income	1	(24)

AXA Insurance UK plc**Notes to the Financial Statements (continued)**
as at 31 December 2017**13. Intangible assets**

	Goodwill	Other intangible assets	
		Software development	Total
	£m	£m	£m
Cost			
Balance as at 1 January 2017	203	70	70
Additions at cost	-	13	13
Balance as at 31 December 2017	203	83	83
Accumulated amortisation			
Balance as at 1 January 2017	-	56	56
Charge for the year	-	13	13
Balance as at 31 December 2017	-	69	69
Net book value as at 31 December 2017	203	14	14
Net book value as at 31 December 2016	203	14	14

Amortisation charges of £13m (2016: £3m) have been charged to administration expenses (note 5).

There were no transfers in 2017 with regards to reclassification of assets to tangible assets (2016: nil).

- a) **Goodwill** was acquired as part of the hive up assets from GBI (Holdings) Limited and its subsidiary companies through a corporate reorganisation transaction on 1 July 2013. The goodwill has been allocated to the direct business cash generating unit. The recoverable amount was determined using value-in-use calculations. The value-in-use was calculated through cash flow projections based on business plans approved by management covering a three to five year period and a pre-tax risk-adjusted discount rate of 9% (2016: 9%). Cash flows beyond that period were extrapolated using a steady 2% growth rate. The key assumptions used in the cash flow projections are the increases in premiums, claims and expenses. These assumptions were determined based on historical rates.

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

- b) **Software development** is all internally developed, with a useful life ranging from one to five years. A review of the carrying value of assets identified capitalisation relating to projects which were no longer being actively pursued and which would not support business generation. This resulted in exceptional impairment being charged within the year of £9m (2016: £nil).

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****14. Land and buildings**

	Owner occupied £m	Investment properties £m	Total £m
Cost			
Balance as at 1 January 2017	16	151	167
Disposals	(1)	(11)	(12)
Balance as at 31 December 2017	15	140	155
Accumulated depreciation and impairment			
Balance as at 1 January 2017	3	45	48
Charge for the year	-	2	2
Disposals	-	(1)	(1)
Impairment movement	-	(5)	(5)
Balance as at 31 December 2017	3	41	44
Net book value as at 31 December 2017	12	99	111
Net book value as at 31 December 2016	13	106	119

Depreciation expense relating to owner occupied properties has been charged to administration expenses (note 5).

The investment properties were valued at £121m (2016: £120m) 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 £6m (2016: £8m), whilst the associated operating expenses were £1m (2016: £1m). Both amounts, including the depreciation charge of £2m (2016: £2m), are recorded in the Profit and Loss Account within investment income.

15. Investment in group undertakings**Particulars of subsidiary companies**

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

Investment in subsidiary companies

	2017 £m	2016 £m
Carrying value as at 1 January and 31 December	355	355
Total investment in subsidiary undertakings	355	355

On 15 August 2017, the Company's direct subsidiary Knight Law Limited was voluntarily dissolved and removed as a subsidiary undertaking.

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****16. Other financial investments**

	2017	2016
	£m	£m
Shares and other variable yield securities	1,190	1,230
Debt and other fixed income securities	4,219	3,865
Derivative financial instruments	142	118
Loans and receivable	122	126
Total financial assets	5,673	5,339

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

	2017	2016
	£m	£m
Available for sale	4,946	4,588
Fair value through profit and loss	567	596
- Held for trading	104	89
- Debt and other fixed income securities	8	8
- Share and other variable yield securities	455	499
Derivatives in hedge relationships	38	29
Loans and receivables	122	126
Total financial assets	5,673	5,339

	2017	2016
	£m	£m
Available for sale financial assets		
Shares and other variable yield securities - equity securities:		
- listed	212	193
- unlisted	2	2
Shares and other variable yield securities - mutual funds:		
- listed	106	80
- unlisted	415	456
Debt and other fixed income securities:		
- listed	4,205	3,857
- unlisted	6	-
Total available for sale financial assets	4,946	4,588

Included within available for sale assets - Debt and other fixed income securities are bonds with a fair value of £35m, which form part of a total return swap agreement. A corresponding liability has been recorded within borrowings (note 30) for £32m, representing the amount repayable on maturity of the agreements. The bonds continue to be recognised on the basis that all the risks and rewards associated with the bonds are retained by the Company. The total return swaps have maturity periods ranging from 2022 to 2024.

	2017	2016
	£m	£m
Loans and receivables		
Broker loans	1	2
Real estate private loans – secured by mortgages	93	124
Secured loan facility	28	-
Total loans and receivables	122	126

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****16. Other financial investments (continued)**

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

	2017	2016
	£m	£m
Derivatives held for trading	93	87
Derivatives in a hedging relationship	29	15
Mutual funds	61	96
Debt securities	1	-
Net unrealised gains in the balance sheet on investments at fair value through profit and loss	184	198

17. Reinsurers' share of technical provisions

	2017	2016
	£m	£m
Reinsurers' share of provision for claims outstanding and loss adjustment expenses	111	142
Reinsurers' share of provision for unearned premiums	25	37
Reinsurers' share of technical provisions	136	179

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

	2017	2016
	£m	£m
Settlement period for reinsurers' share of claims outstanding and long-term technical provisions		
Less than 12 months	5	6
Greater than 12 months	106	136
Balance as at 31 December	111	142

	2017	2016
	£m	£m
Balance as at 1 January	142	91
Reinsurers' share of claims payments made in year	(20)	(20)
(Decrease)/increase in recoverable	(11)	71
Balance as at 31 December	111	142

Reinsurers' share of provision for unearned premiums

	2017	2016
	£m	£m
Balance as at 1 January	37	47
Premiums written in the year	98	105
Premiums earned in the year	(110)	(115)
Balance as at 31 December	25	37

AXA Insurance UK plc**Notes to the Financial Statements (continued)**
as at 31 December 2017**18. Debtors arising from insurance and reinsurance operations**

	2017	2016
	£m	£m
Debtors arising from direct insurance operations	706	674
Policyholders	232	206
Intermediaries	474	468
Debtors arising from reinsurance operations	44	66
Total debtors arising from insurance and reinsurance operations	750	740

An age analysis of these debtors is included within the Management of Financial Risk note on page 39.

19. Other debtors

	2017	2016
	£m	£m
Amounts owed from intermediate parent companies	2	2
Amounts owed from subsidiary undertakings	-	6
Amounts owed from fellow subsidiary undertakings	92	40
Other	45	52
Total other debtors	139	100

Amounts expected to be settled within one year £139m (2016: £100m).

Amounts expected to be settled after one year £nil (2016: £nil).

20. Tangible assets

	Leasehold improvements	Plant and equipment	Total
	£m	£m	£m
Cost			
Balance as at 1 January 2017	7	18	25
Additions at cost	-	3	3
Exchange and other movements	-	-	-
Balance as at 31 December 2017	7	21	28
Accumulated depreciation			
Balance as at 1 January 2017	7	13	20
Charge for the year	-	2	2
Balance as at 31 December 2017	7	15	22
Net book value as at 31 December 2017	-	6	6
Net book value as at 31 December 2016	-	5	5

Depreciation expense of £2m (2016: £1m) has been charged to administration expenses (note 5).

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****21. Deferred acquisition costs**

	2017 £m	2016 £m
Deferred acquisition costs as at 1 January	229	207
Credit to profit and loss account in the year	4	22
Acquisition costs deferred during the year	402	419
Amortisation charged during the year	(398)	(397)
Deferred acquisition costs as at 31 December	233	229

22. Deferred tax

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

	Accelerated tax depreciation £m	Tax losses £m	Other assets £m	Share based payments £m	Total £m
Balance as at 1 January 2016	15	131	4	1	151
(Charged)/credited to the profit and loss account	(2)	(44)	19	(1)	(28)
Charged to other comprehensive income	-	6	(8)	-	(2)
Effect of change in tax rate:					
Profit and loss account	(1)	(2)	-	-	(3)
Balance as at 1 January 2017	12	91	15	-	118
(Charged)/credited to the profit and loss account	(1)	(14)	(1)	-	(16)
(Charged)/credited to other comprehensive income	-	5	(5)	-	-
Effect of change in tax rate:					
Profit and loss account	-	(4)	-	-	(4)
Balance as at 31 December 2017	11	78	9	-	98

	Equalisation reserve £m	Other liabilities £m	Total £m
Balance as at 1 January 2016	(28)	(4)	(32)
(Charged)/credited to the profit and loss account	5	(17)	(12)
(Charged) to other comprehensive income	-	(22)	(22)
Effect of change in tax rate:			
Profit and loss account	-	-	-
Balance as at 1 January 2017	(23)	(43)	(66)
(Charged)/credited to the profit and loss account	5	(3)	2
Credited to other comprehensive income	-	1	1
Balance as at 31 December 2017	(18)	(45)	(63)

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

The net deferred tax asset of £35m (2016: £52m) arises primarily from trade tax losses carried forward for utilisation in future accounting periods totalling £436m (2016: £483m).

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****22. Deferred tax (continued)**

It is expected that these future tax losses will be fully utilised by 2023, this assessment being based on management approved forecasts for the period 2018 to 2023 which identify sufficient profits to utilise 100% of the losses.

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

	2017 £m	2016 £m
Deferred tax liabilities	(63)	(66)
Deferred tax assets	98	118
Total deferred tax	35	52

23. Called up share capital and share premium

	2017 Shares	£m	2016 Shares	£m
Issued, authorised and fully paid Ordinary shares, par value 25p, at 31 December	489,056,602	122	489,056,602	122

	2017 £m	2016 £m
Share premium account		
Balance as at 31 December	799	799

24. Other reserves

2017	Capital contribution reserve £m	Revaluation reserve		
		AFS assets £m	Cash flow hedge £m	Total £m
Balance as at 1 January	875	212	(15)	197
Fair value gains on AFS assets	-	15	-	15
Fair value losses on cash flow hedge	-	-	(2)	(2)
Tax on movements taken directly to equity – deferred tax	-	1	-	1
Balance as at 31 December	875	228	(17)	211

2016	Capital contribution reserve £m	Revaluation reserve		
		AFS assets £m	Cash flow hedge £m	Total £m
Balance as at 1 January	875	97	(3)	94
Fair value losses on AFS assets	-	142	-	142
Fair value losses on cash flow hedge	-	-	(15)	(15)
Tax on movements taken directly to equity – deferred tax	-	(27)	3	(24)
Balance as at 31 December	875	212	(15)	197

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

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

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****24. Other reserves (continued)****Movements in revaluation reserve**

	2017 £m	2016 £m
Balance as at 1 January	197	94
Fair value gains/(losses)	15	142
Fair value gains/(losses) on AFS assets	6	132
Amortisation charge	22	22
Amortisation release	(10)	6
Impairment charge	9	18
Impairment release	(5)	(9)
Net realised (gains)/losses	(7)	(27)
Fair value losses on cash flow hedge	(2)	(15)
Cash flow hedge release to profit and loss	-	-
Tax	1	(24)
Balance as at 31 December	211	197

25. Technical provisions

	2017 £m	2016 £m
Provision for claims outstanding and loss adjustment expenses	3,267	3,226
Provision for unearned premiums	1,044	1,050
Total technical provisions	4,311	4,276
Settlement period for claims outstanding		
Less than 12 months	1,074	961
Greater than 12 months	2,193	2,265
Balance as at 31 December	3,267	3,226

Provision for claims outstanding and loss adjustment expenses

	2017 £m	2016 £m
Balance as at 1 January	3,226	3,140
Total claims payments made in the year	(1,450)	(1,454)
Increase in liabilities	1,493	1,515
Exchange and other movements	(2)	25
Balance as at 31 December	3,267	3,226

Provision for unearned premiums

	2017 £m	2016 £m
Balance as at 1 January	1,050	1,001
Premiums written in the year	2,261	2,276
Premiums earned in the year	(2,267)	(2,227)
Balance as at 31 December	1,044	1,050

AXA Insurance UK plc

Notes to the Financial Statements (continued) as at 31 December 2017

25. Technical provisions (continued)

Discounting

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

	Rate		Mean term of liabilities	
	2017 %pa	2016 %pa	2017 Years	2016 Years
Periodic Payment basis	4.3	3.9	38	39

The increase in the discount rate reflects a change in the methodology applied when setting the rate, which considers the quantitative evaluation of financial instruments of similar terms as well as qualitative views of the long-term investment potential over the long duration of the liabilities with due regard to the linked inflation assumption for payment indexation. Any change in discount rates between the start and the end of the accounting period is reflected within the technical provisions as a change in economic assumption.

Total outstanding claims provision before discounting was £3,922m (2016: £3,726m). The period of time which will elapse before the liabilities are settled has been estimated by reference to medical experts' reports during claim settlement and Ogden 7 tables view of life expectancy on a claim by claim basis. The assets held in respect of reinsurers' share of technical provisions have also been discounted in respect of periodic payment order claims.

Claims development tables

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims and the top 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. An accident-year basis is considered to be most appropriate for the business written by the Company.

	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Total £m
Accident year - Gross										
Estimate of ultimate claims costs:										
- at end of accident year	1,367	1,374	1,369	1,349	1,265	1,338	1,388	1,427	1,480	
- one year later	1,544	1,511	1,430	1,487	1,391	1,434	1,593	1,687		
- two years later	1,500	1,423	1,340	1,409	1,308	1,409	1,513			
- three years later	1,492	1,409	1,317	1,371	1,258	1,403				
- four years later	1,488	1,376	1,293	1,320	1,251					
- five years later	1,471	1,370	1,268	1,308						
- six years later	1,468	1,354	1,208							
- seven years later	1,453	1,344								
- eight years later	1,444									
Current estimate of cumulative claims	1,444	1,344	1,208	1,308	1,251	1,403	1,513	1,687	1,480	12,636
Cumulative payments to date	1,402	1,311	1,182	1,242	1,112	1,140	1,131	1,020	626	10,167
Liability recognised in the balance sheet	42	33	25	66	138	263	382	667	853	2,469
Liability in respect of prior years										798
Total liability included in the balance sheet										3,267

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****25. Technical provisions (continued)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Accident year - Net	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of ultimate claims costs:										
- at end of accident year	1,339	1,368	1,357	1,337	1,259	1,324	1,375	1,411	1,459	
- one year later	1,516	1,504	1,425	1,478	1,385	1,420	1,579	1,666		
- two years later	1,470	1,417	1,336	1,403	1,303	1,389	1,498			
- three years later	1,463	1,401	1,313	1,363	1,253	1,385				
- four years later	1,456	1,369	1,290	1,314	1,240					
- five years later	1,436	1,365	1,265	1,305						
- six years later	1,441	1,349	1,200							
- seven years later	1,426	1,339								
- eight years later	1,413									
Current estimate of cumulative claims	1,413	1,339	1,200	1,305	1,240	1,385	1,498	1,666	1,459	12,506
Cumulative payments to date	1,375	1,306	1,180	1,240	1,107	1,126	1,117	1,006	615	10,072
Liability recognised in the balance sheet	37	33	21	65	133	259	381	661	844	2,434
Liability in respect of prior years										722
Total liability included in the balance sheet										3,156

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

26. Other provisions

	MIB provision £m	Vacant space provision £m	Other provisions £m	Total £m
Balance as at 1 January 2017	13	17	18	48
Charged to profit and loss account	16	5	59	80
Released during the year	-	-	-	-
Utilised during year	(15)	(3)	(38)	(56)
Balance as at 31 December 2017	14	19	39	72

	2017 £m	2016 £m
To be settled within 12 months	42	35
To be settled after 12 months	30	13
Total	72	48

a) Motor Insurers' Bureau (MIB) provision

The MIB provision relates to the levy payable in respect of 2017 premiums. The provision is assessed on 2017 premiums and information available from the MIB at the time.

b) Vacant space provision

The vacant space provision relates to future rent expenses for leasehold property where the property is vacant or where the property is sublet and the rents receivable are lower than rents payable under the terms of the headlease. It is utilised over the remaining period of the leases.

AXA Insurance UK plc

Notes to the Financial Statements (continued) as at 31 December 2017

26. Other provisions (continued)

c) Other provisions

Other provisions include:

Fire Brigade levy, £3m

The cumulative position represents the estimated 2017 charge of £3m.

Onerous Contract Provision, £24m

The provision represents an onerous contract for travel business in relation to the future period between 2018 and 2020.

Redundancy, £7m

An opening provision of £2m, with £13m added for redundancy payments and £8m utilised during the year.

Regulatory fees and levies, £4m

An opening provision of £7m, with £15 added and £18m utilised, during the year.

27. Creditors arising from insurance and reinsurance operations

	2017 £m	2016 £m
Direct insurance liabilities	179	168
Reinsurance liabilities	20	36
Total insurance and reinsurance liabilities	199	204

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

28. Derivative financial instruments and hedging

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

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

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

As of 31 December 2017, the notional amount of all derivative instruments totalled £10,381m (2016: £5,574m). Their net fair value as of 31 December 2017 totalled £45m asset (2016: £26m asset).

AXA Insurance UK plc**Notes to the Financial Statements (continued)**
as at 31 December 2017**28. Derivative financial instruments and hedging (continued)****Instruments designated for hedge accounting**

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

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

The cash flow hedges effectively hedge the income stream from inflation linked UK treasury bonds over the lifetime of the asset, which mature in 2044 and 2052. There was no ineffectiveness recorded from the cash flow hedges during the period. The movement in fair value is recognised in other comprehensive income at the end of the reporting period.

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

Derivative financial instruments	2017			2016		
	Contractual/ Notional Amount £m	Asset £m	Liability £m	Contractual/ Notional Amount £m	Asset £m	Liability £m
Asset swaps – cash flow hedge	131	-	(24)	131	-	(19)
Interest rate swaps – fair value hedge	5,336	38	(32)	1,027	29	(3)
Total	5,467	38	(56)	1,158	29	(22)

Unrealised gains/(losses) on fair value hedges

	2017 £m	2016 £m
Hedged items attributable to interest rate risk	(15)	5
Hedge instruments – macro	9	(7)
	(6)	(2)

Instruments not designated for hedge accounting

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

AXA Insurance UK plc**Notes to the Financial Statements (continued)**
as at 31 December 2017**28. Derivative financial instruments and hedging (continued)**

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

Fair value through profit and loss

Derivative financial instruments	2017			2016		
	Contractual/ Notional Amount £m	Asset £m	Liability £m	Contractual/ Notional Amount £m	Asset £m	Liability £m
Foreign exchange forwards	2,212	17	(3)	2,190	16	(26)
Credit default swaps	443	10	-	443	5	(1)
Currency swaps	33	-	(6)	32	-	(4)
Interest rate swaps	770	65	(30)	766	68	(31)
OTC options	936	3	(1)	900	-	(3)
Swaptions	32	-	-	85	-	(5)
OTC currency options	488	9	(1)	-	-	-
Total	4,914	104	(41)	4,416	89	(70)

29. Other creditors including tax and social security

	2017 £m	2016 £m
Amounts owed to immediate parent company	-	11
Amounts owed to fellow subsidiary undertakings	1	1
Current tax liabilities	17	11
Other tax payables	67	59
Other liabilities	36	33
Total other creditors including tax and social security	121	115

Amounts expected to be settled within one year £119m (2016: £109m).

Amounts expected to be settled after one year £2m (2016: £6m).

30. Borrowings

	2017 £m	2016 £m
Liability under total return swap	32	-
Total Borrowings	32	-

31. Accruals and deferred income

	2017 £m	2016 £m
Total accruals and deferred income	14	23

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

AXA Insurance UK plc

Notes to the Financial Statements (continued) as at 31 December 2017

32. 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 made additional contributions totalling £243m (2016: £119m) to the Scheme, in accordance with the ten year plan to reduce the funding deficit and to ensure that the Statutory Funding Objective is met. The appropriate 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. The expected contributions to be paid for the next annual reporting period under the recovery plan is £66m. The assumptions adopted for the triennial actuarial valuations are determined by the trustees and agreed with AXA UK 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 £152m as at 31 December 2017 (£321m deficit as at 31 December 2016). 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 £58.2m (2016: £76.4m). There were no outstanding contributions as at 31 December 2017 (2016: £nil).

The principal assumptions used by the actuaries were:

	2017	2016
Discount rate	2.5%	2.7%
Future pension increases	3.0%	3.3%
Inflation assumption for deferred members (CPI)	2.2%	2.3%

The discount and inflation rates disclosed within the above table represent single equivalent rates based on the cashflow profile of the scheme. The 2017 and 2016 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.

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****32. Retirement benefit obligations (continued)**

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

	2017	2016
	£m	£m
Present value of obligation as at 1 January	5,496	4,520
Remeasurements:		
Service cost	5	5
Interest cost	124	147
Actuarial losses - financial assumptions	52	1,131
Actuarial gains - demographic assumptions	(97)	(98)
Benefits paid	(245)	(209)
Present value of obligation as at 31 December	5,335	5,496

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

	2017	2016
	£m	£m
Fair value of plan assets as at 1 January	5,175	4,139
Remeasurements:		
Expected return on plan assets	120	136
Benefits paid	(245)	(209)
Actuarial gains/(losses)	189	984
Employer contributions paid by AXA UK plc	188	40
Employer contributions paid by other participating entities	42	67
Asset backed contribution	18	18
Fair value of plan assets as at 31 December	5,487	5,175

Analysis of assets by category:

	2017	2016
	£m	£m
Equities	39	55
Debt securities	2,794	2,287
Government	2,240	1,661
Corporate	554	626
Property funds	348	334
Other assets	1,976	2,169
Derivatives	393	339
Cash	63	22
Investment funds	1,520	1,808
Investment in limited partnership	320	326
Longevity hedge	10	4
Fair value of plan assets as at 31 December	5,487	5,175

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****33. Commitments****a) Pledged securities and collateralised commitments given**

The Company pledged £106m (2016: £49m) government bonds as collateral for derivative contracts with Barclays, BNP Paribas and Royal Bank of Canada.

The Company pledged assets of £33m (2016: £33m) for ceded technical reserves under a reinsurance agreement with Swiss Re. The collateral is set at 80% of the prior year closing technical reserves and is updated annually.

b) Pledged securities and collateralised commitments received

The Company received pledges of £57m (2016: £53m) government bonds as collateral to derivative contracts with Barclays, Morgan Stanley and Deutsche Bank.

c) Financial commitments

Outstanding commitments at 31 December 2017 are listed in the table. These have been translated at the exchange rates prevailing at year end.

	2017	2016
	£m	£m
Debt securities (2017: €36m) (2016: €36m)	32	31
Debt fund (2017: \$8m) (2016: \$7m)	6	5
Alternative credit fund (2017: \$26m) (2016: \$44m)	19	36
	57	72

34. Leases**Operating lease commitments – where the Company is the lessee**

The commitments relate mainly to land and buildings and are subject to rent reviews.

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

	2017	2016
Expiry Date	£m	£m
No later than 1 year	7	8
Later than 1 year and no later than 5 years	25	28
Later than 5 years	27	32
Total	59	68

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 £99m (2016: £106m) shown within note 14.

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

	2017	2016
Expiry Date	£m	£m
No later than 1 year	8	8
Later than 1 year and no later than 5 years	23	34
Later than 5 years	20	25
Total	51	67

AXA Insurance UK plc**Notes to the Financial Statements (continued)
as at 31 December 2017****35. Directors' emoluments**

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

	2017 £'000	2016 £'000
Aggregate emoluments excluding amounts receivable under long-term incentive schemes	371	366
Amounts receivable (excluding gains on exercise of share options and value of shares received) under long-term incentive schemes	77	176
Aggregate pension contributions: Defined Contribution	4	8
Amounts attributable to highest paid director		
Aggregate emoluments	449	542
Defined contribution scheme pension: Pension contributions during the year	4	8

Mrs. A. J. Blanc, Mr. K. G. Gibbs, Mr. B. Poupart-Lafarge, Mr. P. F. Hazell, Mr. M. R. Jackson, Mr. H. M. Posner, and Mr. T. J. P. Sciard were 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

One director exercised share options or employee sharesave options in AXA UK plc during the year (2016: Two).

Retirement Benefits

Retirement benefits are accruing to one director (2016: One) under a defined contribution pension scheme and to no directors under a defined benefit scheme (2016: 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 £5,000 to directors and connected persons were made or subsisted during the year (2016: none).

AXA Insurance UK plc

Notes to the Financial Statements (continued) as at 31 December 2017

36. Related party transactions

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

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

	2017 £m	2016 £m
Profit and Loss Account		
Investment expenses and charges	(11)	(9)
Balance Sheet		
Accruals and deferred income	1	3

The above represents investment management fees payable to Alliance Bernstein Limited and AXA Investment Managers UK Limited.

37. Contingent liabilities

Mutual guarantee

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

38. Events occurring after the reporting period

The Company has no post balance sheet events that require disclosure.

39. Immediate and ultimate parent

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

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

The parent undertaking of the smallest group which includes the Company and for which group financial statements are prepared is Guardian Royal Exchange plc, a company registered in England. Copies of the Guardian Royal Exchange plc financial statements can be obtained from 5 Old Broad Street, London EC2N 1AD.