Aviva Central Services UK Limited

Registered in England and Wales No. 03259447

Annual Report and Financial Statements 2019

Contents

Directors and officers

Directors

J C Baddeley
A Cairns
J B Cummings
P J Delamere
S P J Ebenston
B W Fawbert
A G Montague
K A Moss

Officer – Company Secretary

Aviva Company Secretarial Services Limited
St Helen's
1 Undershaft
London
EC3P 3DQ

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered office

8 Surrey Street
Norwich
NR1 3NG

Company number

Registered in England and Wales No. 03259447

Other information

Aviva Central Services UK Limited (the Company) is a member of the Aviva plc group of companies (the Group).

Strategic report

The directors present their strategic report for the Company for the year ended 31 December 2019.

Review of Company's business

Principal activities

The Company is a wholly owned subsidiary of Aviva Group Holdings Limited (AGH). The principal activity of the Company is the provision of physical infrastructure and associated support services to the Group.

Financial position and performance

The financial position of the Company at 31 December 2019 is shown in the statement of financial position on page 20, with the results shown in the income statement on page 17 and the statement of cash flows on page 21.

Revenue has decreased 8% during 2019 *(2018: 161% increase)*. Whilst there has been a decrease in revenue in 2019, the large increase seen in the prior year is due to the fact that 2018 was the first year the Company managed all the Group's expenses within the UK (with the exception of Aviva Investors), which resulted in a significant increase in both its expenses and subsequent revenue (from recharges of these expenses to the Group).

The profit before tax for the year is £5 million *(2018: £26 million)*.

Significant events

There have been no significant events in the year.

Future outlook

Strategies for the wider Aviva Group as a whole are determined by the Board of Aviva plc and these are shown in the Aviva plc Annual Report and Accounts and Preliminary Announcement for the year ended 31 December 2019. The Company will work with the Group to support the implementation of these strategies.

The strategic direction of the Company is set by the directors of the Company. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 24 to the financial statements.

Risk factors beyond the Company's control, that could cause actual results to differ materially from those estimated, include but are not limited to:

- *Operational risks*, which might adversely impact the provision of physical infrastructure and associated support services to other Group companies.
- *Liquidity risks* arising from the Company not being able to make payments as they become due because there are insufficient funds in cash form. In extreme circumstances, the Company would approach the Group for additional short-term borrowing whilst the Company liquidated other assets. The Group maintains significant committed borrowing facilities from a range of highly-rated banks to mitigate this risk further.
- *Exit of the UK from the EU & UK-EU Free Trade Agreement (FTA) negotiations* In preparing for the end of the transition period on 31 December 2020 under the UK-EU withdrawal agreement, we have already taken the operational measures necessary to ensure continuous service to our customers irrespective of the outcome of UK-EU Free Trade Agreement negotiations. However, beyond 2020 the consequences of the UK's withdrawal from the EU on future financial services regulation and the UK economy will require careful monitoring.
- *Coronavirus* as noted within post balance sheet events in directors report on page 6.

Section 172 statement

We report here on how our directors have discharged their duties under Section 172 of the Companies Act 2006.

The Board is responsible for monitoring and upholding the culture, values, standards, ethics and reputation of the Company to ensure that our obligations to our shareholder and to our stakeholders are met. It monitors adherence to the Aviva Group business standards and compliance with local corporate governance requirements and is committed to acting if our businesses should fail to act in the manner we expect of them.

For each matter which comes before the Board, stakeholders who may be affected are identified and their interests are carefully considered as part of the Board's decision-making process.

Strategic report continued

Section 172 statement continued

The Board is also mindful of the wider social context within which our businesses operate, including those issues related to climate change which are of fundamental importance to the planet's well-being.

Our culture

The Aviva Group is a provider of vital financial services to millions of customers, it seeks to earn customers' trust by acting with integrity and responsibility at all times. They look to build relationships with all their stakeholders based on openness and continuing dialogue.

The Group's culture is shaped by clearly defined values to help ensure they do the right thing. They value diversity and inclusivity in the workforce and beyond. The commitment they make to each customer extends to all stakeholders; that Aviva is 'with you today, for a better tomorrow.' Throughout the Aviva Group, its people live by the core value of Caring More for customers, for each other and for the communities served.

Aviva Central Services as part of the Group looks to operate within and support this culture.

Stakeholder Engagement

(i) Engagement with employees

The Company has no employees. All UK employees engaged in the activities of the Company are employed by subsidiary undertakings of Aviva plc. Disclosures relating to employees may be found in the annual report and financial statements of these companies.

(ii) Our customers

The Company has no direct customers.

(iii) Our suppliers

- All Group supplier related activity is managed in line with the Group Procurement & Outsourcing Business Standard. This ensures that supply risk is managed appropriately including in relation to customer outcomes, data security, corporate responsibility, financial, operational, contractual, and brand damage caused by inadequate oversight or supplier failure.
- An important part of the Group's culture is the promotion of high legal, ethical, environmental and employee related standards within our business and also among our suppliers. Before working with any new suppliers, we provide them with our Supplier Code of Behaviour, and our interaction with them is guided by our Business Code of Ethics.
- The Board reviews the actions we have taken to prevent modern slavery and associated practices in any part of our supply chain and approves our Modern Slavery Act statement each year.

(iv) Shareholders

Our shareholder is Aviva Group Holdings Limited (AGH) and there is ongoing communication and engagement with the AGH Board. Any matters requiring escalation are escalated by the Board through the Chairman to its parent. Additionally, members of the AGH board can attend board meetings by invitation.

Key performance indicators

The directors consider that the Company's key performance indicators (KPIs) that communicate the financial performance are as follows:

	2019	2018
(Decrease) / increase in revenue	**(8%)**	161%
(Decrease) / increase in cost of sales	**(8%)**	161%

For an explanation of these movements refer to the financial position and performance section of the strategic report on page 4.

By order of the Board on 2 July 2020

For and on behalf of Aviva Company Secretarial Services Limited
Company Secretary

Directors' report

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

Directors

The names of the present directors of the Company appear on page 3.

S Mohammed was appointed as a director of the Company on 23 January 2019 and resigned as a director of the Company on 30 April 2020.

K A Moss was appointed as a director of the Company on 29 March 2019.

D F S Rogers resigned as a director of the Company on 12 July 2019.

N B M Amin resigned as a director of the Company on 12 July 2019.

S E Robinson resigned as a director of the Company on 12 July 2019.

M Zarraga was appointed as a director of the Company on 12 July 2019 and resigned as a director of the Company on 1 April 2020.

I M Hughes was appointed as a director of the Company on 9 August 2019 and resigned as a director of the Company on 1 April 2020.

S P J Ebenston was appointed as a director of the Company on 4 October 2019.

M F Golunska was appointed as a director of the Company on 4 October 2019 and resigned as a director of the Company on 1 April 2020.

T J Latter was appointed as a director of the Company on 11 February 2020 and resigned as a director of the Company on 15 May 2020.

P J Delamere was appointed as a director of the Company on 1 April 2020.

B W Fawbert was appointed as a director of the Company on 1 April 2020.

A G M Montague was appointed as a director of the Company on 30 April 2020.

J B Cummings was appointed as a director of the Company on 15 May 2020.

Company Secretary

The name of the present Company Secretary appears on page 3.

Dividends

No interim ordinary dividend on the Company's ordinary shares was declared or paid during 2019 *(2018: £nil).* The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2019 *(2018: £nil).*

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, which includes a section describing the principal risks and uncertainties. In addition, the financial statements include notes on the Company's management of its risks including market, credit and liquidity risk (see note 24).

The Company and its ultimate parent, Aviva plc, have considerable financial resources together with a diversified business model, with a spread of businesses and geographical reach. The directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain macro-economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to adopt, and to consider appropriate, the going concern basis in preparing the financial statements.

Post balance sheet events

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. The spread of COVID-19 has resulted in an economic downturn in jurisdictions in which the Company operates and the global economy more widely, as well as causing increased volatility and declines in financial markets. If the pandemic is prolonged, or further diseases emerge that give rise to similar effects, the adverse impact on the global economy could be deepened and result in further declines in financial markets.

The Company's balance sheet exposure has been reviewed and the Company continues to maintain positive net asset value. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained. Notwithstanding the Company's strong balance sheet position, deterioration in the situation could have further adverse implications arising from the impacts on financial markets and operations. As the situation is rapidly evolving it is not practicable to quantify the potential financial impact of the outbreak on the Company at this stage.

Directors' report continued

Future outlook

Likely future developments in the business of the Company are discussed in the strategic report on page 4.

Employees

The Company has no employees. All UK employees engaged in the activities of the Company are employed by subsidiary undertakings of Aviva plc.

Disclosure of information to the auditors

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's External Auditors, PricewaterhouseCoopers LLP, are unaware and each director has taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that PricewaterhouseCoopers LLP are aware of that information.

Independent auditors

It is the intention of the directors to reappoint the auditors, PricewaterhouseCoopers LLP, under the deemed appointment rules of section 487 of the Companies Act 2006.

Qualifying indemnity provisions

Aviva plc, the Company's ultimate parent, granted in 2004 an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985, which continue to apply in relation to any provision made before 1 October 2007. This indemnity is a "qualifying third party indemnity" for the purposes of section 309A to section 309C of the Companies Act 1985. These qualifying third-party indemnity provisions remain in force as at the date of approving the directors' report by virtue of paragraph 15, schedule 3 of the Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

The directors also have the benefit of the indemnity provision contained in the Company's articles of association, subject to the conditions set out in the Companies Act 2006. This is a "qualifying third party indemnity" provision as defined by section 234 of the Companies Act 2006.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulation.

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). 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 the 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 IFRSs as adopted by the EU and IFRSs issued by the IASB 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.

The directors 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.

By order of the Board on 2 July 2020

For and on behalf of Aviva Company Secretarial Services Limited
Company Secretary

Independent auditors' report to the members of Aviva Central Services UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Aviva Central Services UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Aviva Central Services UK Limited continued

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Philip Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 July 2020

Accounting policies

The Company is a private limited company incorporated and domiciled in the United Kingdom (UK). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss (FVTPL).

The financial statements have been prepared on the going concern basis as explained in the directors' report on page 6.

The Company is exempt from preparing group financial statements by virtue of section 400 of the Companies Act 2006, as it is a subsidiary of an EEA parent and is included in consolidated financial statements for the Group, i.e. the ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associate, at the same date. These financial statements therefore present information about the Company as an individual entity.

The Company's financial statements are stated in pounds sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of pound sterling (£m).

New standards, interpretations and amendments to published standards that have been adopted by the Company

The Company has adopted the following new standard which became effective for the annual reporting period beginning on 1 January 2019:

(i) IFRS 16, Leases

In January 2016, the IASB published IFRS 16 Leases. This standard replaces IAS 17 Leases and applies to annual reporting periods beginning on or after 1 January 2019. The standard has been endorsed by the EU.

The adoption of IFRS 16 has resulted in an update to the Company's stated accounting policy for leases. The standard has introduced a definition of a lease with a single lessee accounting model, eliminating the previous classification of either operating or finance leases. Lessees are required to recognise lease assets and liabilities on the statement of financial position for all leases, with the exception of short term and low value leases. Further information can be found in accounting policy L.

The Company has chosen to adopt the modified retrospective approach on transition permitted by IFRS 16. This approach does not require prior period comparatives to be restated, and the impact of adoption of the standard on retained earnings is shown as an adjustment to opening retained earnings. On transition, and where applicable, the Company has applied the following practical expedients:

- Applied a single discount to a portfolio of leases with reasonably similar characteristics;
- Relied on existing assessments on whether leases are onerous as an alternative to performing an impairment review. Where such leases existed, the onerous lease provision held at 31 December 2018 was offset against the initial right-of-use asset at the date of initial application as permitted by IFRS 16;
- Excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term when the contract contains options to extend or terminate the lease.

The company has reviewed existing service and outsourcing contracts to determine whether they are either a lease or contain a lease at the date of initial application. This has not resulted in any additional contracts being recognised as leases in the statement of financial position.

Application of the modified retrospective approach on transition has resulted in a reduction in retained earnings of £37 million at 1 January 2019. This reflects the fact that the right-of-use assets and lease liabilities amortise to nil at different rates over the lease term. A higher initial amortisation of the right-of-use asset compared to the lease liability results in the asset value being lower than the lease liability during the lease term, with the difference between the two generally converging to nil as the lease term ends. There have been corresponding increases in the value of assets (£258 million) and liabilities (£295 million), representing the right-of-use assets and liabilities, net of any tax impacts, not previously recognised on the statement of financial position in accordance with IAS 17 (see note 12). There has been no material impact on profit before tax.

The weighted average discount rate applied to the lease liabilities recognised at 1 January 2019 was 2.22%.

Future contractual aggregate minimum lease payments under non-cancellable operating leases, as disclosed in note 22 of the Company's 2018 financial statements, were £408 million at 31 December 2018. Lease liabilities in respect of operating leases brought on to the balance sheet at 1 January 2019 following the adoption of IFRS 16 were £295 million. The balance shown at 1 January 2019 represents a present value of lease payments, whereas the figure disclosed at 31 December 2018 is the aggregated undiscounted payments.

Lessor accounting remains similar to the previous approach set out in IAS 17. The Company's lessor accounting policies have not changed as a result of the introduction of IFRS 16.

Accounting policies continued

(A) Basis of preparation continued

Leased property classified as investment property is held at fair value and measured in accordance with IAS 40 Investment Property. This is consistent with the approach adopted under IAS 17.

The Company has adopted the following amendments to standards which became effective for the annual reporting period beginning 1 January 2019 or earlier, and do not have a significant impact on the Company's financial statements:

(i) IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB published IFRIC 23, Uncertainty over Income Tax Treatments. The standard is effective for annual reporting beginning on or after 1 January 2019.

(ii) Annual Improvements to IFRS Standards 2015-2017 Cycle

These improvements consist of amendments to four IFRSs including IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs. The amendments are effective for annual reporting beginning on or after 1 January 2019.

Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Company

The following new standards, amendments to existing standards have been issued, are not yet effective and are not expected to have a significant impact on the Company's financial statements:

(i) Amendments to References to the Conceptual Framework in IFRS Standards

Published by the IASB in March 2018. The amendments are effective for annual reporting beginning on or after 1 January 2020 and have been endorsed by the EU.

(ii) Amendment to IFRS 3 Business Combinations

Published by the IASB in October 2018. The amendment is effective for annual reporting beginning on or after 1 January 2020 and has been endorsed by the EU.

(iii) Amendments to IAS 1 and IAS 8: Definition of material

Published by the IASB in October 2018. The amendments are effective for annual reporting beginning on or after 1 January 2020 and have been endorsed by the EU.

(iv) Interest Rate Benchmark Reform

Published by the IASB in October 2019. The amendments are effective for annual reporting beginning on or after 1 January 2020 and has been endorsed by the EU.

(v) Amendments to IAS 1 Presentation of Financial Statements: Classification of liabilities as current or non-current

Published by the IASB in January 2020. The amendments are effective for annual reporting beginning on or after 1 January 2022 and have not been endorsed by the EU.

Accounting policies continued

(B) Critical accounting policies and the use of estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the income statement, statement of financial position, other primary statements and notes to the financial statements.

Critical accounting policies

The Company does not have any critical accounting policies in these financial statements.

Use of estimates

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly.

The table below sets out those items considered particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

Item	Critical accounting estimates	Accounting policy	Note
Investments in subsidiaries	Investments in subsidiaries are recognised at cost less impairment. Investments are reviewed annually to test whether any indicators of impairment exist. Where there is objective evidence that such an asset is impaired, the investment is impaired to its recoverable value and any unrealised loss is recorded in the income statement.	C	10
Provisions and contingent liabilities	When evaluating whether a provision or a contingent liability should be recognised the Company assesses the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Company's estimation of the expenditure required to settle the obligation at the statement of financial position date.	N	19

(C) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits. The Company controls an investee if, and only if, the Company has all of the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Company considers all relevant facts and circumstances in assessing whether it has power over an investee including: the purpose and design of an investee, relevant activities, substantive and protective rights, and voting rights and potential voting rights. The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Investments in subsidiaries are recognised at cost less impairment. Investments are reviewed annually to test whether any indicators of impairment exist. Where there is objective evidence that such an asset is impaired, the investment is impaired to its recoverable value and any unrealised loss is recorded in the income statement.

Accounting policies continued

(D) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Company takes into account the asset's use that is physically possible, legally permissible and financially feasible.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. In certain circumstances, the fair value at initial recognition may differ from the transaction price. If the fair value is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or is based on a valuation technique whose variables include only data from observable markets, then the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss in the income statement. When unobservable market data has a significant impact on the valuation of financial instruments, the difference between the fair value at initial recognition and the transaction price is not recognised immediately in the income statement, but deferred and recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out or otherwise matures.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value.

(E) Intangible assets

Intangible assets consist of software costs. These are amortised over their useful lives of between five and ten years, using the straight-line method. The amortisation charge for the year is included in the income statement under 'cost of sales'. An impairment review is carried out bi-annually or where there is an indication that intangible assets are impaired. Where the carrying amount exceeds the recoverable amount, an impairment is recognised (see policy G).

(F) Property and equipment

Depreciation is calculated on the straight-line method to write down the cost of assets to their residual values over their estimated useful lives as follows:

- Leasehold property — Over the period of the lease
- Computer equipment — Three to five years
- Other assets — Three to five years

Gains and losses on disposal of equipment are determined by reference to their carrying amount.

Repairs and maintenance costs are charged to the income statement during the financial year in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset.

(G) Impairment of non-financial assets

Equipment and other non-financial assets are reviewed for impairment losses 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 carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Non-financial assets which have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Accounting policies continued

(H) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to set off the recognised amounts and there is the ability and intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(I) Receivables

Receivables and other financial assets are recognised initially at their fair value. Subsequent to initial measurement receivables are measured at amortised cost using the effective interest rate method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The movement in the amount of the provision is recognised in the income statement.

(J) Payables and other financial liabilities

Payables and other financial liabilities, excluding derivatives, are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest rate method.

(K) Statement of cash flows

Cash and cash equivalents
Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the statement of financial position.

(L) Leases

Where the Company is the lessee, a lease liability equal to the present value of outstanding lease payments and a corresponding right-of use asset equal to cost are initially recognised. The right-of-use asset is subsequently measured at amortised cost and depreciated on a straight-line basis over the length of the lease term. Depreciation on lease assets and interest on lease liabilities is recognised in the income statement.

The Company has made use of the election available under IFRS 16 to not recognise any amounts on the balance sheet associated with leases that are either deemed to be short term, or where the underlying asset is of low value. A short-term lease in this context is defined as any arrangement which has a lease term of 12 months or less. Lease payments associated with such arrangements are recognised in the income statement as an expense on a straight-line basis.

Where the Company is the lessor, leases are classified as finance leases if the risks and rewards of ownership are substantially transferred to the lessee and operating leases if they are not substantially transferred. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term. When assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognised as a receivable. The Company has not entered into any material finance lease arrangements as lessor.

Comparative figures

Prior period comparatives have not been restated to reflect the adoption of IFRS 16. The accounting policy relating to leases applied to comparatives is set out below.

Accounting policies continued

(M) Leases continued

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Where the Company is the lessee, payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the term of the relevant leases.

Where the Company is the lessor, lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

(N) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recorded as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Where the effect of the time value of money is material, the provision is the present value of the expected expenditure. Provisions are not recognised for future operating losses.

Restructuring provisions comprise of lease termination penalties. Provisions are not recognised for future operating losses. Where the effect of the time value of money is material, the provision is the present value of the expected expenditure.

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

(O) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to components of other comprehensive income and equity as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The rates enacted or substantively enacted at the statement of financial position date are used to value the deferred tax assets and liabilities.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future profits will be available.

Deferred tax is provided on any temporary differences arising from investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes are not provided in respect of any temporary differences arising from the initial recognition of goodwill, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively. Deferred tax related to any fair value re-measurement of available for sale investments, owner-occupied properties, pensions and other post-retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability.

Accounting policies continued

(P) Share capital

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares, or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders.

(Q) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value added tax, rebates and discounts.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised using the effective interest rate method.

Dividend income is recognised when the right to receive payment is established.

(R) Finance costs

All borrowing costs are expensed as they are incurred.

Income statement
For the year ended 31 December 2019

	Note	**2019** **£m**	2018 £m
Revenue	P & 1	**2,451**	2,658
Cost of sales	2	**(2,439)**	(2,654)
Gross profit		**12**	4
Finance income	P & 3	**-**	24
Finance costs	Q & 4	**(7)**	(2)
Net finance (expense)/income		**(7)**	22
Profit for the year before tax		**5**	26
Tax charge	N & 8	**-**	(2)
Profit for the year after tax		**5**	24

The accounting policies (identified alphabetically) on pages 10 to 16 and notes (identified numerically) on pages 22 to 35 are an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December 2019

	2019 £m	2018 £m
Profit for the year	5	24
Total comprehensive income for the year	**5**	24

The accounting policies (identified alphabetically) on pages 10 to 16 and notes (identified numerically) on pages 22 to 35 are an integral part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2019

	Note	Ordinary share capital £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 1 January 2018		20	3	46	69
Profit for the year		-	-	24	24
Total comprehensive income for the year		-	-	24	24
Balance at 31 December 2018		**20**	**3**	**70**	**93**
Adjustment at 1 January for adoption of IFRS16	12	-	-	(37)	(37)
Balance at 1 January 2019		**20**	**3**	**33**	**56**
Profit for the year		**-**	**-**	**5**	**5**
Total comprehensive income for the year		**-**	**-**	**5**	**5**
Balance at 31 December 2019		**20**	**3**	**38**	**61**

The accounting policies (identified alphabetically) on pages 10 to 16 and notes (identified numerically) on pages 22 to 35 are an integral part of these financial statements.

Statement of financial position
As at 31 December 2019

	Note	**2019** **£m**	2018 £m
Assets			
Non-current assets			
Investments in subsidiaries	C & 10	**3**	3
Intangible assets	E & 9	**-**	1
Property and equipment	F & 11	**274**	40
Receivables	I & 13	**53**	48
Deferred tax asset	N & 17(c)	**40**	32
Tax assets	N & 17(a)	**-**	1
Current assets			
Receivables	I & 13	**542**	692
Cash and cash equivalents	K & 22(b)	**201**	144
Total assets		**1,113**	961
Equity			
Ordinary share capital	O & 14	**20**	20
Other reserves	15	**3**	3
Retained earnings	16	**38**	70
Total equity		**61**	93
Liabilities			
Non-current liabilities			
Provisions	M & 18	**34**	51
Payables and other financial liabilities	J & 19	**3**	3
Other liabilities	20	**273**	6
Current liabilities			
Provisions	M & 18	**5**	52
Payables and other financial liabilities	J & 19	**223**	134
Other liabilities	20	**514**	622
Total liabilities		**1,052**	868
Total equity and liabilities		**1,113**	961

The financial statements were approved by the Board of Directors on 2 July 2020 and signed on its behalf by

K A Moss
Director

Registered in England and Wales No. 03259447

The accounting policies (identified alphabetically) on pages 10 to 16 and notes (identified numerically) on pages 22 to 35 are an integral part of these financial statements.

Statement of cash flows
For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated from/(used in) operations	22(a)	**85**	(25)
Net cash generated from/(used in) operating activities		**85**	(25)
Cash flows from investing activities			
Purchases of property and equipment	11	**(21)**	(8)
Interest paid	4	**(7)**	-
Dividend income	3	**-**	22
Interest received	3	**-**	1
Total net cash (used in)/generated from investing activities		**(28)**	15
Total net increase/(decrease) in cash and cash equivalents		**57**	(10)
Cash and cash equivalents at 1 January		**144**	154
Cash and cash equivalents at 31 December	K & 22(b)	**201**	144

The accounting policies (identified alphabetically) on pages 10 to 16 and notes (identified numerically) on pages 22 to 35 are an integral part of these financial statements.

Notes to the financial statements

1. Revenue

The Company's activities consist solely of the provision of physical infrastructure and associated support services to other companies within the Group. Refer to note 25 for further information on income earned during the year.

2. Cost of sales

(a) Cost of sales comprises:

	Note	**2019** £m	2018 £m
Staff costs and other employee related expenses	2(b)	**1,008**	956
Depreciation of equipment	11	**37**	13
Amortisation of intangible assets	9	**1**	1
Provision charge for the year	18(b)	**-**	26
Other expenses		**1,393**	1,658
		2,439	2,654

(b) Staff Costs

Staff costs are recharged by Aviva Employment Services Limited (AES), a subsidiary of the Company. Disclosures relating to staff costs may be found in the annual report and financial statements of AES.

3. Finance income

Finance income comprises:

	2019 £m	2018 £m
Bank interest income	**-**	1
Unwind of discount on deferred consideration	**-**	1
Dividend income	**-**	22
	-	24

4. Finance costs

Finance costs comprise:

	Note	**2019** £m	2018 £m
Unwind of discount on provisions	18	**1**	2
Interest on lease liability		**6**	-
		7	2

5. Employee information

The Company has no employees *(2018: Nil)*. All UK employees engaged in the activities of the Company are employed by subsidiary undertakings of Aviva plc.

6. Directors' remuneration

All directors are remunerated by AES for their services to the Group as a whole. They were not remunerated for their services as directors of the Company and the amount of time spent performing their duties is incidental to their roles across the Group. This is consistent with prior years.

Notes to the financial statements continued

7. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors, PricewaterhouseCoopers LLP is as follows:

	2019 £	2018 £
Fees payable to PwC LLP for the statutory audit of the Company's financial statements	**95,000**	65,000

The Company is exempt under SI 2008/489 from the obligation to disclose fees in respect of 'Other services' as the Company is a subsidiary of Aviva plc, which prepares consolidated financial statements. Fees paid to the Company's auditors, PricewaterhouseCoopers LLP and its associates for services other than the statutory audit of the Company and other Group undertakings are disclosed in the consolidated accounts of Aviva plc.

All fees are borne by the Company's ultimate parent, Aviva plc.

8. Tax

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	Note	2019 £m	2018 £m
Current tax			
For this year		**-**	1
Adjustments in respect of prior years		**-**	7
Total current tax		**-**	8
Deferred tax			
Origination and reversal of temporary differences		**(1)**	(11)
Changes in tax rates or tax laws		**1**	1
Total deferred tax		**-**	(10)
Total tax charged to the income statement	8(c)	**-**	(2)

(ii) Deferred tax charged to the income statement represents movements on the following items:

	2019 £m	2018 £m
Accelerated capital allowances	**(2)**	(11)
Provisions and other temporary differences	**2**	1
Total deferred tax charged to income statement	**-**	(10)

(b) Tax credited/(charged) to other comprehensive income

There was no tax credited or charged to other comprehensive income in either 2019 or 2018.

(c) Tax reconciliation

The tax on the Company's profit for the year before tax differs from the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

	2019 £m	2018 £m
Profit for the year before tax	**5**	26
Tax calculated at standard UK corporation tax rate of 19% (2018:19%)	**(1)**	(5)
Adjustments in respect of prior years	**4**	2
Non-assessable dividends	**-**	4
Disallowable expenses	**(4)**	(4)
Impact of change in rate of tax	**1**	1
Total tax charged to the income statement	**-**	(2)

Notes to the financial statements continued

8. Tax continued

Finance Act 2016 introduced legislation reducing the UK corporation tax rate from 1 April 2020 to 17%. This reduced rate was used in the calculation of the Company's deferred tax assets and liabilities as at 31 December 2019. In the Budget of 11 March 2020 the UK Government reversed this rate reduction, announcing that the UK corporation tax rate will remain at 19% from 1 April 2020 and this was substantively enacted on 17 March 2020.

As of 31 December 2019, this measure had not been substantively enacted and therefore no impact is reflected in the calculation of the Company's deferred tax assets and liabilities as at 31 December 2019. This measure would increase the Company's deferred tax asset by approximately £5 million.

9. Intangible assets

	Note	**2019** **£m**	2018 £m
Gross amount			
At 1 January		**84**	84
Additions		**-**	-
At 31 December		**84**	84
Accumulated amortisation			
At 1 January		**(66)**	(65)
Amortisation for the year	2	**(1)**	(1)
At 31 December		**(67)**	(66)
Accumulated impairment			
At 1 January		**(17)**	(17)
At 31 December		**(17)**	(17)
Carrying value at 31 December		**-**	1

The intangible assets represent the capitalisation of software costs.

10. Investments in subsidiaries

Investments in subsidiaries consist of £3 million investment in Aviva Services Sp. Zo.o (ASSZ) (2018: £3 million).

Refer to note 26 for details of all related undertakings.

Notes to the financial statements continued

11. Property and Equipment

	Note	Leasehold Property £m	Computer Equipment £m	Other assets £m	Total £m
Cost or valuation					
At 1 January 2018		-	18	50	68
Additions		-	6	2	8
Derecognition of depreciated assets		-	(4)	-	(4)
At 31 December 2018		**-**	**20**	**52**	**72**
Adjustment at 1 January 2019 for adoption of IFRS 16		**450**	**-**	**7**	**457**
At 1 January 2019		**450**	**20**	**59**	**529**
Additions		**4**	**10**	**7**	**21**
Derecognition of depreciated assets		**-**	**(4)**	**-**	**(4)**
At 31 December 2019		**454**	**26**	**66**	**546**
Depreciation					
At 1 January 2018		-	(11)	(12)	(23)
Charge for the year	2	-	(4)	(9)	(13)
Derecognition of depreciated assets		-	4	-	4
At 31 December 2018		**-**	**(11)**	**(21)**	**(32)**
Adjustment at 1 January 2019 for adoption of IFRS 16		**(205)**	**-**	**(2)**	**(207)**
At 1 January 2019		**(205)**	**(11)**	**(23)**	**(239)**
Charge for the year	2	**(20)**	**(5)**	**(12)**	**(37)**
Derecognition of depreciated assets		**-**	**4**	**-**	**4**
At 31 December 2019		**(225)**	**(12)**	**(35)**	**(272)**
Carrying amount					
At 31 December 2018		-	9	31	40
At 31 December 2019		**229**	**14**	**31**	**274**

During both 2019 and 2018 the Company derecognised £4 million of fully depreciated computer equipment and other assets.

12. Lease assets and liabilities

From 1 January 2019 the Company has adopted IFRS 16 Leases, the standard which replaces IAS 17 Leases. Adoption of the standard has resulted in assets previously held under operating leases (and their corresponding lease liabilities) being recognised on the statement of financial position for the first time. Adoption of the standard resulted in the following assets and liabilities being included within the statement of financial position for the first time at 1 January 2019:

- £245 million owner-occupied property assets, included within property and equipment (see note 11);
- £5 million of assets relating to car leases, included within property and equipment (see note 11)
- £8 million deferred tax assets (see note 17);
- £9 million provisions for dilapidations, included within provisions (see note 18); and
- £286 million lease liabilities, included within other liabilities (see note 20).

The adjustments above result in an adjustment to opening retained earnings of £37 million at 1 January 2019 (see note 16).

The Company's leased assets primarily consist of properties occupied by the Company (see note 11).

(i) Total interest expense included in the income statement in respect of lease liabilities is £7 million. Total cash outflows recognised in the year in relation to leases were £7 million. Expenses recognised in the Company income statement in relation to short term and low value leases were £nil. Variable lease payments not included in the measurement of lease liabilities were £nil.

Notes to the financial statements continued

12. Lease assets and liabilities continued

(ii) The following table analyses the right of use assets relating to leased properties occupied by the Company as well as other leased assets:

	Property and equipment £m	Other assets £m	Total £m
Balance at 1 January 2019	**245**	**5**	**250**
Additions	**4**	**4**	**8**
Depreciation	**(20)**	**(3)**	**(23)**
Balance at 31 December 2019	**229**	**6**	**235**

(iii) Future contractual aggregate minimum lease payments are as follows:

	2019 £m	2018 £m
Within 1 year	**32**	36
Later than 1 year and not later than 5 years	**110**	133
Later than 5 years	**202**	239
Total undiscounted lease liabilites	**344**	408

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of use asset.

(iv) Future contractual aggregate minimum lease rentals receivable under non-cancellable operating leases are as follows:

	2019 £m	2018 £m
Within one year	**10**	11
Later than one year and not later than five years	**12**	21
Later than five years	**-**	1
Total at 31 December	**22**	33

13. Receivables

	Note	**2019 £m**	2018 £m
Trade receivables	I	**6**	16
Amounts due from fellow Group companies	24(b)(i)	**510**	599
Prepayments and accrued income		**65**	52
Group relief	17(b)	**2**	3
Other receivables		**12**	70
Total at 31 December		**595**	740
Expected to be recovered within one year		**542**	692
Expected to be recovered in more than one year		**53**	48
		595	740

Notes to the financial statements continued

14. Ordinary share capital

Details of the Company's ordinary share capital are as follows:

	2019 £m	2018 £m
Allotted, called up and fully paid		
20,373,513 (2018: 20,373,513) ordinary shares of £1 each	**20**	20

Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

15. Other reserves

	Capital reserve £m	Total £m
At 1 January 2019	**3**	**3**
At 31 December 2019	**3**	**3**

The capital reserve represents a non-refundable cash contribution from the Company's immediate parent, AGH, made during the year ended 31 December 1997.

16. Retained earnings

	Note	2019 £m	2018 £m
At 1 January		**70**	46
Adjustment for adoption of IFRS 16	12	**(37)**	-
Balance at 1 January		**33**	46
Profit for the year		**5**	24
At 31 December		**38**	**70**

17. Tax assets

(a) Current tax

	2019 £m	2018 £m
Expected to be recoverable in more than one year	**-**	1
Tax asset recognised in statement of financial position	**-**	1

(b) Group relief

Receivables for prior years tax to be settled by group relief of £2 million *(2018: £3 million)* are included within receivables (see note 13) and within the related party transactions (see note 25) and are expected to be recovered within one year.

(c) Deferred tax

(i) The balance at year end comprises:

	2019 £m	2018 £m
Provisions and other temporary differences	**11**	1
Accelerated capital allowances	**29**	31
Total deferred tax asset	**40**	32

Notes to the financial statements continued

18. Tax assets continued

(ii) The movement in the deferred tax asset comprises:

	Note	2019 £m	2018 £m
At 1 January		**32**	42
Adjustment at 1 January for the adoption of IFRS16	12	**8**	-
Amounts charged to the income statement	8a(ii)	**-**	(10)
At 31 December		**40**	32

The Company has unrecognised capital losses of £31 million (2018: £31 million) to carry forward indefinitely against future taxable gains.

19. Provisions

(a) Carrying value

	2019 £m	2018 £m
Onerous lease provisions	**5**	28
Restructuring provision	**25**	49
Other provisions	**9**	26
Total at 31 December	**39**	103
Expected to be settled within one year	**5**	52
Expected to be settled in more than one year	**34**	51
	39	103

(b) Movements in provisions

	Note	Onerous lease provisions £m	Restructuring provision £m	Other provision £m	Total £m
At 1 January 2018		50	62	-	112
Change in the discounted amount arising from passage of time	4	-	2	-	2
Charge for the year	2	-	-	26	26
Utilised during the year		(22)	(15)	-	(37)
At 31 December 2018		**28**	**49**	**26**	**103**
Additional provisions		**-**	**-**	**9**	**9**
Change in the discounted amount arising from passage of time	4	**-**	**1**	**-**	**1**
Utilised during the year		**(20)**	**(6)**	**(11)**	**(37)**
Transfer to other lease liabilities upon adoption of IFRS 16		**(3)**	**(19)**	**-**	**(22)**
Transfer to other group companies		**-**	**-**	**(15)**	**(15)**
At 31 December 2019		**5**	**25**	**9**	**39**

Onerous lease and restructuring provisions relate to lease agreements for property, where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The nature of these provisions is such that uncertainties exist regarding the amount and timing of outflows associated with these costs, including the outcome of any future rent reviews, the terms of future sub-lets, estimates of required dilapidation settlements and the discount factor applied.

Notes to the financial statements continued

20. Payables and other financial liabilities

	Note	2019 £m	2018 £m
Trade payables		**65**	22
Amounts due to subsidiaries	24(b)(ii)	**92**	70
Amounts due to fellow Group companies	24(b)(ii)	**42**	35
Other payables		**27**	10
Total at 31 December		**226**	137
Expected to be settled within one year		**223**	134
Expected to be settled in more than one year		**3**	3
		226	137

21. Other liabilities

	2019 £m	2018 £m
Accruals	**516**	628
Lease liabilities	**271**	-
Total at 31 December	**787**	628
Expected to be settled within one year	**514**	622
Expected to be settled in more than one year	**273**	6
	787	628

22. Commitments

The Company has commitments in respect of software licences as shown below, which have not been provided for but will be recognised in the income statement through the life of the agreements. The agreements are due to expire in no later than four years.

	2019 £m	2018 £m
Amounts contracted for but not provided for in the financial statements	**62**	77

Notes to the financial statements continued

23. Statement of cash flows

(a) The reconciliation of profit for the year before tax to the net cash outflow from operating activities is:

	Note	2019 £m	2018 £m
Profit for the year before tax		**5**	26
Adjustments for:			
Amortisation of intangible assets	9	**1**	1
Depreciation of equipment	11	**37**	13
Finance income	3	**-**	(24)
Finance costs	4	**7**	2
		45	(8)
Changes in working capital:			
Decrease/(increase) in receivables and other financial assets		**145**	(285)
Decrease in provisions		**(63)**	(9)
(Decrease)/increase in payables and other liabilities		**(47)**	251
		35	(43)
Cash flow generated from/(used in) operating activities		**85**	(25)

Increase in payables is stated after eliminating £2 million *(2018: £3 million)* of corporation tax liability settled or to be settled by group relief.

(b) Cash and cash equivalents in the statement of cash flows at 31 December comprise:

	2019 £m	2018 £m
Cash and cash equivalents	**201**	144
Total at 31 December	**201**	144

24. Risk management

(a) Risk management framework

The Company operates a risk management framework that forms an integral part of the management and Board processes and decision-making framework, aligned to the Group's risk management framework.

The Company's risk management approach is proportionate to its activities as a company providing physical infrastructure and associated support services solely to other companies within the Group. It does not provide any services to third parties. At least annually the Company's management review the key risks specific to the Company.

To promote a consistent and rigorous approach to risk management, the Group has set out formal risk management policies and business standards which set out the risk strategy, framework and minimum requirements for the Group's worldwide operations, including the Company.

For the purposes of risk identification and measurement, and aligned to the Company's risk policies, risks are usually grouped by risk type: credit, market, liquidity and operational risk. Risks falling within these types may affect a number of metrics including those relating to statement of financial position strength, liquidity and profit.

The directors recognise the critical importance of having efficient and effective risk management systems in place and acknowledge that they are responsible for the Company's framework of internal control and of reviewing its effectiveness. The framework is designed to manage rather than eliminate the risk of failure to achieve the Company's objectives and can only provide reasonable assurance against misstatement or loss. The directors of the Company are satisfied that their adherence to this Company framework provides an adequate means of managing risk in the Company.

Further information on the types and management of specific risk types is given in sections (b) to (h) below.

(b) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to the Company, or variations in market values as a result of changes in expectations related to these risks. Credit risk is taken so that the Company can provide the returns required to satisfy policyholder liabilities and to generate returns to the Company's shareholders.

The Company's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements.

Notes to the financial statements continued

24. Risk management continued

(b) Credit risk continued

The Company's management of credit risk includes implementation of credit risk management processes (including limits frameworks), the operation of specific risk management committees, and detailed reporting and monitoring of exposures against pre-established risk criteria.

(i) Financial exposures to Group companies

The Company's primary financial assets are primarily amounts due from fellow Group companies. The credit risk arising from Aviva Group counterparties failing to meet all or part of their obligations is considered remote.

(ii) Financial exposures by credit ratings

Financial assets are graded according to current credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as sub-investment grade.

The following tables provide information regarding the aggregated credit risk exposure of the Company, excluding intragroup balances. Non-rated assets are assets not rated by external ratings agencies.

									2019
								Credit rating	**Carrying value in the financial statements**
		AAA	**AA**	**A**	**BB**	**BBB**	**Speculative grade**	**Non-rated**	
	Note	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**£m**
Trade and other receivables	13	-	-	-	-	**8%**	-	**92%**	**18**

									2018
								Credit rating	Carrying value in the financial statements
		AAA	AA	A	BB	BBB	Speculative grade	Non-rated	
	Note	%	%	%	%	%	%	%	£m
Trade and other receivables	13	-	-	-	-	54%	-	46%	86

The carrying amount of assets included in the statement of financial position represents the maximum credit exposure.

The credit quality of receivables and other financial assets is monitored by the Company, and provisions for impairment are made for irrecoverable amounts. As at 31 December 2019 and 2018 no receivables were impaired or overdue.

Receivables and other financial assets include amounts due from the parent and other Group companies of £510 million *(2018: £599 million)* (see note 13).

(c) Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly from fluctuations in interest rates, equity prices, foreign currency exchange rates and property prices. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held.

The management of market risk is undertaken at business unit and at Group level. Businesses manage market risks locally using the Group market risk framework and within local regulatory constraints. Group Capital is responsible for monitoring and managing market risk at Group level and has established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

The Company is also subject to the risk that the carrying value of its intangible assets (see note As of 31 December 2019, this measure had not been substantively enacted and therefore no impact is reflected in the calculation of the Company's deferred tax assets and liabilities as at 31 December 2019. This measure would increase the Company's deferred tax asset by approximately £5 million.

9) and equipment (see note 11) are impaired to the extent the carrying amount may not be recoverable, either through continued use or sale.

(d) Liquidity risk

Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form.

The Company seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due. The Company monitors its position relative to its agreed liquidity risk appetite.

In extreme circumstances the Company would approach the Group for additional short-term borrowing whilst the Company liquidated other assets.

The Company's cash resources are held in a pooled banking arrangement with fellow group companies, AES and Aviva Insurance Limited (AIL), whereby the group participating companies are able to draw down on the cash resources in the pool for short term investment or to fund payments, so that the net cash balance in the pool is maintained close to £nil.

Notes to the financial statements continued

24. Risk management continued

(d) Liquidity risk continued

There is a risk that the Company may be unable to fund payments, if liquidity is unavailable from its fellow group companies participating in the pool. This risk is considered remote due to the liquid resources held by and available to fellow banking pool participants, an overdraft facility available to the pool which can be drawn on and operational controls to ensure forward notification of planned payments.

Maturity analyses

The following tables show the maturities of the Company's liabilities, and of the financial assets held to meet them. A maturity analysis of the contractual amounts payable for payables and other financial liabilities is given in note 20.

(i) Analysis of maturity of liabilities

The following table shows the Company's financial liabilities analysed by duration:

					2019
	Note	**On demand or within 1 year £m**	**1-5 years £m**	**Greater than 5 years £m**	**Total £m**
Provisions	18	**5**	**15**	**19**	**39**
Payables and other financial liabilities	19	**223**	**3**	**-**	**226**
Other liabilities	20	**514**	**12**	**261**	**787**
		742	**30**	**280**	**1,052**

					2018
	Note	On demand or within 1 year £m	1-5 years £m	Greater than 5 years £m	Total £m
Provisions	18	52	21	30	103
Payables and other financial liabilities	19	134	3	-	137
Other liabilities	20	622	3	3	628
		808	27	33	868

(ii) Analysis of maturity of financial assets

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets, which are available to fund the repayment of liabilities as they crystallise:

					2019
	Note	**On demand or within 1 year £m**	**1-5 years £m**	**Greater than 5 years £m**	**Total £m**
Receivables and other financial assets	13	**542**	**53**	**-**	**595**
Cash and cash equivalents	22(b)	**201**	**-**	**-**	**201**
		743	**53**	**-**	**796**

					2018
	Note	On demand or within 1 year £m	1-5 years £m	Greater than 5 years £m	Total £m
Receivables and other financial assets	13	692	20	28	740
Cash and cash equivalents	22(b)	144	-	-	144
		836	20	28	884

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company.

Notes to the financial statements continued

24. Risk management continued

(e) Operational risk

Operational risk is the risk of direct or indirect loss, arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment.

The Company has limited appetite for operational risk and aims to reduce these risks as far as is commercially sensible.

The Company's operational risk and control management framework, integrates the results of the risk identification and assurance activities carried out across the Company's three lines of defence. Operational risks are initially identified and assessed against implemented controls. Residual risk, outside tolerance, is given prioritised management action to reduce it within tolerance.

Operational risk is quantitatively assessed on the basis of financial loss and misstatement. Potential reputational and conduct impacts are qualitatively assessed. Management use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

(f) Risk and capital management

The Company's capital risk is determined with reference to the requirements of the Company's stakeholders. In managing capital, the Company seeks to maintain sufficient, but not excessive, financial strength to support the requirements of other stakeholders, having taken into account financial support available from its parent undertaking. The sources of capital used by the Company are equity shareholders' funds. At 31 December 2019 the Company had £61 million *(2018: £93 million)* of total capital employed.

(g) Exit of the UK from the EU & UK-EU Free Trade Agreement (FTA) negotiations

In preparing for the end of the transition period on 31 December 2020 under the UK-EU withdrawal agreement, we have already taken the operational measures necessary to ensure continuous service to our customers irrespective of the outcome of UK-EU Free Trade Agreement negotiations. However, beyond 2020 the consequences of the UK's withdrawal from the EU on future financial services regulation and the UK economy will require careful monitoring.

(h) Coronavirus

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. The spread of COVID-19 has resulted in an economic downturn in jurisdictions in which the Company operates and the global economy more widely, as well as causing increased volatility and declines in financial markets. If the pandemic is prolonged, or further diseases emerge that give rise to similar effects, the adverse impact on the global economy could be deepened and result in further declines in financial markets.

The Company's balance sheet exposure has been reviewed and the Company continues to maintain positive net asset value. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained. Notwithstanding the Company's strong balance sheet position, deterioration in the situation could have further adverse implications arising from the impacts on financial markets and operations. As the situation is rapidly evolving it is not practicable to quantify the potential financial impact of the outbreak on the Company at this stage.

25. Related party transactions

The Company had the following transactions with related parties, which include parent companies, subsidiaries, and fellow Group companies in the normal course of business.

(a) The Company had the following related party transactions

(i) Loans payable

The company had no loans payable either within the year or on 31 December 2019 (2018: none).

(b) Other transactions

(i) Services provided recharged to related parties

		2019		2018
	Income earned in the year	**Receivable at year end**	Income earned in the year	Receivable at year end
	£m	**£m**	£m	£m
Fellow Group companies	**2,448**	**510**	2,653	599
Group employee pension schemes	**3**	**1**	5	1
	2,451	**511**	2,658	600

Income earned in the year relates to the provision of physical infrastructure and associated support services.

Notes to the financial statements continued

25. Related party transactions continued

(b) Other transactions continued

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms.

(ii) Services provided and expenses recharged by related parties

	2019		2018	
	Expenses incurred in the year	**Payable at year end**	Expenses incurred in the year	Payable at year end
	£m	**£m**	£m	£m
Subsidiary	**1,008**	**92**	956	70
Fellow Group companies	**221**	**42**	208	35
	1,229	**134**	1,164	105

Expenses incurred with subsidiary relate to provision of staff from AES.

The related parties' payables are not secured and no guarantees were given in respect thereof. The payables will be settled in accordance with normal credit terms.

(iii) Lease agreements

On 30 November 2017, a series of transactions took place to transfer the Hoxton properties from the Company to AGH, and subsequently transfer to AIL. Upon completion of the transfer above, AIL (as landlord) and the Company (as tenant) entered into a lease for 25 years in respect of each property. At the same time, AGH entered into a deed of guarantee and indemnity in respect of the lease guaranteeing the obligations of the Company.

(iv) Audit Fees

There were no non-audit fees paid to the Company's auditors during the year *(2018: £nil)*. Audit fees as described in note 7 are borne by the Company's ultimate parent, Aviva plc.

(v) Group relief

Transactions with Group companies for settlement of corporation tax assets and liabilities by way of group relief are described in note 17.

(c) Key management compensation

Key management, which comprises the directors of the Company, are not remunerated directly for their services as directors of the Company and the amount of time performing their duties is incidental to their role across the Group. The majority of such costs are borne by Aviva plc and are not recharged to the Company. Refer to note 6 for details of directors' remuneration.

(d) Parent entity

The immediate parent entity is AGH, a private limited company incorporated and domiciled in the United Kingdom.

(e) Ultimate controlling entity

The ultimate parent entity and controlling party is Aviva plc, a public limited Group incorporated and domiciled in the United Kingdom. This is the parent undertaking of the smallest and largest Group to consolidate these financial statements. Copies of Aviva plc consolidated financial statements are available on application to the Group Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.

26. Related undertakings

Related undertakings include direct and indirect subsidiaries, joint ventures, associates and other significant holdings.

The direct related undertakings of the Company as at 31 December 2019 are listed below:

Name of undertaking	Country of incorporation	Registered address	Share class	% held by Group companies
Aviva Employment Services Limited	England	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary	100
Aviva Services Sp. Zo.o.	Poland	Ul.Inflancka 4B,00-189,Warsaw	Ordinary	100

Notes to the financial statements continued

27. Subsequent events

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. The spread of COVID-19 has resulted in an economic downturn in jurisdictions in which the Company operates and the global economy more widely, as well as causing increased volatility and declines in financial markets. If the pandemic is prolonged, or further diseases emerge that give rise to similar effects, the adverse impact on the global economy could be deepened and result in further declines in financial markets.

The Company's balance sheet exposure has been reviewed and the Company continues to maintain positive net asset value. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained. Notwithstanding the Company's strong balance sheet position, deterioration in the situation could have further adverse implications arising from the impacts on financial markets and operations. As the situation is rapidly evolving it is not practicable to quantify the potential financial impact of the outbreak on the Company at this stage.