Aviva Insurance Limited

Registered in Scotland No. SC002116

Annual Report and Financial Statements 2019

Contents

Directors and officer

Directors

S P Burns
C J Clark
K A Cooper
V F Gooding
C J Holmes
S Maillet
N D Rochez
C W M Scott

Officer – Company Secretary

Aviva Company Secretarial Services Limited
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Undershaft
London
EC3P 3DQ

Independent Auditors

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7 More London Riverside
London
SE1 2RT

Registered office

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Scotland
PH2 0NH

Company number

Registered in Scotland no. SC002116

Other information

Aviva Insurance Limited ("the Company") is a member of the Association of British Insurers and covered by the Financial Ombudsman Service and is authorised and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA").

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 the Company's business

Principal activities

The principal activity of the Company is the transaction of general and health insurance business in the United Kingdom ("UK"). The major classes of business underwritten are personal lines (motor, home, creditor and other), health and commercial lines (property, liability, motor and other).

The Company's strategy focusses on our customers, with customer service at the heart of our business. The Company offers personal lines (home, motor and travel insurance products) and commercial lines insurance to a wide range of businesses from micro through small and mid-market to large, multinational corporates. Capabilities in distribution, underwriting and digital are clear differentiators.

The Company's strategy is supported by the aim to continue to deliver profitable growth and improve cash generation.

Significant events

On 7 December 2018 the Company approved the transfer of a subset of the Company's general insurance business to the Company's subsidiary, Aviva Insurance Ireland Designated Activity Company ("AIIDAC") which is incorporated in Ireland, as an insurance business transfer scheme under part VII of the Financial Services and Markets Act 2000. The UK Court approved the Scheme on 22 January 2019 and on 1 February 2019 the transfer of a subset of the Company's business to AIIDAC came into effect.

The consideration payable by the Company to AIIDAC as a result of the transfer was £802 million, which comprised total net liabilities transferred of £625 million and capital contributions of £177 million. AIIDAC issued ordinary shares with a nominal value of €15 million to the Company in part consideration for the capital contributed.

On 1 February 2019, following the general insurance business transfer, the Company entered into a retrospective (both expired and in-force business) inwards quota share reinsurance arrangement with AIIDAC in consideration for a premium of £807 million payable by AIIDAC to the Company. The Company provides proportional inwards reinsurance to AIIDAC under this arrangement as follows:

- 85% quota share arrangement in respect of the transferring Ireland general insurance branch risks that are situated in the European Economic Area (excluding the UK and European Mobile Device Insurance business); and
- 100% quota share arrangement covering all other transferring business.

In February 2019, the Company made a further investment of £25 million in Aviva UK Digital Limited ("UKD") which increased the Company's cost of investment in UKD from £110 million to £135 million, and increased the Company's holding of UKD to 31%. In December 2019, the Company acquired the remaining shares in UKD from its immediate parent Aviva Group Holdings Limited ("AGH") by way of a capital contribution of £233 million.

Following the announcement of the Lord Chancellor on 15 July 2019 to increase the Ogden discount rate from the minus 0.75% set in 2017 to minus 0.25%, balance sheet reserves were calculated using a discount rate of minus 0.25% at 31 December 2019 (0.00% at 31 December 2018). This has resulted in a strengthening of claims reserves of £23 million (net of reinsurance). The Ogden discount rate is expected to be reviewed by the Lord Chancellor within five years.

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.

As an insurer the Company is impacted by the COVID-19 pandemic through its general insurance products, as a result of disruption to travel and businesses insured by the Company. The Company is also keeping its pricing and strategy under review given changes in the risk profile of future new business and expected future investment returns. The Company's balance sheet exposure has been reviewed and actions are being taken to further reduce the sensitivity to economic shocks. At 31 December 2019 the Company had strong solvency levels and expects to continue to meet its capital requirements. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained, IT systems remaining operational, and employees including frontline customer facing staff being supported to ensure that that we are there to support our customers when they need us most. Notwithstanding the Company's strong capital and liquidity position and the operational and financial actions that are being taken, deterioration in the situation could have further adverse implications arising from the impacts on financial markets, insurance exposures 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.

Financial position and performance

The financial position of the Company at 31 December 2019 is shown in the statement of financial position on page 30, with the trading results shown in the income statement on page 27 and the statement of cash flows on page 31.

The Company's net assets have decreased by £134 million *(2018: decreased by £146 million*) due to interim ordinary dividends of £359m settled in February 2019, further interim ordinary dividends of £80 million settled in August 2019, and a reduction of retained earnings of £38 million arising on the adoption of IFRS 16 Leases (refer to accounting policy A), less profit for the year after tax of £110 million and the capital contribution received from AGH in December 2019 of £233 million referred to within "Significant events" above.

The profit after tax for the year was £110 million *(2018: £245 million).* The decrease was primarily driven by higher net claims incurred and tax charges which increased by £465 million and £69 million respectively. These variances were partly offset by higher net earned premiums which increased by £290 million and higher net investment income which increased by £144 million.

The Company's net written premiums were £3,057 million *(2018: £2,550 million).* The increase in net written premiums was driven by the immediate impact of the inwards quota share reinsurance arrangement with AIIDAC, referred to within significant events above, and also by growth in commercial lines.

The combined operating ratio increased to 98.9% *(2018: 95.2%)*. Drivers of this movement are described in the key performance indicators section below.

Net investment income increased to £309 million *(2018: £165 million)*, driven by unrealised gains on debt securities, equity investments and unit trusts.

Strategic report (continued)

The Company's loan to its immediate parent company, AGH, has reduced from £1,319 million at 31 December 2018 to £1,268 million at 31 December 2019. The reduction was settled via an annual repayment in cash of £50 million, and the transfer from AGH to the Company, of shares in the Company's subsidiary, Neos Ventures Limited, at their cost of £1m.

Section 172 Statement

The directors report here on how they 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 the Directors' obligations to its shareholder and to its stakeholders are met. The Board 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 the Board expects 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.

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

The Company's culture

As the provider of vital financial services to millions of customers, Aviva seeks to earn customers' trust by acting with integrity and responsibility at all times. The Company looks to build relationships with all our stakeholders based on openness and continuing dialogue.

The Company's culture is shaped, in conjunction with its immediate parent company, AGH, and its ultimate shareholder, Aviva plc, by jointly held and clearly defined values to help ensure it does the right thing. The Company values diversity and inclusivity in its workforce and beyond. The commitment the Company makes to each customer extends to all the Company's stakeholders; that is 'with you today, for a better tomorrow'. Throughout the Company's business, the Board is proud that the Company's staff live by the core value of Caring More for their customers, for each other, and for the communities they serve.

Key strategic decisions in 2019

From 1 July 2019 the decision was made to operate the Group's UK Life and Pensions business separately from its UK General Insurance business, with the Group's Digital Direct business being integrated into UK General Insurance. UK General Insurance CEO Mr C Holmes presented the UK General Insurance operating model to the Company's Board, focusing on driving a better customer experience and reducing complexity in business process and products.

Stakeholder Engagement

(i) Employees

The Company has no employees. The majority of staff engaged in the activities of the Company are employed by fellow subsidiary undertakings of Aviva plc. As part of the Aviva Group, these staff enjoy the benefit of the Aviva Group policies and benefits made available to them.

The Company's engagement mechanisms align with those of the Aviva Group, such as employee forums, internal communication channels, and informal meetings with the Directors and employee engagement surveys.

The Board hold strategy days twice a year, at which staff are able to join them to provide 'on the ground' insight into the business.

The Group carries out a comprehensive global employee engagement survey each year, and the results are considered by the Board in the context of the Company's culture, values and behaviours and actions to continually improve the results are discussed and agreed.

The Company's people share in the businesses' success as shareholders through membership of the Group's global share plans.

(ii) Customers

During 2019, the Board, in conjunction with Aviva plc, reviewed and redesigned the Company's Operating Model, aiming to reduce complexity in structure and processes to drive better customer experiences.

The Board receives regular reporting on customer outcomes in a number of our distribution lines, and has utilised feedback, especially negative points, to develop actions to improve on products, customer user experience and retention as a result of this feedback.

The Board receives regular reporting on strategic initiatives throughout the year, undertaking deep dives into areas that impact customers in order to re-align strategy where applicable.

The Board is supported by the Conduct Committee, and regularly receives input from the Committee Chair to enable it to closely monitor customer metrics, and subsequently engage with the senior leaders to address any issues that may arise from customer complaints, customer feedback and our approach to Treating Customers Fairly.

The Board also works closely with the Company's business partners to focus on new approaches to pricing in the general insurance industry.

The Board monitors and reviews developments concerning changes to the Company's IT platforms, and any IT issues, to enable the Company to respond to customer service delivery issues.

(iii) Suppliers

All supplier related activity is managed in line with the Group's 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.

The Board reviews the actions the Group has taken to prevent modern slavery and associated practices in any part of our supply chain and approves the Group's Modern Slavery Act statement each year.

In the UK, the Company's ultimate parent, Aviva plc, is a signatory of the Prompt Payment Code which sets standards for high payment practices. The Group is a Living Wage employer in the UK, and the Company's supplier contracts include a commitment by the supplier to pay their eligible employees not less than the Living Wage in respect of work provided to the Company at its premises in the UK.

Strategic report (continued)

The Company's directors are closely involved in the management of the Company's most critical or important suppliers, and regularly review reports on their performance. During the year, the Group successfully progressed UK migration to a new data centre infrastructure provider, including partial migration to the Cloud.

(iv) Communities

During the year, members of the Board and senior management have spent time in communities and households impacted by the floods. As a business, we've been at the forefront of proactively contacting our customers and encouraging them to install flood resilient repairs.

Ms K A Cooper, one of the Company's directors, sponsors the Mapathon, an activity undertaken with the Red Cross, Aviva's charitable partner, and the Company's employees to map parts of the world which may need aid.

The Board has also supported a multi-discipline apprenticeship development scheme and supports its subsidiaries with relevant charity work, such as Solus (London) Limited's involvement in The Ansar Youth Project charity.

(v) Shareholders

The Company's ultimate shareholder is Aviva plc and there is ongoing communication and engagement with the Aviva plc Board. Any matters requiring escalation are escalated by the Board through the Chair to its ultimate parent. Additionally, members of the Aviva plc board attend the Company's Board meetings by invitation. Mr M E Tulloch, CEO of Aviva plc, attended a Board meeting of the Company to present the Group's ongoing UK strategy and the impact on the Company's operating model.

(vi) Regulators

The Company has a programme of regular meetings between Board members (including non-executive directors), the Company's senior management and its compliance function and the FCA and the PRA. The Company routinely provides copies of Board and Risk Committee papers to the FCA and PRA and also responds to requests for information when required, maintaining constructive and open relationships with the UK regulators. Both the FCA and the PRA have attended a Board meeting in 2019, providing insight into their focus for insurance companies.

Future outlook

Strategies for the Group as a whole are determined by the Board of Aviva plc and these are shown in the Group 2019 Annual Report and Accounts. 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 33 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:

- General Insurance risk: including fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations when pricing and reserving.
- Market risk: the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates, foreign exchange rates, equity, property and commodity prices.
- Credit risk: the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements.
- 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.

  As an insurer the Company is impacted by the COVID-19 pandemic through its general insurance products, as a result of disruption to travel and businesses insured by the Company. The Company is also keeping its pricing and strategy under review given changes in the risk profile of future new business and expected future investment returns. The Company's balance sheet exposure has been reviewed and actions are being taken to further reduce the sensitivity to economic shocks. At 31 December 2019 the Company had strong solvency levels and expects to continue to meet its capital requirements. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained, IT systems remaining operational, and employees including frontline customer facing staff being supported to ensure that that we are there to support our customers when they need us most. Notwithstanding the Company's strong capital and liquidity position and the operational and financial actions that are being taken, deterioration in the situation could have further adverse implications arising from the impacts on financial markets, insurance exposures 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.
- 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 FTA 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.

During 2019, the FCA published their GI Pricing Market Study Interim Report. The Company has provided a comprehensive response to this outlining our recommended solution and action we have already taken. We are broadly supportive of tackling the issues raised, including protecting vulnerable customers and have highlighted our progress on safeguarding and AvivaPlus.

Strategic report (continued)

Key performance indicators

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

	2019	2018
Capital Metrics		
Solvency II capital surplus £m	**992**	731
Solvency II capital surplus ratio	**186%**	158%
Financial Performance Metrics		
Gross written premiums £m	**6,276**	5,421
Net written premiums £m	**3,057**	2,550
Profit for the year after tax £m	**110**	245
Decrease in shareholders equity £m	**(134)**	(146)
Alternative Performance Metrics		
Combined operating ratio[1]	**98.9%**	95.2%
Net incurred claims ratio	**69.0%**	63.6%
Net earned commission ratio	**19.9%**	21.2%
Net earned expenses ratio[1]	**10.0%**	10.4%
Non-Financial Metrics		
Relational net promoter score	**In upper quartile**	In upper quartile

[1]The combined operating ratio ("COR") and the net earned expenses ratio for 2018 has been restated to include £16m of costs previously treated as non-underwriting costs.

The Company's Solvency II capital surplus of £992 million *(2018: £731 million)* increased by £261 million during the year, with an equivalent increase in the capital surplus ratio. The increase was driven by capital generated from the Company's operations. On 12 February 2020, the directors declared interim dividends of £224 million on the Company’s ordinary shares, of which £182 million was settled in cash and £42 million was set-off against accrued interest due on the Company's loan to AGH. This dividend has broadly reduced the Company's Solvency II capital surplus to the 2018 level.

COR is calculated as claims incurred, earned commission and earned expenses as a percentage of net earned premium. COR of 98.9% increased by 3.7pp in 2019 primarily reflecting the impact of the inwards quota share reinsurance arrangement with AIIDAC.

The claims, commissions and expenses included in the COR excludes the cost of £23 million *(2018: £95 million credit)* related to the impact of the change in the adopted Ogden discount rate, £29 million *(2018: £35 million)* of corporate costs, £103 million *(2018: £46 million)* of impairment of subsidiaries, £13 million of losses *(2018: £3 million)* due to changes in economic assumptions of claims provisions, £45 million of foreign exchange gains *(2018: £12 million of losses)* and £4 million relating to other non-underwriting credits *(2018: £3 million)*.

The Company’s principal non-financial KPI is the ‘relational net promoter score’ for the UK general insurance business. This measures the likelihood of a customer recommending Aviva, relative to the market. The score is determined through third party collation of customer feedback and a scoring system that gives greater weighting to lower scores (‘detractors’) than higher scores (‘promoters’). The results are benchmarked against a representative sample of competitors’ customers in order to determine a quartile score against the market.

By order of the Board on 7 April 2020

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

Directors' report

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

Directors

The names of the current directors of the Company are shown on page 3.

Details of Board appointments and resignations during the year and since the year end are shown below:

A D Briggs resigned as a director of the Company on 24 April 2019
J M Windsor resigned as a director of the Company on 17 July 2019
C J Holmes was appointed as a director of the Company on 8 August 2019
H R Patel resigned as a director of the Company on 30 September 2019
R I L Townend resigned as a director of the Company on 30 September 2019
S Maillet was appointed as a director of the Company on 5 November 2019
C J Clark was appointed as a director on 1 January 2020
J B O'Roarke resigned as a director of the Company on 31 March 2020

Company Secretary

The name of the company secretary of the Company is shown on page 3.

Dividends

Interim ordinary dividends of £359 million on the Company's ordinary shares were declared in December 2018 and settled in February 2019, of which £317 million was settled in cash and £42 million was set-off against accrued interest due on the Company's loan to AGH. Further dividends of £80 million on the Company's ordinary shares were declared in July 2019 and settled in August 2019 *(2018: dividends of £392 million were declared and settled in February 2018)*.

The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2019 *(2018: £nil)*.

On 12 February 2020, the directors declared interim dividends of £224 million on the Company's ordinary shares, of which £182 million was settled in cash and £42 million was set-off against accrued interest due on the Company's loan to AGH.

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 payables and other financial liabilities (note 27); its contingent liabilities and other risk factors (note 29); its capital structure (note 32); management of its major risks including market, credit and liquidity risk (note 33); and derivative financial instruments (note 34).

The Company and its ultimate holding company, 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.

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.

Important events since the financial year end

Details of significant post balance sheet events that have occurred subsequent to 31 December 2019 are disclosed in note 38.

Future outlook

Likely future developments in the business of the Company are discussed in the strategic report on page 6.

Stakeholder engagement

Statements summarising the Company's employee engagement, and its engagement with suppliers, customers and its other stakeholders are included in the strategic report on page 5.

Statement of Corporate Governance Arrangements

For the year ended 31 December 2019, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (the "Principles"). Application of the Principles by the Company during 2019 is set-out below:

Principle 1 - Purpose and leadership

The Company is part of the Aviva Group. Following the appointment of Mr M E Tulloch as Group CEO of Aviva plc in March 2019, the Group embarked on a strategic review aimed at optimising its organisational structure around creating excellent outcomes for its customers. The Group's purpose is to be 'with you today, for a better tomorrow' and the Group includes its customers, employees and our other stakeholders in this. The Group has set out three strategic priorities which will enable it to fulfil its purpose:

- Deliver great customer outcomes;
- Excel at the fundamentals; and
- Invest in sustainable growth.

The Board has made a number of strategic decisions through the year which are aligned to this purpose.

The decision to operate the Company's general insurance business as two businesses; personal lines and commercial lines was made to ensure clear end to end accountability and focus on sustainable, profitable growth, driven by best in market customer service.

Directors' report (continued)

The Board monitors culture of the Company and raises any concerns during meetings and the Board is able to express its views on the culture of the organisation through the Board Effectiveness Reviews. Culture information has been added to the Board's annual planner to ensure the Board has the opportunity to review culture metrics and that employees have the right values, attitudes and behaviours and are focussed on doing the right thing for the customer. The Company complies with the Senior Managers' Certification Regime which further strengthens the drive for individual accountability. Employee engagement is sought through the Voice of Aviva employee surveys, the output of which is reviewed by the Board and an action plan put in place to address areas identified by employees which may require further focus.

The Board is responsible for promoting the long-term success of the Company for the benefit of its members as a whole, taking into account other stakeholders as defined by Section 172 of the Companies Act 2006 and the Articles of Association and including but not limited to; setting the Company's strategic aims, monitoring performance of the Company and management against those aims, setting the Company's risk appetite and monitoring the operation of prudent and effective controls and monitoring compliance with corporate governance principles.

Principle 2 - Board composition

The Company's Board has a separate Independent Non-Executive Chair and Chief Executive Officer to ensure that the balance of responsibilities, accountabilities and decision making across the Company is effectively maintained. The directors have equal voting rights when making decisions, except the Chair, who has a casting vote. All directors have access to the advice and services of the Company Secretary.

The Board has a skills matrix in place to ensure the composition of the Board contains the appropriate combination of skills, backgrounds, experience and knowledge to understand and guide the business. The skills matrix is a key tool in any Board recruitment process to ensure the most suitable candidates are put forward for appointment to fill any gaps identified and to maintain a focus on succession planning to ensure the Board composition remains appropriate.

The Board is comprised of both Non-Executive Directors, the majority of whom are Independent Non-Executive Directors, and Executive Directors. The Board is responsible for organising and directing the affairs of the Company in a manner that is most likely to promote the success of the Company for its shareholders as a whole and in a way that is consistent with its Articles of Association, applicable regulatory requirements and current corporate governance practice.

The Company's Board undertook a formal effectiveness review of its performance, facilitated by Lintstock in 2019, which comprised of a detailed questionnaire and individual interviews. The results were produced by Lintstock and presented to the Board at its meeting on 3 October 2019. The Board evaluation tracker was subsequently refreshed to include new actions arising from the 2019 evaluation process and will be updated on an ongoing basis and shared regularly with the Board. The next independent assessment will take place in mid-2020. The 2019 Board Effectiveness Review assessed that overall the Company was operating effectively with a number of areas prioritised for focus during the coming year.

Principle 3 - Director responsibilities

The Company operates in accordance with the Aviva Governance Framework, as approved by Aviva plc. The Aviva Governance Framework articulates the interrelation between its purpose, culture, values; its reporting and escalation structures and their alignment with legal and regulatory duties and its risk management framework. The core elements are the legal and regulatory flow of accountability and decision making and the Company's frameworks, policies and standards and the checks and balances through the operation of the Company's 2nd and 3rd lines of defence which ensure effective Board oversight.

Within the Aviva Group, accountability is formally delegated by the Board of the Company to the CEO and by the CEO to their direct reports. The CEO delegations are referenced in the Board's Terms of Reference. Accountability rests with these individuals and the Board. These accountabilities are aligned with the Senior Managers Certification Regime responsibilities. These roles and responsibilities are clearly documented in the Management Responsibility Maps which form part of our Governance Framework and which are submitted to the PRA and the FCA on a quarterly basis. The Company must also adhere to the Group's Subsidiary Governance Principles which are a set of internal governance principles.

The Board held 6 meetings this year, plus 7 ad hoc meetings to discuss specific items and one additional day of strategic planning. The Board's key areas of focus in 2019 were aligning its business to the new Aviva Group strategy, embedding of a new leadership team including CEO and the acquisition of the remaining shares in UKD from its immediate parent undertaking AGH by way of a capital contribution.

The Board has established an Audit Committee, a Risk Committee and a Conduct Committee. The Terms of Reference for these committees are aligned to those of Aviva plc and are approved annually by the Board. The committees also undertake annual effectiveness reviews. The results are discussed by the committee and an action plan is agreed, with the actions tracked by the Company Secretary.

The Audit Committee is responsible for reviewing the effectiveness of the Company's financial systems and controls and receive regular updates on the work of the Company's internal audit function and from its external auditors. The Board also receives reports from the CFO at each meeting. The Company's financial reporting is currently externally audited by PricewaterhouseCoopers LLP on an annual basis.

The Risk Committee is responsible for oversight of risk, reviewing the Company's risk appetite and risk profile, reviewing the effectiveness of the Company's risk management framework, reviewing the methodology used in determining the Company's capital requirements, stress testing, ensuring due diligent appraisals are carried out on strategic or significant transactions, and monitoring the Company's regulatory activities, as appropriate.

The Conduct Committee is responsible for assisting the Board in its oversight of conduct issues. This oversight includes oversight of the Company's conduct framework including product design, live selling practices, claims practices, and conduct oversight of third parties The Committee's responsibilities include reviewing the Company's conduct and financial crime risk profile, and overseeing the brand and reputation of the Company, ensuring that reputational risk is consistent with the risk tolerance approved by the Board and the creation of long-term shareholder value.

Principle 4 - Opportunity and Risk

The role of the Board role is to promote the long-term sustainable success of the company, generating value for its shareholder within a framework of prudent and effective controls, which enable risks to be assessed and managed.

The decision to operate the Group's UK General Insurance business separately from its UK Life and Pensions business, with the Group's Digital Direct business being integrated into UK General Insurance, will support the Company in applying its expertise to win in its chosen markets and provide the Company with the opportunity to continue to compete and win against mono-line competitors.

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 key elements of the risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes the Company uses to identify, measure, manage, monitor and report risks, including the use of risk models and stress and scenario testing.

Directors' report (continued)

The Company's position against its risk appetites and tolerances is monitored and reported to the Board on a regular basis. Long-term sustainability depends upon the protection of franchise value and good customer relationships. As such, the Company has a risk preference that it will not accept risks that materially impair the reputation of the Company and requires that customers are always treated with integrity.

Principle 5 - Remuneration

The Company has no employees. The majority of staff engaged in the activities of the Company are employed by fellow subsidiary undertakings of Aviva plc. As part of the Aviva Group, these staff enjoy the benefit of the Aviva Group policies and benefits made available to them.

Under the Aviva Group Reward Governance Framework, the Global Remuneration Policy is approved by the Aviva plc Remuneration Committee, and applies to all employees in entities within the Aviva Group. Independent Non-Executive director fees are also set by Aviva plc and reviewed annually. Details of Directors Remuneration is included in note 6.

The Aviva Group reports on the pay ratio of the Group CEO to UK employees, and details of this can be found in the Directors' Remuneration Report in the Aviva plc Annual Report and Accounts which is available at/www.aviva.com/investors/reports/. Aviva plc also reports on its gender pay gap, and the steps it is taking in relation to this which can be found at www.aviva.com/gpgr.

The Board held a private session on 22 November 2019 to discuss 2019/2020 performance and conduct of key individuals of the Company's management and provided input into their 2019-2020 remuneration reviews.

As employees of the Group, staff are able to enjoy the comprehensive flexible benefits offering including the Aviva staff pension scheme which provides a top rate employer contribution of 14% of salary and Aviva's broader Wellbeing offering which aims to promote health and wellbeing among Aviva colleagues.

Principle 6 - Stakeholders

Details about stakeholders can be found in the S172 Statement in the Strategic Report

Overseas branches

The Company's branch office in Ireland was de-registered on 25 April 2019 following the business transfer referred to in the strategic report on page 4.

Financial instruments

The Company uses financial instruments to manage certain types of risks, including to those relating to foreign currency exchange and interest rates. Details of the objectives and management of these instruments are contained in note 33 on risk management.

Employees

The Company has no employees. The majority of employees engaged in the activities of the Company are employed by subsidiary undertakings of Aviva plc, Aviva Employment Services Limited and Aviva Group Services Ireland Limited. Disclosures relating to employees may be found in the annual report and financial statements of these companies. The Company is recharged with the costs of the staff provided by these companies.

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 Auditor, PricewaterhouseCoopers LLP, is 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 is 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

In 2004, Aviva plc, the Company's ultimate parent, granted 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 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 reasonable and prudent judgements and accounting estimates;
- state whether applicable IFRSs as adopted by the European Union and IFRSs issued by 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.

Directors' report (continued)

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.

By order of the Board on 7 April 2020

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

Independent auditors' report to the members of Aviva Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Aviva Insurance 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 2019 (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.

Our opinion is consistent with our reporting to the Audit Committee.

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

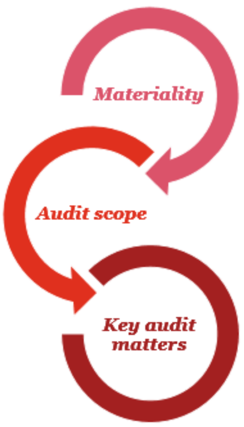
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



- Overall materiality: £51.4 million (2018: £52.8 million), based on 1% of the amount that would change the Combined Operating Ratio ('COR') by more than 1%, excluding the effect of the internal quota share contracts.

- Based on the output of our risk assessment, along with our understanding of the Company's structure, we performed full scope audits over the following components: the UK General Insurance operations, the Company's Ireland general insurance quota share arrangement with Aviva Insurance Ireland Designated Activity Company and the Company's quota share reinsurance arrangement with Aviva International Insurance Limited, fellow Aviva group Companies.
- Where specific account balances were considered to be significant in size in relation to the Company, we scoped our audit to include detailed testing of those account balances.

- Valuation of insurance claims liabilities.
- Impact of COVID-19 subsequent event.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the Financial Conduct Authority's and the Prudential Regulation Authority's regulations applicable to insurance companies and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the financial statements as shown in our 'Key Audit Matters'. The engagement team shared this risk assessment with the other auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the engagement team and/or other auditors included:

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance functions and the Legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Making enquiries of the Group Investigations team who are responsible for independently reviewing fraudulent activity across the group, utilising activities including, but not limited to, whistle blowing hotlines and data analytics;
- Testing the operating effectiveness and reviewing the results of management's internal controls designed to prevent and detect irregularities;
- Assessment of matters reported on the Company's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the of the Risk Committee, GI Reserve and Capital Committee and Audit Committee;
- Reviewing data regarding policyholder complaints, the Company's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of insurance claims liabilities described in the related key audit matter below;
- Identifying and testing journal entries, in particular journals that appear to be posted outside the normal patterns or parameters; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

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

Key audit matter	***How our audit addressed the key audit matter***
Valuation of insurance claims liabilities Insurance claims liabilities are based on an estimated ultimate cost of all claims incurred but not settled at 31 December 2019, whether reported or not, together with the related claims handling costs. The valuation of these insurance claims liabilities is a significant accounting estimate in the financial statements and involves a significant degree of judgement.	In performing our audit over insurance claims liabilities, we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included: • Developing independent point estimates for classes considered to be higher risk, particularly focusing on the largest and most uncertain estimates, as at 30 September 2019 and performing roll-forward testing to 31 December 2019. For these classes, we compared our re-projected estimates to those booked by the directors to form part of

Key audit matter	How our audit addressed the key audit matter
Key areas of focus this year were: • The underlying volatility attached to estimates for the larger classes of business, such as motor, where small changes in assumptions can lead to large changes in the level of the estimate held and the reported COR. • The risk of inappropriate assumptions used in determining current year estimates for the Company. Given that limited data is available, especially for "long-tailed" classes of business, there is greater reliance on expert judgement in their estimation. • The risk of inappropriate methodologies and assumptions used to determine estimates for UK bodily injury claims, in particular following change to the Ogden discount rate set by the Lord Chancellor in 2019. Refer to accounting policies B (page 19) and K (page 21), and Notes 22 and 29 (page 50 and 61) for disclosure of the related accounting policies, judgements and estimates.	our determination as to whether the overall estimated insurance claims liabilities represent a reasonable estimate. • For the other classes of business, we tested the methodology and assumptions used by the directors to derive their estimates and whether these produced reasonable estimates based on the Company's facts and circumstances. • For classes of business affected by the Ogden discount rate change, we evaluated the directors' estimate in the context of the facts and circumstances known as at 31 December 2019 and the uncertainty of future rate changes. • Testing large loss claims estimates arising from known events by evaluating the underlying information. In performing the above, we have also considered and tested the following: • The internal control environment in place over insurance claims liabilities including: o Governance control activities; and o Control activities supporting key data used in the estimation process. • The underlying relevant data (including but not limited to claims case estimates and paid claims) to relevant evidence. • Examined prior year run-off of previous estimates. • The directors' assessment of estimation uncertainty. • Considered whether any of our audit procedures gave rise to an indication of management bias. Based on the work performed and evidence obtained, we were satisfied with the insurance claims liabilities booked.
Impact of COVID-19 subsequent event As disclosed in note 33, 2020 has begun with the outbreak of a new strain of Coronavirus (COVID-19) in China resulting in a global pandemic causing significant economic disruption. The situation at 31 December 2019 was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. The subsequent spread of the virus and its identification as a new coronavirus does not provide additional evidence about the situation that existed at 31 December 2019, and it is therefore a non-adjusting event. Management have ensured that the measurement of assets and liabilities reflects only the conditions that existed at the reporting date. However, events after the reporting date can provide additional information about the uncertainties that existed at the reporting date. Subsequent to the year-end management have performed procedures to assess the financial and operational impacts of COVID-19 which include: Measures to limit the operational impact of being able to deliver key customer and reporting activities; • Operation of a risk management framework to ensure sufficient capital surplus is maintained to meet liabilities, even under stress scenarios and having robust plans in place for certain management actions if the Company falls outside its approved risk appetite; • Frequent monitoring of the Company's solvency coverage ratio through regular meetings of the Financial Crisis team; • Actively managing the Company's capital and liquidity position including monitoring of asset credit quality, employing an active hedging strategy in relation to market	We assessed management's approach to the impact of COVID-19 on the Company and the financial statements by performing the following procedures: • Evaluated management's stress and scenario testing and challenged management's key assumptions. As the Solvency Capital Requirement and Risk Margin are not subject to audit, we reviewed the controls and governance over the production of this information and considered its consistency with other available information and our understanding of the business. • Assessed the mitigating actions management have put in place and further plans they have if they are required due to further deterioration of the wider UK and Global economy. • Read correspondence with the PRA in relation to COVID-19. • Read board papers on COVID-19 and attended risk committee meetings held in 2020. • Assessed the disclosures made by management in the financial statements and checked consistency of the disclosures with our knowledge of the Company based on our audit. • Obtained and evaluated management's assessments of the potential impact on claims levels for individual classes of business and agreed to supporting information and analyses. • Obtained and reviewed relevant reinsurance contracts (including Excess of Loss agreements) and reviewed correspondence with reinsurance providers.

Key audit matter	*How our audit addressed the key audit matter*
and interest rate risks, and actively managing liquidity on a fund by fund basis; and • Frequent communications with the PRA by management. Management have concluded the Company will continue to meet its capital requirements and operate through this pandemic and the Company continues to be a going concern. However, as the situation is rapidly evolving it is not possible to quantify the potential financial impact of the outbreak on the Company.	Based on the work performed and the evidence obtained, we consider the disclosure of the impact of COVID-19 in the financial statements to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

The Company is a UK domiciled insurer and the directors' financial reporting uses ten business operating segments which we treat as components. In determining the scope of the audit, we performed risk assessment procedures which included understanding each of the components' business operations, internal control environment and process for the preparation of financial information. We applied our materiality benchmark across each component to identify which components were financially significant to the audit of the Company.

Based on the outputs of our risk assessment, we identified three financially significant components being the Company's UK General Insurance operations, the Company's Ireland general insurance quota share arrangement and its internal reinsurance arrangement with another Aviva plc group Company. We performed a full scope audit of these three components.

Where specific account balances were considered to be significant in size in relation to the Company, we scoped our audit to include detailed testing of those account balances.

The Company has also established certain operational shared service centres in the UK and overseas. This includes an outsourced operation in Sri Lanka, which primarily is a back-office finance function that processes transactions and performs certain financial control activities to support the production of the Company's financial information. Specified procedures were performed by PwC UK and component audit teams over these UK and overseas shared service centres respectively.

Where the work was performed by auditors of components, or shared service centres, we determined the level of involvement we needed as the Company audit team to have in the audit work of those auditors to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. We maintained regular and timely communication with component and shared service centre audit teams, including performing on-site visits, phone calls, discussions and written instructions, where appropriate.

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 in aggregate 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	£51.4 million (2018: £52.8 million).
How we determined it	1% of the amount that would change the Combined Operating Ratio ('COR') by more than 1%, excluding the effect of the internal quota share contracts.
Rationale for benchmark applied	We believe COR is a key profit related benchmark used by the directors and is central to Aviva's communications to the public on the performance of this business.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.6 million (2018: £2.6 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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.

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 10, 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.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 3 May 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 December 2012 to 31 December 2019.

Matthew Nichols (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 April 2020

Accounting policies

The Company, a private limited company incorporated and domiciled in the United Kingdom ("UK"), transacts general insurance and health business. 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 land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The financial statements have been prepared on the going concern basis as explained in the Directors' report on page 8.

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 European Economic Area ("EEA") parent and is included in the consolidated financial statements for the Group, i.e. the ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates, at the same date. These financial statements therefore present information about the Company as an individual entity.

In accordance with *IFRS 4 Insurance Contracts*, the Company has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in accounting policy G.

Items included in the financial statements of each of the Company's branches are measured in the currency of the primary economic environment in which that entity operates (the functional currency). 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 pounds 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 AA.

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 £38 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 (£68 million) and liabilities (£106 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 14). 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 2.71%.

Future contractual aggregate minimum lease payments under non-cancellable operating leases, as disclosed in note 30 of the Company's 2018 financial statements, were £119 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 £95 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. Other differences between the commitments disclosed and the opening IFRS 16 lease liabilities recognised relate primarily to amounts previously recognised as a commitment but which do not meet the definition of a lease under IFRS 16.

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.

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.

Accounting policies (continued)

The following amendments to existing standards and IFRIC interpretations have been issued and endorsed by the EU, are effective from 1 January 2019 or earlier, and do not have a significant impact on the Company's financial statements.

(ii) IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the International Accounting Standards Board ("IASB") published *IFRIC 23 Uncertainty over Income Tax Treatments.* The standard is effective for annual reporting beginning on or after 1 January 2019.

(iii) Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

In February 2018, the IASB published *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*. The amendments are effective for annual reporting beginning on or after 1 January 2019.

(iv) Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

In October 2017, the IASB published *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*. The amendments are effective for annual reporting beginning on or after 1 January 2019.

(v) 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 and amendments to existing standards have been issued, are not yet effective and have not been adopted early by the Company:

(i) IFRS 17, Insurance Contracts

In May 2017, the IASB published IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 that was issued in 2005. IFRS 17 applies to all types of insurance contracts. In contrast to the requirements in IFRS 4, which are largely based on grandfathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to insurance contracts. The core of IFRS 17 is the general measurement model, supplemented by a specific adaption for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model for insurance contracts are, as follows: the measurement of the present value of future cash flows incorporating an explicit risk adjustment and remeasured at each reporting period (the fulfilment cash flows); a contractual service margin that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (coverage period); the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period; and extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The impact of the adoption of IFRS 17 significantly impacts the measurement and presentation of the contracts in scope of the standard. Following the publication of an Exposure Draft of proposed amendments to IFRS 17 in June 2019, it is expected that the standard will apply to annual reporting periods beginning on or after 1 January 2023 at the earliest. The final standard is due to be published mid-2020 and remains subject to endorsement by the EU and the UK. We note the UK's endorsement procedure, following departure from the EU, remains under development through the transition period to the end of December 2020.

(ii) IFRS 9, Financial Instruments

In September 2016, the IASB published amendments to *IFRS 4 Insurance Contracts* that address the accounting consequences of the application of IFRS 9 to insurers prior to implementing the new accounting standard for insurance contracts, IFRS 17, which replaces IFRS 4. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9. The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied. The Company is eligible to apply the deferral approach, as defined by the amendments to IFRS 4, as its activities are predominantly connected with insurance. The Company has opted to apply this deferral from 1 January 2018.

In March 2020 the IASB recommended an amendment to IFRS 17 to defer the effective date to 1 January 2023. At the same time, they recommended an extension to the fixed expiry date for the temporary exemption for insurers from applying IFRS 9 until 1 January 2023. These recommendations are subject to IASB's due process.

The impact of the adoption of IFRS 9 on the Company's consolidated financial statements will be largely dependent on the interaction with the new insurance contracts standard, IFRS 17. As such, it is not possible to fully assess the effect of the adoption of IFRS 9. IFRS 9 has been endorsed by the EU.

The standard incorporates new classification and measurement requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach.

The following new standards and 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:

(iii) 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.

(iv) Amendment to IFRS 3 Business Combinations

Published by the IASB in October 2018. The amendments are effective for annual reporting beginning on or after 1 January 2020 and have not yet been endorsed by the EU.

Accounting policies (continued)

(v) *Amendment 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.

(vi) *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 have been endorsed by the EU.

(vii) *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 yet been endorsed by the EU.

(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 following accounting policies are those that have the most significant impact on the amounts recognised in the financial statements, including those judgements involving estimation.

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 and note disclosures.

Item	Critical accounting estimates	Accounting policy	Note
Measurement of insurance contract liabilities	Principal assumptions used in the calculation of general insurance and health liabilities include the discount rates used in determining latent claim and structures settlements liabilities, and the assumption that past claims experience can be used as a basis to project future claims (estimated using a range of standard actuarial claims projection techniques).	K	22
Goodwill and intangible assets	Goodwill and other intangible assets are recognised and tested for impairment using an income approach method. Significant estimates include forecast cash flows, discount rates and determination of useful lives.	M	10
Fair value of financial instruments, derivative financial instruments and investment property	Where quoted market prices are not available, valuation techniques are used to value financial instruments and investment property. These include broker quotes and models using both observable and unobservable market inputs. The valuation techniques involve judgement with regard to the valuation models used and the inputs to these models can lead to a range of plausible valuation for financial investments.	F, O, R & V	13, 15, 16, 34
Deferred acquisition costs	Management use estimation techniques to determine the amortisation profile and impairment test by reference to the present value of estimated future profits.	Y	18
Deferred income taxes	Calculation and recognition of temporary differences giving rise to deferred tax balances includes estimates of the extent to which future taxable profits are available against which the temporary differences can be utilised.	CC	24

(C) Subsidiaries

Subsidiaries are those entities (including special purpose entities) over which the Company has control. 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, such as the financial difficulty of the entity or a significant or prolonged decline in its fair value below cost, the investment is impaired to its recoverable value and any unrealised loss is recorded in the income statement.

Accounting policies (continued)

(D) Associates

Associates are entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control. Generally, it is presumed that the Company has significant influence if it has between 20% and 50% of voting rights.

Investments in associates are stated 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, such as the financial difficulty of the entity or a significant or prolonged decline in its fair value below cost, the investment is impaired to its recoverable value and any unrealised loss is recorded in the income statement.

(E) Foreign currency translation

Income statements and cash flows of foreign branches are translated into the Company's presentation currency at average exchange rates for the year while their statements of financial position are translated at the year-end exchange rates. Exchange differences arising from the translation of the net investment in foreign branches are recognised in other comprehensive income and taken to retained earnings. On disposal of a foreign branch, such exchange differences are transferred out of this reserve and are recognised in the income statement as part of the gain or loss on sale.

Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value and designated as held at fair value through profit or loss ("FVTPL") (see accounting policy R) are included in foreign exchange gains and losses in the income statement. Translation differences on non-monetary items, such as equities which are designated as FVTPL, are reported as part of the fair value gain or loss, whereas such differences on available for sale ("AFS") equities are included in the investment valuation reserve through other comprehensive income. Translation differences on assets held at amortised cost are included in foreign exchange gains and losses in the income statement.

(F) 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 matured.

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.

(G) Product classifications

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts.

As noted in accounting policy A above, insurance contracts and participating investment contracts in general continue to be measured and accounted for under existing accounting practices at the date of transition to IFRS ("grandfathered") or the date of the acquisition of the entity, in accordance with IFRS 4. IFRS accounting for insurance contracts in UK companies was grandfathered at the date of transition to IFRS and determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers (subsequently withdrawn by the ABI in 2015).

The accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements. When accounting policies or accounting estimates have been changed and adjustments to the measurement basis have occurred then the financial statements of that year will have disclosed the impacts accordingly.

(H) Premiums earned

General insurance and health premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties or levies. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the statement of financial position date. Premiums are earned over the life of the contract in line with incidence of risk. Unearned premiums are calculated on either a daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

(I) Other fee and commission income

Other fee and commission income consists primarily of commissions on reinsurance ceded. Reinsurance commissions receivable are deferred in the same way as acquisition costs, as described in accounting policy Y. All other fee and commission income are recognised over time as the services are provided.

(J) Net investment income

Investment income consists of dividends, interest and rents for the year, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on fair value through profit or loss investments (as defined in accounting policy R). Dividends on equity securities are recorded as revenue on

Accounting policies (continued)

the ex-dividend date. Dividends from investments in subsidiaries are recorded as revenue on the date the dividends are declared. Interest income is recognised as it accrues, taking into account the effective yield on the investment. It includes the interest rate differential on forward foreign exchange contracts. Rental income is recognised on an accruals basis, and is recognised on a straight line basis unless there is compelling evidence that benefits do not accrue evenly over the period of the lease.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost, as appropriate.

Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year. Realised gains or losses on investment property represent the difference between the net disposal proceeds and the carrying amount of the property.

(K) Insurance contract liabilities

Claims

General insurance and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Outstanding claims provisions

General insurance and health outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the statement of financial position date. As such, booked claim provisions for general insurance and health insurance are based on the best estimate of the cost of future claim payments plus an explicit allowance for risk and uncertainty. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 22.

Provisions for latent claims and claims that are settled on an annuity type basis such as structured settlements are discounted in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims and the nature of the liabilities. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected below as a change in insurance liabilities. The range of discount rates used is described in note 22.

Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement as recognition of revenue over the period of risk.

Liability adequacy

At each reporting date, the Company reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts, after taking account of the investment return expected to arise on assets relating to the relevant provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the Company recognises the deficiency in the income statement by setting up a provision in the statement of financial position.

Other assessments and levies

The Company is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included within insurance liabilities but are included under "other liabilities" in the statement of financial position.

(L) Reinsurance

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies.

Where general insurance liabilities are discounted, any corresponding reinsurance assets are also discounted using consistent assumptions.

Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the income statement and statement of financial position as appropriate.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying contract liabilities, outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Reinsurance contracts that principally transfer financial risk are accounted for directly through the statement of financial position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company

Accounting policies (continued)

may not receive all amounts due to it under the terms of the contract, and the event has an impact that can be reliably measured on the amounts that the Company will receive from the reinsurer.

(M) Goodwill and intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the net assets of the acquired entity at the date of acquisition.

Intangible assets

Intangible assets consist primarily of internally developed systems. The economic lives of these are determined by considering relevant factors such as usage of the asset, typical product life cycles, potential obsolescence, maintenance costs, the stability of the industry, competitive position and the period of control over the assets. These intangibles are amortised over their useful lives, which range up to 10 years, using the straight-line method. The amortisation charge for the period is included in the income statement under other expenses.

Impairment

The carrying amount of goodwill and intangible assets is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying value. Further details on goodwill and intangible asset impairment testing are given in note 10. Any impairments are charged as expenses in the income statement.

(N) Property and equipment

Owner-occupied properties are carried at their revalued amounts and movements are recognised in other comprehensive income and taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. These properties are depreciated down to their estimated residual values over their useful lives. All other items classed as property and equipment within the statement of financial position are carried at historical cost less accumulated depreciation.

Depreciation is calculated on the straight-line method to write down the cost of other assets to their residual values over their estimated useful lives of three to five years. The assets' residual values, useful lives and method of depreciation are reviewed regularly and at least at each financial year end, and adjusted if appropriate.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount.

Borrowing costs directly attributable to the acquisition of property and equipment are capitalised. All repairs and maintenance costs are charged to the income statement during the financial period 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.

(O) Investment property

Investment property is held for long-term rental yields and is not occupied by the Company. Completed investment property is stated at its fair value, as assessed by qualified external valuers. Changes in fair values are recorded in the income statement within net investment income.

(P) Impairment of non-financial assets

Property and 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 except goodwill which have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(Q) 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.

(R) Financial investments

The Company classifies its investments as either financial assets at fair value through profit or loss ("FVTPL") or financial assets available for sale ("AFS"). The classification depends on the purpose for which the investments were acquired, and is determined at initial recognition. The FVTPL category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as "other than trading" upon initial recognition.

In general, the "other than trading" category is used as, in most cases, the Company's investment or risk management strategy is to manage its financial investments on a fair value basis.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values. Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement.

Accounting policies (continued)

Investments classified as other than trading are subsequently carried at fair value. Changes in the fair value of other than trading investments are included in the income statement in the period in which they arise.

Equity securities, for which fair values cannot be measured reliably, are recognised at cost less impairment.

Changes in the fair value of securities classified as AFS are recognised in other comprehensive income and recorded in a separate investment valuation reserve within equity. When securities classified as AFS are sold or impaired, the accumulated fair value adjustments are transferred out of the investment valuation reserve to the income statement with a corresponding movement through other comprehensive income.

Impairment

The Company reviews the carrying value of its investments on a regular basis. If the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. The following policy is used to determine the level of any impairment, which may involve considerable judgement:

An AFS equity security is considered impaired if there is objective evidence that the cost may not be recovered. In addition to qualitative impairment criteria, such evidence includes a significant or prolonged decline in fair value below cost. Unless there is evidence to the contrary, an equity security is considered impaired if the decline in fair value relative to cost has been either at least 20% for a continuous six-month period or more than 40% at the end of the reporting period, or being in an unrealised loss position for a continuous period of more than 12 months at the end of the reporting period.

For AFS equity securities identified as being impaired, the cumulative unrealised net loss previously recognised within the investment valuation reserve is transferred to realised losses for the year with a corresponding movement through other comprehensive income. Any subsequent increase in fair value of these impaired securities is recognised in other comprehensive income and recorded in the investment valuation reserve.

Reversals of impairments on any of these assets are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write-down (such as an improvement in the debtor's credit rating), and are not recognised in respect of equity instruments.

(S) Receivables and other financial assets

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.

Loans due from Group operations

Loans with fixed maturities are recognised when cash is advanced to borrowers. These loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method. Loans with indefinite future lives are carried at unpaid principal balances.

To the extent that a loan is considered to be uncollectable, it is written down as impaired through the Income Statement. Any subsequent recoveries are credited to the income statement.

(T) 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. Derivative liabilities are carried at fair value (refer to accounting policy V)

(U) Financial guarantees

Financial guarantees are recognised initially at their fair value and are subsequently amortised over the duration of the contract. A liability is recognised for amounts payable under the guarantee if it is more likely than not that the guarantee will be called upon.

(V) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, interest rate and inflation linked swaps and currency and equity options that derive their value mainly from underlying interest rates, inflation rates, foreign exchange rates, credit or equity instruments or indices.

All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently remeasured at their fair value, with the method of recognising movements in this value depending on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. The Company has not designated any derivatives as hedging instruments for accounting purposes and they are therefore treated as derivatives held for trading. Their fair value gains and losses are recognised immediately in net investment income.

Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the statement of financial position at the date of purchase, representing their fair value at that date.

Derivative contracts may be traded on an exchange or over-the-counter ("OTC"). Exchange-traded derivatives are standardised and include certain futures and option contracts and foreign exchange contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, swaps, caps and floors. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Many OTC transactions are contracted and documented under International Swaps and Derivatives Association master agreements or their equivalent, which are designed to provide legally enforceable set-off in the event of default, reducing the Company's exposure to credit risk.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions. These amounts are disclosed in note 34.

The Company has collateral agreements in place with relevant counterparties. Accounting policy X below covers collateral, both received and pledged, in respect of these derivatives.

Interest rate, inflation rate and currency swaps

Interest rate and inflation rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate amounts by means of periodic payments, calculated on a specified notional amount and defined interest or inflation rates. Most interest and inflation rate swap payments are netted against each other, with the difference between the fixed and floating rate interest payments paid by one party.

Accounting policies (continued)

Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Both types of swap contracts may include the net exchange of principal. Exposure to gain or loss on these contracts will increase or decreased over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

Foreign exchange contracts

Foreign exchange contracts, which include spot, forward, and futures contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Foreign exchange option contracts are similar to interest rate option contracts, except that they are based on currencies, rather than interest rates. Exposure to gain or loss on these contracts will increase or decrease over their respective lives as currency exchange and interest rates fluctuate.

(W) Loans

Loans with fixed maturities, including, mortgage loans on investment property and collateral loans, are recognised when cash is advanced to borrowers. Certain loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method. Loans with indefinite future lives are carried at unpaid principal balances.

At each reporting date, loans carried at amortised cost are reviewed for objective evidence that they are impaired and uncollectable, either at the level of an individual security or collectively within a group of loans with similar credit risk characteristics. To the extent that a loan is uncollectable, it is written down as impaired to its recoverable amount, measured as the present value of expected future cash flows discounted at the original effective interest rate of the loan, considering the fair value of the underlying collateral through an impairment provision account. Subsequent recoveries in excess of the loan's written down carrying value are credited to the income statement.

(X) Collateral

The Company receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, certain derivative contracts and loans, in order to reduce the credit risk of these transactions. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, which is not legally segregated from the Company, is recognised as an asset in the statement of financial position with a corresponding liability for the repayment in financial liabilities. However, where the Company has a currently enforceable legal right of set-off and the ability and intent to net settle, the collateral liability and associated derivative balances are shown net. Non-cash collateral received is not recognised in the statement of financial position unless the transfer of the collateral meets the derecognition criteria from the perspective of the transferor. Such collateral is typically recognised when the Company either (a) sells or re-pledges these assets in the absence of a default, at which point the obligation to return this collateral is recognised as a liability; or (b) the counterparty to the arrangement defaults, at which point the collateral is seized and recognised as an asset.

Collateral pledged in the form of cash, which is legally segregated from the Company, is derecognised from the statement of financial position with a corresponding receivable recognised for its return. Non-cash collateral pledged is not derecognised from the statement of financial position unless the Company defaults on its obligations under the relevant agreement, and therefore continues to be recognised in the statement of financial position within the appropriate asset classification.

(Y) Deferred acquisition costs

Costs relating to the acquisition of new business for insurance are deferred in line with existing local accounting practices, to the extent that they are expected to be recovered out of future margins in revenues on these contracts. Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and treated as a separate liability.

Deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset. Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written-off where they are no longer considered to be recoverable.

(Z) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank 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.

Operating cash flows

Purchases and sales of loans and financial investments, and related investment income, are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of payments of related claims.

(AA) 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

Accounting policies (continued)

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.

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.

(BB) 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 date of the statement of financial position. 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 include lease termination penalties and employee termination payments. They comprise only the direct expenses arising from the restructuring, which are those that are necessarily entailed by the restructuring; and not associated with the ongoing activities of the entity.

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.

(CC) 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, associates and joint ventures, 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.

(DD) 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:

(i) 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

(ii) 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.

(EE) Pensions

The Company has no employees. However, it is one of a number of companies in the Group being charged for staff participating in pension schemes in the UK and Ireland, and its contributions are affected by the financial position of these schemes. In the absence of any contractual arrangements to allocate the net defined benefit cost for these schemes, measured in accordance with IAS 19, to individual businesses, it is the Group's policy to allocate this cost fully to the

Accounting policies (continued)

main trading companies. The Company therefore recognises a pension expense in the income statement equal to its contributions payable in the year. Full disclosure of the Group's pension schemes is given in the Aviva plc Annual Report and Accounts 2019.

(FF) Business transfer to subsidiaries

The Part VII Transfer made during the year is considered to meet the definition of business combinations under common control which are outside of the scope of the requirements of *IFRS 3 Business Combinations*. The value of assets and liabilities transferred has been determined using their predecessor values (i.e. the previous carrying value of the assets and liabilities).

Income statement

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Income	3		
Gross written premiums		**6,276**	5,421
Premiums ceded to reinsurers		**(3,219)**	(2,871)
Premiums written net of reinsurance		**3,057**	2,550
Net change in provision for unearned premiums		**(250)**	(33)
Net earned premiums	H & L	**2,807**	2,517
Fee and commission income, net of reinsurance	I	**18**	20
Net investment income	J	**309**	165
		3,134	2,702
Expenses	4		
Claims and benefits paid, net of recoveries from reinsurers	K	**(1,205)**	(1,670)
Change in insurance liabilities, net of reinsurance	K	**(768)**	162
Fee and commission expense, net of reinsurance		**(682)**	(657)
Other expenses, net of reinsurance		**(258)**	(250)
		(2,913)	(2,415)
Profit for the year before tax		**221**	287
Tax charge	CC & 8	**(111)**	(42)
Profit for the year after tax		**110**	245

The accounting policies (identified alphabetically) on pages 17 to 26 and notes (identified numerically) on pages 32 to 80 are an integral part of the financial statements.

Statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Profit for the year after tax		**110**	245
Other comprehensive income:			
Items that may be reclassified subsequently to income statement:			
Foreign exchange rate movements	E	**—**	1
Total other comprehensive income, net of tax		**—**	1
Total comprehensive income for the year		**110**	**246**

The accounting policies (identified alphabetically) on pages 17 to 26 and notes (identified numerically) on pages 32 to 80 are an integral part of the financial statements.

Statement of changes in equity

For the year ended 31 December 2019

	Note	Ordinary Share Capital £m	Capital contribution reserve £m	Special Reserve £m	Retained earnings £m	Total equity 2019 £m
Balance at 1 January		**204**	**—**	**111**	**2,463**	**2,778**
Adjustment at 1 January for adoption of IFRS16		**—**	**—**	**—**	**(38)**	**(38)**
Balance at 1 January restated		**204**	**—**	**111**	**2,425**	**2,740**
Profit for the year		**—**	**—**	**—**	**110**	**110**
Total comprehensive income for the year		**—**	**—**	**—**	**110**	**110**
Dividends paid	9	**—**	**—**	**—**	**(439)**	**(439)**
Capital contribution received on acquisition of a subsidiary	20	—	**233**	—	—	**233**
Balance at 31 December		**204**	**233**	**111**	**2,096**	**2,644**

	Note	Ordinary Share Capital £m	Capital contribution reserve £m	Special Reserve £m	Retained earnings £m	Total equity 2018 £m
Balance at 1 January		204	—	111	2,609	2,924
Profit for the year		—	—	—	245	245
Other comprehensive income		—	—	—	1	1
Total comprehensive income for the year		—	—	—	246	246
Dividends paid	9	—	—	—	(392)	(392)
Balance at 31 December		204	—	111	2,463	2,778

The accounting policies (identified alphabetically) on pages 17 to 26 and notes (identified numerically) on pages 32 to 80 are an integral part of the financial statements.

Statement of financial position
As at 31 December 2019

	Note	2019 £m	2018 £m
Assets			
Goodwill and intangible assets	M & 10	**137**	251
Investments in subsidiaries	C & 11	**1,736**	1,274
Investments in associates	D & 11	**45**	155
Property and equipment	N & 12	**70**	24
Investment property	O & 13	**414**	380
Financial investments	R & 16	**3,866**	3,906
Reinsurance assets	L & 23	**5,034**	4,924
Receivables	S & 17	**3,746**	3,880
Deferred acquisition costs	Y & 18	**569**	546
Prepayments and accrued income	18	**129**	149
Deferred tax assets	CC & 24	**64**	99
Cash and cash equivalents	Z & 31	**487**	571
Total assets		**16,297**	16,159
Equity			
Ordinary share capital	DD & 19	**204**	204
Other reserves	20	**344**	111
Retained earnings	21	**2,096**	2,463
Total equity		**2,644**	2,778
Liabilities			
Gross insurance liabilities	K & 22	**8,412**	8,298
Provisions	BB & 25	**16**	15
Current tax liabilities	CC & 24	**16**	18
Payables and other financial liabilities	T & 27	**4,470**	4,285
Other liabilities	28	**739**	765
Total liabilities		**13,653**	13,381
Total equity and liabilities		**16,297**	16,159

The financial statements on pages 27 to 80 were approved by the Board of Directors on 7 April 2020 and signed on its behalf by S Maillet:

Director

The accounting policies (identified alphabetically) on pages 17 to 26 and notes (identified numerically) on pages 32 to 80 are an integral part of the 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 operating activities	31(a)	**543**	586
Tax paid		**(22)**	(16)
Total net cash generated from operating activities		**521**	570
Cash flows from investing activities			
General insurance business transfer - additions to subsidiary undertaking	1,11(a)	**(177)**	—
Additions to subsidiary undertaking	11(a)	**(20)**	(5)
Additions to associate undertakings	11(a)	**(258)**	(127)
Capital contribution received	11(b)	**233**	—
Total net cash used in investing activities		**(222)**	(132)
Cash flows from financing activities			
Dividends paid to ordinary shareholders		**(397)**	(334)
Total net cash used in financing activities		**(397)**	(334)
Total net (decrease)/increase in cash and cash equivalents		**(98)**	104
Cash and cash equivalents at 1 January		**272**	168
Cash and cash equivalents at 31 December	31(b)	**174**	272

The accounting policies (identified alphabetically) on pages 17 to 26 and notes (identified numerically) on pages 32 to 80 are an integral part of the financial statements.

Notes to the financial statements

1. General insurance business transfer

On 1 February 2019, a subset of the Company's general insurance business, and relevant assets and liabilities, were transferred to Aviva Insurance Ireland Designated Activity Company ("AIIDAC") by way of an insurance business transfer under part VII of the Financial Services and Markets Act 2000.

The assets and liabilities transferred were as follows:

	Note	Total £m
Assets		
Goodwill	10	96
Financial investments		65
Reinsurance assets	23	6
Receivables		894
Deferred acquisition costs	18	37
Prepayments and accrued income		19
Cash and cash equivalents		108
Total assets		**1,225**
Liabilities		
Gross insurance liabilities	22	988
Provisions	25	8
Payables and other financial liabilities		8
Other liabilities		44
Total liabilities		**1,048**
Total net assets transferred		**177**

All assets and liabilities were transferred at carrying value. Financial assets and liabilities were transferred at fair value and insurance liabilities were transferred at a value consistent with IFRS 4.

The Company received ordinary shares with a nominal value of €15 million, issued by AIIDAC to the Company, in part consideration for the net assets transferred. The net assets transferred of £177 million are treated as capital contributions by AIIDAC and shown as an addition to the Company's investment in subsidiaries in note 11.

On 1 February 2019, following the general business transfer, the Company entered into an inwards quota share reinsurance arrangement with AIIDAC in consideration of a premium of £807 million receivable by the Company from AIIDAC. The immediate impact of this transaction on the Company's Statement of Financial Position at this date is as follows:

	Note	Total £m
Assets		
Deferred acquisition costs		28
Liabilities		
Gross claims provisions	22	(636)
Gross provision for unearned premium		(199)
Premium receivable by the Company from AIIDAC		**(807)**

Refer to note 36(a)(vii) for further details.

2. Exchange rates

Assets and liabilities have been translated at the following year end rates:

	2019	2018
Euro	**1.1802**	1.1141
US Dollar	**1.3247**	1.2736
Canadian Dollar	**1.7179**	1.7395

Notes to the financial statements (continued)

3. Details of income

	Note	2019 £m	2018 £m
Gross written premiums	22(d)	**6,276**	5,421
Less: premiums ceded to reinsurers	23(c)(ii)	**(3,219)**	(2,871)
Gross change in provision for unearned premiums	22(d)	**(283)**	(81)
Reinsurers' share of change in provision for unearned premiums	23(c)(ii)	**33**	48
Net change in provision for unearned premiums		**(250)**	(33)
Net earned premiums		**2,807**	2,517
Reinsurance commissions receivable		**3**	2
Other fee income		**15**	18
Fee and commission income		**18**	20
Total revenue		**2,825**	2,537
Interest and similar income			
From investments designated as trading and other than trading		**(105)**	73
Dividend income from equity securities		**33**	30
		(72)	103
Income from Group undertakings			
Dividend income		**187**	107
Net interest income		**86**	88
		273	195
Other income from investments designated as trading			
Realised losses on disposals		**(65)**	(25)
Unrealised gains		**3**	14
		(62)	(11)
Other income from investments designated as other than trading			
Realised (losses)/gains on disposals		**(20)**	71
Unrealised gains/(losses)		**175**	(214)
		155	(143)
Net income from investment properties			
Rent		**18**	15
Fair value gains on investment properties	13	**3**	8
		21	23
Impairment reversal on loans		**—**	1
Other investment expenses		**(6)**	(3)
Net investment income		**309**	165
Total income		**3,134**	2,702

Premiums ceded to reinsurers include £2,808 million *(2018: £2,517 million)* premiums ceded in respect of a quota share reinsurance arrangement with Aviva International Insurance Limited ("AIIL") (see note 36(a)(v)).

Notes to the financial statements (continued)

4. Details of expenses

	Note	2019 £m	2018 £m
Claims & benefits paid			
Claims and benefits paid to policyholders	22(b)(iv)	**3,295**	3,502
Less: Claim recoveries from reinsurers	23(c)(i)	**(2,090)**	(1,832)
Claims and benefits paid, net of recoveries from reinsurers		**1,205**	1,670
Change in insurance liabilities			
Change in insurance liabilities	22(b)(iv)	**863**	(449)
Change in reinsurance asset for insurance provisions	23(c)(i)	**(95)**	287
Change in insurance liabilities, net of reinsurance		**768**	(162)
Fee and commission expense, net of reinsurance			
Acquisition costs			
Commission expenses		**1,172**	1,063
Change in deferred acquisition costs	18	**(60)**	2
Other acquisition costs		**253**	249
Less: Fee and commission expense ceded to reinsurers		**(683)**	(657)
		682	657
Other expenses			
Impairment of investments in subsidiaries	11	**103**	46
Amortisation of intangible assets	10	**37**	32
Pension deficit funding		**59**	70
Operating lease costs		**—**	21
Net foreign exchange (losses)/gains		**(45)**	12
Other expenses		**292**	269
Less: Other expenses ceded to reinsurers		**(188)**	(200)
		258	250
Total expenses		**2,913**	2,415

Change in insurance liabilities net of reinsurance includes a loss of £23 million *(2018: gain of £95 million)* relating to the movement in the discount rate used for estimating lump sum payments in settlement of bodily injury claims (see note 22(b)(iii)). Net claims and benefits paid and change in insurance liabilities include £1,878 million *(2018: £1,595 million)* claims recoveries in respect of a quota share reinsurance arrangement with AIIL (see note 36(a)(v)).

5. Employee information

The Company has no employees (*2018: none*). The majority of staff engaged in the activities of the Company are employed by fellow subsidiary undertakings of Aviva plc: Aviva Employment Services Limited and Aviva Group Services Ireland Limited. Disclosures relating to employee remuneration and the average number of persons employed are made in the financial statements of these companies respectively. The Company is recharged with the costs of the staff provided by these companies.

Notes to the financial statements (continued)

6. Directors' remuneration

Mr Briggs, Ms Cooper, Mr Holmes, Ms Maillet, Mr Townend and Mr Windsor were all remunerated by Aviva Employment Services Limited, a fellow subsidiary of Aviva plc. Ms Cooper was remunerated for her services to the Group as a whole. She was not remunerated for her service as director of the Company and the amount of time spent performing her duties is incidental to her role across the Group. This is consistent with prior years.

Messrs Briggs and Windsor were directors of Aviva plc during the year and their emoluments are disclosed in that company's annual report and accounts.

Mr Briggs', Mr Holmes', Ms Maillet's, Mr Townend's and Mr Windsor's remuneration is disclosed within the aggregate of key management compensation in note 36.

The fees for Mr Burns, Mr Clark, Ms Gooding, Mr O'Roarke, Mr Patel, Mr Rochez and Mr Scott are paid for and borne by the Company. In addition, Ms Gooding, Mr O'Roarke and Mr Patel received fees in respect of their services as Non-Executive Directors of Aviva Life and Pensions UK Limited, and Mr Clark received fees in respect of his services as a Non-Executive Director of Aviva UK Digital Limited, which are also subsidiaries of Aviva plc, and these are disclosed in the financial statements of those companies.

The emoluments in respect of Mr Briggs, Mr Burns, Ms Gooding, Mr Holmes, Ms Maillet, Mr O'Roarke, Mr Patel, Mr Rochez, Mr Scott, Mr Townend and Mr Windsor are shown in the table below:

	2019 **£'000**	2018 £'000
Aggregate emoluments	**3,247**	4,006
Company pension contributions to a money purchase scheme	**5**	2
	3,252	4,008

Where directors had multiple directorships and their services as a director for the Company were not incidental to their roles across the Group, it is not possible to accurately apportion their emoluments to individual companies. The emoluments of these directors reported in the above table are in respect of qualifying services performed for the Group, which may also be disclosed within the financial statements of other Group companies.

Pension contributions consist of employer contributions into the money purchase section of the Aviva Staff Pension Scheme, excluding salary exchange contributions made by the employees, plus payments in lieu of pension above the lifetime or annual allowance caps.

During the year, one of the directors *(2018: one)* accrued retirement benefits under money purchase pension schemes in respect of qualifying services.

During the year, two of the directors *(2018: none)* exercised share options, and six of the directors *(2018: five)* were granted shares under long term incentive schemes in relation to shares of the Company's ultimate parent company, Aviva plc.

The details of the highest paid director are as follows:

	2019 **£'000**	2018 £'000
Aggregate emoluments	**787**	1,631

During the year the highest paid director exercised share options and received shares under long-term incentive schemes.

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 £'000	2018 £'000
Fees payable to PwC LLP for the statutory audit of the Company's financial statements	**2,178**	1,989
Audit related assurance	**231**	244
	2,409	2,233

Fees payable for audit-related assurance services include fees in relation to the audit of the Solvency II, the Employers Liability Register and the Motor Insurers Bureau of Ireland regulatory returns for 2019 and 2018.

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 and audit-related assurance services of the Company and other Group undertakings are disclosed in the consolidated financial statements of Aviva plc.

Audit fees are payable by Aviva Central Services UK Limited, a fellow Group company, and recharged as appropriate to the Company and fellow Group companies.

8. Tax expense

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	2019 £m	2018 £m
Current tax		
For this year	**(16)**	(24)
Prior period adjustments	**(52)**	1
Total current tax	**(68)**	(23)
Deferred tax		
Origination and reversal of temporary differences	**(43)**	(19)
Total deferred tax	**(43)**	(19)
Total tax charged to the income statement	**(111)**	(42)
United Kingdom tax	**(100)**	(37)
Overseas tax	**(11)**	(5)
	(111)	(42)

(ii) No unrecognised tax losses or temporary differences of previous years were used to reduce current tax expense and deferred tax expense in either 2019 or 2018

(iii) Following recent developments in the ongoing litigation concerning the taxation of historic EU dividends, the Company has reduced the amount expected to be recovered by way of group relief by £54 million, and this is included within the prior year tax charge to the income statement above.

Notes to the financial statements (continued)

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

	2019 £m	2018 £m
Insurance items	**4**	4
Unused losses and tax credits	**(40)**	(19)
Provisions and other temporary differences	**(6)**	1
Accelerated capital allowances	**(1)**	(1)
Pensions and other post retirement obligations	**—**	(4)
Total deferred tax charged to the income statement	**(43)**	(19)

(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 before tax differs from the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

	Note	2019 £m	2018 £m
Total profit before tax		**221**	287
Tax calculated at standard UK corporation tax rate of 19.00% (2018: 19.00%)		**(42)**	(55)
Adjustment in respect of prior years		**(52)**	(2)
Non-assessable income		**40**	22
Disallowable expenses		**(19)**	(10)
Different local basis of tax on overseas profits		**(8)**	3
Movement in unprovided deferred tax		**(30)**	—
Tax charge for the year	8(a)(i)	**(111)**	(42)

The 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.

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 £9 million.

9. Dividends

	Note	2019 £m	2018 £m
Ordinary dividends declared and charged to equity in the year:			
Interim dividend – £19,250 per share, declared in February 2018		**—**	392
Interim dividend – £17,611 per share, declared in February 2019		**359**	—
Interim dividend – £3,929 per share, declared in August 2019		**80**	—
	36(a)(x)	**439**	392

Interim ordinary dividends of £359 million were settled in February 2019, of which £317 million was settled in cash and £42 million was set-off against accrued interest due on the Company's loan to AGH (refer note 36). Further interim ordinary dividends of £80m were settled in cash in August 2019.

Further interim ordinary dividends of £224 million were declared and settled in February 2020, of which £182 million was settled in cash and £42 million set-off against accrued interest due on the Company's loan to AGH. In accordance with accounting policy DD the interim ordinary dividends settled in February 2020 are recognised in the 2020 accounting period.

Notes to the financial statements (continued)

10. Goodwill and intangible assets

	Note	Goodwill £m	Intangible assets £m	Total £m
Gross amount				
At 1 January 2018		98	224	322
Additions and transfers		—	33	33
Foreign exchange rate movements		1	—	1
At 31 December 2018		**99**	**257**	**356**
Additions and transfers		**—**	**22**	**22**
General insurance business transfer	1	**(96)**	**—**	**(96)**
Foreign exchange rate movements		**(3)**	**—**	**(3)**
At 31 December 2019		**—**	**279**	**279**
Accumulated amortisation				
At 1 January 2018		—	(73)	(73)
Amortisation for the year	4	—	(32)	(32)
At 31 December 2018		**—**	**(105)**	**(105)**
Amortisation for the year	4	**—**	**(37)**	**(37)**
At 31 December 2019		**—**	**(142)**	**(142)**
Carrying amount				
At 1 January 2018		98	151	249
At 31 December 2018		99	152	251
At 31 December 2019		**—**	**137**	**137**

Goodwill historically arose on acquisitions of insurance businesses. Goodwill was transferred to AIIDAC on 1 February 2019 as part of the general insurance business transfer (refer note 1).

Intangible assets consist primarily of costs relating to Guidewire, a policy administration and claims handling system, costs relating to Guidewire are being amortised over 10 years.

Notes to the financial statements (continued)

11. Investments in subsidiaries and associates

(a) Movements in the Company's investments in its subsidiaries and associates

		2019		2018	
		Subsidiaries	**Associates**	Subsidiaries	Associates
	Note	**£m**	**£m**	£m	£m
Cost at 1 January		**1,274**	**155**	1,315	28
General insurance business transfer	1	**177**	**—**	—	—
Additions	11(b)(ii)	**20**	**258**	5	127
Impairments	11(b)(iii)	**(71)**	**(32)**	(46)	—
Reclassification of associate undertaking to subsidiary undertaking	11(b)(iv)	**336**	**(336)**	—	—
Cost at 31 December		**1,736**	**45**	1,274	155

(b) Material movements

(i) General insurance business transfer to subsidiary undertaking

The capital contributions made by the Company to its subsidiary AIIDAC referred to in note 1 resulted in an increase in the Company's investment in AIIDAC of £177 million. The Company received ordinary shares with a nominal value of €15 million, issued by AIIDAC to the Company, in part consideration for the capital contribution.

(ii) Additions

The £278 million *(2018: £132 million)* of additions in the year comprise:

- On 31 January 2019 the Company acquired 81% of the issued share capital of Neos Ventures for £9 million and made a further cash investment of £2 million in November 2019 which increased the Company's holding to 91%;
- In February 2019 the Company made a further acquisition of the share capital of Aviva UK Digital Limited ("UKD") for cash consideration of £25 million *(2018: £90 million)* which increased the Company's holding to 31% *(2018: 28%)*;
- In June 2019 the Company made a further investment of £9 million cash in AIIDAC during the year. At 31 December 2019 the Company held 100% of the share capital of AIIDAC *(2018: 100%);*
- In December 2019, the Company acquired the remaining shares in UKD from its immediate parent Aviva Group Holdings Limited ("AGH") by way of a capital contribution of £233 million which increased the Company's holding to 100% *(2018: 28%)*.

(iii) Impairments

Net impairments of £103 million (*2018: £46 million*) comprise:

- Partial impairment of £71 million of the cost of the Company's investments in two subsidiaries following the receipt by the Company of dividends of £75m from them during 2019;
- Partial impairment of £32 million of the cost of the Company's investment in UKD prior to the acquisition of the remaining shares in UKD by way of a capital contribution referred to under additions above.

(iv) Reclassification of associate undertaking to subsidiary undertaking

In December 2019, following the acquisition by the Company of the remaining share in UKD, the Company's investment in UKD was reclassified from associate undertaking to subsidiary undertaking.

(c) Related undertakings

Refer to note 37 for details of all related undertakings

Notes to the financial statements (continued)

12. Property and equipment

	Owner-occupied properties £m	Other assets £m	Total £m
Cost or valuation			
At 1 January 2018	23	2	25
31 December 2018	**23**	**2**	**25**
Adjustment at 1 January for adoption of IFRS16	**405**	**—**	**405**
1 January 2019	**428**	**2**	**430**
Revaluation loss	**(2)**	**—**	**(2)**
31 December 2019	**426**	**2**	**428**
Depreciation and impairment			
At 1 January 2018	—	(1)	(1)
At 31 December 2018	—	(1)	(1)
Adjustment at 1 January for adoption of IFRS16	**(345)**	**—**	**(345)**
1 January 2019	**(345)**	**(1)**	**(346)**
Charge for the year	**(12)**	**—**	**(12)**
At 31 December 2019	**(357)**	**(1)**	**(358)**
Carrying amount			
At 1 January 2018	23	1	24
At 31 December 2018	23	1	24
At 31 December 2019	**69**	**1**	**70**

Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers. These valuations are assessed in accordance with the relevant parts of the current Royal Institute of Charted Surveyors Appraisal and Valuation Standards in the UK, and with current local valuation practices in other countries. This assessment is in accordance with UK Valuations Standards ("Red book"), and is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, on the basis of the highest and best use of the asset that is physically possible, legally permissible and financial feasible. The valuation assessment adopts market-based evidence and is in line with guidance from the International Valuation Standards Committee and the requirements of IAS 16, *Property, Plant and Equipment*.

If owner-occupied properties were stated on a historical cost basis, the carrying amount would be £26 million *(2018: £26 million)*.

Notes to the financial statements (continued)

13. Investment property

(a) Carrying amounts

	Note	2019 £m	2018 £m
Carrying value			
At 1 January		**380**	324
Additions		**49**	52
Capitalised expenditure on existing properties		**4**	—
Fair values gains	3	**3**	8
Disposals		**(22)**	(4)
At 31 December		**414**	380

Please refer to accounting policy F "Fair value measurement" for further information on the fair value measurement and valuation techniques of investment property.

The fair value of investment properties leased to third parties under operating leases at 31 December 2019 was £414 million *(2018: £380 million)*. Further contractual aggregate minimum lease rentals receivable under the non-cancellable portion of these leases are given in note 14.

Notes to the financial statements (continued)

14. 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:

- £60 million owner-occupied property assets, included within property and equipment (see note 12);
- £8 million deferred tax assets (see note 24);
- £11 million provisions for dilapidations, included within provisions (see note 25); and
- £95 million lease liabilities, included within payables and other financial liabilities (see note 27).

The Company's leased assets primarily consist of properties occupied by the Company (see note 12) and leasehold investment properties (see note 13) which are sublet to third parties. Leasehold investment properties are measured in accordance with IAS 40 Investment Property (see accounting policy O) and there have been no changes to their classification or measurement arising from the adoption of IFRS 16.

Although the Company is exposed to changes in the residual value at the end of the current leases, to third parties on investment property, the Company typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties.

(i) Total interest expense included in the income statement in respect of lease liabilities is £2 million. Total cash outflows recognised in the year in relation to leases were £19 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.

(ii) The following table analyses the right of use assets relating to leased properties occupied by the Company.

		2019
	Property and equipment	Total
	£m	£m
Balance at 1 January	**60**	**60**
Depreciation	**(11)**	**(11)**
Balance at 31 December	**49**	**49**

Included within the income statement are income of £2 million in respect of sublets of right of use assets.

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

	2019	2018
	£m	£m
Within 1 year	**22**	27
Later than 1 year and not later than 5 years	**60**	85
Later than 5 years	**—**	7
Total undiscounted lease liabilities	**82**	119

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.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

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

	2019	2018
	£m	£m
Within 1 year	28	25
Later than 1 year and not later than 5 years	86	93
Later than 5 years	169	197
Total lease rentals receivable	283	315

Notes to the financial statements (continued)

15. Fair value methodology

(a) Basis for determining fair value hierarchy of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the 'fair value hierarchy' described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company can access at the measurement date.

Level 2

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include the following:

- quoted prices for similar assets and liabilities in an active market;
- quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly;
- inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads); and
- market-corroborated inputs.

Where broker quotes are used and no information as to the observability of inputs is provided by the broker, the investments are classified as follows:

- where the broker price is validated by using internal models with market observable inputs and the values are similar, the investment is classified as Level 2; and
- in circumstances where internal models are not used to validate broker prices, or the observability of inputs used by brokers is unavailable, the investment is classified as Level 3.

Level 3

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability. Examples are certain private equity investments and private placements.

The majority of the Company's assets and liabilities measured at fair value are based on quoted market information or observable market data. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. Third-party valuations using significant unobservable inputs validated against Level 2 internally modelled valuations are classified as Level 3, where there is a significant difference between the third-party price and the internally modelled value. Where the difference is insignificant, the instrument would be classified as Level 2.

(b) Changes to valuation techniques

No changes were made to the valuation techniques during the year compared to those described in the Company's 2018 annual report and financial statements.

(c) Comparison of the carrying amount and fair values of financial instruments

The fair value of all the Company's financial investments, investment properties, deposits received from insurers and derivative liabilities is equal to their carrying amounts. The fair value of the following assets and liabilities approximate to their carrying amounts:

- Receivables
- Prepayments and accrued income
- Cash and cash equivalents
- Payables and other financial liabilities
- Other liabilities

As set out in accounting policy A, the Company has chosen to defer application of IFRS 9 due to its activities being predominantly connected with insurance. To facilitate comparison with entities applying IFRS 9 in full, the table below analyses the Company's financial instruments as at the reporting date between those which are considered to have contractual terms which are solely payments of principal and interest ("SPPI") on the principal amount outstanding (excluding instruments held for trading or managed and evaluated on a fair value basis), and all other instruments not falling into this category.

Notes to the financial statements (continued)

	Note			2019			2018
		SPPI - Fair value	**Non-SPPI - fair value**	**Total**	SPPI - Fair value	Non-SPPI - fair value	Total
Financial assets							
Debt securities	16	**—**	**2,273**	**2,273**	—	2,488	2,488
Equity security investments	16	**—**	**744**	**744**	—	634	634
Derivative assets	16 & 34	**—**	**151**	**151**	—	82	82
Other investments	16	**—**	**698**	**698**	—	702	702
Receivables	17	**3,148**	**598**	**3,746**	3,322	558	3,880
Accrued interest	18	**4**	**49**	**53**	—	58	58
Cash and cash equivalents	31	**137**	**350**	**487**	90	481	571
Total		**3,289**	**4,863**	**8,152**	3,412	5,003	8,415

During 2019 there has been a £123 million decrease *(2018: £130 million decrease)* in the fair value of SPPI instruments, and a £140 million decrease *(2018: £464 million decrease)* in the fair value of non-SPPI instruments.

Instruments that do not meet the SPPI criteria include financial assets that meet the definition of held for trading, financial assets that are managed and evaluated on a fair value basis, and instruments with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(d) Fair value hierarchy

An analysis of assets and liabilities measured at fair value categorised by fair value hierarchy is given below:

	Note	Level 1 £m	Level 2 £m	Level 3 £m	2019 Total £m
Recurring fair value measurements					
Financial investments		**1,946**	**1,756**	**164**	**3,866**
Debt securities	16	**651**	**1,622**	**—**	**2,273**
Equity security investments	16	**740**	**—**	**4**	**744**
Derivative assets	16 & 34	**17**	**134**	**—**	**151**
Other investments	16	**538**	**—**	**160**	**698**
Investment property	13	**—**	**—**	**414**	**414**
Total		**1,946**	**1,756**	**578**	**4,280**
Financial liabilities					
Deposits received from reinsurers	36 (a)(v)	**(3,080)**	**—**	**—**	**(3,080)**
Derivative liabilities	34	**(4)**	**(221)**	**—**	**(225)**
Total		**(3,084)**	**(221)**	**—**	**(3,305)**

	Note	Level 1 £m	Level 2 £m	Level 3 £m	2018 Total £m
Recurring fair value measurements					
Financial investments		2,094	1,615	197	3,906
Debt securities	16	923	1,565	—	2,488
Equity security investments	16	629	—	5	634
Derivative assets	16 & 34	32	50	—	82
Other investments	16	510	—	192	702
Investment property	13	—	—	380	380
Total		2,094	1,615	577	4,286
Financial liabilities					
Deposits received from reinsurers	36 (a)(v)	(3,165)	—	—	(3,165)
Derivative liabilities	34	(8)	(143)	—	(151)
Total		(3,173)	(143)	—	(3,316)

(e) Transfers between levels of the fair value hierarchy

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting year.

There were no material transfers between levels of the fair value hierarchy during 2019 *(2018: none)*.

(f) Valuation approach for fair value assets and liabilities classified as Level 2

Refer to note 15 (a) for a description of typical Level 2 inputs.

Debt securities, in line with market practice, are generally valued using an independent pricing service. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, sale price reviews and variance analysis. Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing services providers are used, a single valuation is obtained and applied. When prices are not available from pricing services, quotes are sourced from brokers. Over-the-counter derivatives are valued using broker quotes or models such as option pricing models, simulation models or a combination of models. The inputs for these models include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of the underlying instruments.

Unit Trusts and other investment funds included under the other investments category are valued using net asset values which are not subject to a significant adjustment for restrictions on redemption or for limited trading activity.

Notes to the financial statements (continued)

(g) Further information on Level 3 financial instruments

The table below shows movements in the Level 3 assets and liabilities measured at fair value:

	Equity securities £m	Investment property £m	Other investments £m
Balance at 1 January 2019	**5**	**380**	**192**
Total net gains / (losses) recognised in the income statement	**(1)**	**4**	**(5)**
Purchases	**—**	**52**	**26**
Disposals	**—**	**(22)**	**(53)**
Balance at 31 December 2019	**4**	**414**	**160**

	Equity securities £m	Investment property £m	Other investments £m
Balance at 1 January 2018	5	324	153
Purchases	—	52	27
Disposals	—	(4)	—
Transfers from fellow subsidiaries	—	8	12
Balance at 31 December 2018	5	380	192

The table below shows the sensitivity of the fair value of Level 3 investments to changes in unobservable inputs to a reasonable alternative:

					2019
	Fair value £m	**Most significant unobservable inputs**	**Reasonable change**	**Positive impact £m**	**Negative impact £m**
Investment property	414	Estimated rental yields	+10%/-10%	**+21**	**-21**
Other investments	160	Market multiples applied to net asset values	+/- 0.2 x	**+2**	**-7**

					2018
	Fair value £m	Most significant unobservable inputs	Reasonable change	Positive impact £m	Negative impact £m
Investment property	380	Estimated rental yields	+5%/-5%	+20	-20
Other investments	192	Estimated rental yields	+5%/-5%	+1	-3

The principal investments classified as Level 3, and the valuation techniques applied to them, are:

Investment in property

In the UK, investment property is valued at least annually by external chartered surveyors in accordance with guidance issued by The Royal Institution of Chartered Surveyors, and using estimates during the intervening period. Fair values are determined using an income method, by which own lease agreement cash flows are adjusted for anticipated uplifts, and discounted by rates implied by recent market transactions for similar properties where available.

Other investments

Unit Trusts and other investment funds including property funds are valued based on external valuation reports received from fund managers.

Notes to the financial statements (continued)

16. Financial investments

(a) Carrying amount

Financial investments comprise:

	2019			2018		
	At fair value through profit or loss			At fair value through profit or loss		
	Trading	**Other than trading**	**Total**	Trading	Other than trading	Total
	£m	**£m**	**£m**	£m	£m	£m
Fixed maturity securities						
Debt securities						
UK Government	**—**	**752**	**752**	—	1,024	1,024
Non-UK Government	**—**	**548**	**548**	—	431	431
Corporate	**—**	**973**	**973**	—	1,033	1,033
	—	**2,273**	**2,273**	—	2,488	2,488
Equity securities						
Ordinary shares						
Industrial miscellaneous and all other	**—**	**744**	**744**	—	634	634
	—	**744**	**744**	—	634	634
Other investments						
Unit trusts and other investment vehicles	**—**	**698**	**698**	—	702	702
Derivative financial instruments	**151**	**—**	**151**	82	—	82
	151	**698**	**849**	82	702	784
Total financial investments	**151**	**3,715**	**3,866**	82	3,824	3,906

	2019	2018
	£m	£m
Expected to be recovered in less than one year	**881**	927
Expected to be recovered in more than one year	**2,985**	2,979
	3,866	3,906

(b) Cost, unrealised gains and fair value

The following is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments.

	2019				2018			
	Cost/ amortised cost	**Unrealised gains**	**Unrealised losses and impairments**	**Fair value**	Cost/ amortised cost	Unrealised gains	Unrealised losses and impairments	Fair value
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Fixed maturity securities	**2,124**	**182**	**(33)**	**2,273**	2,393	139	(44)	2,488
Equity securities	**700**	**48**	**(4)**	**744**	700	—	(66)	634
Unit trusts and other investment vehicles	**725**	**19**	**(46)**	**698**	761	28	(87)	702
Derivative financial instruments	**82**	**91**	**(22)**	**151**	19	63	—	82
	3,631	**340**	**(105)**	**3,866**	3,873	230	(197)	3,906

All unrealised gains and losses and impairments on financial investments classified as fair value through profit or loss have been recognised in the income statement.

Unrealised gains and losses on financial investments classified as at fair value through profit or loss, recognised in the income statement in the year, were a net gain of £235 million *(2018: £33 million net gain)*. Of this net gain, £166 million net gain *(2018: £30 million net loss)* related to investments designated as other than trading and £69 million net gain *(2018: £63 million net gain)* related to financial investments designated as trading.

The movement in the unrealised gain/loss position reported in the statement of financial position during the year, shown in the table above, includes transfers due to the realisation of gains and losses on disposal and the recognition of impairment losses.

(c) Impairment of financial investments

There were no impairments in 2019 *(2018: £nil)*.

Notes to the financial statements (continued)

17. Receivables

	Note	2019 £m	2018 £m
Amounts owed by contract holders		**923**	901
Amounts owed by intermediaries		**529**	559
Amounts due from reinsurers		**23**	50
Group relief receivable		**142**	189
Amounts due from parent	36(a)(x)	**58**	60
Amounts due from subsidiaries and associates	36(a)(x)	**162**	136
Amounts due from other Group companies	36(a)(x)	**9**	68
Loans due from parent	36(a)(iii)	**1,268**	1,319
Loans due from subsidiaries	36(a)(iii)	**483**	477
Amounts receivable for cash collateral pledged		**115**	81
Other receivables		**34**	40
Total as at 31 December		**3,746**	3,880
Expected to be recovered in less than one year		**1,903**	1,945
Expected to be recovered in more than one year		**1,843**	1,935
		3,746	3,880

Concentrations of credit risk with respect to receivables, external to the Group, are limited due to the size and spread of the Company's trading base. No further credit risk provision is therefore required in excess of provisions already recognised for doubtful receivables.

18. Deferred acquisition costs, prepayments and accrued income

(a) The carrying amount comprises:

	2019 £m	2018 £m
Deferred acquisition costs	**569**	546
Prepayments and accrued income	**129**	149
Total as at 31 December	**698**	695

(b) The movement in deferred acquisition cost during the year are:

	Note	2019 £m	2018 £m
Carrying amount at 1 January		**546**	548
Acquisition costs deferred during the year		**1,251**	1,150
Amortisation		**(1,191)**	(1,152)
General insurance business transfer	1	**(37)**	—
Total as at 31 December		**569**	546

Deferred acquisition costs are generally recoverable within one year of the statement of financial position date.

(c) Prepayments and accrued income

Prepayments and accrued income are expected to be recovered within one year of the statement of financial position date.

Notes to the financial statements (continued)

19. Ordinary share capital

	2019 £m	2018 £m
Allotted, called up and fully paid		
20,364 (2018: 20,364) ordinary shares of £10,000 each	**204**	204

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.

20. Other reserves

	Note	Capital contribution reserve £m	Special reserve £m	Total other reserves £m
Balance at 1 January 2018		—	111	111
Balance at 31 December 2018		**—**	**111**	**111**
Capital contribution received on acquisition of a subsidiary	36(a)(iii)	**233**	**—**	**233**
Balance at 31 December 2019		**233**	**111**	**344**

Capital contribution reserve

In December 2019, the Company acquired the remaining 69% of the share capital of Aviva UK Digital Limited, that the Company did not already hold, from its immediate parent Aviva Group Holdings Limited ("AGH") by way of a capital contribution received from AGH of £233 million. This reserve is non-distributable.

Special reserve

On 31 December 2007, the Company's parent at the time, AIIL transferred its entire shareholding in Aviva Insurance UK Limited at its fair value of £1,348 million to the Company. The consideration was satisfied by the issue of new shares in the Company with the nominal value of £1,237 million to AIIL, and the establishment of a special reserve of £111 million under the group reconstruction relief provisions of section 611 of the Companies Act 2006. Following the transfer of the assets and liabilities of Aviva Insurance UK Limited to the Company in November 2011, this reserve is distributable.

21. Retained earnings

	Note	2019 £m	2018 £m
At 1 January		**2,463**	2,609
Adjustment at 1 January for adoption of IFRS16		**(38)**	—
Balance at 1 January restated		**2,425**	2,609
Profit for the year		**110**	245
Dividends paid	9	**(439)**	(392)
Foreign exchange rate movements		**—**	1
Balance at 31 December		**2,096**	2,463
Distributable		**1,756**	2,053
Non-distributable		**340**	410
Balance at 31 December		**2,096**	2,463

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to insurance companies imposed by the PRA. Its ability to transfer retained earnings to its parent company is therefore restricted to the extent these earnings exceed regulatory capital requirements.

Notes to the financial statements (continued)

22. Insurance liabilities

(a) Carrying amount:

(i) Insurance liabilities (gross of reinsurance) at 31 December comprised:

	2019 £m	2018 £m
Outstanding claims provisions	**4,525**	4,650
Provision for claims incurred but not reported	**1,294**	1,088
Provision arising from liability adequacy test	**15**	16
	5,834	5,754
Provision for unearned premiums	**2,578**	2,544
Total	**8,412**	8,298

(b) General insurance and health liabilities

(i) Provisions for outstanding claims

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date. The reserves for general insurance and health business are based on information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses (LAE) in respect of all claims that have already occurred. The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported and associated LAE.

The Company only establishes loss reserves for losses that have already occurred. The Company therefore does not establish catastrophe equalisation reserves that defer a share of income in respect of certain lines of business from years in which a catastrophe does not occur to future periods in which catastrophes may occur. When calculating reserves, the Company takes into account estimated future recoveries from salvage and subrogation, and a separate asset is recorded for expected future recoveries from reinsurers after considering their collectability. The future recoveries from salvage and subrogation offset against reserves is £116 million *(2018: £130 million)*.

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims requires booked claims provisions to be calculated as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty.

(ii) Discounting

Outstanding claims provisions are based on undiscounted estimates of future claim payments, except for the following classes of business for which discounted provisions are held:

Class	Rate		Mean term of liabilities	
	2019	2018	2019	2018
Latent claims	**0.8% to 1.1%**	1.1% to 1.6%	**12 years**	13 years
Structured settlements	**1.2% to 2.6%**	1.5% to 3.0%	**35 years**	37 years
Reinsured London Market business	**0.8% to 2.1%**	1.1% to 1.6%	**9 years**	10 years

The gross outstanding claims provision before discounting was £6,310 million *(2018: £6,441 million)*. The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims.

The discount rates used in determining latent claim liabilities, structured settlements and reinsured London Market business is based on the relevant swap curve in the relevant currency having regard to the expected settlement dates of the claims. The range of discount rates used is given in the table above and depends on the duration of the claims and the reporting date. The rate used for discounting structured settlements includes a small illiquidity premium, reflecting the long term nature of these liabilities. This illiquidity premium means structured settlements are discounted at a higher rate than other liabilities that are discounted.

At 31 December 2019, it is estimated that a 1% fall in the discount rates used would increase net claim reserves by approximately £53 million *(2018: £44 million)*, excluding the offsetting effect on asset values as assets are not hypothecated across classes of business.

(iii) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set by skilled claims technicians and established case setting procedures. Claims technicians apply their experience and knowledge to the circumstances of individual claims. They take into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections. Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim. Claims above certain limits are referred to senior claims handlers for estimate authorisation.

No adjustments are made to the claims technicians' case estimates included in booked claim provisions, except for rare occasions when the estimated ultimate cost of individual large or unusual claims may be adjusted, subject to internal reserve committee approval, to allow for uncertainty regarding, for example, the outcome of a court case. The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as

Notes to the financial statements (continued)

the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate.

Claims development is separately analysed for each geographic area, as well as each line of business. Certain lines of business are also further analysed by claim type or type of coverage. In addition, large claims are usually separately assessed, either by being reserved at the face value of loss adjuster estimates, or separately projected in order to reflect their future development.

The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved. The range of possible outcomes does not, however, result in the quantification of a reserve range. The following explicit assumptions are made which could materially impact the level of booked net reserves:

Allowance for risk and uncertainty

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims requires all non-life businesses to calculate booked claim provisions as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty. The allowance for risk and uncertainty is calculated in accordance with the requirements of the Company reserving policy, taking into account the risks and uncertainties specific to each line of business and type of claim in that territory. The requirements of the Company reserving policy also seek to ensure that the allowance for risk and uncertainty is set consistently across reporting periods.

Lump sum payments in settlement of bodily injury claims decided by the UK courts are calculated in accordance with the Ogden Tables and discount rate. The Ogden discount rate is set by the Lord Chancellor in accordance with the Damages Act 1996 and is applied when calculating the present value of future care costs and loss of earnings for claims settlement purposes.

Following the announcement of the Lord Chancellor on 15 July 2019 to increase the Ogden discount rate from the minus 0.75% set in 2017 to minus 0.25%, balance sheet reserves were calculated using a discount rate of minus 0.25% at 31 December 2019 *(0.00% at 31 December 2018)*. This has resulted in a strengthening of claims reserves of £23 million (net of reinsurance) *(2018: release of £95 million net of reinsurance)*. The Ogden discount rate is expected to be reviewed by the Lord Chancellor within five years.

(iv) Movements

The following movements have occurred in the claims provisions during the year:

	Note	2019 £m	2018 £m
Carrying amount at 1 January		**5,754**	6,186
Impact of changes in assumptions		**160**	(49)
Claim losses and expenses incurred in the current year		**3,436**	3,434
Current year claims received from the reinsurance inwards with AIIDAC	1	**18**	—
Increase/(decrease) in estimated claims losses and expenses incurred in prior periods		**(74)**	(332)
Claims received from the reinsurance inwards with AIIDAC relating to prior periods	1	**618**	—
Incurred claims losses and expenses		**4,158**	3,053
Less:			
Payments made on claims incurred in the current year		**(1,840)**	(1,903)
Payments made on claims incurred in the prior year		**(1,455)**	(1,599)
Claims payments made in the year	4	**(3,295)**	(3,502)
Unwind of discount		**16**	8
Changes in claims reserve recognition as expense/(income)		**879**	(441)
Foreign exchange rate movements		**(47)**	8
General insurance business transfer	1	**(752)**	—
Carrying amount at 31 December		**5,834**	5,754

Notes to the financial statements (continued)

(c) Loss development tables

(i) Analysis of general insurance and health claims development

The tables that follow present the development of claim payments and the estimated ultimate cost of claims for the accident years 2010 to 2019. The upper half of the tables shows the cumulative amounts paid during successive years related to each accident year. For example, (including the development prior to 1 February 2019 of both the claims reserves transferred to AIIDAC under the general insurance business transfer (note 1) and the claims reserves retained by the Company), with respect to the accident year 2010, by the end of 2019, £3,137 million had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £3,164 million was re-estimated to be £3,230 million at 31 December 2019.

The original estimates increase or decrease, as more information becomes known about the individual claims and overall claim frequency and severity.

The Company aims to maintain reserves in respect of its general insurance business that protect against adverse future claims experience and development. The Company establishes reserves in respect of the current accident year (2019), where the development of claims is less mature, that allow for the greater uncertainty attaching to the ultimate cost of current accident claims. As claims develop and the ultimate cost of claims becomes more certain, the absence of adverse claims experience will result in a release of reserves from earlier accident years, as shown in the loss development tables and movements table in note (c)(ii) and (c)(iii) below. Releases from prior accident year reserves are also due to an improvement in the estimated cost of claims.

Key elements of the release from prior accident year general insurance and health net provisions during 2019 were:

- Favourable development of large and attritional injury claims for Personal Motor and Commercial Motor business;
- These releases have partially been offset by the adverse development of large Commercial Property claims.

Key elements of the release from prior accident year general insurance and health net provisions during 2018 were:

- Impact of change in the Ogden discount rate assumption use for estimating lump sum settlements of bodily injury claims from -0.75% to 0% of £95m net of reinsurance, refer to note (b)(iii) above;
- Favourable development of large personal injury claims for personal motor and commercial motor.

The loss development tables in respect of the claims payments and the estimated ultimate cost of claims both including and excluding the development, prior to 1 February 2019, of the claims reserves transferred to AIIDAC and the immediate impact of the claims reserves received by the Company from the inwards quota share reinsurance arrangement with AIIDAC (refer note 1) are as follows:

Notes to the financial statements (continued)

(ii) Gross of reinsurance

The loss development table below includes the development prior to 1 February 2019, of both the claims reserves transferred to AIIDAC under the general insurance business transfer (note 1) and the claims reserves retained by the Company, and excludes the immediate impact of the claims reserves received by the Company from the inwards quota share reinsurance arrangement with AIIDAC:

Accident year	All prior years	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Gross cumulative claim payments												
At end of accident year		(1,593)	(1,572)	(1,636)	(1,637)	(1,648)	(1,617)	(1,683)	(1,746)	(1,903)	(1,841)	
One year later		(2,471)	(2,303)	(2,315)	(2,258)	(2,243)	(2,353)	(2,357)	(2,395)	(2,565)		
Two years later		(2,715)	(2,548)	(2,591)	(2,473)	(2,459)	(2,632)	(2,595)	(2,605)			
Three years later		(2,885)	(2,704)	(2,749)	(2,623)	(2,629)	(2,815)	(2,757)				
Four years later		(3,002)	(2,846)	(2,897)	(2,773)	(2,804)	(2,932)					
Five years later		(3,077)	(2,920)	(3,009)	(2,896)	(2,903)						
Six years later		(3,117)	(2,976)	(3,056)	(2,946)							
Seven years later		(3,124)	(3,010)	(3,088)								
Eight years later		(3,132)	(3,032)									
Nine years later		(3,137)										
Estimate of gross ultimate claims												
At end of accident year		3,164	3,121	3,290	3,145	3,051	3,198	3,325	3,254	3,434	3,436	
One year later		3,221	3,104	3,200	3,068	2,990	3,318	3,335	3,231	3,457		
Two years later		3,211	3,108	3,206	3,069	3,118	3,315	3,291	3,234			
Three years later		3,236	3,116	3,212	3,146	3,118	3,240	3,248				
Four years later		3,230	3,136	3,236	3,117	3,049	3,216					
Five years later		3,255	3,119	3,217	3,082	3,037						
Six years later		3,274	3,134	3,179	3,058							
Seven years later		3,267	3,107	3,163								
Eight years later		3,242	3,099									
Nine years later		3,230										
Estimate of gross ultimate claims		3,230	3,099	3,163	3,058	3,037	3,216	3,248	3,234	3,457	3,436	
Cumulative payments		(3,137)	(3,032)	(3,088)	(2,946)	(2,903)	(2,932)	(2,757)	(2,605)	(2,565)	(1,841)	
Gross outstanding claims provisions	2,054	93	67	75	112	134	284	491	629	892	1,595	6,426
Effect of discounting	(435)	(25)	(14)	(6)	(11)	—	—	—	—	—	—	(491)
Present value including claims provisions transferred to AIIDAC and excluding inwards reinsurance from AIIDAC	1,619	68	53	69	101	134	284	491	629	892	1,595	5,935
Claims provisions transferred to AIIDAC (note 1)	(39)	(15)	(19)	(29)	(32)	(41)	(72)	(118)	(145)	(219)	(23)	(752)
Claims provisions received from the inwards reinsurance with AIIDAC (note 1)	37	13	16	24	27	35	59	101	124	182	18	636
Present value recognised in the statement of financial position	**1,617**	**66**	**50**	**64**	**96**	**128**	**271**	**474**	**608**	**855**	**1,590**	**5,819**

Notes to the financial statements (continued)

(ii) Gross of reinsurance (continued)

The loss development table below, excludes the development prior to 1 February 2019 of the claims reserves transferred to AIIDAC under the general insurance business transfer (note 1) and includes the immediate impact of the claims reserves received by the Company from the inwards quota share reinsurance arrangement with AIIDAC in the latest year of development:

Accident year	All prior years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Gross cumulative claim payments												
At end of accident year		(1,487)	(1,487)	(1,564)	(1,564)	(1,550)	(1,547)	(1,593)	(1,651)	(1,795)	(1,838)	
One year later		(2,281)	(2,164)	(2,199)	(2,144)	(2,114)	(2,242)	(2,231)	(2,251)	(2,449)		
Two years later		(2,498)	(2,383)	(2,444)	(2,337)	(2,308)	(2,496)	(2,442)	(2,459)			
Three years later		(2,640)	(2,514)	(2,575)	(2,465)	(2,447)	(2,654)	(2,602)				
Four years later		(2,731)	(2,634)	(2,701)	(2,594)	(2,606)	(2,770)					
Five years later		(2,786)	(2,693)	(2,798)	(2,700)	(2,703)						
Six years later		(2,814)	(2,731)	(2,836)	(2,749)							
Seven years later		(2,813)	(2,755)	(2,866)								
Eight years later		(2,816)	(2,776)									
Nine years later		(2,821)										
Estimate of gross ultimate claims												
At end of accident year		2,810	2,824	3,018	2,902	2,817	2,974	3,060	2,958	3,117	3,428	
One year later		2,864	2,821	2,926	2,838	2,756	3,070	3,035	2,918	3,304		
Two years later		2,864	2,816	2,955	2,847	2,873	3,076	3,012	3,067			
Three years later		2,896	2,838	2,966	2,916	2,872	3,004	3,076				
Four years later		2,898	2,863	2,984	2,883	2,806	3,041					
Five years later		2,924	2,843	2,966	2,851	2,831						
Six years later		2,940	2,859	2,928	2,856							
Seven years later		2,933	2,832	2,936								
Eight years later		2,910	2,840									
Nine years later		2,912										
Estimate of gross ultimate claims		2,912	2,840	2,936	2,856	2,831	3,041	3,076	3,067	3,304	3,428	
Cumulative payments		(2,821)	(2,776)	(2,866)	(2,749)	(2,703)	(2,770)	(2,602)	(2,459)	(2,449)	(1,838)	
Gross outstanding claims provisions	2,052	91	64	70	107	128	271	474	608	855	1,590	6,310
Effect of discounting	(435)	(25)	(14)	(6)	(11)	—	—	—	—	—	—	(491)
Present value recognised in the statement of financial position	**1,617**	**66**	**50**	**64**	**96**	**128**	**271**	**474**	**608**	**855**	**1,590**	**5,819**

Notes to the financial statements (continued)

(iii) Net of reinsurance

The loss development table below includes the development prior to 1 February 2019, of both the claims reserves transferred to AIIDAC under the general insurance business transfer (note 1) and the claims reserves retained by the Company, and excludes the immediate impact of the claims reserves received by the Company from the inwards quota share reinsurance arrangement with AIIDAC:

Accident year	All prior years	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net cumulative claim payments												
At end of accident year		(1,555)	(1,567)	(1,633)	(1,614)	(1,556)	(1,517)	(830)	(871)	(947)	(902)	
One year later		(2,408)	(2,293)	(2,285)	(2,201)	(2,083)	(1,866)	(1,146)	(1,182)	(1,167)		
Two years later		(2,645)	(2,530)	(2,547)	(2,396)	(2,182)	(1,993)	(1,257)	(1,210)			
Three years later		(2,810)	(2,681)	(2,691)	(2,470)	(2,266)	(2,079)	(1,274)				
Four years later		(2,914)	(2,816)	(2,764)	(2,545)	(2,346)	(2,100)					
Five years later		(2,982)	(2,854)	(2,820)	(2,598)	(2,374)						
Six years later		(3,001)	(2,882)	(2,842)	(2,605)							
Seven years later		(3,011)	(2,899)	(2,843)								
Eight years later		(3,015)	(2,900)									
Nine years later		(3,010)										
Estimate of net ultimate claims												
At end of accident year		3,105	3,107	3,260	3,091	2,829	2,946	1,624	1,597	1,693	1,676	
One year later		3,151	3,084	3,157	2,952	2,781	2,328	1,629	1,574	1,707		
Two years later		3,141	3,093	3,119	2,944	2,507	2,320	1,596	1,582			
Three years later		3,144	3,069	3,113	2,697	2,502	2,286	1,582				
Four years later		3,120	3,060	2,919	2,676	2,467	2,280					
Five years later		3,126	2,924	2,903	2,659	2,462						
Six years later		3,061	2,932	2,891	2,647							
Seven years later		3,058	2,924	2,877								
Eight years later		3,055	2,918									
Nine years later		3,047										
Estimate of net ultimate claims		3,047	2,918	2,877	2,647	2,462	2,280	1,582	1,582	1,707	1,676	
Cumulative payments		(3,010)	(2,900)	(2,843)	(2,605)	(2,374)	(2,100)	(1,274)	(1,210)	(1,167)	(902)	
Net outstanding claims provisions	286	37	18	34	42	88	180	308	372	540	774	2,679
Effect of discounting	(51)	(7)	1	—	2	—	—	—	—	—	—	(55)
Present value including claims provisions transferred to AIIDAC and excluding inwards reinsurance from AIIDAC	235	30	19	34	44	88	180	308	372	540	774	2,624
Claims provisions transferred to AIIDAC (note 1)	(43)	(15)	(19)	(29)	(32)	(41)	(70)	(118)	(145)	(213)	(21)	(746)
Claims provisions received from the inwards reinsurance with AIIDAC (note 1)	19	7	8	12	13	17	29	51	62	91	9	318
Present value recognised in the statement of financial position	**211**	**22**	**8**	**17**	**25**	**64**	**139**	**241**	**289**	**418**	**762**	**2,196**

Notes to the financial statements (continued)

(iii) Net of reinsurance (continued)

The loss development table below, excludes the development prior to 1 February 2019 of the claims reserves transferred to AIIDAC under the general insurance business transfer (note 1) and includes the immediate impact of the claims reserves received by the Company from the inwards quota share reinsurance arrangement with AIIDAC in the latest year of development:

Accident year	All prior years £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Total £m
Net cumulative claim payments												
At end of accident year		(1,449)	(1,482)	(1,561)	(1,541)	(1,458)	(1,447)	(740)	(776)	(840)	(899)	
One year later		(2,218)	(2,162)	(2,169)	(2,087)	(1,954)	(1,755)	(1,020)	(1,038)	(1,052)		
Two years later		(2,428)	(2,373)	(2,400)	(2,260)	(2,031)	(1,856)	(1,104)	(1,064)			
Three years later		(2,567)	(2,499)	(2,518)	(2,313)	(2,084)	(1,920)	(1,119)				
Four years later		(2,645)	(2,614)	(2,570)	(2,367)	(2,148)	(1,940)					
Five years later		(2,693)	(2,634)	(2,611)	(2,403)	(2,174)						
Six years later		(2,700)	(2,644)	(2,624)	(2,409)							
Seven years later		(2,702)	(2,651)	(2,623)								
Eight years later		(2,701)	(2,651)									
Nine years later		(2,696)										
Estimate of net ultimate claims												
At end of accident year		2,754	2,813	2,991	2,848	2,597	2,725	1,359	1,302	1,383	1,661	
One year later		2,797	2,815	2,883	2,722	2,547	2,083	1,329	1,261	1,470		
Two years later		2,794	2,809	2,868	2,723	2,262	2,084	1,317	1,353			
Three years later		2,808	2,801	2,868	2,468	2,257	2,053	1,360				
Four years later		2,790	2,797	2,669	2,443	2,225	2,079					
Five years later		2,797	2,658	2,654	2,429	2,238						
Six years later		2,729	2,664	2,642	2,432							
Seven years later		2,726	2,656	2,640								
Eight years later		2,725	2,658									
Nine years later		2,725										
Estimate of net ultimate claims		2,725	2,658	2,640	2,432	2,238	2,079	1,360	1,353	1,470	1,661	
Cumulative payments		(2,696)	(2,651)	(2,623)	(2,409)	(2,174)	(1,940)	(1,119)	(1,064)	(1,052)	(899)	
Net outstanding claims provisions	262	29	7	17	23	64	139	241	289	418	762	2,251
Effect of discounting	(51)	(7)	1	—	2	—	—	—	—	—	—	(55)
Present value recognised in the statement of financial position	**211**	**22**	**8**	**17**	**25**	**64**	**139**	**241**	**289**	**418**	**762**	**2,196**

In the loss development tables shown above, the cumulative claim payments and estimates of cumulative claims for each accident year are translated into sterling at the exchange rates that applied at the end of that accident year. Disposals are dealt with by treating all outstanding and incurred by not reported claims of the disposed entity as ‘paid’ at the date of disposal.

The loss development tables above include information on asbestos and environmental pollution claims provisions from business written before 2008. The undiscounted claim provisions, net of reinsurance, in respect of this business at 31 December 2019 were £62 million *(2018: £62 million).*

Notes to the financial statements (continued)

(d) Provision for unearned premium

The following changes have occurred in the provision for unearned premiums during the year:

	Note	2019 £m	2018 £m
Carrying amount at 1 January		**2,544**	2,462
Premiums written during the year	3	**6,276**	5,421
Less: Premiums earned during the year		**(5,993)**	(5,340)
Changes in UPR recognised as an expense	3	**283**	81
Foreign exchange rate movements		**(13)**	1
General insurance business transfer	1	**(236)**	—
Carrying amount at 31 December		**2,578**	2,544

23. Reinsurance assets

(a) Carrying amounts

The reinsurance assets at 31 December comprised:

	2019 £m	2018 £m
Outstanding claims provisions	**2,605**	2,687
Provision for claims incurred but not reported	**1,018**	852
Provisions for liability adequacy	**7**	8
	3,630	3,547
Provisions for unearned premiums	**1,404**	1,377
Total at 31 December	**5,034**	4,924
Expected to be recovered in less than one year	**1,729**	1,783
Expected to be recovered in more than one year	**3,305**	3,141
	5,034	4,924

The reinsurers' share of outstanding claims provisions and provisions for claims incurred but not reported is reduced by £436 million *(2018: £621 million)* as a result of the discounting of latent claims and structured settlements.

(b) Assumptions

The assumptions, including discount rates, used for reinsurance contracts follow those used for insurance contracts. Reinsurance assets are valued net of an allowance for their recoverability.

Notes to the financial statements (continued)

(c) Movements

The following movements have occurred in the reinsurance assets during the year:

(i) Reinsurers' share of claims provisions

	Note	2019 £m	2018 £m
Carrying amount at 1 January		**3,547**	3,822
Impact of changes in economic assumptions		**146**	(52)
Reinsurers' share of claim losses and expenses			
Incurred in current year (excluding reinsurance on current year claims received from the inwards reinsurance with AIIDAC)		**1,736**	1,741
On current year claims received from the inwards reinsurance with AIIDAC		**9**	—
Incurred in prior years (excluding reinsurance on prior year claims received from the inwards reinsurance with AIIDAC)		**(15)**	(144)
On claims received from the inwards reinsurance with AIIDAC relating to prior years		**309**	—
Reinsurers' share of incurred claim losses and expenses		**2,185**	1,545
Less:			
Reinsurance recoveries received on claims			
Incurred in current year		**(939)**	(956)
Incurred in prior years		**(1,151)**	(876)
Reinsurance recoveries received in the year	4	**(2,090)**	(1,832)
Unwind of discount		**15**	8
Change in reinsurance asset recognised as income/(expense)		**110**	(279)
Foreign exchange rate movements		**(21)**	4
General insurance business transfer	1	**(6)**	—
Carrying amount at 31 December		**3,630**	3,547

(ii) Reinsurers' share of the provision for unearned premiums

	Note	2019 £m	2018 £m
Carrying amount as at 1 January		**1,377**	1,329
Premiums ceded to reinsurers in the year	3	**3,219**	2,871
Less: Reinsurers' share of premiums earned during the year		**(3,186)**	(2,823)
Changes in reinsurers' share of provisions for unearned premium recognised in income	3	**33**	48
Foreign exchange rate movements		**(6)**	—
Carrying amount at 31 December		**1,404**	1,377

Notes to the financial statements (continued)

24. Tax assets and liabilities

(a) Current tax

Current tax liabilities are £16 million, payable in less than one year *(2018: £18 million)*.

(b) Group relief

The Group relief asset of £142 million *(2018: £189 million)* comprises £nil expected to be receivable in less than one year *(2018: £7 million)* and £142 million expected to be recoverable in more than one year *(2018: £196 million)*. Further details are included within related party transactions (note 36).

(c) Deferred tax

(i) The balance at the year end comprises:

	2019 £m	2018 £m
Unused losses and tax credits	**80**	120
Accelerated capital allowances	**2**	3
Temporary differences arising on insurance items	**(8)**	(12)
Provisions and other temporary differences	**(5)**	(8)
Pensions and other post retirement obligations	**(5)**	(4)
Net deferred tax asset	**64**	99

(ii) The movement in the net deferred tax asset was as follows:

	Note	2019 £m	2018 £m
Net deferred tax asset at 1 January		**99**	118
Adjustment at 1 January for adoption of IFRS16		**8**	—
Amounts charged to the income statement	8(a)(i)	**(43)**	(19)
Net deferred tax asset at 31 December		**64**	99

Deferred tax assets are recognised to the extent that realisation of the related tax benefit through future taxable profits is probable. Due to the uncertainty over their recoverability no asset has been recognised in respect of unused tax losses of £465 million *(2018: £nil)* which are available to carry forward against future taxable income.

The Company has unrecognised capital losses of £232 million *(2018: £223 million)* to carry forward indefinitely against future taxable income.

Notes to the financial statements (continued)

25. Provisions

(a) Carrying amounts

	2019 £m	2018 £m
Restructuring provisions	**5**	7
Other provisions	**11**	8
Total provisions	**16**	15

Restructuring provisions relate to ongoing programmes in the UK and Ireland. Other provisions for 2019 relate to provisions for dilapidations under leases (refer to note 14). Other provisions for 2018 largely comprise onerous contract provisions.

(b) Movements in restructuring and other provisions

	2019			2018		
	Restructuring provisions £m	Other provisions £m	Total £m	Restructuring provisions £m	Other provisions £m	Total £m
At 1 January	**7**	**8**	**15**	9	8	17
Additional provisions	**2**	**11**	**13**	—	—	—
Unused amounts reversed	**(4)**	**—**	**(4)**	—	—	—
Utilised during the year	**—**	**—**	**—**	(2)	—	(2)
General insurance business transfer	**—**	**(8)**	**(8)**	—	—	—
At 31 December	**5**	**11**	**16**	7	8	15

	2019 £m	2018 £m
Expected to be settled in less than one year	**5**	6
Expected to be settled in more than one year	**11**	9
	16	15

26. Pension obligations

(a) Introduction

The Group operates a number of defined benefit and defined contribution pension schemes. Staff whose costs are recharged to the Company are either members of the Aviva Staff Pension Scheme in the UK, or the Aviva Ireland Staff Defined Contribution Plan in the Republic of Ireland. They receive benefits on either a defined benefit or a defined contribution basis. New entrants join the defined contribution section of the schemes, as the defined benefit sections for both schemes are now closed.

Full details of the Group's pension arrangements are given in note 52 of the Aviva plc Annual Report and Accounts 2019.

(b) Charges to the income statement

The total costs of pension schemes recharged to the Company gross of reinsurance were:

	2019 £m	2018 £m
Defined benefit scheme	**59**	70
Defined contribution scheme	**29**	36
Total pension costs	**88**	106

There were no significant contributions outstanding or prepaid as at either 31 December 2019 or 2018.

Notes to the financial statements (continued)

27. Payables and other financial liabilities

	Note	2019 £m	2018 £m
Payables arising out of direct insurance		**81**	94
Payables arising out of reinsurance operations		**111**	72
Bank overdrafts	31(b)	**313**	299
Derivative liabilities	34	**225**	151
Obligations for repayment of cash collateral received		**40**	8
Amounts due to subsidiaries	36(a)(x)	**160**	126
Amounts due to other Group companies	36(a)(x)	**3,163**	3,247
Loans due to parent	36(a)(iv)	**279**	276
Other payables		**19**	12
Lease liabilities		**79**	—
Total as at 31 December		**4,470**	4,285
Expected to be settled within one year		**2,042**	1,965
Expected to be settled in more than one year		**2,428**	2,320
		4,470	4,285

28. Other liabilities

	2019 £m	2018 £m
Deferred income	**31**	35
Reinsurers' share of deferred acquisition costs	**291**	278
Accruals	**200**	238
Other liabilities	**217**	214
Total as at 31 December	**739**	765
Expected to be settled within one year	**739**	765
Total as at 31 December	**739**	765

29. Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 22 gives details of the estimation techniques used in determining the general business outstanding claims provisions. These approaches are designed to allow for a degree prudence, to give a result within the normal range of outcomes. However, the actual cost of settling these liabilities may differ, for example because experience may be worse than that assumed, or future general insurance business claims inflation may differ from that expected, and hence there is uncertainty in respect of these liabilities.

(b) Asbestos, pollution and social environmental hazards

In the course of conducting insurance business, the Company receives general insurance liability claims, and becomes involved in actual or threatened litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling in the United Kingdom. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty. However, on the basis of current information having regard to the level of provisions made for general insurance claims and substantial reinsurance cover now in place, the directors consider that any additional costs arising are not likely to have a material impact on the financial position of the Company.

(c) Regulatory compliance

The FCA and the PRA regulate and authorise the Company's UK business and in addition monitor the financial resources and organisation of the Company as a whole. The PRA and FCA have broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation; to investigate marketing and sales practices; and to require the maintenance of adequate financial resources. The Company's regulators outside the UK typically have similar powers, but in some cases they also operate a system of 'prior product approval'.

The directors believe that the Company dedicates appropriate resources to its compliance programme, endeavours to respond to regulatory enquiries in a constructive way, and takes corrective action when warranted. However, all regulated financial services companies face the risk that the regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required.

The impact of any such finding could have a negative impact on the Company's reported results or on its relations with current or potential customers. Regulatory action against the Company could result in adverse publicity for, or negative perceptions regarding, the Company, or could have a material adverse effect on the business of the Company, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

Notes to the financial statements (continued)

(d) Other

In the course of conducting insurance and investment business, the Company receives liability claims, and becomes involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect.

In addition, in line with standard business practice, the Company has given guarantees, indemnities and warranties in connection with disposals in recent years of subsidiaries and associates. In the opinion of the directors, no material loss will arise in respect of these guarantees, indemnities and warranties. There are a number of charges registered over the assets of the Company in favour of other Group companies or third parties.

The Company has guaranteed the property-related obligations of certain other Group companies. In the opinion of the directors, no material loss will arise in respect of these guarantees.

The Company pays contributions to levy schemes in several countries in which it operates. Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties. The directors continue to monitor the situation but are not aware of any need to increase provisions at the statement of financial position date.

30. Commitments

Capital commitments

Contractual commitments for acquisitions or capital expenditures of investment property which have not been recognised in the financial statements, are as follows:

	2019 **£m**	2018 £m
Investment property	**—**	—
Other investment vehicles	**—**	(40)
	—	(40)

At 31 December 2019 other investment vehicles include no unfunded capital commitments *(2018: £40 million to property unit trusts)*.

Notes to the financial statements (continued)

31. Statement of cash flows

(a) The reconciliation of profit before tax to the net cash [in / (out)] flow from operating activities is:

	Note	2019 £m	2018 £m
Profit before tax		**221**	287
Adjustments for:			
Profit/(loss) on the sale of:			
Investments	3	**85**	(46)
Fair value (gains)/losses on:			
Investment property	3	**(3)**	(8)
Investments	3	**(178)**	200
Impairment of subsidiaries	4	**103**	46
Impairment of property and equipment		**2**	—
Depreciation of property and equipment	12	**12**	—
Amortisation of:			
Premium / discount on debt securities		**14**	21
Intangibles		**37**	32
Unwind of discount	22(b)(iv), 23(c)(i)	**1**	—
Foreign currency exchange losses		**—**	(1)
Change in economic assumptions on net claims reserves	22(b)(iv), 23(c)	**14**	3
Impairment reversal on loans	3	**—**	(1)
		87	246
Changes in working capital:			
Decrease in reinsurance assets		**24**	187
Increase in deferred acquisition costs and prepayments		**(25)**	(44)
Decrease in insurance liabilities		**(1)**	(319)
Decrease in other assets and liabilities		**(73)**	(145)
		(75)	(321)
Net disposals/(purchases) of operating assets:			
Net purchases of investment property	13	**(31)**	(48)
Net disposals of financial investments		**245**	416
Disposals of loans		**—**	6
General insurance business transfer - disposal of goodwill	1	**96**	—
		310	374
Total cash generated from operating activities		**543**	586

Purchases and sales of investment property and financial investments are included in operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of payments of related claims.

The changes in working capital reflect the impact of the general insurance business transfer referred to in note 1.

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

	Note	2019 £m	2018 £m
Cash at bank and in hand		**96**	70
Cash equivalents		**391**	501
		487	571
Bank overdrafts	27	**(313)**	(299)
		174	272

Notes to the financial statements (continued)

32. Capital structure

The Company maintains an efficient capital structure from equity shareholders' funds, consistent with the Company's overall risk profile and the regulatory and market requirements of the business. This note describes the way the Company manages capital and shows how this is structured.

(a) General

IFRS underpins the Company's capital structure and accordingly the capital structure is analysed on this basis. The Company measures its capital requirements under the Solvency II regime.

(b) Capital management

In managing its capital, the Company seeks to:

(i) match the profile of its assets and liabilities, taking account of the risks inherent in the business;
(ii) maintain financial strength to support new business growth and satisfy the requirements of its policyholders and regulators;
(iii) retain financial flexibility by maintaining strong liquidity; and
(iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate.

The Company considers not only traditional sources of capital funding but alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital.

(c) Different measures of capital

The Company measures its capital on a number of different bases. These include measures which comply with the regulatory regime within which the Company operates and those which the directors consider appropriate for the management of the business. The measures which the Company uses are:

(i) Accounting basis

The Company is required to report its results on an IFRS basis.

(ii) Regulatory basis

Relevant capital and solvency regulations are used to measure and report the Company's financial strength. These measures are based on the regulatory requirements under Solvency II. The regulatory capital tests verify that the Company retains an excess of solvency capital above the required minimum level calculated using a risk-based capital model. The risk management note (note 33) gives further details.

Solvency II "own funds" represents the amount of regulatory capital resources that are available to meet regulatory capital requirements under the Solvency II regime, and is a closely monitored metric. At 31 December 2019 the Company's estimated own funds under Solvency II were £2.1 billion *(2018: £2.0 billion)*. The Company's own funds are sufficient to meets its capital requirements under Solvency II. The Company fully complied with the relevant regulatory requirements during the year.

(d) Company capital structure

	2019	2018
	£m	£m
Equity shareholders' funds	**2,644**	2,778
Subordinated debt	**279**	276
Total capital	**2,923**	3,054

Notes to the financial statements (continued)

33. 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, and is aligned to the Group's risk management framework. The key elements of the risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes the Company uses to identify, measure, manage, monitor and report ("IMMMR") risks, including the use of risk models and stress and scenario testing.

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, general insurance (including short-term health) 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. They may also affect the performance of the products the Company delivers to its customers and the service to its customers and distributors, which can be categorised as risks to brand and reputation or as conduct risk.

To promote a consistent and rigorous approach to risk management across the business, the Company has a set of risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Company's operations. The Chief Executive Officer makes an annual declaration that the system of governance and internal controls was effective and fit for purpose for the Company throughout the year; this declaration is supported by an opinion from the Chief Risk Officer.

A regular top-down key risk identification and assessment process is carried out by the Risk Function. This includes the consideration of emerging risks and is supported by deeper thematic reviews. The Company also operates a risk and control self-assessment process. The risk assessment processes are used to generate risk reports which are shared with the relevant committees.

Risk models are an important tool in the measurement of risks and are used in conjunction with other assessment processes to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. The Company carries out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged. For those risk types managed through the holding of capital, being the Company's principal risk types except for liquidity risk, the Company measures and monitors its risk profile on the basis of the Solvency II solvency capital requirement ("SCR").

Roles and responsibilities for risk management in the Company are based around the 'three lines of defence model' where ownership for risk is taken at all levels. Line management in the business is accountable for risk management, including the implementation of the risk management framework and embedding of the risk culture. The Risk Function is accountable for quantitative and qualitative oversight and challenge of the IMMMR processes and for developing the risk management framework. Internal Audit provides an independent assessment of the risk management framework and internal control processes.

Board oversight of risk and risk management across the Company is maintained on a regular basis through its Risk Committee, Conduct Committee and Audit Committee. The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. Risk appetites are set relative to capital and liquidity.

The Company's position against risk appetite is monitored and reported to the Board on a regular basis. Long-term sustainability depends upon the protection of franchise value and good customer relationships. As such, the Company has a risk preference that we will not accept risks that materially impair the reputation of the Company and requires that customers are always treated with integrity. The oversight of risk and risk management is supported by the Asset Liability Committee ("ALCO"), which focuses on insurance and financial risks, and the Operational Risk & Conduct Committee ("ORCC"), which focuses on operational, conduct and reputational risks.

Further information on the types and management of specific risk types is given in sections (b) to (j) 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 is also exposed to third party credit quality changes through a range of activities including reinsurance and derivatives.

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. The Company's credit risks arise principally through exposures to debt securities, bank deposits, derivative and securities financing counterparties, insurance and reinsurance counterparties, and Group counterparties to inter-company loans and receivables, and indirectly by guaranteeing the obligations of certain other Group companies (refer to note 29(d) for further information).

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 has significant financial exposure to reinsurance assets and amounts due from fellow Group companies. The credit risk arising from Group counterparties failing to meet all or part of their obligations is considered remote. Due to the nature of the intra-group loans, the level of collateral provided and the fact that these loans are not traded, the Company does not provide for fluctuations in market value caused by changing perceptions of the credit worthiness of such counterparties.

(ii) Financial exposures by credit ratings

Financial assets other than equities are graded according to current external 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. "Not rated" assets capture assets not rated by external ratings agencies. The following table provides information regarding the aggregated credit risk exposure of the Company for financial assets with external credit ratings. The credit quality of receivables and other financial assets is monitored by the Company, and provisions for impairment are made for irrecoverable amounts. In assessing whether assets are impaired, due consideration is given to the factors outlined in accounting policy R.

Notes to the financial statements (continued)

31 December 2019	AAA	AA	A	BBB	Below BBB	Not-rated	Carrying value £m
Debt securities	**539**	**1,048**	**427**	**259**	**—**	**—**	**2,273**
Reinsurance assets	**—**	**3,487**	**65**	**1**	**—**	**77**	**3,630**
Derivative assets	**—**	**—**	**—**	**—**	**—**	**151**	**151**
Other investments	**—**	**—**	**—**	**—**	**—**	**698**	**698**

31 December 2018	AAA	AA	A	BBB	Below BBB	Not-rated	Carrying value £m
Debt securities	446	1,274	455	313	—	—	2,488
Reinsurance assets	—	3,384	60	—	—	103	3,547
Derivative assets	—	—	—	—	—	82	82
Other investments	—	—	—	—	—	702	702

To facilitate comparison with entities applying IFRS 9 in full (refer to accounting policy A and note 15(c)), the table below analyses the Company's financial instruments, which are considered to have contractual terms that are solely payments of principal and interest ("SPPI") on the principal amount outstanding, by credit rating as at the reporting date:

SPPI financial exposure by credit ratings

31 December 2019	AAA £m	AA £m	A £m	BBB £m	Below BBB £m	Not-rated £m	Carrying value £m
Receivables	**—**	**—**	**1,621**	**34**	**4**	**1,489**	**3,148**
Cash and cash equivalents	**—**	**—**	**—**	**—**	**—**	**137**	**137**
Accrued income and interest	**—**	**—**	**—**	**—**	**—**	**4**	**4**

31 December 2018	AAA £m	AA £m	A £m	BBB £m	Below BBB £m	Not-rated £m	Carrying value £m
Receivables	—	—	1,737	38	5	1,542	3,322
Cash and cash equivalents	—	—	—	—	—	90	90

The Company's maximum exposure to credit risk of financial assets, without taking collateral, is represented by the carrying value of the financial instruments in the statement of financial position plus financial guarantees given to other Group companies (note 29(d)). These comprise debt securities, reinsurance assets, derivative assets, other investments, receivables and cash and cash equivalents. The carrying values of these assets are disclosed in the relevant notes: financial investments (note 16), reinsurance assets (note 23), receivables (note 17) and cash and cash equivalents (note 31(b)). The collateral in place for these credit exposures is disclosed in note 35.

(iii) Credit concentration risk

The Company is generally not exposed to significant concentrations of credit risk due to compliance with applicable regulations and the Group credit policy and limits framework, which limit investments in individual assets and asset classes.

The Company is exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The Company operates a policy to manage its reinsurance counterparty exposures, by limiting the reinsurers that may be used and applying strict limits to each reinsurer. Reinsurance exposures are aggregated with other exposures to ensure that the overall risk is within appetite. Exposures are actively monitored with escalation to the Chief Financial Officer, Chief Risk Officer, ALCO and the Risk Committee as appropriate.

(iv) Reinsurance credit exposures

The Company's largest intra-group reinsurance counterparty is AIIL as a result of the quota share reinsurance ceded to AIIL. At 31 December 2019, the reinsurance asset recoverable from AIIL, excluding the unearned premium provision, was £2,109 million *(2018: £2,181 million)*. The credit exposure has been partially mitigated by agreeing to withhold a significant portion of the balance due to AIIL (see note 36(a)(v)).

The Company's largest external reinsurance counterparty is to the Swiss Reinsurance Company Limited (including its subsidiaries and affiliated companies). At 31 December 2019 the reinsurance asset recoverable, excluding the unearned premium provision, is £794 million *(2018: £719 million)*. This exposure is partially collateralised by a portfolio of highly rated assets held by Swiss Re amounting to £206 million *(2018: £206 million).*

(v) Securities finance

The Company has significant securities financing operations. The risks within this activity are mitigated by collateralisation (refer note 35) and minimum counterparty credit quality requirements.

(vi) Derivative credit exposures

The Company is exposed to counterparty credit risk through derivative trades. This risk is mitigated through holding collateral for most trades. Residual exposures are captured within the Company's credit management framework.

(vii) Impairment of financial assets

In assessing whether financial assets carried at amortised cost or classified as available for sale are impaired, due consideration is given to the factors outlined in accounting policy R. The following table provides information regarding the carrying value of financial assets subject to impairment testing that have been impaired and the ageing of those assets that are past due but not impaired.

		Financial assets that are past due but not impaired					
31 December 2019	**Neither past due nor impaired £m**	**0-3 months £m**	**3-6 months £m**	**6 months-1 year £m**	**Greater than 1 year £m**	**Financial assets that have been impaired £m**	**Carrying value £m**
Debt securities	**2,273**	**—**	**—**	**—**	**—**	**—**	**2,273**
Reinsurance assets	**3,630**	**—**	**—**	**—**	**—**	**—**	**3,630**
Derivative assets	**151**	**—**	**—**	**—**	**—**	**—**	**151**
Other investments	**698**	**—**	**—**	**—**	**—**	**—**	**698**
Receivables	**3,678**	**32**	**11**	**10**	**9**	**6**	**3,746**

		Financial assets that are past due but not impaired					
31 December 2018	Neither past due nor impaired £m	0-3 months £m	3-6 months £m	6 months-1 year £m	Greater than 1 year £m	Financial assets that have been impaired £m	Carrying value £m
Debt securities	2,488	—	—	—	—	—	2,488
Reinsurance assets	3,547	—	—	—	—	—	3,547
Derivative assets	82	—	—	—	—	—	82
Other investments	702	—	—	—	—	—	702
Receivables	3,808	7	10	—	—	55	3,880

Receivables includes a loan due from parent of £1,268 million *(2018: £1,319 million*), loans due from subsidiaries of £483 million *(2018: £477 million)* and group relief of £142 million *(2018: £189 million).*

(c) Market risk

Market risk is the risk of adverse financial impact resulting directly or indirectly from fluctuations in interest rates, inflation, foreign currency exchange rates, equity and property prices. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held. The Company seeks some market risks as part of its investment strategy. However, it has limited appetite for interest rate risk because it does not believe interest rate risk is adequately rewarded.

The Company manages market risk using its market risk framework and within regulatory constraints. Market risk is managed in line with established Group policy, including established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

The most material types of market risk that the Company is exposed to are described below.

(i) Equity price risk

The Company is subject to direct equity price risk arising from changes in the market values of its equity securities portfolio.

The Company continues to limit its direct equity exposure in line with its risk preferences. The Company's investment limits and investment regulations require that it holds diversified portfolios of assets thereby reducing exposure to individual equities. The Company does not have material holdings of unquoted equity securities. Equity risk is also managed using a variety of derivative instruments, including futures and options.

Sensitivity of profit and shareholders' equity to changes in equity prices is given in section (g)(ii) 'risk and capital management' below.

(ii) Property price risk

The Company is subject to property price risk directly due to holdings of investment properties in a variety of locations and indirectly through investments in property investment vehicles. Investment in property managed by the Company is subject to regulations on investments, liquidity requirements and the expectations of policyholders.

As at 31 December 2019, no material derivative contracts had been entered into to mitigate the effects of changes in property prices.

Sensitivity of profit before tax and shareholders' equity to changes in property prices is given in section (g)(ii) 'risk and capital management' below.

(iii) Interest rate risk

Interest rate risk arises primarily from the Company's investments in long term debt and fixed interest securities and their movement relative to the value placed on the insurance liabilities. The Company seeks to match assets to liabilities and uses interest rate derivatives to meet its interest rate appetite.

Sensitivity of profit before tax and shareholder funds to changes in interest rates is given in section (g)(ii) 'risk and capital management' below.

(iv) Inflation risk

Inflation risk arises primarily from the Company's exposure to general insurance claims inflation and expense inflation. Increases in long-term inflation expectations are closely linked to long-term interest rates and so are frequently considered with interest rate risk. Exposure to inflation risk is monitored through capital modelling, sensitivity testing and stress and scenario testing. The Company typically manages inflation risk through asset -liability matching and hedging where appropriate in accordance with approved risk appetite.

Notes to the financial statements (continued)

(v) Currency risk

The Company has exposure to currency risk primarily through its investments in Aviva Canada Inc, AIIDAC and its underwriting by Global Corporate & Specialty (GCS) business lines. The Company has a low appetite for currency risk and actively manages the position using derivatives where appropriate.

The Company's total equity deployment by currency (after impact of hedging) is set out below. Where currencies have been hedged using cap or collar derivatives, only the remaining unhedged exposure has been presented. The parameters of caps and collars are managed such that adverse exposure to currency fluctuations on hedged positions is not significant.

31 December 2019	GBP £m	EUR £m	CAD £m	USD £m	Other £m	Total £m
Total equity	**2,101**	**57**	**497**	**32**	**(43)**	**2,644**

31 December 2018	GBP £m	EUR £m	CAD £m	USD £m	Other £m	Total £m
Total equity	2,319	114	389	—	(44)	2,778

(vi) Derivatives risk

Derivatives are used for efficient investment management, and risk hedging purposes. Derivatives are used within policy guidelines agreed by the Board and activity is overseen by the Group Capital and Group Risk teams, which monitor exposure levels and approve large or complex transactions.

The Company applies strict requirements to the administration and valuation processes it uses, and has a control framework that is consistent with market and industry practice for the activity that is undertaken.

(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 through the application of a liquidity risk policy and business standard. The Company monitors its position relative to its agreed liquidity risk appetite.

Maturity analyses

The following tables show the maturities of the Company's insurance liabilities, payables and other financial liabilities, derivative liabilities and accruals. Contractual obligations under operating capital commitments are given in note 30.

(i) Analysis of maturity of financial liabilities and insurance contract liabilities

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

					2019
	Total £m	**On demand or within 1 year £m**	**1-5 years £m**	**5-15 years £m**	**Over 15 years £m**
Insurance liabilities	**5,834**	**1,863**	**2,406**	**831**	**734**
Payables and other financial liabilities, excluding derivatives	**4,245**	**2,030**	**1,471**	**248**	**496**
Derivative liabilities	**225**	**12**	**16**	**37**	**160**
Accruals	**200**	**200**	**—**	**—**	**—**
Total contract liabilities	**10,504**	**4,105**	**3,893**	**1,116**	**1,390**

					2018
	Total £m	On demand or within 1 year £m	1-5 years £m	5-15 years £m	Over 15 years £m
Insurance liabilities	5,754	1,851	2,471	769	663
Payables and other financial liabilities, excluding derivatives	4,134	1,951	1,454	209	520
Derivative liabilities	151	14	13	33	91
Accruals	238	238	—	—	—
Total contract liabilities	10,277	4,054	3,938	1,011	1,274

(ii) Analysis of maturity of financial assets and reinsurance 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. The table also includes the maturity of deposits received from reinsurers that represent the reinsurers' interest in the Company's financial assets / reinsurance assets (excluding reinsurers' share of provision for unearned premium). The Company also has non-financial assets, such as investment property of £414 million *(2018: £380 million)*, for which a maturity analysis has not been provided.

Notes to the financial statements (continued)

					2019
	Total	On demand or within 1 year	1-5 years	Over 5 years	No fixed term
	£m	£m	£m	£m	£m
Debt securities	**2,273**	**107**	**869**	**1,297**	**—**
Equity securities	**744**	**—**	**—**	**—**	**744**
Other investments	**698**	**698**	**—**	**—**	**—**
Derivative assets	**151**	**76**	**8**	**67**	**—**
Reinsurance assets	**3,630**	**325**	**1,839**	**1,466**	**—**
Receivables	**3,746**	**1,903**	**342**	**1,501**	**—**
Cash and cash equivalents	**487**	**487**	**—**	**—**	**—**
Total financial assets	**11,729**	**3,596**	**3,058**	**4,331**	**744**

					2018
	Total	On demand or within 1 year	1-5 years	Over 5 years	No fixed term
	£m	£m	£m	£m	£m
Debt securities	2,488	181	609	1,698	—
Equity securities	634	—	—	—	634
Other investments	702	702	—	—	—
Derivative assets	82	44	3	35	—
Reinsurance assets	3,547	977	1,378	1,192	—
Receivables	3,880	1,945	389	1,546	—
Cash and cash equivalents	571	571	—	—	—
Total financial assets	11,904	4,420	2,379	4,471	634

The reinsurance assets above are analysed using the estimated timing of expected cash flows. The other assets are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company.

(e) General insurance risk

(i) Types of risk

General insurance risk in the Company arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source or cause;
- Inadequate claims reserving assumptions;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten; and
- Inadequate reinsurance protection or other risk transfer techniques.

The Company has a preference for general insurance risk in measured amounts for explicit reward, in line with the Company's core skills in underwriting and pricing. The majority of the general insurance business underwritten by the Company continues to be short-tail in nature such as motor, household and commercial property insurances. The Group's underwriting strategy and appetite is communicated via specific policy statements, related business standards and guidelines. The Company sets its own underwriting strategy, consistent with the Group strategy. Underwriting strategy is communicated to underwriters, with underwriting licences granted to individual underwriters according to competence and experience.

The adequacy of the Company's general insurance claims provisions is overseen by the GI Reserve and Projections Committee. Actuarial claims reserving is conducted by the Company's actuaries, with periodic independent external reviews by consulting actuaries.

The vast majority of the Company's general insurance business is managed and priced in the same country as the domicile of the customer, predominantly in the UK and Ireland.

Reserving processes are further detailed in note 22.

(ii) Management of general insurance risks

The Company has developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of risk appetite. Various methodologies are in place to manage effectively exposures arising from specific perils and the Company analyses accumulations of insurance risk under various headings, including type of business, location, profile of customers and type of claim and uses these analyses to inform underwriting and reserving.

The capital model is used to assess the risks that the Company is exposed to, quantifying their impact and calculating appropriate capital requirements.

The management of insurance risk is overseen by specific senior management committees, namely the ALCO, the Insurance Committee and the GI Reserve and Projections Committee.

(iii) Reinsurance strategy

Significant reinsurance purchases are reviewed annually to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the Company. The basis of these purchases is underpinned by analysis of capital, earnings and capital volatility, cash flow and liquidity. Detailed actuarial analysis is used to calculate the Company's extreme risk profile and then design cost and capital efficient reinsurance programmes to mitigate these

Notes to the financial statements (continued)

risks to within agreed appetites. The Company analyses natural catastrophe exposure using its own internal probabilistic catastrophe model which is benchmarked against external catastrophe models widely used by the rest of the insurance and reinsurance industry.

The Company's largest reinsurance arrangements include a retrospective (both new and existing business) 50% quota share reinsurance arrangement with AIIL, with effect from 1 January 2016, and the reinsurance of most of the Company's UK latent reserves (including mesothelioma, industrial deafness and other long-tail risks) with the Swiss Reinsurance Company Limited, with effect from 1 January 2015.

(f) 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.

(g) Risk and capital management

The Company uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of capital requirements and to manage its capital more efficiently. Risk based capital models are used to support the quantification of risk under the Solvency II framework. Management undertakes a quarterly review of risk, the output from which is a key input into the risk-based capital assessments. Primarily, a risk-based capital model and scenario tests are used. Sensitivities to economic and operating experience are regularly produced on financial performance measurements to inform the Company's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which the Company is exposed.

(i) General insurance and health

General insurance and health liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. As such in the analysis below, the sensitivities of general insurance claims liabilities are primarily based on the financial impact of changes to the reported loss ratio.

(ii) Sensitivity results

Some results of IFRS sensitivity testing for the Company's business are set out below. For each sensitivity the impact of a change in a single factor is shown, with other assumptions left unchanged.

Sensitivity factor	Description of sensitivity factor applied
Interest rates	The impact of a change in market interest rates by ± 1%
Credit spreads	The impact of a 0.5% increase in credit spreads over risk free interest rates on corporate bonds and other non-sovereign credit assets. The test allows for any consequential impact on liability valuations.
Equity/property market values	The impact of a change in equity/property market values by ± 10%
Expenses	The impact of an increase in expenses by 10%
Gross loss ratios	The impact of an increase in gross loss ratios for general insurance business by 5%

The above sensitivity factors are applied using actuarial and statistical models. The impacts are shown in tables below:

Notes to the financial statements (continued)

Impact on profit before tax

31 December 2019	**Interest rates +1%** £m	**Interest rates -1%** £m	**Credit spreads +0.5%** £m	**Equity & property +10%** £m	**Equity & property -10%** £m	**Expenses +10%** £m	**Gross Loss Ratios +5%** £m
Gross of reinsurance	**139**	**(249)**	**(22)**	**127**	**(117)**	**(70)**	**(208)**
Net of reinsurance	**(29)**	**12**	**(11)**	**63**	**(59)**	**(39)**	**(99)**

Impact on shareholders' equity

31 December 2019	**Interest rates +1%** £m	**Interest rates -1%** £m	**Credit spreads +0.5%** £m	**Equity & property +10%** £m	**Equity & property -10%** £m	**Expenses +10%** £m	**Gross Loss Ratios +5%** £m
Gross of reinsurance	**139**	**(249)**	**(22)**	**129**	**(119)**	**(70)**	**(208)**
Net of reinsurance	**(29)**	**12**	**(11)**	**66**	**(61)**	**(39)**	**(99)**

Impact on profit before tax

31 December 2018	Interest rates +1% £m	Interest rates -1% £m	Credit spreads +0.5% £m	Equity & property +10% £m	Equity & property -10% £m	Expenses +10% £m	Gross Loss Ratios +5% £m
Gross of reinsurance	68	(146)	(24)	113	(113)	(70)	(153)
Net of reinsurance	(57)	52	(12)	57	(57)	(37)	(75)

Impact on shareholders' equity

December 31, 2018	Interest rates +1% £m	Interest rates -1% £m	Credit spreads +0.5% £m	Equity & property +10% £m	Equity & property -10% £m	Expenses +10% £m	Gross Loss Ratios +5% £m
Gross of reinsurance	68	(146)	(24)	115	(115)	(70)	(153)
Net of reinsurance	(57)	52	(12)	59	(59)	(37)	(75)

The sensitivities in the above table are based on balances included in the 2019 income statement and statement of financial position at 31 December 2019.

Due to the importance of reinsurance, the impact of sensitivities on profit and equity is shown gross and net of reinsurance. For general insurance, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses, in addition to the increase in the claims handling expense provision.

Sensitivity to foreign exchange rates

A +/-10% change in Sterling to Canadian Dollar period-end foreign exchange rates would result in a change in total equity in the range of £55 million positive impact *(2018: £43 million)* and a £45 million adverse impact *(2018: £35 million)* respectively. A +/-10% change in Sterling to Euro period-end foreign exchange rates would result in a change in total equity in the range of £6 million positive impact *(2018: £13 million)* and a £5 million adverse impact *(2018: £10 million)* respectively. There were no material sensitivities in the Company's total equity to other foreign exchange rates in 2019 and 2018.

Limitations of sensitivity analysis

The sensitivity analyses do not take into account that the assets and liabilities are actively managed and may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action.

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality there may be a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risks that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty, and the assumption that all interest rates move in an identical fashion.

Other than investments in subsidiaries and associates, assets are held at fair value in accordance with the relevant accounting policy. The majority of such assets are valued based on quoted market information or observable market data and the remaining assets recorded at fair value are based on estimates. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models calibrated to market observable data where possible. Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not significantly change their fair value.

Notes to the financial statements (continued)

(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.

As an insurer the Company is impacted by the COVID-19 pandemic through its general insurance products, as a result of disruption to travel and businesses insured by the Company. The Company is also keeping its pricing and strategy under review given changes in the risk profile of future new business and expected future investment returns. The Company's balance sheet exposure has been reviewed and actions are being taken to further reduce the sensitivity to economic shocks. At 31 December 2019 the Company had strong solvency levels and expects to continue to meet its capital requirements. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained, IT systems remaining operational, and employees including frontline customer facing staff being supported to ensure that that we are there to support our customers when they need us most. Notwithstanding the Company's strong capital and liquidity position and the operational and financial actions that are being taken, deterioration in the situation could have further adverse implications arising from the impacts on financial markets, insurance exposures 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.

(i) 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 FTA 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.

(j) GI Pricing Market Study Interim Report

During 2019, the FCA published their GI Pricing Market Study Interim Report. The Company has provided a comprehensive response to this outlining our recommended solution and action we have already taken. We are broadly supportive of tackling the issues raised, including protecting vulnerable customers and have highlighted our progress on safeguarding and AvivaPlus.

Notes to the financial statements (continued)

34. Derivative financial instruments

The Company uses a variety of derivative financial instruments, including both exchange traded and over-the-counter instruments, in line with our overall risk management strategy. The objectives include managing exposure to market, foreign currency and/or interest rate risk on existing assets or liabilities, as well as planned or anticipated investment purchases.

In the narrative and tables below, figures are given for both the notional amounts and fair values of these instruments. The notional amounts reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect current market values of the open positions. The fair values represent the gross carrying values at the year end for each class of derivative contract held (or issued) by the Company.

The fair values do not provide an indication of credit risk, as many over-the-counter transactions are contracted and documented under ISDA master agreements or their equivalent. Such agreements are designed to provide a legally enforceable set-off in the event of default, which reduces credit exposure. In addition, the Company has collateral agreements in place with the relevant counterparties. Refer to note 35 Collateral for further information on collateral and net credit risk of derivative instruments.

(i) The Company's derivatives at 31 December 2019 and 2018 were as follows

			2019			2018
	Contract/ notional amount	**Fair value asset**	**Fair value liability**	Contract/ notional amount	Fair value asset	Fair value liability
	£m	**£m**	**£m**	£m	£m	£m
Foreign exchange contracts						
OTC						
Forwards	**2,347**	**59**	**(8)**	1,761	12	(8)
Interest rate contracts						
OTC						
Swaps	**3,672**	**73**	**(95)**	3,192	37	(78)
Exchange traded						
Futures	**—**	**—**	**—**	208	—	—
Equity/Index contracts						
OTC						
Options	**555**	**17**	**(4)**	507	32	(8)
Inflation linked contracts						
OTC						
Swaps	**455**	**2**	**(118)**	486	1	(57)
Total as at 31 December	**7,029**	**151**	**(225)**	6,154	82	(151)

Fair value assets of £151 million *(2018: £82 million)* are recognised as derivative financial instruments in note 16, while fair value liabilities of £225 million *(2018: £151 million)* are recognised as derivative liabilities in note 27.

The Company's derivative risk management policies are outlined in note 33 Risk management.

(i) The contractual undiscounted cash flows in relation to derivative liabilities have the following maturities:

	2019	2018
	£m	£m
Within 1 year	**22**	20
Between 1 and 5 years	**57**	45
Between 5 and 15 years	**82**	58
Over 15 years	**98**	56
	259	179

Collateral

Certain derivative contracts, primarily interest rate and currency swaps, involve the receipt or pledging of cash and non-cash collateral. The amounts of cash collateral receivable or repayable are included in notes 17 Receivables and 27 Payables and other financial liabilities respectively.

Notes to the financial statements (continued)

35. Collateral

The Company mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements to facilitate the Company's right to offset credit risk exposure. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by the Company or its counterparty.

Derivative transactions requiring the Company or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. These transactions are conducted under terms that are usual and customary to standard long-term borrowing, derivative, securities lending and securities borrowing activities.

The Company participates in a number of stock lending and repurchase arrangements. In instances where the collateral is recognised on the statement of financial position, the obligation for its return is included within note 27 Payables and other financial liabilities.

In other arrangements, securities are exchanged for other securities. The collateral received must be in a readily realisable form such as listed securities and is held in segregated accounts. Transfer of title always occurs for the collateral received. In many instances, however, no market risk or economic benefit is exchanged and these transactions are not recognised on the statement of financial position in accordance with our accounting policies. If risks and benefits are exchanged then the transactions are recognised on the statement of financial position.

The carrying amount of financial assets pledged for stock lending at 31 December 2019 was £380 million *(2018: £768 million).* The carrying amount of financial assets collateral received in this manner at 31 December 2019 was £410 million *(2018: £821 million)*.

The total amount of collateral received which the Company is permitted to sell or re-pledge in the absence of default was £300 million *(2018: £712 million)*. Collateral of £40 million *(2018: £8 million)* has been received related to balances recognised within payables and other financial liabilities in note 27.

The level of collateral held is monitored regularly, with further collateral obtained where this is considered necessary to manage the Company's risk exposure.

36. Related party transactions

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

(a) The Company had the following related party transactions

(i) General insurance business transfer

On 1 February 2019, the assets and liabilities of a sub-set of the Company's general insurance business were transferred to the Company's subsidiary, Aviva Insurance Ireland Designated Activity Company ("AIIDAC") which is incorporated in Ireland, under a Scheme transfer of the Financial Services and Markets Act 2000. Refer to note 1 for further details.

(ii) Investment in Aviva Digital ("UKD")

In February 2019, the Company made a further investment of £25 million in UKD which increased the Company's cost of investment in UKD from £110 million to £135 million, and increased the Company's holding of UKD to 31%. In December 2019, the Company acquired the remaining shares in UKD from its immediate parent Aviva Group Holdings Limited ("AGH") by way of a capital contribution of £233 million.

(iii) Loans receivable

Aviva Group Holdings Limited ("AGH") loan

As part of the restructuring in 2013, a loan facility of £5.8 billion was put in place with the Company's immediate parent. The loan is secured on the UK Life business and certain non-UK operations of the Group and has a final maturity date of December 2042.

The loan accrues interest at 12-month LIBOR plus a credit margin. The credit margin is reset every 5 years and was reset on 31 December 2017. From 1 January 2018 the credit margin was 240 basis points. This follows a fair value assessment of the credit risk of Aviva Group Holdings Limited and the terms and conditions of the loan agreement. The next reset of the credit margin is due on 31 December 2022.

Effective in 2017, minimum annual repayments were amended to £50 million until December 2026, with no rights of deferral.

During the year, the loan balance has been reduced by £51 million to £1,268 million at 31 December 2019 *(£1,319 million at 31 December 2018)*. The reduction was settled via an annual repayment in cash of £50 million and and the transfer from AGH to the Company, of shares in the Company's subsidiary, Neos Ventures Limited, at their cost of £1m.

Aviva Canada Inc. ("ACI") loans

In April 2015, following the partial return of capital on the Company's equity investment in ACI, the Company returned the proceeds back to ACI in the form of a subordinated unsecured loan of CAD 350 million. The loan, with a carrying balance of £204 million *(2018: £201 million)*, accrues interest at 330 basis points above the Canadian Dealer Offered Rate and has a final maturity date of March 2045. In the event that ACI's minimum regulatory capital requirement falls below certain local trigger levels, ACI may redeem the loan in exchange for issuing equity whose aggregate value is equal to the principal amount outstanding on the loan.

In June 2016, the Company issued ACI a new subordinated unsecured loan of CAD 480 million. The loan, with a carrying balance of £279 million *(2018: £276 million)*, accrues interest at 529 basis points above the Canadian Dealer Offered Rate and matures in 2046.

Notes to the financial statements (continued)

The maturity analysis of the related party loans receivable is as follows:

	2019 £m	2018 £m
Within 1 year	**50**	50
1-5 years	**200**	200
5-15 years	**500**	500
Over 15 years	**1,001**	1,046
Total	**1,751**	1,796
Effective interest rate	**4.1%**	4.2%

(iv) Loans payable

Loans due to AGH

In June 2016, the Company entered into a subordinated unsecured loan from AGH of CAD 480 million. The loan, with a carrying balance of £279 million *(2018: £276 million)*, accrues interest at 474 basis points above the Canadian Dealer Offered Rate and matures in 2046.

The maturity analysis of the related party loans payable is as follows:

	2019 £m	2018 £m
Over 15 years	**279**	276
Total	**279**	276
Effective interest rate	**7.0%**	6.6%

(v) Quota share arrangement - Aviva International Insurance Limited

The Company has a retrospective (both new and existing business) outwards 50% quota share reinsurance arrangement with AIIL covering the insurance business underwritten by the Company.

Under the terms of the reinsurance arrangement, the Company withheld the majority of the payment due to AIIL. The balance outstanding at 31 December 2019 was £3,080 million *(2018: £3,165 million)* and is included within amounts due to other Group companies in note 27. The amount due accrues interest, included within net investment income, set at a rate linked to the Company's net investment returns.

	2019 £m	2018 £m
Premiums ceded to reinsurers	**(2,821)**	(2,550)
Net earned premiums	**(2,808)**	(2,517)
Fee and commission income ceded	**(24)**	(28)
Net investment income ceded	**(127)**	30
Reinsurance claims paid	**1,953**	1,670
Change in reinsurance assets	**(75)**	(75)
Fee and commission expenses ceded	**682**	657
Other expenses ceded	**232**	107
Net result ceded	**(167)**	(156)

As at 31 December 2019, the balances in the statement of financial position relating to this arrangement are:

	2019 £m	2018 £m
Reinsurance asset	**3,282**	3,347
Amounts due to other Group companies	**(3,080)**	(3,165)

(vi) Quota share arrangement - Gresham Insurance Company Limited

The Company has an inwards quota share reinsurance arrangement with its subsidiary undertaking, Gresham Insurance Company Limited ("Gresham"), with effect from 1 January 2006. The key terms are:

- a 100% cession rate on premiums, claims and expense costs applied in respect of the underwriting year; and
- a requirement for Gresham to retain a percentage in relation to the Financial Services Compensation Scheme and Flood Re levies.

Notes to the financial statements (continued)

The premiums, claims and expenses which have been reinsured into the Company under the arrangement are:

	2019 £m	2018 £m
Premiums earned	**115**	125
Claims incurred	**(54)**	(66)
Fee, commission and operating expenses	**(58)**	(56)
Net result	**3**	3

As at 31 December 2019, the balances in the statement of financial position relating to this arrangement are:

	2019 £m	2018 £m
Insurance liabilities	**(92)**	(98)
Receivables arising out of reinsurance accepted	**70**	75
Deferred acquisition costs relating to reinsurance	**21**	22

(vii) Quota share arrangement - AIIDAC

On 1 February 2019, following the general insurance business transfer referred to in (i), the Company entered into a retrospective (both expired and in-force business) inwards quota share reinsurance arrangement with AIIDAC as follows:

- 85% quota share arrangement in respect of the transferred Ireland branch risks that are situated in the European Economic Area (excluding the UK) and European mobile device insurance business; and
- 100% quota share arrangement covering all other business transferred.

The premium, claims and expenses which have been reinsured into the Company during 2019 under this arrangement are:

	2019 £m
Premiums earned	**980**
Claims incurred	**(855)**
Fee, commission and operating expenses	**(97)**
Net result	**28**

As at 31 December 2019, the balances in the statement of financial position relating to this arrangement are:

	2019 £m
Insurance liabilities	**(843)**
Receivables arising out of reinsurance accepted	**15**
Deferred acquisition costs relating to reinsurance	**32**

(viii) Adverse reserve deterioration agreement - The Ocean Marine Insurance Company Limited

The Company has an inwards adverse reserve deterioration agreement with its subsidiary undertaking, The Ocean Marine Insurance Company Limited ("Ocean"). This agreement provides Ocean with an extra £1 billion of reinsurance cover to protect against circumstances in which its reinsurance arrangement with National Indemnity Company ("NIC") is exhausted or otherwise fails to satisfy claims. Ocean's reinsurance arrangement with NIC provides substantial protection in excess of its current gross insurance liabilities.

(ix) Retrocession reinsurance arrangement - Aviva Life & Pensions UK Limited

The Company had an arrangement with Aviva Life and Pensions UK Limited ("UKLAP"), a fellow Group company, for the outwards reinsurance of its obligations in respect of structured settlements. The premiums and claims which have been reinsured to UKLAP under the arrangement are:

	2019 £m	2018 £m
Reinsurance share of claims incurred	**78**	(66)
Net result ceded	**78**	(66)

As at 31 December 2019, the balance in the statement of financial position relating to this arrangement is:

	2019 £m	2018 £m
Reinsurance asset	**568**	490

Notes to the financial statements (continued)

(x) Other transactions - dividend income and net interest payments from transactions with related parties and services provided to and by related parties

	2019 Income earned in the year	2019 Expenses incurred in the year	2019 Payable at year end	2019 Receivable at year end	2018 Income earned in the year	2018 Expenses incurred in the year	2018 Payable at year end	2018 Receivable at year end
				£m				£m
Parent	**22**	**—**	**—**	**58**	28	—	—	60
Subsidiaries	**219**	**246**	**160**	**162**	137	65	126	133
Associates	**—**	**—**	**—**	**—**	—	21	—	3
Fellow subsidiaries	**(123)**	**589**	**3,163**	**9**	34	758	3,247	68
	118	**835**	**3,323**	**229**	199	844	3,373	264

Income earned from the Company's immediate parent of £22 million *(2018: £28 million)* relates to net interest on the loan receivable and the loan payable described in note 36(a)(iii) & (iv).

Income earned from subsidiaries of £219 million *(2018: £137 million)* relates to dividends received of £187 million *(2018: £107 million)* and interest on the ACI loans receivable described in note 36(a)(iii). Income earned in the year from fellow subsidiaries includes net interest charged of £123 million *(2018: net interest received from fellow subsidiaries of £30 million)* which mainly relates to interest of £127 million on the balance due under the quota share reinsurance arrangement with AIIL described in note 36(a)(v).

Services provided to the Company include £6 million *(2018: £6 million)* inter-company management fees payable to fellow subsidiaries of the Group.

Expenses incurred include £323 million *(2018: £360 million)* relating to staff and pension costs incurred by Aviva Employment Services Limited and Aviva Group Services Ireland Limited, including the pension costs detailed in note 26. The staff and pensions costs incurred by Aviva Employment Services Limited were recharged to the Company via Aviva Central Services UK Limited. The staff and pensions costs incurred by Aviva Group Services Ireland Limited were recharged directly to the Company.

Expenses incurred also include £257 million *(2018: £248 million)* relating to facilities and other service charges from Aviva Central Services UK Limited and £109 million *(2018: £21 million)* of commission payments that were made to Aviva UK Digital Limited, an insurance intermediary and subsidiary of the Company, for the distribution of the Company's direct-to-customer service offering.

Expenses incurred also include other expenses of £141 million *(2018: £209 million)* which largely relate to claims and other operating costs recharged from subsidiaries, associates and fellow subsidiaries, offset by expenses recharged to subsidiaries.

Directors and key management personnel of the Company may from time to time purchase insurance, savings, asset management or annuity products marketed by Group companies on equivalent terms to those available to all employees of the Group. In 2019 and 2018, other transactions with directors and key management personnel were not deemed to be significant either by size or in the context of their individual positions.

The net balance with Group companies for settlement of corporation tax assets and liabilities by group relief is disclosed in note 24. The movement relates to payments received and updated group taxation positions.

Interim ordinary dividends of £359 million on the Company's ordinary shares were declared in December 2018 and settled in February 2019, of which £317 million was settled in cash and £42 million was set-off against accrued interest due on the Company's loan to AGH. Further dividends of £80 million on the Company's ordinary shares were declared in July 2019 and settled in August 2019 *(2018: dividends of £392 million were declared and settled in February 2018)*.

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

(b) Key management compensation

The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Company, including the directors, is as follows:

	2019	2018
	£m	£m
Short-term employee benefits	**9**	10
Post-employment benefits	**1**	—
Total	**10**	10

Details of directors' emoluments are given in note 6.

(c) Parent entity

The immediate parent undertaking is Aviva Group Holdings Limited, registered in England.

(d) Ultimate controlling entity

The ultimate controlling entity, and parent of the largest and smallest groups which consolidate the results of the Company, is Aviva plc. Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.

Notes to the financial statements (continued)

37. Related undertakings

The Company's Act 2006 requires disclosure of certain information about the Company's related undertakings which is set out in this note. Related undertakings comprise subsidiaries and associates.

The Company's related undertakings along with the country of incorporation, the registered address, the class of shares held and the effective percentage of equity owned at 31 December 2019 are listed below.

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
Victoria Reinsurance Company Ltd	Barbados	c/o USA Risk Group (Barbados) Ltd., 6th Floor, CGI Tower, Warrens, St. Michael, Bb22026	Common Shares	100%
Aviva Canada Inc.	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares, Class A & Class B Common Shares, Special Common Shares and New Common Shares	100%
Aviva Direct Ireland Limited	Ireland	One Park Place, Hatch Street, Dublin 2	Ordinary Shares	100%
Aviva Driving School Ireland Limited	Ireland	One Park Place, Hatch Street, Dublin 2	Ordinary Shares	100%
Aviva Insurance Ireland Designated Activity Company	Ireland	One Park Place, Hatch Street, Dublin 2	Ordinary Shares	100%
Aviva Investors Continental European Long Lease Strategy Fund	Luxembourg	2 rue du Fort Bourbon, L-1249, Luxembourg	SCSp	27%
Neos Ventures Limited	United Kingdom	47 Bermondsey Street, London, England, SE1 3XT	Preference, Class A and Class B shares	91%
Aviva Credit Services UK Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	100%
Aviva Insurance Services UK Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	100%
Aviva UK Digital Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	100%
LUC Holdings Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	20%
The Ocean Marine Insurance Company Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	100%
The Welsh Insurance Corporation Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	100%
Aviva Consumer Products UK Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Aviva Health UK Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Aviva Insurance UK Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Aviva UKGI Investments Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Gresham Insurance Company Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Solus (London) Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Synergy Sunrise (Broadlands) Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Polaris U.K. Limited	United Kingdom	4th Floor, New London House, 6 London Street, London, EC3R 7LP	Ordinary Shares	39%

Notes to the financial statements (continued)

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

Name of undertaking	Country of incorporation	Registered address	Share class	% held
9543864 Canada Inc.	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Aviva General Insurance Company	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Aviva Insurance Company of Canada	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Redeemable Preferred and Common Shares	100%
Aviva Warranty Services Inc	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Elite Insurance Company	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Preferred and Common Shares	100%
Insurance Agent Service Inc.	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
National Home Warranty Group Inc.	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
OIS Ontario Insurance Service Limited	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Pilot Insurance Company	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
S&Y Insurance Company	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Scottish & York Insurance Co. Limited	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Preferred and Common Shares	100%
Traders General Insurance Company	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Wayfarer Insurance Brokers Limited	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Bay-Mill Specialty Insurance Adjusters Inc.	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Common Shares	100%
Aviva Agency Services Inc.	Canada	555 Rue Chabanel Ouest, Bureau 900, Montreal QC H2N 2H8	Class A Common Shares	100%
Westmount Guarantee Services Inc.	Canada	600 Cochrane Drive, Suite 205, Markham On L3R 5K3	Common A Shares	5%
Prolink Insurance Inc	Canada	480 University Avenue, Suite 800, Toronto On M5G 1V2	Common A Shares	34%
Nautimax Ltd	Canada	10 Aviva Way, Suite 100, Markham, On L6G 0G1	Class 1 Common Shares	100%
Ballard Investment Company Limited	United Kingdom	42 Dingwall Road, Croydon, Surrey, CR0 2NE	Ordinary Shares	25%
London and Edinburgh Insurance Company Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Health & Case Management Limited	United Kingdom	Melrose House, 42 Dingwall Road, Croydon, CR0 2NE	Ordinary Shares, Preference Shares	25%
Healthcare Purchasing Alliance Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, England, NR1 3NG	Ordinary Shares	50%
Healthcode Limited	United Kingdom	Swan Court Waterman's Business Park, Kingsbury Crescent, Staines, Surrey, TW18 3BA	Ordinary Shares	20%
IQUO Limited	United Kingdom	East Farmhouse, Cams Hall Estate, Fareham, Hampshire, England, PO16 8UT	Ordinary A Shares	67%

38. Subsequent events

Management has evaluated subsequent events for the period from 31 December 2019 to the date of these financial statements, and there have been three material subsequent events during that period:

- 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.

  As an insurer the Company is impacted by the COVID-19 pandemic through its general insurance products, as a result of disruption to travel and businesses insured by the Company. The Company is also keeping its pricing and strategy under review given changes in the risk profile of future new business and expected future investment returns. The Company's balance sheet exposure has been reviewed and actions are being taken to further reduce the sensitivity to economic shocks. At 31 December 2019 the Company had strong solvency levels and expects to continue to meet its capital requirements. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained, IT systems remaining operational, and employees including frontline customer facing staff being supported to ensure that that we are there to support our customers when they need us most. Notwithstanding the Company's strong capital and liquidity position and the operational and financial actions that are being taken, deterioration in the situation could have further adverse implications arising from the impacts on financial markets, insurance exposures 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.

- On 12 February 2020, the directors declared interim dividends of £224 million on the Company's ordinary shares, of which £182 million was settled in cash and £42 million was set-off against accrued interest due on the Company's loan to AGH.

- In January 2020, Aviva Canada Inc, a subsidiary company paid dividends of CAD40 million (gross of withholding tax) in cash to the Company.