

Aviva Life & Pensions UK Limited

Registered in England and Wales No. 3253947

Annual Report and Financial Statements 2019

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Directors and officer

Directors

M G Carvill (non-executive director)
A J Darlington
V F Gooding (non-executive director)
R W A Howe (non-executive director)
J B O'Roarke (non-executive director)
D F S Rogers
S P Trickett (non-executive director)

Officer – Company Secretary

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

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered office

Aviva
Wellington Row
York
YO90 1WR

Company number

Registered in England and Wales no. 3253947

Other information

Aviva Life & Pensions UK 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 life and pension business. The Company has both Non-profit and With-profits funds and offers a market leading range of propositions to individual and corporate customers covering their savings, retirement, insurance and protection needs. The directors consider that this will continue unchanged into the foreseeable future. During 2019, the Company continued to reinsure a significant proportion of its Non-profit business outwards to a subsidiary of the Group.

Significant events

On 21 February 2019, the Company injected an additional £35 million of capital into Aviva Pension Trustees UK Limited ("UKPTL") in exchange for the issue of 35,000,000 shares of £1 each.

On 5 March 2019, the Company made a capital contribution of €200 million to Friends First Life Assurance Company DAC ("Friends First").

On 29 March 2019, a Part VII transfer process was completed to transfer certain business from the Company to Friends First. The purpose of this Part VII transfer is to ensure that the Aviva Group retains the ability to service its policyholders following the UK's departure from the EU ("Brexit").

On 29 March 2019, following the Part VII transfer, the Company entered into a quota share reinsurance agreement with Friends First.

On 29 March 2019 Friends First was renamed Aviva Life & Pensions Ireland DAC ("ALPI").

Subsequent to the Part VII on the 29 of March and in accordance with the covenant of the scheme transfer, capital has been transferred into ALPI from the Company to ensure ALPI was effectively capitalised to 150% of the Solvency Capital Requirement ("SCR") ratio. On 26 June 2019 and 23 December 2019 the Company made capital contributions of €52 million and €29 million respectively. A further €32 million capital commitment was recognised as at 31 December 2019, to be settled in 2020.

On 12 December 2019 the Company issued 150,732,162 shares to its parent Aviva Life Holdings UK Limited ("UKLH") in return for the assignment of an inter-company balance of £150,732,162.

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 life protection products as a result of increased mortality and income protection, critical illness and health insurance products as a result of increased morbidity, offset by a potential reduction in annuity payments. The Company is also keeping its pricing and strategy under review given changes in the risk profile of future new business and expected future investments. The Company's balance sheet exposure has been reviewed and actions are being taken to further reduce the sensitivity to economic shocks. The company continues to maintain 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 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.

Section 172 (1) Statement and our stakeholders

The directors report here on how they have discharged their duties under Section 172 (1) of the Companies Act 2006 and during 2019.

The Board is responsible for monitoring and upholding the culture, values, standards, ethics and reputation of the Company to ensure that the Company's obligations to its shareholder and to its stakeholders are met. It monitors adherence to the Aviva Group business standards and compliance with the Aviva Governance Framework.

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 business operates, including those issues related to climate change which are of fundamental importance to the planet's well-being.

Our culture

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

The Company's culture is shaped by clearly defined values to help ensure it operates appropriately and does the right thing. The Company values diversity and inclusivity in its workforce and beyond. The commitment we make to each customer extends to all stakeholders; that we are 'with you today, for a better tomorrow.' Throughout the business, the Board is proud that the Company's people live by its core value of 'Care More' for customers, for each other and for the communities we serve.

Key strategic decisions in 2019

Following the split of the UK insurance business into separate UK Life and Pensions and UK General Insurance businesses, and the appointment of Angela Darlington as the UK Life CEO, the Board has aligned its strategic focus with that of Aviva Group, to develop savings and retirement as a core growth opportunity for the business, supporting customers to save for the future, navigate their retirement and to protect what's most important to them.

Strategic report (continued)

On 29 March 2019, a Part VII transfer process was completed to transfer certain business from the Company to Friends First. The purpose of this Part VII transfer is to ensure that the Aviva Group retains the ability to service its policyholders following the UK's departure from the EU ("Brexit").

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 Aviva Group, such as employee forums, internal communication channels, and informal meetings with directors and employee engagement surveys.

The UK Life Board typically holds two strategy days per year, including one meeting at which staff are invited to join them during the day to provide 'on the ground' insight into the business.

A comprehensive global employee engagement survey is carried out each year, and the results are considered by the Board in the context of culture, values and behaviours and actions to continually improve the scores are discussed and agreed. Employees share in the business' success as shareholders through membership of Aviva's global share plans.

(ii) Customers:

During 2019, the Board, in conjunction with Aviva plc, has renewed its focus on Aviva as a trusted long-term partner for our customers helping them to save for the future, navigate retirement and protect where it matters most. The Board closely monitors customer metrics and engages with the leadership team to understand the issues if business performance does not meet customer expectations.

The Board continues to monitor and review developments concerning changes to Aviva's IT platforms which will allow Aviva to simplify and support service delivery to its customers.

The Board receives reporting on strategic initiatives throughout the year, undertaking deep-dives into areas that impact the customer 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, feedback and our approach to Treating the Customer Fairly.

The Board is supported by two independent committees in ensuring value for money for our customers. The Independent Governance Committee is comprised of independent members whose purpose is to ensure that the best interests of Workplace pensions customers are taken into account and is able to raise any concerns via the Board. The Board is supported by a With-profits Committee also comprised of independent members and ensures that our With-profits customers are treated fairly at all times. These committees ensure that fair value is delivered to our customers and, where appropriate, proposals are put forward to the Board for its consideration, with a view to enhance customers' experience in all interactions with the business.

The Company works to ensure that we deliver fair value to our customers, and is currently reviewing a number of product governance issues and making redress to affected customer where appropriate.

(iii) Suppliers:

All supplier related activity is managed in line with the Group Procurement & Outsourcing Business Standard. This ensures that supply risk is managed appropriately including in relation to customer outcomes, data security, corporate responsibility, financial, operational, contractual, and brand damage caused by inadequate oversight or supplier failure.

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

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

Directors are closely involved in the management of the most critical or important suppliers and the UK Life Board regularly reviews reports on their performance. During the year, Aviva successfully progressed the UK migration to a new data centre infrastructure provider, including partial migration to the Cloud.

(iv) Communities:

The UK Life business supports a number of local issues, including the charity 'York Cares' which pursues any charitable purpose for the benefit of the people for the City of York. Aviva received an award recently from York Cares at the annual recognition event for the social connection work by Aviva staff with the dementia ward at York hospital.

Aviva Group actively encourages and supports colleagues to volunteer in their communities, providing 21 hours of paid volunteering time to make a positive impact and help build stronger communities.

(iv) 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 Chairman to the Company's ultimate parent. Additionally, members of the Aviva plc board can attend board meetings by invitation. During the year the Aviva plc Chairman and CEO, Maurice Tulloch, attended a board meeting to present an update on the development of the Group Strategy and to discuss how the UK Life business is positioned to take advantage of the growth opportunities in savings, retirement and protection.

(v) Regulators:

During early 2019, a review of the UK operating model concluded that the most effective structure was to split the UK Insurance business to a UK Life and Pensions business, and a General Insurance business. Managing the UK Insurance business segments in this way has no material impact on the principle activities of the Company. The PRA and FCA were engaged throughout the decision making process and as the organisation design was implemented.

Strategic report (continued)

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 FCA and PRA attended board meetings during the year to present their key regulatory priorities and to discuss ongoing improvements or address any concerns raised.

Financial position and performance

The financial position of the Company at 31 December 2019 is shown in the statement of financial position on page 33, with the trading results shown in the income statement on page 30 and the statement of cash flows on page 34.

The Company's net assets have decreased by £62 million (2018: decreased by £1,309 million) due to share capital contribution from parent and retained profits, offset by dividends, scheme transfer to subsidiary and interest on other equity instruments (see note 24) paid during the year.

The profit after tax for the year was £1,135 million (2018: £836 million). The increase was driven by positive investment returns compared to 2018, offsetting a reduction in adjusted operating profit. See Key performance indicators section on page 7 for further information on adjusted operating profit.

Gross written premiums were £9,151 million (2018: £7,039 million). Premiums written, net of reinsurance were £4,573 million (2018: £3,439 million). The increases primarily reflect a higher level of Bulk Purchase Annuity ("BPA") new business in 2019.

The Company paid dividends totalling £1,294 million to its parent company during the year (2018: £2,241 million) and paid £23 million of interest on other equity instruments less tax relief (2018: £22 million).

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.

The Company is well positioned to compete in its key markets by leveraging the power of Aviva's breadth of offering within the UK to deliver compelling propositions to meet our customer needs, alongside driving digitisation through customer services, propositions and ensuring we are easy for customers to do business with, however they chose.

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 42 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:

- 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;
- Life insurance risk, including mortality risk, morbidity risk, longevity risk, persistency risk, expense risk (including commissions) and policyholder behaviour risk around take-up of insurance guarantees and options;
- Operational risk, including conduct, legal & regulatory, people, process, data security and technology. The Company is investing in simplifying its technology estate to improve the resilience and reliability of its systems and in IT security to protect the Company's and customers' data; and
- Brexit & 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.

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:

Measure	2019	2018
Capital Metrics		
Capital surplus ratio ¹	144%	146%
Capital surplus £m ¹	3,592	3,823
Financial Performance Metrics		
Operating Capital Generation ²	580	1,191
Adjusted Operating Profit £m ³	964	1,106
Gross written premiums £m	9,151	7,039
Net written premiums, including deposits for non-participating investment contracts £m	14,193	12,817
Profit for the year after tax £m	1,135	836
Decrease shareholders equity £m	(62)	(1,309)
Non-Financial Metrics		
Relational net promoter score ⁴	Above market average	Above market average

¹Capital metrics are taken from the Solvency and Financial Condition Report ("SFCR") for the year ended 31 December 2019.

²Operating Capital Generation ("OCG") is the Solvency II surplus movement in the period due to operating items. The calculation of OCG is consistent with previous years. For the Company OCG is split into the impact of new business, earnings from existing business and other OCG, where other OCG includes the impact of capital actions and non-economic assumption changes. OCG excludes economic variances and economic assumption changes. The expected investment returns assumed within earnings from existing business are consistent with the returns within adjusted operating profit.

³Adjusted operating profit is a non-GAAP alternative performance measure ("APM") which is not bound by IFRS. The APM incorporates the expected return on investments and is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with allowance for the corresponding expected movements in liabilities. Variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside of adjusted operating profit.

⁴The Company's principal non-financial KPI is the 'relational net promoter score'. 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 31 March 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 Briggs resigned as a director on 24 April 2019

A J Darlington was appointed as a director on 7 August 2019

J M Windsor resigned as a director on 7 August 2019

D F S Rogers was appointed as a director on 10 October 2019

H R Patel resigned as a director on 31 December 2019

Company Secretary

The name of the Company Secretary of the Company is shown on page 3.

Dividends

The Company paid a final 2018 dividend of £862 million during the year (2018: £1,255 million). A total interim dividend of £432 million was also paid during 2019 (2018: £986 million).

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 borrowings (note 35); its contingent liabilities and other risk factors (note 38); its capital structure (note 41); management of its risks including market, credit and liquidity risk (note 42); and derivative financial instruments (note 43).

The Company and its ultimate holding company, Aviva plc, have considerable financial resources together with a diversified business model. 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 the Strategic report on page 4 and note 48 on subsequent events.

Future outlook

Likely future developments in the business of the Company are discussed within the Strategic report starting on page 4.

Stakeholder Engagement

Our statements summarising our employee engagement, and our engagement with suppliers, customers and our other stakeholders are included in our Strategic report on page 4.

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"). Set out below shows how the Principles have been applied during 2019.

Principle 1 - Purpose and leadership

The Company is part of the Aviva Group. Following the appointment of Maurice Tulloch as Group CEO of Aviva plc in March 2019, the Group embarked on a strategic review aimed at optimising our organisational structure around creating excellent outcomes for our customers. Aviva's purpose is to be 'with you today, for a better tomorrow' and this includes customers, employees and other stakeholders. The Group has set out three strategic priorities which will enable the business to fulfil this 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 including the decision to split the UKI business into separate UK Life and Pensions and General Insurance business units. The Board has confirmed Savings and Retirement as a core growth opportunity together with Workplace benefits, Individual Protection and Health, leveraging Aviva's considerable expertise in these areas to the benefit of all our customers.

The Board monitors the culture of the organisation 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 management 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

Directors' report (continued)

engagement is measured 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; further information on this can be found in the Strategic report. The Board is responsible for setting the business strategy, monitoring performance against its strategic aims, setting the Company's risk appetite and monitoring the establishment and operation of prudent and effective controls. The Board also sets, monitors and upholds the culture, values, standards, ethics, brand and reputation of the Company to ensure that its obligations to its shareholders, employees, customers and others are met; monitors compliance with corporate governance principles; and ensures adequate succession planning for the Board and senior management to maintain an appropriate balance of skills and experience within the Company and on the Board.

Principle 2 - Board Composition

The 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 composition of the Board remains appropriate.

The Board is comprised of both 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 practices. The Board has formal Terms of Reference which includes matters which it reserves to itself which are reviewed and updated annually.

The Board undertook a formal effectiveness review of its performance, facilitated by Lintstock, in 2019, which comprised both a detailed questionnaire and individual interviews. The results were produced by Lintstock and presented to the Board at its meeting on 10 October 2019. Overall the review assessed that the Company was operating effectively and the Board had a good understanding of the Company's stakeholders and customers. The composition of the Board was deemed appropriate with the right skills and expertise on the Board to support the Company through its strategic journey, although the lack of diversity on the Board was noted. 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 throughout the year and shared regularly with the Board. The next independent assessment will take place in mid-2020. Overall, the 2019 Board Effectiveness Review assessed that the Board 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 our 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 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 ("SMCR") responsibilities. The 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/FCA on a quarterly basis. The Company must also adhere to the Subsidiary Governance Principles which are a set of internal governance principles.

The Board held five meetings this year, plus nine ad hoc meetings to discuss specific items and a two day strategic planning meeting in September. The Board's key areas of focus in 2019 were the changes in the organisational structure following the appointment of the new Aviva plc CEO and split of the UK insurance business into two separate and distinct segments of UK Life and Pensions and General Insurance and aligning the UK Life business under the new operating model.

The Board of the Company's parent, Aviva Life Holdings UK Limited, has established an Audit Committee, a Risk Committee, a Conduct Committee and an Investment Committee with authority to act on behalf of UKLAP. In addition, the Board is advised by an Independent With-profits Committee. The Terms of Reference for these committees are aligned to those of Aviva plc and are approved annually. The committees also undertake annual effectiveness reviews. The results are discussed by the committees 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 systems and controls and receives regular updates on the work of the internal audit function and from the external auditors. Reports provided during the year include updates on the control environment, regular reports from Internal Audit and the external auditors, the review of financial results and any financial matters pertaining to the UK Life business. The Board also receives reports from the CFO at each board meeting. Financial reporting for the Company is currently externally audited by PricewaterhouseCoopers LLP ("PwC") on an annual basis.

The Risk Committee is responsible for assisting the Board in its oversight of all categories of risk. Its responsibilities include reviewing the Company's risk appetite, risk preferences, and risk profile in relation to capital liquidity, and franchise value, 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 diligence appraisals are carried out on strategic or significant transactions, and monitoring the Company's regulatory activities, as appropriate.

The Risk Committee is accountable for all categories of risk.

The Conduct Committee is responsible for the oversight of the Company's conduct framework including product design, live selling practices, claims practices, legacy products, conduct oversight of third parties, the achievement of an appropriate conduct focused culture and fair value, and the management of good and influential relationships with the Company's conduct regulator; reviewing the Company's conduct and financial crime risk profile; reviewing the effectiveness of the Company's compliance with the Group Conduct Risk Policy and relevant Business Standards; and overseeing the brand and reputation of the Company,

Directors' report (continued)

ensuring that reputational risk is consistent with the risk preference approved by the Board and the creation of long-term shareholder value. The Conduct Committee provides updates to the Risk Committee at each meeting to ensure it has visibility of any significant matters discussed by the Conduct Committee which impact the Company's overall risk profile, thereby enabling the Risk Committee to oversee the full spectrum of risks.

The Investment Committee is responsible for assessing and approving investment strategy and policy consistent with the risk appetite approved by the Board; and considering investment matters that require Aviva plc Board, Group management or Board approval. The Committee oversees the relationship between the Company and its investment managers and custodians, including the appointment and termination of managers and custodians within the risk appetite approved by the Board for the Company. The Committee also monitors investment performance; and monitors the Company's investment management functions.

Principle 4 - Opportunity and Risk

The role of the Board 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 Board carried out a strategic review during the year and set the strategic framework for the UK Life business. Following a period of change, the UK Life business has confirmed that Savings and Retirement remains a core growth opportunity for the Company, together with Corporate and Health and Protection, providing benefits for both individuals and workplace employees, and taking advantage of the Company's expertise in these areas. The ambition is to be the UK's leading Savings and Retirement provider, offering end-to-end solutions for customers.

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.

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

Under the Aviva Group Reward Governance Framework, the Company's remuneration policy operates in accordance with the Global Remuneration Policy as approved by the Aviva plc Remuneration Committee, which 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 on page 37.

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 in our gender pay gap, and on the steps we are taking in relation to this which can be found at www.aviva.com/gpgr

The Board held a private session on 6 December 2019 to discuss the performance of key members of senior management (UK Life CEO, CFO and CRO) and provided input into their 2019/2020 remuneration review.

As employees of the Group, staff are able to enjoy the benefit of the Aviva Group policies and benefits available to them including:

- a comprehensive flexible benefit offering, providing colleagues with the opportunity to select the benefits that matter most to them;
- a competitive pension scheme which provides a top rate employer contribution of 14% of salary (subject to the level of employee contribution). Above this level, we share employer National Insurance savings with our colleagues; and
- Aviva's broader Wellbeing programme offering aims to promote health and wellness amongst our colleagues. We listen to colleagues and focus in-depth on a new area each year depending on the feedback we receive.

Principle 6 - Stakeholders

Details about Stakeholders can be found in the Section 172 Statement in the Strategic Report.

Overseas branches

During the year, the Company had branch offices outside the UK in Belgium, France and Ireland. As a result of the UK's decision to leave the European Union and the anticipated loss of single market passporting rights, the Board resolved to transfer its overseas branch business to an Irish subsidiary, ALPI, under a Part VII transfer of the Financial Services & Markets Act 2000. See note 46 for more detail.

Financial instruments

The Company uses financial instruments to manage certain types of risks, including to those relating to credit, foreign currency exchange, cash flow, liquidity, interest rates, and equity and property prices. Details of the objectives and management of these instruments are contained in note 42 on risk management.

Employees

The Company has no employees (2018: nil). The majority of employees engaged in the activities of the Company are employed by subsidiary undertakings of Aviva plc, Aviva Employment Services Limited ("AESL"). Disclosures relating to employees may be found in the Annual report and financial statements of AESL. The Company is recharged with the costs of the staff provided by this company.

Directors' report (continued)

Disclosure of information to the Auditors

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's External Auditors, PricewaterhouseCoopers LLP, 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 Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing 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 the International Accounting Standards Board ("IASB") have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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 31 March 2020

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

Independent auditors' report to the members of Aviva Life & Pensions UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Aviva Life & Pensions UK Limited's financial statements:

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

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the income statement, the statement of comprehensive income, the statement of cash flows, and the statement of changes in equity for the year then ended; and 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 6 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: £140 million based on 0.04% of total assets (2018: £89 million)
 - Aviva Life & Pensions UK Limited is a standalone life insurance entity and a wholly owned subsidiary of Aviva plc.
- We performed a full scope audit of the complete financial information in accordance with our materiality and risk assessment.
- Valuation of insurance contract liabilities.
 - Annuitant mortality assumptions.
 - Credit default assumptions for illiquid assets, specifically: commercial mortgages and equity release mortgages.
 - Expense assumptions.
 - Valuation of hard to value investments.
 - Valuation of specific product governance provisions.
 - 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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

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 Prudential Regulation Authority's regulations, the Pensions Regulator legislation and the 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 company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the company's whistleblowing helpline and fraud register;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;

Independent auditors' report to the members of Aviva Life & Pensions UK Limited (continued)

- Reviewing relevant meeting minutes including those of the Board, Risk Committee, Audit Committee and With-Profits Committee;
- Reviewing data regarding policyholder complaints, the company's register of litigation and claims, internal audit reports and compliance reports, in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of life insurance contract liabilities and the valuation of certain investments classified as level 3 under IFRS 13 as described in the related key audit matters below;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of areas identified as having an increased risk; and
- Testing transactions entered into outside of the normal course of the company's business specifically in respect of the Part VII transfer of business to another Aviva group entity.

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

Valuation of insurance contract liabilities

For the insurance contract liabilities, as set out in accounting policy L and notes 25, 26 and 30, management's valuation of the liabilities for the settlement of future claims, involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these liabilities.

How our audit addressed the key audit matter

The work to address the valuation of the insurance contract liabilities included the following procedures:

- We understood the governance process in place to determine the insurance contract liabilities, including testing the associated financial reporting control framework.
- We tested the design and operating effectiveness of controls over the accuracy and completeness of the data used.
- Using our actuarial specialist team members, we applied our industry knowledge and experience and we compared the methodology, models and assumptions used against recognised actuarial practices.
- We tested the key judgements and controls over the preparation of the liabilities, including the manually calculated components. We focused on the consistency in treatment and methodology period-on-period where appropriate.
- We used the results of an independent PwC annual benchmarking survey of assumptions to further challenge the assumption setting process by comparing certain assumptions used relative to the company's industry peers.

As part of our consideration of the entire set of assumptions, we focused particularly on the annuitant mortality, credit default for illiquid assets and expense assumptions given their significance to the result and the level of judgement involved. These have been considered in greater detail below.

Independent auditors' report to the members of Aviva Life & Pensions UK Limited (continued)

Annuitant mortality assumptions

Annuitant mortality assumptions, as set out in notes 25, 26 and 30, require a high degree of judgement due to the number of factors which may influence mortality experience. The differing factors which affect the assumptions are underlying mortality experience (in the portfolio), industry and management views on the future rate of mortality improvements and external factors arising from developments in the annuity market.

There are two main components to the annuitant mortality assumptions, in addition a margin for prudence is applied to the annuitant mortality assumptions:

- Mortality base assumption: this component is typically less subjective as it is derived using the external Continuous Mortality Investigation (CMI) tables for individual annuities and Club Vita 3 (CV3) tables for bulk purchase annuities ("BPA"), adjusted for internal experience. However, judgement is required in choosing the appropriate table and fitting internal experience to this table. Within the base assumption is an allowance for anti-selection to reflect the fact that Aviva's annuitant population will not include the least healthy lives at inception due to the availability of impaired annuities. The adjustment is made using observed data. There is also a data provision for BPA due to data limitations which leads to further judgement.
- Rate of mortality improvements: this component is more subjective given the lack of data and the uncertainty over how life expectancy will change in the future. Management has adopted the most recent CMI 2018 model and dataset in setting this assumption with specific adjustments to reflect the profile of their portfolio and their views on the rate of mortality improvement.

Credit default assumptions for illiquid assets, specifically: Commercial mortgages and equity release mortgages

The company has substantial holdings in asset classes with significant credit risk, notably commercial mortgages and equity release mortgages.

Management uses an active approach to determine credit default assumptions which are deducted from the current market yields to determine the discount rate, as set out in note 26.

Expense assumptions

Future maintenance expenses and expense inflation assumptions, as set out in notes 25, 26 and 30, are used in the measurement of insurance contract liabilities. The assumptions reflect the expected future expenses that will be required to maintain the in-force policies at the balance sheet date, including an allowance for project costs and a margin for prudence. The assumptions used require significant judgement.

In addition to the procedures above, in respect of the annuitant mortality assumptions:

- We tested the methodology used by management to derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience. This included evaluating management's choice of, and fitting to, the CMI base tables and the adoption of the CMI 2018 model and dataset for improvements and the margin for prudence. We tested data inputs used in the experience investigation and assessed the results of the experience investigations carried out by management for the annuity business to determine whether they provided support for the assumptions used.
- We tested data inputs used in the valuation of BPA to ensure it is consistent with data provided when these contracts were written.
- We assessed the judgement used in the BPA data provision by considering the sensitivity of the judgements, alternative judgements and considered whether the evidence supported the judgements made.
- We compared the mortality assumptions selected by management against those used by their peers.
- We considered alternative assumptions that could be used in the CMI 2018 model such as the smoothing factor and used externally published information to validate the choice management made.

Based on the work performed and the evidence obtained, we consider the assumptions used for annuitant mortality to be appropriate.

In addition to the procedures above, in respect of the credit default assumptions:

- We tested the operation of data integrity and change management controls over the model for calculating credit default assumptions for commercial and equity release mortgages. These models are used to derive outputs consistent with the assumptions derived by management with respect to relevant rules and actuarial guidance. In the current and prior year we tested changes to the methodology, model and controls.
- We validated significant assumptions used by management by ensuring consistency with the assumptions used for the valuation of the assets, and against market observable data (to the extent available and relevant) and our experience of market practices.

Based on the work performed and the evidence obtained, we consider the assumptions for credit default risk to be appropriate.

In addition to the procedures above, in respect of the expense assumptions:

- We tested the methodology used by management to derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience. This included testing the split of expenses between acquisition and maintenance costs, products and funds by agreeing a sample to supporting evidence.
- The volume of policies is an important consideration in the determination of per policy expenses. We confirmed they are based on appropriate in-force policy counts and are sufficient to cover future expected expense costs. In addition, we have carried out our own analysis to ensure a provision was not required to allow for diseconomies of scale and that no credit was taken for future cost initiatives.
- We validated significant assumptions used by management, including the margin for prudence, adjustments made to the model and the rate of inflation against past experience, market observable data (to the extent available and relevant) and our experience of market practices.
- We have tested that the assumptions appropriately reflect the expected future expenses for maintaining policies in force at the balance sheet date, which includes consideration of the allowance for project costs.

Based on the work performed and the evidence obtained, we consider the expense assumptions to be appropriate.

Independent auditors' report to the members of Aviva Life & Pensions UK Limited (continued)

Valuation of hard to value investments

The valuation of the investment portfolio involves judgement and continues to be an area of inherent risk, as set out in accounting policies T and Y and notes 15 and 16. The risk is not uniform for all investment types and is greatest for the following, where the investments are hard to value because quoted prices are not readily available:

- Commercial mortgage loans
- Equity release and UK securitised mortgage loans
- Collateralised loan obligations and non-recourse loans

We assessed management's approach to valuing these hard to value investments by performing the following procedures:

- We agreed data inputs in to models to underlying documentation on a sample basis.
- We evaluated the methodology and assumptions used by management, including yield curves, discounted cash flows, property growth rates, longevity and liquidity premiums as relevant to each asset class.
- We tested the operation of data integrity and change management controls over the models which calculate fair value.
- Using our valuation experts, we performed independent valuations for a sample of collateralised loans and non-recourse loans.
- We assessed the adequacy of the disclosures in the financial statements.

Based on the work performed and the evidence obtained, we consider the valuations used by management to be appropriate.

Valuation of specific product governance provisions

The valuation of product governance provisions involves significant judgement. Given the historic nature of these provisions, information to calculate redress amounts can be limited. There were two material provisions held at the year end disclosed in note 33.

The first relates to the pension arrangement advice given by Friends Provident tied agents and appointed representatives. The uncertainty around the Friends Provident provision is driven by the time that has elapsed since the advice was given and the volatility in financial impact on affected customers, which introduces uncertainty when using assumptions based on a sample of cases. The estimate of the provision could change substantially over time as specific case investigations continue and new information is obtained.

The second provision relates to a specific sub-set of retirement products written between 1985 and 1989, where certain pension policyholders have not been adequately informed of switching options into with-profit funds that were available to them. The multipension provision has a number of highly uncertain judgements and assumptions including the period of redress, and the requirement to predict customer behaviour such as propensity to switch into the fund to access the guarantee.

We assessed management's approach to valuation for these provisions by performing the following procedures:

- We evaluated the methodology and key assumptions used by management, including the populations of policies affected and the redress assumptions applied.
- We evaluated material assumptions using our specialists where appropriate, tested a sample of customer calculations used to determine the assumptions and agreed inputs in these calculations to supporting documentation.
- We assessed the adequacy of the disclosure in the financial statements.
- We assessed the expertise and independence of management's experts in relation to the Friends Provident provision.

Based on the work performed and the evidence obtained, we consider the valuations of provisions to be appropriate.

Independent auditors' report to the members of Aviva Life & Pensions UK Limited (continued)

Impact of COVID-19 subsequent event

As disclosed in note 48, 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 and interest rate risks, and actively managing liquidity on a fund by fund basis; and
- Frequent communications with the PRA.

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 full potential financial impact of the outbreak on the company.

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. We reviewed the controls framework and governance process over the production of the Solvency Capital Requirement and Risk Margin 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 all 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.
- Reassessed our conclusions on going concern in the light of the information gained from the above procedures up to the date of signing these financial statements.

Based on the work performed and the evidence obtained, we consider the disclosure of the impact of COVID-19 in 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. In determining the scope of the audit, we performed risk assessment procedures which included understanding the business operations, internal control environment and process for the preparation of the financial information.

Based on the outputs of our risk assessment, we identified one financially significant component being the company's UK Life Insurance operations.

The company has established certain operational shared services 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 controls activities to support the production of the Company's financial information. Specified procedures were performed by PwC UK and PwC Sri Lanka audit teams over these UK and overseas shared service centres respectively.

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	£140 million (2018: £89 million).
How we determined it	0.04% of total assets (2018: based on 1% of three-year average net assets, adjusted for unallocated divisible surplus).
Rationale for benchmark applied	We believe the main users of the financial statements, being policyholders and the regulators, are most focused on balance sheet strength and ability to pay future claims. As such, we have changed our balance sheet benchmark from net assets adjusted for unallocated divisible surplus to total assets. Total assets is a generally accepted auditing benchmark and is considered a better reflection of the business in the current year and in the future.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £7 million (2018: £5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report to the members of Aviva Life & Pensions UK Limited (continued)

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

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, 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.

Independent auditors' report to the members of Aviva Life & Pensions UK Limited (continued)

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.

Gail Tucker (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

31 March 2020

Accounting policies

The Company, a private limited company incorporated and domiciled in the United Kingdom ("UK"), transacts life assurance and long term savings 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, investment properties, certain subsidiaries, associates and joint ventures, 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 L.

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 standards and amendments to existing standards 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 AC.

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 rate to a portfolio of leases with reasonably similar characteristics;
- Relied on existing assessment 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 a date of initial application; and
- Used hindsight in determining the lease term where 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 has resulted in a reduction of retained earnings of £31 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 (£58 million) and liabilities (£95 million), representing the right-of-use assets and liabilities, net of any tax impacts, not previously recognised on the balance sheet in accordance with *IAS 17*. There has been no material impact on profit before tax.

Future contractual aggregate minimum lease payments under non-cancellable operating leases were £124 million at 31 December 2018. Lease liabilities in respect of the Company's operating leases brought onto 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 payable under service contracts that were included as a commitment in prior periods, but do not meet the definition of a lease under *IFRS 16*.

The weighted average discount rate applied to the lease liabilities recognised at 1 January 2019 was 2.7%.

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*.

The following amendments to existing standards and International Financial Reporting Interpretations Committee ("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 consolidated financial statements.

Accounting policies (continued)

(ii) *IFRIC 23, Uncertainty over Income Tax Treatments*

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

(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 for the Company 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 as well as to certain guarantees and financial instruments with discretionary participation features. 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 model, supplemented by a specific adaptation 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 2018, 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. 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 carrying amount of the Company's liabilities connected with insurance exceeded 90% of the carrying amount of the Company's total liabilities as at 31 December 2015, when the assessment was performed in accordance with the date specified in the amendments to IFRS 4. As such, the Company is eligible to apply the deferral approach, as defined by the amendments to IFRS 4. The Company has opted to apply this deferral from 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 amendments are subject to IASB's due process.

The impact of the adoption of IFRS 9 on the Company's 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, *Financial Instruments*. IFRS 9 has been endorsed by the EU.

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 were endorsed by the EU on 29 November 2019.

(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.

(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 were endorsed by the EU on 29 November 2019.

Accounting policies (continued)

(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 were endorsed by the EU on 15 January 2020.

(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, with those judgements involving estimation summarised thereafter.

Item	Critical accounting judgement	Accounting policy
Insurance and participating investment contract liabilities	Assessment of the significance of insurance risk transferred to the Company in determining whether a contract should be accounted for as insurance or investment contract.	L
Financial investments	Classification of financial investments including the application of the fair value option.	T

Use of estimates

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

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

Item	Critical accounting estimates	Accounting policy	Note
Measurement of insurance and participating investment contract liabilities	Principal assumptions used in the calculation of life insurance and participating investment contract liabilities include those in respect of annuitant mortality, expenses, valuation interest rates and credit default allowances on corporate bonds and other non-sovereign credit assets.	L	25
Fair value of financial instruments (excluding loans), 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. Investment property valuations are based on techniques where significant estimates are applied in determining the rental uplift and discount rate. 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.	Q, T, X	15

Accounting policies (continued)

Item	Critical accounting estimates	Accounting policy	Note
Provisions and contingent liabilities	The Company holds provisions relating to two historical product governance issues. The amount of the provision is determined based on the Company's estimation of the expenditure required to settle the obligation at the statement of financial position date. The valuation of the provisions involves a high degree of judgement and estimation uncertainty due to either the time that has elapsed since the customer contracts were inception or due to the dependence on decisions to be made by customers.	AD	33, 38
Reinsurance assets	The assumptions used for reinsurance contracts follow those used for insurance and investment contracts. Reinsurance assets are valued net of an allowance for their recoverability.	N	29
Loans	The fair values of mortgage loans are estimated using discounted cash flow forecasts which reflects the risks associated with these products. The risk adjusted cash flows are discounted using a swap yield curve, taking into account the term dependent gilt yield curve, and global assumption for liquidity premium.	Y	16

(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 which are held to back policyholder liabilities and are managed on a fair value basis are stated at their fair values, estimated using applicable valuation models underpinned by the quoted market valuations of comparable listed entities.

Other 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.

(D) Associates and joint ventures

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.

Joint ventures are arrangements whereby the Company and other parties have joint control of the arrangement and rights to the net assets. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. In a number of these, the Company's share of the underlying assets and liabilities may be greater or less than 50% but the terms of the relevant agreements make it clear that control is not exercised. Such jointly controlled entities are referred to as joint ventures in these financial statements.

Investments in associates and joint ventures which are held to back policyholder liabilities and are managed on a fair value basis are stated at their fair values, estimated using applicable valuation models underpinned by the quoted market valuations of comparable listed entities.

Other investments in associates and joint ventures 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.

Property management undertakings

The Company has invested in a number of property limited partnerships ("PLPs"), either directly or via property unit trusts ("PUTs"), through a mix of capital and loans. The PLPs are managed by general partners ("GPs") in which the Company holds equity stakes and which themselves hold nominal stakes in the PLPs. The PUTs are managed by a fellow group subsidiary. Accounting for the PUTs and PLPs as subsidiaries, associates, joint ventures or other financial investments depends on the shareholdings in the GPs and the terms of each partnership agreement.

Where the Company exerts control over a PLP it has been treated as a subsidiary. Where the partnership is managed by a contractual agreement such that no party exerts control, notwithstanding that the Company's partnership share in the PLP (including its indirect stake via the relevant PUT and GP) may be greater than 50%, such PUTs and PLPs have been classified as joint ventures. Where the Company has significant influence over a partnership, but not control,

Accounting policies (continued)

the investment is classified as an associate. Where the Company holds minority stakes in PLPs, with no disproportionate influence, the relevant investments are carried at fair value through profit or loss within financial investments.

(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 the currency translation reserve within equity. 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 monetary financial assets measured at fair value and designated as held at fair value through profit or loss ("FVTPL") 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. 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 policy features are met and insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts. Some insurance and investment contracts contain a discretionary participation feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts.

As noted in 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 ("ABI") (subsequently withdrawn by the ABI in 2015).

(H) Premiums earned

Premiums on long-term insurance contracts and participating investment contracts are recognised as income when receivable, except for investment-linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular premium contracts, receivables are recognised at the date when payments are due. Premiums are shown before deduction of commission and before any sales-based taxes or duties. Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums.

Deposits collected under investment contracts without a discretionary participation feature (non-participating contracts) are not accounted for through the income statement, except for the fee income (covered in accounting policy J) and the investment income attributable to those contracts, but are accounted for directly through the statement of financial position as an adjustment to the investment contract liability.

(I) Other investment contract fee revenue

Investment contract policyholders are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's balance. Fees related to investment management services are recognised as revenue over time, as performance obligations are satisfied. In most cases this revenue is recognised in the same period in which the fees are charged to the policyholder. Fees that are related to services to be provided in future periods are deferred and recognised when the performance obligation is fulfilled. Variable consideration, such as performance fees and commission subject to clawback arrangements, is not recognised as revenue until it is reasonably certain that no significant reversal of amounts recognised would occur.

Initiation and other "front-end" fees (fees that are assessed against the policyholder balance as consideration for origination of the contract) are charged on some non-participating investment contracts. The front-end fees that relate to the provision of investment management services are deferred and recognised as the services are provided. Origination fees are recognised immediately where the sale of fund interests represent a separate performance obligation.

Accounting policies (continued)

(J) Other fee and commission income

All other fee and commission income are recognised over time as the services are provided.

(K) Net investment income

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

(L) Insurance and participating investment contract liabilities

Claims

Claims reflect the cost of all claims arising during the year, including claims handling costs, as well as policyholder bonuses accrued in anticipation of bonus declarations.

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.

Long-term business provisions

Under IFRS 4, insurance and participating investment contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting practices, with the exception of those relating to With-profits contracts. The Company has adopted FRS 27, *Life Assurance*, for liabilities relating to such contracts, which adds to the requirements of IFRS but does not vary them in any way.

Calculation of the long-term business provisions are based on regulatory requirements prior to the adoption of Solvency II and represent a determination within a range of possible outcomes, where the assumptions used in the calculations depend on the prevailing circumstances. The principal assumptions are disclosed in note 26. For With-profits funds FRS 27 requires liabilities to be calculated as the realistic basis liabilities, which are grandfathered from PRA requirements prior to the adoption of Solvency II, adjusted to remove the shareholders' share of future bonuses. For Non-profit funds the liabilities are calculated using the gross premium valuation method. This method uses the amount of contractual premiums payable and includes explicit assumptions for interest and discount rates, mortality and morbidity, persistency and future expenses. These assumptions are set on a prudent basis and can vary by contract type and reflect current and expected future experience. These estimates depend upon the outcome of future events and may need to be revised as circumstances change. The liabilities are based on the UK regulatory requirements prior to the adoption of Solvency II, adjusted to remove certain regulatory reserves and margins in assumptions, notably for annuity business.

Unallocated divisible surplus

In certain participating long-term insurance and investment business, the nature of the policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain. Amounts whose allocation either to policyholders or shareholders has not been determined by the end of the financial year are held within liabilities as an unallocated divisible surplus ("UDS").

If the aggregate carrying value of liabilities for a particular participating business fund is in excess of the aggregate carrying value of its assets, then the difference is held as a negative unallocated divisible surplus balance, subject to recoverability from margins in that fund's participating business. Any excess of this difference over the recoverable amount is charged to net income in the reporting period.

Embedded derivatives

Embedded derivatives that meet the definition of an insurance contract or correspond to options to surrender insurance contracts for a set amount (or based on a fixed amount and an interest rate) are not separately measured. All other embedded derivatives are separated and measured at fair value, if they are not considered as closely related to the host insurance contract or do not meet the definition of an insurance contract. Fair value reflects own credit risk to the extent the embedded derivative is not fully collateralised.

Liability adequacy

At each reporting date, an assessment is made of whether the recognised long-term business provisions are adequate, using current estimates of future cash flows. If that assessment shows that the carrying amount of the liabilities (less related assets) is insufficient in light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up an additional provision in the statement of financial position.

(M) Non-participating investment contract liabilities

Claims

For non-participating investment contracts with an account balance, claims reflect the excess of amounts paid over the account balance released.

Contract liabilities

Deposits collected under non-participating investment contracts are not accounted for through the income statement, except for the investment income attributable to those contracts, but are accounted for directly through the statement of financial position as an adjustment to the investment contract liability.

Accounting policies (continued)

The majority of the Company's contracts classified as non-participating investment contracts are unit-linked contracts and are measured at fair value. Certain liabilities for non-linked non-participating contracts are measured at amortised cost.

The liability's fair value is determined using a valuation technique to provide a reliable estimate of the amount for which the liability could be transferred in an orderly transaction between market participants at the measurement date, subject to a minimum equal to the surrender value. For unit-linked contracts, the fair value liability is equal to the current unit fund value, including any unfunded units. In addition, if required, additional non-unit reserves are held based on a discounted cash flow analysis. For non-linked contracts, the fair value liability is based on a discounted cash flow analysis, with allowance for risk calibrated to match the market price for risk.

(N) 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.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance and investment contract liabilities. This includes balances in respect of contracts which are legally reinsurance contracts but do not meet the definition of a reinsurance contract under IFRS. 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 of non-participating investment contracts and reinsurance contracts that principally transfer financial risk are accounted for directly through the statement of financial position. 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 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.

(O) Acquired value of in-force business and intangible assets

Acquired Value of in-force business ("AVIF")

The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of a subsidiary, is recognised as an asset. If the AVIF results from the acquisition of an investment in a joint venture or an associate, it is held within the carrying amount of that investment. The AVIF is amortised over the useful lifetime of the related contracts in the portfolio on a systematic basis. The rate of amortisation is chosen by considering the profile of the additional value of in-force business acquired and the expected depletion in its value. Non-participating investment contract AVIF is reviewed for evidence of impairment, consistent with reviews conducted for other finite life intangible assets. Insurance and participating investment contract AVIF is reviewed for impairment at each reporting date as part of the liability adequacy requirements of IFRS 4 (see accounting policy L). AVIF is reviewed for evidence of impairment and impairment tested at product portfolio level by reference to a projection of future profits arising from the portfolio and any reductions are charged as expenses in the income statement.

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 from three to 30 years, using the straight-line method. The amortisation charge for the period is included in the income statement under other expenses.

For intangibles with finite lives, impairment charges will be recognised in the income statement where evidence of such impairment is observed. Intangibles with indefinite lives are subject to regular impairment testing.

(P) 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. This excludes owner-occupied properties held under lease arrangements, which are measured at amortised cost. Refer to accounting policy AC for further information.

Investment properties under construction are included within property and equipment until completion, and are stated at cost less provision for any impairment in their values until construction is completed or fair value becomes reliably measurable.

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 as follows:

-	Properties under construction	No depreciation
-	Computer equipment	Three to five years
-	Other assets	Three to five years
-	Land	No depreciation

Accounting policies (continued)

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 and construction 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.

(Q) Investment property

Investment property, including both freehold and leasehold properties, 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 or by local qualified staff of the Group. Changes in fair values are recorded in the income statement within net investment income.

As described in policy P above, investment properties under construction are included within property and equipment, and are stated at cost less any provision for impairment in their values until construction is completed or fair value becomes reliably measurable.

(R) 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 which have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(S) 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.

(T) Financial investments

The Company classifies its investments as FVTPL. 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. Derivatives are classified as trading (see accounting policy X).

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. Investments classified as other than trading are subsequently carried at fair value. Changes in the fair value of trading and 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.

(U) Receivables

Receivables are initially recognised at cost, being fair value. Subsequent to initial measurement they are measured at amortised cost which, given the short term nature of these items, is considered a reasonable approximation of fair value.

(V) Payables and other financial liabilities

Payables and other financial liabilities, excluding derivatives, are initially recognised at cost, being fair value. Subsequent to initial measurement they are measured at amortised cost which, given the short term nature of these items, is considered a reasonable approximation of fair value.

(W) 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.

(X) Derivative financial instruments

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

Accounting policies (continued)

and, if so, the nature of the item being hedged. The Company has not designated any derivatives as hedging instruments 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. OTC derivative contracts are individually negotiated between contracting parties and include forwards, and swaps. 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 43.

The Company has collateral agreements in place with relevant counterparties. Accounting policy Z 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 interest 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. 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 decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

Interest rate futures, forwards and options contracts

Interest rate futures are exchange-traded instruments and represent commitments to purchase or sell a designated security or money market instrument at a specified future date and price. Interest rate forward agreements are OTC contracts in which two parties agree on an interest rate and other terms that will become a reference point in determining, in concert with an agreed notional principal amount, a net payment to be made by one party to the other, depending upon what rate in fact prevails at a future point in time. Interest rate options, which consist primarily of caps and floors, are interest rate protection instruments that involve the potential obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the buyer. This differential represents the difference between current rate and an agreed rate applied to a notional amount. Exposure to gain or loss on all interest rate contracts will increase or decrease over their respective lives as interest rates fluctuate. Certain contracts, known as swaptions, contain features which can act as swaps or options. These contracts are categorised according to the type of contract they most closely resemble in practice.

Foreign exchange contracts

Foreign exchange contracts, which include spot and 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.

(Y) Loans

Loans with fixed maturities, including policyholder loans, mortgage loans on investment property, securitised mortgages 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.

For the majority of mortgage loans, including commercial property, healthcare, Private Finance Initiative (“PFI”) and Equity Release mortgage loans, the Company has taken advantage of the fair value option under IAS 39, *Financial instruments - Recognition and Measurement*, to present the mortgages at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch that would otherwise arise from using different measurement bases for these items. The fair values of these mortgages are estimated using discounted cash flow models, based on a risk adjusted discount rate which reflects the risks associated with these products. They are revalued at each period end, with movements in their fair values being taken to the income statement.

Mortgage loans are classified as non-performing when there is objective evidence that they are not collectable either individually or collectively within a group of loans with similar credit risk characteristics. The fair value of non-performing loans is measured at the net recoverable value of the underlying property less costs to sell. Any subsequent recoveries are credited to the income statement.

Certain loans and advances to banks and infrastructure loans are also valued at fair value using discounted cash flow techniques, based on a risk adjusted discount rate which reflects the risks associated with these investments. They are revalued at each period end, with movements in their fair values being taken to the income statement.

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. The fair value of underlying collateral is estimated by reference to the most recent third-party surveyor valuations available. Subsequent recoveries in excess of the loan’s written down carrying value are credited to the income statement.

(Z) 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.

Accounting policies (continued)

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.

(AA) Deferred acquisition costs

Costs relating to the acquisition of new business for insurance and participating investment contracts are deferred to the extent that they are expected to be recovered out of future margins in revenues on these contracts.

For participating investment contracts, acquisition costs are generally not deferred as the liability for these contracts is calculated on a realistic basis which was grandfathered from UK regulatory requirements prior to the adoption of Solvency II (see accounting policy L). For non-participating investment and investment fund management contracts, incremental acquisition costs and sales enhancements that are directly attributable to securing an investment management service are also deferred.

Long-term business deferred acquisition costs are amortised systematically over a period no longer than that in which they are expected to be recoverable out of these future margins. Deferred acquisition costs for non-participating investment and investment fund management contracts are amortised over the period in which the service is provided.

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. Recoverability is assessed net of reinsurance.

(AB) 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 investment property, loans and financial investments are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance and investment contracts, net of payments of related benefits and claims.

(AC) Leases

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

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

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

(AD) Provisions and contingent liabilities

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

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

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.

Accounting policies (continued)

(AE) 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.

In addition to paying tax on shareholders' profits, the Company pays tax on policyholders' investment returns ("policyholder tax") on certain products at policyholder tax rates. Policyholder tax is accounted for as an income tax and is included in the total tax expense.

(AF) Borrowings

Borrowings are classified as being for either core structural or operational purposes. Borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. All borrowing costs are expensed as they are incurred except where they are directly attributable to the acquisition or construction of property and equipment as described in accounting policy P.

(AG) 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.

(AH) 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 policy to allocate this cost fully to the main trading companies. The recharge to the operating businesses is recognised as income in the income statement. Full disclosure of the Group's pension schemes is given in the Annual report and accounts of Aviva plc.

(AI) Business transfer to subsidiaries

The Part VII transfer during the year meets the definition of business combinations under common control which are scoped out of the requirements of IFRS 3, *Business Combinations*. The approach applied in respect of this transfer has been to recognise the net value of assets and liabilities transferred out as a capital contribution to subsidiary. The value of assets and liabilities transferred out has been determined using the carrying value in the statement of financial position as stated on the transfer date.

Income statement

For the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Income	2		
Gross written premiums		9,151	7,039
Premiums ceded to reinsurer		(4,578)	(3,600)
Premiums written, net of reinsurance	H	4,573	3,439
Fee and commission income	I	753	802
Net investment income/(expense)	K	27,135	(7,167)
		32,461	(2,926)
Expenses	3		
Claims and benefits paid, net of recoveries from reinsurers		(7,807)	(8,571)
Change in insurance liabilities, net of reinsurance	25,29	1,585	4,464
Change in investment contract provisions	27	(16,877)	7,722
Change in unallocated divisible surplus	31	174	281
Fee and commission expense		(495)	(829)
Other expenses		(956)	(850)
Finance (costs)/income		(6,251)	1,283
		(30,627)	3,500
Profit before tax		1,834	574
Tax (charge)/credit	7	(699)	262
Profit for the year		1,135	836

The accounting policies (identified alphabetically) on pages 19 to 29 and notes (identified numerically) on pages 35 to 105 are an integral part of the financial statements.

Statement of comprehensive income

For the year ended 31 December 2019

	2019	2018
	£m	£m
Profit for the year	1,135	836
Other comprehensive (expense)/income:		
<i>Items that may be reclassified subsequently to income statement:</i>		
Foreign exchange rate movements	(3)	4
Total other comprehensive (expense)/income, net of tax	(3)	4
Total comprehensive income for the year	1,132	840

The accounting policies (identified alphabetically) on pages 19 to 29 and notes (identified numerically) on pages 35 to 105 are an integral part of the financial statements.

Statement of changes in equity

For the year ended 31 December 2019

Notes	2019				
	Ordinary Share Capital	Currency translation reserve	Other equity	Retained earnings	Total equity
	£m	£m	£m	£m	£m
Balance at 1 January	192	16	609	4,119	4,936
Adjustment at 1 January for adoption of IFRS 16	—	—	—	(31)	(31)
Balance at 1 January restated	192	16	609	4,088	4,905
Profit for the year	—	—	—	1,135	1,135
Other comprehensive income	—	(3)	—	—	(3)
Total comprehensive income for the year	—	(3)	—	1,135	1,132
Interest paid on other equity instruments	—	—	—	(28)	(28)
Tax relief on other equity instruments	7(b)(ii)	—	—	5	5
Transfer to retained earnings	22	(13)	—	13	—
Other movements	—	—	—	3	3
Issue of share capital	AG,21	151	—	—	151
<i>Transactions with owners in their capacity as owners:</i>					
Dividends paid	AG,8	—	—	(1,294)	(1,294)
Balance at 31 December	343	—	609	3,922	4,874

For the year ended 31 December 2018

Notes	2018				
	Ordinary Share Capital	Currency translation reserve	Other equity	Retained earnings	Total equity
	£m	£m	£m	£m	£m
Balance at 1 January	192	12	495	5,546	6,245
Profit for the year	—	—	—	836	836
Other comprehensive income	—	4	—	—	4
Total comprehensive income for the year	—	4	—	836	840
Restricted tier 1 subordinated notes (issued in May 2018)	AG,24	—	114	—	114
Interest paid on other equity instruments	—	—	—	(26)	(26)
Tax relief on other equity instruments	7(b)(ii)	—	—	4	4
<i>Transactions with owners in their capacity as owners:</i>					
Dividends paid	AG,8	—	—	(2,241)	(2,241)
Balance at 31 December	192	16	609	4,119	4,936

The accounting policies (identified alphabetically) on pages 19 to 29 and notes (identified numerically) on pages 35 to 105 are an integral part of the financial statements.

Statement of financial position

AS at 31 December 2019

	Notes	2019 £m	2018 £m
Assets			
Acquired value of in-force business and intangible assets	O,9	44	58
Investments in subsidiaries	C,10	1,971	1,376
Investments in joint ventures and associates	D,11	844	855
Property and equipment	P,12	53	—
Investment property	Q,13	4,879	5,640
Loans	Y,16	27,145	25,042
Financial investments	T,18	191,095	175,369
Reinsurance assets	N,29	62,079	56,085
Receivables	U,19	3,950	3,961
Deferred acquisition costs	AA,20	1,585	1,702
Prepayments and accrued income	20	1,122	1,253
Current tax assets	AE,32	99	—
Cash and cash equivalents	AB,40	22,239	23,155
Total assets		317,105	294,496
Equity			
Ordinary share capital	AG,21	343	192
Other equity	24	609	609
Currency translation reserve	E,22	—	16
Retained earnings	23	3,922	4,119
Total equity		4,874	4,936
Liabilities			
Gross insurance liabilities	L,25	99,703	97,265
Gross liabilities for investment contracts	L,M,27	140,200	127,219
Unallocated divisible surplus	L,31	2,081	2,420
Deferred tax liabilities	AE,32	569	363
Current tax liabilities	AE,32	368	338
Borrowings	AF,35	1,106	1,433
Payables and other financial liabilities	V,36	67,026	59,637
Provisions	AD,33	568	394
Other liabilities	37	610	491
Total liabilities		312,231	289,560
Total equity and liabilities		317,105	294,496

The financial statements were approved by the Board of directors on 31 March 2020 and signed on its behalf by David Rogers:

Director

The accounting policies (identified alphabetically) on pages 19 to 29 and notes (identified numerically) on pages 35 to 105 are an integral part of the financial statements.

Statement of cash flows

For the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated from operating activities	40	2,073	3,095
Tax paid		(521)	(283)
Total net cash generated from operating activities		1,552	2,812
Cash flows used in investing activities			
Acquisition of subsidiaries, joint ventures and associates	10,11	(558)	(208)
Disposal of subsidiaries, joint ventures and associates	10,11	142	140
Cash transferred to subsidiary		(867)	—
Total net cash used in investing activities		(1,283)	(68)
Cash flows used in financing activities			
Interest paid on other equity instruments		(28)	(26)
Dividends paid	8	(1,294)	(2,150)
Proceeds from issue of Restricted Tier 1 Subordinated Notes		—	114
New borrowings		—	50
Repayment of borrowings	35	(176)	—
Total net cash used in financing activities		(1,498)	(2,012)
Total net (decrease)/increase in cash and cash equivalents		(1,229)	732
Cash and cash equivalents at 1 January		23,062	22,318
Effect of exchange rate changes on cash and cash equivalents		(26)	12
Cash and cash equivalents at 31 December	40	21,807	23,062

The accounting policies (identified alphabetically) on pages 19 to 29 and notes (identified numerically) on pages 35 to 105 are an integral part of the financial statements.

Notes to the financial statements

1. Exchange rates

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

	2019	2018
Euro	1.1802	1.1141

2. Details of income

	2019 £m	2018 £m
Gross written premiums		
Long-term insurance business	9,151	7,039
	9,151	7,039
Less: premiums ceded to reinsurers	(4,578)	(3,600)
Net earned premiums	4,573	3,439
Fee and commission income		
Fee income from investment contract business	753	802
Total revenue	5,326	4,241
Net investment income		
Interest and similar income	2,347	2,790
Dividend income	3,293	2,873
Other income from investments designated as trading		
Realised gains/(losses) on disposals	1,432	(705)
Unrealised gains and losses		
Gains/(losses) arising in the year	1,739	(902)
(Losses)/gains recognised now realised	(1,685)	413
Other income from investments designated as other than trading		
Realised gains on disposals	4,523	3,927
Unrealised gains and losses		
Gains/(losses) arising in the year	20,887	(11,455)
Losses recognised now realised	(4,927)	(4,391)
Net income from investment properties		
Rent	266	290
Expenses relating to these properties	(21)	(19)
Realised gains on disposal	33	44
Fair value (losses)/gains on investment properties	(181)	100
Foreign exchange (losses)/gains on investments other than trading	(335)	134
Other investment expenses	(236)	(266)
Net investment income/(expenses)	27,135	(7,167)
Total income	32,461	(2,926)

Notes to the financial statements (continued)**3. Details of expenses**

	2019	2018
	£m	£m
Claims & benefits paid		
Claims and benefits paid to policyholders on long-term business		
Insurance contracts	9,346	9,442
Participating investment contracts	1,498	2,216
	10,844	11,658
Less: Claim recoveries from reinsurers		
Insurance contracts	(3,036)	(3,011)
Participating investment contracts	(1)	(76)
Claims and benefits paid, net of recoveries from reinsurers	7,807	8,571
Change in insurance liabilities		
Change in insurance liabilities	4,928	(6,117)
Change in reinsurance asset for insurance provisions	(6,513)	1,653
Change in insurance liabilities, net of reinsurance	(1,585)	(4,464)
Change in investment contract provisions		
Investment expense / (income) allocated to investment contracts	15,677	(6,422)
Participating investment contracts	1,200	(1,300)
Change in investment contract provisions	16,877	(7,722)
Change in unallocated divisible surplus	(174)	(281)
Fee and commission expense		
Commission expenses (for insurance and participating investment contracts)	473	610
Change in deferred acquisition costs (for insurance and participating investment contracts)	24	(43)
Commission expenses for non-participating investment contracts	3	12
Change in deferred acquisition costs for non-participating investment contracts	(71)	154
Other fee and commission expense	66	96
	495	829
Other expenses		
Amortisation and impairment of AVIF and intangible assets	18	21
Other expenses	950	1,066
Less: Other expenses ceded to reinsurers	(12)	(237)
	956	850
Finance costs		
Investment expense on quota share reinsurance (note 45a)	6,128	(1,395)
Other similar charges	123	112
	6,251	(1,283)
Total expenses	30,627	(3,500)

Notes to the financial statements (continued)

4. Employee information

The Company has no employees (2018: nil). All employees are employed by AESL. Disclosures relating to employee remuneration and the average number of persons employed are made in the financial statements of AESL.

5. Directors' remuneration

Ms Darlington, Messrs Briggs, Windsor and Rogers were remunerated by AESL, a fellow subsidiary of Aviva plc.

Ms Darlington's, Messrs Briggs', Windsor's and Rogers' remuneration is disclosed within the aggregate of key management compensation in note 45.

The fees for Ms Gooding, Messrs Carvill, Howe, O'Roarke, Patel and Trickett are paid for and borne by the Company. In addition, Ms Gooding, Messrs Patel and O'Roarke received fees in respect of services as a Non-Executive Director of Aviva Insurance Limited, which is also a subsidiary of Aviva plc, and these are disclosed in the financial statements of that company. Furthermore, Mr Howe received a fee in respect of his services as a Non-Executive Director of Aviva International Insurance Limited, which is also a subsidiary of Aviva plc, and this is disclosed in the financial statements of that company.

The emoluments of the directors are shown in the table below:

	2019	2018
	£'000	£'000
Aggregate emoluments	3,008	2,866
Company pension contributions to a money purchase scheme	363	331
	3,371	3,197

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, none of the directors (2018: none) 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 four of the directors were granted shares under long-term incentive schemes (2018: two) in relation to shares of the Company's ultimate parent company, Aviva plc.

The details of the highest paid director are as follows:

	2019	2018
	£'000	£'000
Aggregate emoluments	871	1,422
Company pension contributions to a money purchase scheme	176	209
	1,047	1,631

Notes to the financial statements (continued)

6. Auditors' remuneration

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

	2019	2018
	£'000	£'000
Fees payable to PwC LLP for the statutory audit of the Company's financial statements	2,648	2,711
Audit related assurance services	1,543	1,400
	4,191	4,111

Fees payable for audit related assurance include fees in relation to the audit of the Solvency II 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 accounts of Aviva plc.

7. Tax

(a) Tax charge/(credit) to the income statement

(i) The total tax charge/(credit) comprises:

	2019	2018
	£m	£m
Current tax		
For this year	641	258
Prior period adjustments	(170)	(32)
Total current tax	471	226
Deferred tax		
Origination and reversal of temporary differences	228	(488)
Total deferred tax	228	(488)
Total tax charged/(credited) to the income statement	699	(262)

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

	2019	2018
	£m	£m
Deferred acquisition costs	(12)	(19)
Unrealised gains / (losses) on investments	261	(469)
Provisions and other temporary differences	(21)	—
Total deferred tax charged/(credited) to the income statement	228	(488)

(b)(i) Tax credited to other comprehensive income

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

(b)(ii) Tax credited to equity

Tax credited directly to equity in the year in respect of coupon payments on the direct capital instrument and tier 1 notes amounted to £5 million (2018: £4 million).

Notes to the financial statements (continued)**(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:

	2019	2018
	£m	£m
Profit before tax	1,834	574
Tax calculated at standard UK corporation tax rate of 19% (2018: 19%)	349	109
Different basis of tax - policyholders	402	(374)
Adjustments in respect of prior years	1	(7)
Non- assessable income and items not taxed at full statutory rate	(46)	18
Different local basis of tax on overseas profits	(2)	(2)
Movement in deferred tax not recognised	(5)	(3)
Movement in unrealised gains	—	(3)
Tax charged/(credited) for the year	699	(262)

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 the 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 liability by approximately £13 million.*

8. Dividends

	2019	2018
	£m	£m
Ordinary dividends declared and charged to equity in the year:		
Final 2018 – 201.56 pence per share, paid on 6 June 2019	387	—
Final 2018 – 104.17 pence per share, paid on 10 May 2019	200	—
Final 2018 – 143.23 pence per share, paid on 9 May 2019	275	—
Final 2017 – 635.42 pence per share, paid on 10 May 2018	—	1,255
Interim 2019 – 117.71 pence per share, paid on 17 December 2019	226	—
Interim 2019 – 107.29 pence per share, paid on 18 September 2019	206	—
Interim 2018 – 27.60 pence per share, paid on 14 December 2018	—	53
Interim 2018 – 335.94 pence per share, paid on 11 December 2018	—	645
Interim 2018 – 47.40 pence per share, paid in specie on 30 September 2018	—	91
Interim 2018 – 102.60 pence per share, paid on 12 September 2018	—	197
	1,294	2,241

Notes to the financial statements (continued)

9. Acquired value of in-force business and intangible assets

	AVIF £m	Intangible assets £m	Total £m
Gross amount			
At 1 January 2018	168	121	289
At 31 December 2018	168	121	289
Additions and transfers	—	4	4
At 31 December 2019	168	125	293
Accumulated amortisation			
At 1 January 2018	(74)	(24)	(98)
Amortisation for the year	(8)	(13)	(21)
At 31 December 2018	(82)	(37)	(119)
Amortisation for the year	(7)	(11)	(18)
At 31 December 2019	(89)	(48)	(137)
Accumulated impairment			
At 1 January 2018	(44)	(68)	(112)
At 31 December 2018	(44)	(68)	(112)
At 31 December 2019	(44)	(68)	(112)
Carrying amount			
At 1 January 2018	50	29	79
At 31 December 2018	42	16	58
At 31 December 2019	35	9	44

Intangible assets consist primarily of costs relating to capitalised software which are being amortised over three to five years.

Of the total carrying value of AVIF of £35 million (2018: £42 million), £19 million relates to insurance contracts (2018: £24 million) and £16 million relates to investment contracts (2018: £18 million).

£28 million (2018: £34 million) is expected to be recovered more than one year after the statement of financial position date.

10. Investments in subsidiaries

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

	2019 £m	2018 £m
At 1 January	1,376	1,415
Transfers to subsidiaries	169	—
Additions	439	190
Disposals	(18)	(13)
Impairments	(1)	(7)
Fair value gains/(losses)	6	(209)
At 31 December	1,971	1,376

Distributions received from subsidiaries during the year amounted to £90 million (2018: £34 million).

(b) Material movements

ALPI

On 31 May 2018, the Company acquired 100% of Friends First, an Irish insurer, for a consideration of €146 million (£127 million).

On 5 March 2019, the Company made a capital contribution of €200 million (£176 million) to Friends First in advance of the Part VII scheme transfer (see note 46).

Under the Part VII scheme transfer, transferring assets and liabilities totalling £169 million have been treated as a capital contribution and therefore recorded as an increase to the Company's investment in ALPI.

On 29 March 2019 Friends First was renamed Aviva Life and Pensions Ireland DAC ("ALPI").

Notes to the financial statements (continued)

Subsequent to the Part VII and in accordance with the covenant of the scheme transfer, capital has been transferred into ALPI from the Company to ensure ALPI was effectively capitalised to 150% of the SCR ratio. On 26 June 2019 and then 23 December 2019, the Company made capital contributions of €52 million (£46 million) and €29 million (£25 million) respectively. A further €32 million (£27 million) capital commitment was recognised as at 31 December 2019, to be settled in 2020.

(c) Related undertakings

Refer to note 47 for details of all related undertakings

11. Investments in joint ventures and associates

Movements in the Company's investments in joint ventures and associates are as follows:

	2019	2018
	£m	£m
At 1 January	855	929
Transfer to financial investments	—	(54)
Transfer to investments in subsidiaries	(6)	—
Additions	119	18
Disposals	(118)	(74)
Fair value (losses)/gains	(6)	36
At 31 December	844	855

A full list of joint ventures and associates is included within the list of significant holdings in undertakings other than subsidiary undertakings in note 47. Distributions received from joint ventures and associates during the year amounted to £24 million (2018: £27 million).

The joint ventures have no significant contingent liabilities to which the Company is exposed, nor has the Company any significant contingent liabilities in relation to its interest in the joint ventures.

Most of the PLPs have raised external debt, secured on their respective property portfolios. The lenders are only entitled to obtain payment, of both interest and principal, to the extent that there are sufficient resources in the respective PLPs. The lenders have no recourse whatsoever to the Company.

12. Property and equipment

	Owner-occupied properties
	£m
Cost or valuation	
At 1 January 2018	—
At 31 December 2018	—
Adjustment at 1 January for adoption of IFRS 16 ¹	220
1 January 2019	220
Additions	4
At 31 December 2019	224
Depreciation and impairment	
At 1 January 2018	—
At 31 December 2018	—
Adjustment at 1 January for adoption of IFRS 16 ¹	(162)
1 January 2019	(162)
Charge for the year	(9)
At 31 December 2019	(171)
Carrying amount	
At 1 January 2018	—
At 31 December 2018	—
At 31 December 2019	53

¹The Group has adopted IFRS 16 Leases from 1 January 2019. In line with the transition options available, prior period comparatives have not been restated and the impact of the adoption has been shown as an adjustment to opening property and equipment.

Owner-occupied properties held under lease arrangements are stated at amortised cost and are amortised on a straight-line basis over the lease term. For further information on the Company's lease arrangements see note 14.

Notes to the financial statements (continued)

13. Investment property

	2019			2018		
	Freehold £m	Leasehold £m	Total £m	Freehold £m	Leasehold £m	Total £m
Carrying value						
At 1 January	4,271	1,369	5,640	4,340	1,374	5,714
Additions	94	155	249	110	39	149
Capitalised expenditure on existing properties	116	64	180	86	10	96
Fair value (losses)/gains	(67)	(81)	(148)	135	9	144
Disposals	(633)	(151)	(784)	(319)	(147)	(466)
Transfer from Leasehold to Freehold	3	(3)	—	(82)	82	—
Scheme Transfer to subsidiary (note 46)	(72)	(180)	(252)	—	—	—
Foreign exchange rate movements	(2)	(4)	(6)	1	2	3
At 31 December	3,710	1,169	4,879	4,271	1,369	5,640

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:

- £58 million owner-occupied property assets, included within Property and equipment (see note 12);
- £6 million deferred tax assets; and
- £95 million lease liabilities, included within Payables and other financial liabilities (see note 36).

The Company's leased assets primarily consist of properties occupied by Group companies carried at amortised cost (see note 12) and leasehold investment properties carried at fair value (see note 13) which are sublet to third parties.

Although the Company is exposed to changes in the residual value at the end of the current leases, 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) The following amounts in respect of leased assets have been recognised in the Company's income statement.

	2019 £m
Interest expense on lease liabilities	2
Total lease expense recognised in the income statement	2

Total cash outflows recognised in the period in relation to leases were £18 million. Expenses recognised in the 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.

	Property and equipment £m
Balance at 1 January	58
Additions	4
Depreciation	(9)
Balance at 31 December	53

There were no gains arising from sale and leaseback transactions during the year. Included within the income statement is £1.6 million of income in respect of sublets of right of use assets.

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

Notes to the financial statements (continued)

	2019
	£m
Within 1 year	21
Later than 1 year and not later than 5 years	76
Later than 5 years	42
Total undiscounted lease liabilities	139

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
	£m
Within 1 year	222
Between 1 and 2 years	199
Between 2 and 3 years	180
Between 3 and 4 years	159
Between 4 and 5 years	131
Later than 5 years	1,009
Total undiscounted lease payments receivable	1,900

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 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

Significant 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

Notes to the financial statements (continued)

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 equity release and commercial mortgages, plus 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.

Investments in subsidiaries and associates recorded at fair value are based on estimates and recorded as Level 3 investments. 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.

(b) Changes to valuation techniques

There were no changes in the valuation techniques during the year compared to those described in the 2018 Annual report and financial statements.

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

Set out below is a comparison of the carrying amounts and fair values of financial assets/liabilities:

	2019		2018	
	Fair value	Carrying amount	Fair value	Carrying amount
	£m		£m	
Financial assets				
Loans	2,041	2,042	2,409	2,447
Financial liabilities				
Borrowings	1,257	1,106	1,488	1,433

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 Group 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 splits the Group'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.

	2019	
	SPPI - fair value	Non-SPPI - fair value
	£m	£m
Debt securities	—	59,556
Equity securities	—	27,476
Loans	2,041	25,103
Receivables	2,062	1,891
Cash and cash equivalents	2,189	20,050
Other financial assets	—	104,063
Total	6,292	238,139

Notes to the financial statements (continued)

	2018	
	SPPI - fair value	Non-SPPI - fair value
	£m	£m
Debt securities	—	61,854
Equity securities	—	25,262
Loans	2,409	22,595
Receivables	2,304	1,657
Cash and cash equivalents	1,289	21,866
Other financial assets	—	88,253
Total	6,002	221,487

There has been a £27 million increase (2018: £10 million increase) in the fair value of SPPI instruments, and a £14,529 million increase (2018: £11,692 million decrease) in the fair value of Non-SPPI instruments during the reporting period.

Instruments within the Non-SPPI - fair value category 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 SPPI on the principal amount outstanding.

Notes to the financial statements (continued)

(d) Fair value hierarchy

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

	Level 1	Level 2	Level 3	2019 Total
	£m	£m	£m	£m
Recurring fair value measurements				
Financial investments and loans				
Debt securities	18,044	31,927	9,585	59,556
Equity security investments	27,475	—	1	27,476
Investment property	—	—	4,879	4,879
Loans	—	—	25,103	25,103
Other investments	97,636	4,966	1,461	104,063
Investment in subsidiaries	—	—	1,129	1,129
Investment in joint ventures and associates	—	—	844	844
Total	143,155	36,893	43,002	223,050
Financial liabilities				
Non-participating investment contracts	118,218	—	—	118,218
Deposits received from reinsurers	—	—	56,046	56,046
Derivative liabilities	206	4,139	282	4,627
Total	118,424	4,139	56,328	178,891

	Level 1	Level 2	Level 3	2018 Total
	£m	£m	£m	£m
Recurring fair value measurements				
Financial investments and loans				
Debt securities	19,013	33,955	8,886	61,854
Equity security investments	25,259	—	3	25,262
Investment property	—	—	5,640	5,640
Loans	—	518	22,077	22,595
Other investments	83,128	3,740	1,385	88,253
Investment in subsidiaries	—	—	1,010	1,010
Investment in joint ventures and associates	—	—	855	855
Total	127,400	38,213	39,856	205,469
Financial liabilities				
Non-participating investment contracts	105,141	—	—	105,141
Deposits received from reinsurers	—	—	49,235	49,235
Derivative liabilities	276	3,928	201	4,405
Total	105,417	3,928	49,436	158,781

(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.

Transfers between levels of fair value hierarchy

There were no transfers from fair value hierarchy Level 1 to Level 3 in respect of equity securities (2018: £ nil).

Transfers from fair value hierarchy Level 2 to Level 3 amounted to £1,576 million (2018: £846 million). The transfers arose in respect of debt securities of £1,058 million (2018: debt securities and other investments of £691 million and £155 million respectively). Following a review, £518 million of loans were transferred from fair value hierarchy Level 2 to Level 3 due to unobservable factors used in the discounted cash-flow models. Transfers out of fair value hierarchy Level 3 to Level 2 amounted to £354 million (2018: £498 million) in respect of debt securities (2018: £498 million debt securities). These reclassifications arose as the result of a review of internal valuation techniques.

Notes to the financial statements (continued)

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

Please see 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 and stale price reviews. 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.

(g) Further information on Level 3 financial instruments

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

	Assets						
	2019						
	Debt securities £m	Equity securities £m	Investment property £m	Loans £m	Other investments £m	Investment in subsidiaries £m	Investment in JV and associates £m
Opening balance at 1 January 2019	8,886	3	5,640	22,077	1,385	1,010	855
Scheme Transfer to subsidiary (note 46)	—	—	(252)	(256)	—	—	—
Total net (losses) / gains recognised in the income statement	(95)	1	(148)	1,123	(21)	5	(7)
Foreign exchange rate movements	(5)	—	(6)	(6)	—	—	—
Purchases	1,029	—	429	2,583	199	132	119
Disposals	(934)	(3)	(784)	(936)	(102)	(18)	(123)
Transfers into level 3	1,058	—	—	518	—	—	—
Transfers out of level 3	(354)	—	—	—	—	—	—
Balance at 31 December 2019	9,585	1	4,879	25,103	1,461	1,129	844

	Liabilities	
	2019	
	Deposits received from reinsurers £m	Derivative liabilities £m
Opening balance at 1 January 2019	(49,235)	(201)
Total net losses recognised in the income statement	(6,128)	(23)
Purchases	(683)	(146)
Disposals	—	88
Balance at 31 December 2019	(56,046)	(282)

	Assets						
	2018						
	Debt securities £m	Equity securities £m	Investment property £m	Loans £m	Other investments £m	Investment in subsidiaries £m	Investment in JV and associates £m
Opening balance at 1 January 2018	6,662	34	5,714	21,531	1,031	1,227	929
Total net (losses) / gains recognised in the income statement	(91)	(29)	144	(611)	(87)	(209)	36
Foreign exchange rate movements	—	—	3	3	—	—	—
Purchases	2,855	—	245	2,712	779	5	18
Disposals	(733)	—	(466)	(1,558)	(493)	(13)	(128)
Transfers into level 3	691	—	—	—	155	—	—
Transfers out of level 3	(498)	(2)	—	—	—	—	—
Balance at 31 December 2018	8,886	3	5,640	22,077	1,385	1,010	855

Notes to the financial statements (continued)

	Liabilities	
	2018	
	Deposits received from reinsurers	Derivative liabilities
	£m	£m
Opening balance at 1 January 2018	(50,203)	(114)
Total net gains / (losses) recognised in the income statement	1,395	(20)
Purchases	(427)	(77)
Disposals		10
Balance at 31 December 2018	(49,235)	(201)

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

(i) Investment in subsidiaries, JV and associates

Investments in subsidiaries, joint ventures and associates are valued at cost, with the exception of those backing policyholder liabilities which are stated at their fair values, estimated using applicable valuation models underpinned by the quoted market valuations of comparable listed entities.

(ii) Investment in property

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.

(iii) Loans

Mortgage loans including commercial property, healthcare, and Private Finance Initiative ("PFI") are valued using a Portfolio Credit Risk Model ("PCRM"). This model calculates a Credit Risk Adjusted Value ("CRAV") for each mortgage. The contractual cash flows are adjusted for credit risk and discounted using a swap curve and global assumptions for the liquidity premium. The model explicitly calculates the additional return that would be demanded by investors due to uncertainties in the asset cash flows. The mortgage loans have been classified as Level 3 as the liquidity premium is not deemed to be market observable. The liquidity premium used in the discount rate ranges between 35 bps to 175 bps (2018: 45 bps to 250 bps) as at 31 December 2019.

Equity release mortgage loans are valued using an internal model, with fair value initially being equal to the transaction price. The value of these loans is dependent on the expected term of the mortgage and the forecast property value at the end of the term, and is calculated by adjusting future cash flows for credit risk and discounting using a yield curve plus an allowance for illiquidity. At 31 December 2019 the illiquidity premium used in the discount rate was 160 bps (2018: 210 bps).

The mortgages have a no negative equity guarantee ("NNEG") such that the cost of any potential shortfall between the value of the loan and the realised value of the property, at the end of the term, is recognised by a deduction to the value of the loan. Property valuations at the reporting date are obtained by taking the most recent valuation for the property and indexing using market observable regional house price indices.

NNEG is calculated using base property growth rates reduced for the cost of potential dilapidations, using a stochastic model. In addition, a cost of capital charge is applied to reflect the variability in these cashflows. The base property growth rate assumption is Retail Price Index ("RPI")RPI +0.75% (2018: RPI +0.75%) which equates to a long-term average growth rate of 4.0% pa (2018: 4.3% pa). After applying the cost of capital charge, dilapidations and the stochastic distribution, the effective net long-term growth rate equates to 0.5% pa (2018:0.6% pa).

Mortgage loan assumptions for future property prices and rental income also include an allowance for the possible adverse impact of the decision for the UK to leave the European Union.

Loans and advances to banks are valued using a discounted cash flow ("DCF") methodology whereby risk adjusted cash-flows are discounted to give the present value. The model considers the likelihood of the counterparty defaulting along with the performance of the underlying collateral in the event of counterparty default. Losses occur in scenarios where the counterparty defaults and the value of the collateral is below the loan advanced.

A portfolio of non-PFI infrastructure loans are valued using a DCF methodology whereby future cashflows are discounted at risk free, plus a spread over risk free reflecting both credit and illiquidity risk. Credit spreads are assessed based on the rating of each loan and the expected recovery in the event of default.

A portfolio of UK Commercial Real Estate loans are valued using a DCF methodology where future cashflows are discounted at risk free, plus a spread over risk free reflecting the market rate for new mortgages of comparable credit risk.

(iv) Debt and equity securities

Private equity investment funds held by the Company amount to £565 million (2018: £570 million). In valuing its interest in these funds, the Company relies on quarterly investment valuation reports received from the fund manager as well as fully audited accounts received on an annual basis. Adjustments to fair values are made to reflect draw downs and distributions made between the date of the most recent valuation report received from the fund manager and the reporting date. In accordance with Solvency II requirements, the Company also undertakes an annual assessment to estimate the extent of uncertainty inherent in the valuation of private equity funds.

Other private, fixed maturity securities held by the Company amounting to £5,186 million (2018: £5,027 million). Comprising a range of different structures and exposures, these assets are all illiquid and are valued using internally developed models, which typically discount future cash flows at risk free, plus spreads reflecting credit and illiquidity risk.

Notes to the financial statements (continued)

(v) Deposits with ceding undertakings

The value of deposits received from reinsurers of £56,046 million (2018: £49,235 million) is driven by the value of the underlying assets held by the Company that are attributable to Aviva International Insurance Limited ("All") under the quota share arrangement of 50% (2018: 50%). The deposit assets and liabilities have been classified as Level 3 given the underlying assets are valued using unobservable inputs. Changing the unobservable inputs to the valuation of the underlying assets will have a direct proportionate impact on the valuation of the deposit assets and liabilities.

Sensitivities

Where possible, the Company tests the sensitivity of the fair values of Level 3 liabilities to changes in unobservable inputs to reasonable alternatives. Sensitivities are determined by flexing inputs of internal models to a reasonable alternative, including the yield, NAV multiple or other suitable valuation multiples of the financial instrument implied by the third-party valuation. On the basis of the methodology outlined in the table below, the Company is able to perform sensitivity analysis for £43,002 million (2018: £39,856 million) of the Company's Level 3 liabilities.

Notes to the financial statements (continued)

The table below shows the sensitivity of the fair value of Level 3 investments at 31 December to changes in unobservable inputs to a reasonable alternative:

	2019		Reasonable alternative	Change in fair value	
	Fair value	Most significant unobservable inputs		Positive impact	Negative impact
	£m			£m	£m
<u>Investments in subsidiaries</u>					
PLPs and other subsidiaries	1,129	Multiple of IFRS net asset value	±5% of NAV	56	(56)
<u>Investments in joint ventures and associates</u>					
	844	Multiple of IFRS net asset value	±5% of NAV	42	(42)
<u>Investment property</u>					
	4,879	Expected rental yields	±5% of NAV	244	(244)
<u>Loans</u>					
Commercial mortgages	8,870	Illiquidity premium	±20bp	119	(109)
Healthcare, infrastructure and PFI unsecured loans	1,636	Illiquidity premium	±20bp	29	(28)
Equity release mortgages	7,977	Base property growth rate	±10%	139	(157)
		Current property market values	±10%	236	(280)
Loans and advances to banks	302	Discounts spreads and collateral values	±25bps	10	(12)
Loans to Subsidiaries	232	Illiquidity premium	±50bp	—	(1)
Other loans	6,086	Illiquidity premium	±20bp	95	(90)
<u>Debt Securities</u>					
	9,585	Credit and liquidity spreads	±25bps on discount spread	235	(211)
<u>Equity securities</u>					
Unlisted/private equities directly held	1	Market spread (credit, liquidity and other)	±25bps	—	—
<u>Other investments (including derivatives)</u>					
	1,461	Multiple of IFRS net asset value	±10-40%	278	(99)
Total Level 3 investments	43,002			1,483	(1,329)

Notes to the financial statements (continued)

	2018		Reasonable alternative	Change in fair value	
	Fair value	Most significant unobservable inputs		Positive impact	Negative impact
	£m			£m	£m
Investments in subsidiaries					
PLPs and other subsidiaries	1,010	Multiple of IFRS net asset value	±5% of NAV	50	(50)
<u>Investments in joint ventures and associates</u>	855	Multiple of IFRS net asset value	±5% of NAV	43	(43)
<u>Investment property</u>	5,640	Expected rental yields	±5% of NAV	282	(282)
Loans					
Commercial mortgages	8,325	Illiquidity premium	±20bp	115	(108)
Healthcare, infrastructure and PFI unsecured loans	1,528	Illiquidity premium	±20bp	62	(59)
Equity release mortgages	6,493	Property values	±10% property	207	(243)
Loans and advances to banks	303	Discounts spreads and collateral values	±25bps	10	(10)
Loans to Subsidiaries	230	Property values	±10% property	8	(9)
Other loans	5,198	Illiquidity premium	±20bp	81	(77)
<u>Debt Securities</u>	8,886	Credit and liquidity spreads	±25bps on discount spread	165	(177)
Equity securities					
Unlisted/private equities directly held	3	Market spread (credit, liquidity and other)	±25bps	—	—
<u>Other investments (including derivatives)</u>	1,385	Multiple of IFRS net asset value	±10-40%	139	(554)
Total Level 3 investments	39,856			1,162	(1,612)

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

(h) Assets and liabilities not carried at fair value for which fair value is disclosed

The table below shows the fair value and fair value hierarchy for those assets and liabilities not carried at fair value.

	2019			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets and liabilities not carried at fair value				
Loans	—	—	2,041	2,041
Borrowings	—	—	1,257	1,257
2018				
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Loans	—	—	2,409	2,409
Borrowings	—	—	1,488	1,488

Notes to the financial statements (continued)

16. Loans

(a) Carrying amounts

The carrying amounts of loans at 31 December 2019 and 2018 were as follows:

	2019			2018		
	At fair value through profit or loss other than trading	At amortised cost	Total	At fair value through profit or loss other than trading	At amortised cost	Total
	£m	£m	£m	£m	£m	£m
Policy loans	—	19	19	1	20	21
Mortgage loans	16,847	—	16,847	15,334	—	15,334
Healthcare, infrastructure and PFI unsecured loans	1,636	—	1,636	1,528	—	1,528
Loans to credit institutions	302	1,263	1,565	303	1,620	1,923
Loans to parent	—	487	487	—	487	487
Loans to subsidiaries	232	30	262	230	30	260
Loans to fellow group undertakings	—	—	—	—	20	20
Other loans	6,086	243	6,329	5,199	270	5,469
	25,103	2,042	27,145	22,595	2,447	25,042

	2019	2018
	£m	£m
Expected to be recovered in less than one year	1,407	955
Expected to be recovered in more than one year	25,738	24,087
	27,145	25,042

Loans at fair value

£10,506 million (2018: £10,110 million) of the above mortgage loans are Commercial Mortgages. The majority of mortgages, healthcare and PFI loans are valued using a PCRM. This model calculates a CRAV for each mortgage. The risk adjusted cash flows are discounted using a swap yield curve, taking into account the term dependant gilt yield curve, and global assumption for the liquidity premium.

The CRAV model provides consistency in valuation of assets and related liabilities, with both being discounted using a yield curve including an allowance for liquidity.

The cumulative change in fair value of loans attributable to changes in credit risk to 31 December 2019 was a £843 million loss (2018: £1,172 million loss). Further details of the fair value methodology are given in note 15.

Further information regarding collateral received on the loans can be found in note 44.

Loans at amortised cost

The fair value of these loans at 31 December 2019 was £2,041 million (2018: £2,409 million).

(b) Analysis of loans carried at amortised cost

	2019			2018		
	Amortised Cost	Impairment	Carrying Value	Amortised Cost	Impairment	Carrying Value
	£m	£m	£m	£m	£m	£m
Policy loans	19	—	19	20	—	20
Loans to credit institutions	1,263	—	1,263	1,620	—	1,620
Loans to parent	487	—	487	487	—	487
Loans to subsidiaries	30	—	30	30	—	30
Loans to fellow group undertakings	—	—	—	20	—	20
Other loans	243	—	243	270	—	270
	2,042	—	2,042	2,447	—	2,447

No impairment provisions were held in respect of these loans (2018: £nil).

Notes to the financial statements (continued)

17. Interest in structured entities

A structured entity is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

The Company holds redeemable shares or units in investment vehicles, which consist of:

	2019					
	Interest in Subsidiaries	Interest in joint ventures	Interest in associates	Financial investments	Loans	Total assets
	£m	£m	£m	£m	£m	£m
Structured debt securities	—	—	—	3,846	—	3,846
Other investments and equity securities:						
Analysed as:						
Unit trust and other investment vehicles	—	—	—	117,908	—	117,908
Property Limited Partnerships ("PLPs") and property funds	1,134	792	45	412	63	2,446
Other (including other funds and equity securities)	53	—	—	426	—	479
Loans	—	—	—	—	7,722	7,722
Total	1,187	792	45	122,592	7,785	132,401

	2018					
	Interest in Subsidiaries	Interest in joint ventures	Interest in associates	Financial investments	Loans	Total assets
	£m	£m	£m	£m	£m	£m
Structured debt securities	—	—	—	3,443	—	3,443
Other investments and equity securities:						
Analysed as:						
Unit trust and other investment vehicles	—	—	—	103,527	—	103,527
Property Limited Partnerships ("PLPs") and property funds	692	797	45	313	275	2,122
Other (including other funds and equity securities)	—	—	—	424	—	424
Loans	—	—	—	—	6,726	6,726
Total	692	797	45	107,707	7,001	116,242

- Debt securities which comprise securitisation vehicles that the Company does not originate and those issued by a wholly owned subsidiary Aviva ERFA 15 UK Limited. These securities consist of: Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities, Asset Backed Securities, Asset Backed Commercial Papers, Wrapped credits securities and Collateralised Loan Obligation securities.
- Investment funds which include: hedge funds, liquidity funds, private equity funds, unit trusts, mutual funds and PFI.
- Specialised investment vehicles which comprise Open Ended Investment Companies, Property Limited Partnerships, and Sociétés d'Investissement à Capital Variable.

The Company's holdings in investment vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles. The investment manager makes investment decisions after extensive due diligence of the underlying investment vehicle including consideration of its strategy and the overall quality of the underlying investment vehicle's manager. All of the investment vehicles in the investment portfolio are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee, and is reflected in the valuation of the investment vehicles.

As permitted under IAS 27, *Separate Financial Statements*, and under Section 400 of the Companies Act 2006, the Company has elected not to present consolidated financial statements and as such all holdings in structured entities are unconsolidated. The Company does not sponsor any of the unconsolidated structured entities.

As at 31 December, a summary of the Company's interest in unconsolidated structured entities is as follows:

- The maximum exposure to loss to the interests presented above is the carrying amount of the investments and the majority of debt securities above are investment grade securities. Based on the different structures of the securities, in some cases the Company may be required to absorb losses from an unconsolidated structured entity before other parties. Those cases occur when and if the Company's interest is more subordinated with respect to other owners of the same security;
- The Company has granted loans to PLPs classified as subsidiaries, joint ventures and associates for a total of £63 million (2018: £275 million). This amount has been provided for the purpose of short term liquidity funding for commitments to property management joint ventures. In relation to risk management, disclosures on debt securities and investment vehicles are given in note 42; and

Notes to the financial statements (continued)

- The Company has provided letters of support in respect of a number of its investments in PLPs. The Company has not provided any other financial or other support in addition to that described above as at the reporting date, and there are no intentions to provide support in relation to other unconsolidated structured entities in the foreseeable future.

18. Financial investments

(a) Carrying amount

Financial investments comprise:

	2019			2018		
	At fair value through profit or loss		Total	At fair value through profit or loss		Total
	Trading	Other than trading		Trading	Other than trading	
	£m	£m	£m	£m	£m	£m
Debt securities	—	59,556	59,556	—	61,854	61,854
Equity securities	—	27,476	27,476	—	25,262	25,262
Other investments						
Unit trusts and other investment vehicles	—	98,009	98,009	—	83,278	83,278
Derivative financial instruments	5,643	—	5,643	4,609	—	4,609
Minority interests	—	411	411	—	366	366
	5,643	98,420	104,063	4,609	83,644	88,253
Total financial investments	5,643	185,452	191,095	4,609	170,760	175,369

Of the above financial investments £733 million (2018: £697 million), £211 million (2018: £191 million), £325 million (2018: £298 million) and £588 million (2018: £577 million) are held in Trust on behalf of the Trustees of Friends Provident, West Ferry Printers, John Laing and Pearson Bulk Annuity Schemes respectively. Amounts become payable to the Trustees in the event that the Company is in breach of its payments obligations in respect of policyholder benefits.

(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
Debt securities	63,882	3,140	(7,466)	59,556	57,385	11,383	(6,914)	61,854
Equity securities	20,665	7,973	(1,162)	27,476	21,213	5,755	(1,706)	25,262
Other investments								
Unit trusts and other investment vehicles	89,592	9,081	(664)	98,009	85,132	—	(1,855)	83,277
Derivative financial instruments	3,139	3,147	(643)	5,643	1,082	3,527	—	4,609
Minority interests	411	—	—	411	366	—	—	366
	177,689	23,341	(9,935)	191,095	165,178	20,665	(10,475)	175,368

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.

The movement in the unrealised gain/loss position reported in the statement of financial position during the year, shown in the table above, includes foreign exchange movements on the translation of unrealised gains and losses on financial investments held by foreign subsidiaries, which are recognised in other comprehensive income, as well as transfers due to the realisation of gains and losses on disposal and the recognition of impairment losses.

(c) Financial investments arrangements

Debt Securities issued by a wholly owned subsidiary Aviva ERFA 15 UK Limited ("ERFA 15") amounting to £484 million (2018: £877 million) have been included in the total value of debt securities. These loan notes were issued by ERFA 15 to the Company as a result of the securitisation of certain equity release mortgages ("ERM"). As the Company was the ultimate beneficial owner of the ERM both before and after the securitisation, the requirements of IAS 39, do not permit the Company to derecognise the ERM assets which continue to be recognised as loans (see note 16). As a result of non derecognition of the ERM, the Company recognised an inter company liability to ERFA 15, which has been offset against the value of the loan notes, with the net balance being included in the value of debt securities as follows:

Notes to the financial statements (continued)

	Debt securities	Inter company loan	Net debt security
	£m	£m	£m
At 1 January 2019	7,370	(6,493)	877
Additions	824	(822)	2
Repayments	(811)	397	(414)
Fair value gains / (losses)	784	(765)	19
At 31 December 2019	8,167	(7,683)	484

	Debt securities	Inter company loan	Net debt security
	£m	£m	£m
At 1 January 2018	6,504	(5,994)	510
Additions	747	(747)	—
Repayments	—	355	355
Fair value gains / (losses)	119	(107)	12
At 31 December 2018	7,370	(6,493)	877

(d) Stock lending arrangements

The Company has entered into stock lending arrangements during the year in accordance with established market conventions. The majority of the Company's stock lending transactions occur in the UK, where investments are lent to EEA-regulated, locally domiciled counterparties and governed by agreements written under English law.

The Company receives collateral in order to reduce the credit risk of these arrangements, either in the form of securities or cash. See note 44 for further discussion regarding collateral positions held by the Company.

Notes to the financial statements (continued)**(e) Non-UK Government Debt Securities (gross of non-controlling interests)**

The following is a summary of non-UK government debt by issuer as at 31 December 2019, analysed by policyholder, participating and shareholder funds.

	Policyholder		Participating		Shareholder		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Austria	2	4	—	62	57	153	59	219
Belgium	4	7	—	34	85	249	89	290
Denmark	2	1	46	62	—	—	48	63
France	19	34	139	374	456	482	614	890
Germany	21	44	254	187	216	298	491	529
Ireland	2	2	—	49	—	32	2	83
Italy	23	43	—	—	13	12	36	55
Netherlands	13	20	32	53	185	300	230	373
Norway	—	—	—	—	392	—	392	—
Poland	—	2	—	—	—	—	—	2
Portugal	13	19	—	—	—	—	13	19
Spain	11	19	—	—	4	56	15	75
Sweden	8	2	—	—	—	—	8	2
Switzerland	2	2	—	—	—	—	2	2
European Supranational debt	35	33	554	558	1,638	1,583	2,227	2,174
Other European countries	16	8	202	700	479	585	697	1,293
Europe	171	240	1,227	2,079	3,525	3,750	4,923	6,069
Canada	9	12	—	—	—	—	9	12
United States	106	242	39	45	557	535	702	822
North America	115	254	39	45	557	535	711	834
Australia	13	11	—	—	22	21	35	32
Singapore	3	2	14	—	69	—	86	2
Other	23	15	1,669	1,243	250	430	1,942	1,688
Asia Pacific and other	39	28	1,683	1,243	341	451	2,063	1,722
Total (excluding assets held for sale)	325	522	2,949	3,367	4,423	4,736	7,697	8,625

Notes to the financial statements (continued)**(f) Exposure to worldwide banks – debt securities**

Direct shareholder and participating fund assets exposures to worldwide bank debt securities (net of non-controlling interests, excluding policyholder assets)

	Shareholder assets				Participating fund assets			
	Total senior debt	Total subordinated debt	Total debt	Total equity	Total senior debt	Total subordinated debt	Total debt	Total equity
2019	£m	£m	£m	£m	£m	£m	£m	£m
Australia	93	—	93	—	507	—	507	79
Denmark	—	—	—	—	229	—	229	—
France	389	34	423	—	120	76	196	14
Ireland	14	2	16	—	—	—	—	—
Italy	—	—	—	—	—	—	—	1
Netherlands	313	162	475	—	22	37	59	—
Norway	—	—	—	—	—	—	—	—
Spain	356	28	384	—	242	3	245	13
Sweden	78	—	78	—	—	—	—	—
Switzerland	—	4	4	—	25	—	25	—
United Kingdom	1,255	375	1,630	7	587	287	874	73
United States	871	165	1,036	—	242	36	278	2
Other	—	45	45	—	759	26	785	48
2019 Total	3,369	815	4,184	7	2,733	465	3,198	230
2018 Total	3,279	843	4,122	6	3,215	427	3,642	267

The above total does not include the Company's unit-linked debt and equity securities.

19. Receivables

	2019	2018
	£m	£m
Amounts owed by contract holders	247	279
Amounts owed by intermediaries	38	37
Amounts due from reinsurers	289	233
Amounts due from brokers for investment sales	211	174
Amounts due from parent company	30	36
Amounts due from fellow subsidiaries	62	87
Deposits with ceding undertakings	—	1
Amounts receivable for cash collateral pledged	2,304	2,444
Other receivables	769	670
Total as at 31 December	3,950	3,961

Of the total receivables, £3,950 million (2018: £3,961 million) is expected to be recovered in less than one year after the statement of financial position date.

Notes to the financial statements (continued)

20. Deferred acquisition costs, other assets, prepayments and accrued income

(a) The carrying amount comprises:

	2019	2018
	£m	£m
Deferred acquisition costs in respect of:		
Insurance contracts	849	865
Participating investment contracts	27	15
Non-participating investment contracts	709	822
Total deferred acquisition costs	<u>1,585</u>	<u>1,702</u>
Prepayments and accrued income	1,122	1,253
Total as at 31 December	<u>2,707</u>	<u>2,955</u>

	2019	2018
	£m	£m
Expected to be recovered in less than one year	1,269	1,428
Expected to be recovered in more than one year	1,438	1,527
	<u>2,707</u>	<u>2,955</u>

(b) Deferred acquisition cost – movement in the year:

	2019	2018
	Total £m	Total £m
Carrying amount at 1 January	1,702	1,812
Acquisition costs deferred during the year	167	167
Amortisation	(141)	(308)
Impact of assumption changes	21	31
Effect of portfolio transfers, acquisitions and disposals (note 46)	(161)	—
Foreign exchange movements	(3)	—
Carrying amount at 31 December	<u>1,585</u>	<u>1,702</u>

	2019	2018
	£m	£m
Expected to be recovered in less than one year	147	175
Expected to be recovered in more than one year	1,438	1,527
	<u>1,585</u>	<u>1,702</u>

For long-term business where amortisation of the deferred acquisition costs ("DAC") balance depends on projected profits, the amount expected to be recovered is estimated and actual experience will differ.

(c) Other assets, prepayments and accrued income

Of the total other assets, prepayments and accrued income of £1,122 million (2018: £1,253 million), £1,122 million (2018: £1,253 million) is expected to be recovered in less than one year after the statement of financial position date.

21. Ordinary share capital

	2019	2018
	£m	£m
Allotted, called up and fully paid		
343 million (2018: 192 million) ordinary shares of £1 each	343	192

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. On 12 December 2019 the Company issued 150,732,162 shares to its parent Aviva Life Holdings UK Limited ("UKLH").

Notes to the financial statements (continued)

22. Currency translation reserve

	Currency translation reserve (see accounting policy E)
	£m
Balance at 1 January 2018	12
Foreign exchange rate movements	4
Total other comprehensive income for the year	4
Balance at 31 December 2018	16
Foreign exchange rate movements	(3)
Scheme transfer to subsidiary	(13)
Total other comprehensive income for the year	(16)
Balance at 31 December 2019	—

23. Retained earnings

	2019	2018
	£m	£m
Balance at 1 January	4,119	5,546
Profit for the year	1,135	836
Dividends paid (note 8)	(1,294)	(2,241)
Change in accounting policy ¹	(31)	—
Interest paid on other equity instruments	(28)	(26)
Tax relief on other equity instruments	5	4
Other movements	3	—
Scheme Transfer to subsidiary (note 22)	13	—
Balance at 31 December	3,922	4,119

¹Application of the modified retrospective approach for adopting IFRS 16, *Leases* resulted in a reduction of retained earnings of £31 million at 1 January 2019.

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to insurance companies under the requirements of Solvency II. Its ability to transfer retained earnings to its parent company is therefore restricted to the extent these earnings form part of regulatory capital requirements. See note 41.

24. Other equity

	2019	2018
	£m	£m
4.39% £500 million STICS – Issued June 2005	495	495
5.50% £114 million Restricted Tier 1 Subordinated Notes – Issued May 2018	114	114
Balance at 31 December	609	609

Step-up Tier 1 insurance capital securities ("STICS") were issued on 27 June 2005. The STICS bear interest at a rate of 4.39% from 1 July 2015 to 30 June 2020 and have no maturity date but are redeemable in the whole or part at the option of the Company on 1 July 2015, or thereafter on every fifth anniversary of this date. £5m of issue costs are capitalised in the carrying value of the instruments.

The STICS are perpetual securities and are not redeemable at the option of the holders at any time. For each coupon period after 1 July 2015 the STICS will bear interest that is reset every five years.

The £114 million Restricted Tier 1 Subordinated Notes ("RT1 Notes") were issued by AGH on 31 May 2018 to finance the acquisition of a subsidiary. The RT1 Notes are perpetual securities and are not redeemable at the option of the holders at any time. The Company may, at its sole option, redeem all (but not part) of the RT1 Notes at their principal amounts on 31 May 2028 or thereafter on every 30 November and 31 May in each year, providing that the solvency conditions are met, and the relevant regulatory approvals have been obtained.

Notes to the financial statements (continued)

The fixed interest of 5.50% per annum is due and payable only at the sole and absolute discretion of the Company. The Company is not permitted to pay the interest if the solvency conditions are not satisfied. Unpaid interest is assumed to be cancelled and shall not become due or accumulate. No interest is accrued until the payment is declared.

Under IAS 32, *Financial Instruments: Presentation*, it is necessary to treat the RT1 Notes and STICS as equity as there is no requirement to settle the obligation in cash or another financial asset.

25. Insurance liabilities

(a) Carrying amount:

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

	2019	2018
	Total	Total
	£m	£m
Long-term business provision		
Participating insurance contracts	23,624	24,021
Unit-linked non-participating insurance contracts	9,053	9,084
Other non-participating insurance contracts	65,786	63,058
	98,463	96,163
Outstanding claims provisions	1,240	1,102
Total at 31 December	99,703	97,265
	2019	2018
	Total	Total
	£m	£m
Expected to be settled in less than one year	7,725	8,202
Expected to be settled in more than one year	91,978	89,063
	99,703	97,265

(b) Long-term business provision

(i) Business description

The Company underwrites long-term business as follows:

- New With-profits Sub-Fund ("NWPSF"), where the With-profits policyholders are entitled to at least 90% of the distributed profits, with the shareholders receiving the balance. Any surplus or deficit emerging in the NWPSF that is not distributed as bonus will be transferred from this sub-fund to the Reattributed Inherited Estate External Support Account ("RIEESA") (see below).
- Old With-profits Sub-Fund ("OWPSF"), With-profits Sub-Fund ("WPSF") and Provident Mutual Sub-Fund ("PMSF") where the With-profits policyholders are entitled to at least 90% of the distributed profits, with the shareholders receiving the balance.
- FP With-profits Sub-Fund ("FP WPSF"), which is closed to new business and where shareholders are entitled to 10% of the distributed profits, plus 60% of the surplus arising on pre-demutualisation Non-profit and unitised business and non-investment sources of surplus on policies held by post-demutualisation policyholders. The Friends Provident demutualisation occurred in 2001.
- FLC New With-profits Sub-Fund ("FLC New WPSF"), FLC Old With-profits Sub-Fund ("FLC Old WPSF"), WL With-profits Sub-Fund ("WL WPSF") and FLAS With-profits Sub-Fund ("FLAS WPSF") which are closed to new business and where policyholders are entitled to 90% of the distributed profits aside from certain policies in the FLC New WPSF and the FLC Old WPSF with guaranteed bonus rates, and certain policies in the WL WPF which are reinsured into the fund where the shareholders do not receive one-ninth of the bonus.
- FPLAL With-profits Sub-Fund ("FPLAL WPSF"), SGF With-profits Fund ("SGF WPF"), which are closed to new business and where policyholders are entitled to 100% of the distributed profits.
- Non Profit Sub-Fund ("NPSF"), where shareholders are entitled to 100% of the distributed profits. Shareholder profits on unitised With-profits business written by WPSF and on stakeholder unitised With-profits business written by NWPSF and OWPSF are derived from management fees and policy charges, and emerge in the NPSF.
- The RIEESA, which is a Non-profit fund where shareholders are entitled to 100% of the profits. These profits cannot be distributed until the 'lock-in' criteria set by the Reattribution Scheme have been met. The RIEESA is used to provide capital support to NWPSF, and has been used in the past to write non-participating business.

(ii) Company practice With-profits and Non-profit business

Insurance liabilities are calculated separately for each fund.

Notes to the financial statements (continued)

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions, where discretion is permitted. In turn, the assumptions used depend on the circumstances prevailing in each of the life funds. Provisions are most sensitive to assumptions regarding future investment returns, discount rates, future bonus rates, mortality/morbidity rates and persistency. Where discount rate assumptions are based on current market yields on fixed interest securities, allowance is made for default risk implicit in the yields on the underlying assets.

Bonuses paid during the year are reflected in claims paid, whereas those allocated as part of the bonus declaration are included in the movements in the long-term business provision.

(iii) Movements

The following movements have occurred in the gross long-term business provision during the year:

	2019	2018
	£m	£m
Carrying amount at 1 January	97,265	103,350
Other movements recognised as an (income) / expense:		
Provisions in respect of new business	4,674	3,842
OLAB quota share reinsurance (note 46)	790	—
Expected change in existing business provisions	(5,598)	(6,740)
Variance between actual and expected experience	2,531	(1,094)
Impact of operating assumption changes	(821)	(1,180)
Impact of economic assumption changes	3,352	(939)
Change in liability recognised as an expense	4,928	(6,111)
Effect of portfolio transfers, acquisitions and disposals (note 46)	(3,188)	—
Foreign exchange rate movements	(59)	26
Other movements ¹	757	—
Carrying amount at 31 December	99,703	97,265

¹Other movements during 2019 mainly relate to a reclassification from participating investment contracts to insurance contracts (£972 million), a reclassification of outstanding claims (£188 million) and, following a review of the presentation of negative reinsurance assets, £(427) million of negative reinsurance assets have been reclassified from insurance liabilities to reinsurance assets.

For many types of long-term business, including unit-linked and participating funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit.

The £2.5 billion impact of variance between actual and expected experience in 2019 is mainly due to higher than expected equity returns in the UK increasing With-profits and unit-linked liabilities.

The impact of non-economic assumption changes of £(0.8) billion in 2019 reduces the carrying value of insurance liabilities and relates mainly to release of reserves for longevity which is partially offset by increases in expense and persistency reserves for the UK business (with the impact on profit partially offset by a corresponding reduction in reinsurance assets).

The £3.4 billion impact of economic assumption changes in 2019 primarily reflects decreases in valuation interest rates largely in response to decreasing interest rates and narrowing spreads, primarily in respect of immediate annuity and participating insurance contracts in the UK.

For participating business, a movement in liabilities is generally offset by a corresponding adjustment to the unallocated divisible surplus and does not impact on profit. Where assumption changes do impact on profit, these are included in the effect of changes in assumptions and estimates during the year shown in note 30, together with the impact of movements in related non-financial assets.

The NWPSF purchased from the NPSF the rights to future annual management charges arising from Unitised With-Profits ("UWP") business in the WPSF. The consideration paid by the NWPSF for this future income was calculated on an arm's length basis and approved by the UKLAP Board and resulted in an increase in liquidity in the NPSF. The nature of the transaction also resulted in the Company recording a net decrease in IFRS liabilities of £167m.

26. Insurance liabilities methodologies and assumptions

Long-term business

The main method of actuarial valuation of liabilities arising under long-term insurance contracts is the gross premium method which involves the discounting of projected future cash flows.

The cash flows are calculated using the contractual premiums payable together with explicit assumptions for investment returns, inflation, mortality, morbidity, persistency and future expenses. Assumptions are also required for the rates used to discount the cash flows. These assumptions can vary by contract type and reflect current and expected future experience with an allowance for prudence.

(a) Non-profit business

The valuation of Non-profit business is based on grandfathered regulatory requirements under IFRS 4 prior to the adoption of Solvency II, adjusted to remove certain regulatory reserves and margins in assumptions, notably for annuity business. Conventional Non-profit contracts, including those written in the With-profits funds, are valued using the gross premium method. For Non-profit business in the ex-Friends Life With-profits funds, the liabilities are measured on a realistic basis with implicit recognition of the present value of future profits.

For unit-linked and some unitised With-profits business, the provisions are valued by adding a prospective non-unit reserve to the bid value of units. The prospective non-unit reserve is calculated by projecting the future non-unit cash flows using prudent assumptions and on the assumption that future premiums cease, unless it is more onerous to assume that they continue.

Notes to the financial statements (continued)

(i) Discount rates

Valuation discount rate assumptions are set with regard to yields on the supporting assets and the general level of long-term interest rates as measured by gilt yields. An explicit allowance for risk is included by restricting the yields for equities and properties with reference to a margin over long-term interest rates or making an explicit deduction from the yields on corporate bonds, mortgages and deposits, based on historical default experience of each asset class. A further margin for risk is then deducted for all asset classes.

Valuation discount rates for business in the Non-profit funds are as follows:

Valuation discount rates (Gross of investment expenses)	2019	2018
Assurance		
Life conventional Non-profit	0.5%-2.1%	0.9%-2.6%
Pensions conventional Non-profit	0.6%-1.6%	1.1%-2.1%
Annuities		
Immediate and deferred annuities	0.9%-2.3%	1.2%-3.0%
Non-unit reserves on unitised business		
Life	0.9%	0.9%-1.3%
Pensions	1.1%	0.9%-1.6%
Income protection		
Active lives	0.6%-2.1%	1.1%-2.6%
Claims in payment – level and index linked	1.1%	1.6%

The valuation discount rates are after reduction for risk, but before allowance for investment expenses. For conventional immediate annuity business, the allowance for risk comprises long-term assumptions on a prudent basis for defaults or (in the case of equity release assets) expected losses arising from the Non-Negative-Equity Guarantee. These allowances vary by asset category and for some asset classes by rating.

The risk allowances made for corporate bonds (including overseas government bonds and structured finance assets), mortgages (including healthcare mortgages, commercial mortgages and infrastructure assets), and equity release equated to 45-47 bps, 31-35 bps, and 124 bps respectively at 31 December 2019 (2018: 50 bps, 39-41 bps, and 112 bps respectively).

The total valuation allowance net of reinsurance in respect of corporate bonds and mortgages, including healthcare mortgages but excluding equity release, was £1.1 billion (2018: £1.3 billion) over the remaining term of the portfolio at 31 December 2019. The total valuation allowance in respect of equity release assets was £0.8 billion at 31 December 2019 (2018: £0.6 billion). Total liabilities net of reinsurance for the annuity business in NP funds were £36.8 billion at 31 December 2019 (2018: £34.9 billion).

(ii) Guarantees and options

The provisions held in respect of guaranteed annuity options ("GAO") are a prudent assessment of the additional liability incurred under the option on a basis and method consistent with that used to value basic policy liabilities, and includes a prudent assessment of the proportion of policyholders who will choose to exercise the option.

(iii) Expenses

Maintenance expense assumptions for Non-profit business are generally expressed as a "per policy" charge set with regards to an allocation of current year expense levels by broad category of business and using the policy count for in-force business. The assumptions also include an allowance for prudence and increase by future expense inflation over the lifetime of each contract. Expense inflation is assumed to be in line with RPI, and in line with external agreements for business administered externally. An additional liability is held if projected per-policy expenses in future years are expected to exceed current assumptions. Further, explicit project expense liabilities are held for non-discretionary project costs that typically relate to mandatory regulatory requirements. Expense-related liabilities are not held where expenses are covered by anticipated future profits in the liability methodology, notably for unit-linked contracts. Investment expenses are generally expressed as a proportion of the assets backing the liabilities.

(iv) Persistency

Rates, which will vary between classes of business, are based on experience adjusted to take into account assumed future trends.

(v) Mortality

Mortality assumptions for Non-profit business are set with regard to recent Company experience and general industry trends.

Notes to the financial statements (continued)

The mortality tables used in the valuation are summarised below:

Mortality table used	2019	2018
Assurances		
Non-profit mortality	AM00/AF00 or TM08/TF08 or ELT15/ELT16 adjusted for smoker status and age/sex specific factors	AM00/AF00 or TM08/TF08 or ELT15/ELT16 adjusted for smoker status and age/sex specific factors
Non-profit critical illness	AC08, IC94 or reinsurer rates adjusted for smoker status and age/sex specific factors	AC08, CIBT02, IC94 or reinsurer rates adjusted for smoker status and age/sex specific factors
Non-profit PHI inception rates	CIDA adjusted by factors derived from our own experience	CIDA adjusted by factors derived from our own experience
Non-profit PHI recovery rates	CMIR12 adjusted by factors derived from our own experience	CMIR12 adjusted by factors derived from our own experience
Pure endowments and deferred annuities before vesting	AM00/AF00 adjusted	AM00/AF00 adjusted
Annuities in payment		
Pensions business and general annuity business	PMA08 HAMWP/PFA08 HAMWP adjusted, plus allowance for future mortality improvement	PMA08 HAMWP/PFA08 HAMWP adjusted, plus allowance for future mortality improvement
BPA	CV3	CV2

For the largest portfolio of pensions annuity business, the underlying mortality assumptions for males are 105.4% of PMA08 HAMWP adjusted (2018: 105.8% of PMA08 HAMWP adjusted) with base year 2008; for females the underlying mortality assumptions are 99.5% of PFA08 HAMWP adjusted (2018: 99.0% of PFA08 HAMWP adjusted) with base year 2008.

Improvements are based on 'CMI_2018 (S=7.25) Advanced with adjustments' (2018: 'CMI_2017 (S=7.5) Advanced with adjustments') with a long-term improvement rate of 1.75% (2018: 1.75%) for males and 1.5% (2018: 1.5%) for females, both with an additional improvement for prudence of 0.5% (2018: 0.5%) to all future annual improvement adjustments. The CMI_2018 tables have been adjusted by adding 0.25% (2018: 0.25%) and 0.35% (2018: 0.35%) to the initial rate of mortality improvements for males and females respectively (to allow for greater mortality improvements in the annuitant population relative to the general population on which CMI_2018 is based), and uses the advanced parameters to taper the long-term improvement rates to zero between ages 90 and 115 (the 'core' parameters taper the long-term improvement rates to zero between ages 85 and 110). The tapering approach is unchanged from that used at 2018.

In addition, on a significant proportion of individual annuity business, year specific adjustments are made to allow for potential selection effects due to the development of the Enhanced Annuity market and covering possible selection effects from pension freedom reforms.

(b) With-profits business

The Group's UK With-profits funds are evaluated by reference to FRS 27, which was grandfathered under IFRS 4, prior to the adoption of Solvency II. This uses an approach of calculating the realistic liabilities for the contracts. The realistic liabilities include the With-profits benefit reserve ("WPBR"), and an additional provision for the expected cost of any guarantees and options in excess of the WPBR.

The WPBR for an individual contract is generally calculated on a retrospective basis and represents the accumulation of the premiums paid on the contract, allowing for investment return, taxation, expenses and any other charges levied on the contract.

Provisions for guarantees and options within realistic liabilities are measured using market-consistent stochastic models. A stochastic approach includes measuring the time value of guarantees and options, which represents the additional cost arising from uncertainty surrounding future economic conditions. Non-market-related assumptions (for example, persistency, mortality and expenses) are assessed on a best estimate basis with reference to Company and wider industry experience, adjusted to take into account future trends.

The With-profits business is valued based on an adjusted Solvency II best estimate liability ("BEL") assessment, which results in a valuation in accordance with FRS 27.

(i) Future investment return

A 'risk-free' rate equal to the spot yield on UK swaps is used for the valuation of With-profits business. The rates vary according to the outstanding term of the policy, with a typical rate as at 31 December 2019 of 1.02% (2018: 1.44%) for a policy with ten years outstanding.

(ii) Volatility of investment return

Volatility assumptions are set with reference to implied volatility data on traded market instruments, where available, or on a best estimate basis where not.

Volatility	2019	2018
Equity returns	16.2%	18.0%
Property returns	15.8%	15.8%

The equity volatility used depends on term, money-ness and region. The figure shown is for a sample UK equity, at the money, with a ten-year term.

(iii) Future regular bonuses

Annual bonus assumptions for 2020 have been set consistently with the year-end 2019 declaration. Future annual bonus rates reflect the principles and practices of each fund. In particular, the level is set with regard to the projected margin for final bonus and the change from one year to the next is limited to a level consistent with past practice.

Notes to the financial statements (continued)

(iv) Mortality

Mortality assumptions for With-profits business are set with regard to recent Company experience and general industry trends. The mortality tables used in the valuation are summarised below:

Mortality table used	2019	2018
Assurances, pure endowments and deferred annuities before vesting	Nil or AM00/AF00 adjusted	Nil or AM00/AF00 adjusted
Pensions business after vesting and pensions annuities in payment	PMA08 HAMWP/PFA08 HAMWP adjusted plus allowance for future mortality improvement	PMA08 HAMWP/PFA08 HAMWP adjusted plus allowance for future mortality improvement

(v) Expenses

Maintenance fee assumptions for With-profits business are generally expressed as a fixed 'per policy' charge in line with a memorandum of understanding between the With-profits funds and the Non-profit fund within the Company.

The memorandum of understanding specifies the charges for a 5-year period ending in 2023, and specifies a level of charge inflation during that period of Consumer Price Index ("CPI") +2% or CPI+3% depending on the product type. After the end of the period covered by the memorandum of understanding we assume that the charges will remain unchanged, and a level of charge inflation of RPI+1% for all products will apply.

Any excess of expenses charged by UKLS to the Company over the charges specified by the agreement is borne by the Non-profits fund.

(vi) Guarantees and options

The provisions held in respect of GAO are a prudent assessment of the additional liability incurred under the option on a basis and method consistent with that used to value basic policy liabilities, and includes a prudent assessment of the proportion of policy holder who will choose to exercise the option.

(vii) Persistency

Rates, which will vary between classes of business, are based on experience adjusted to take into account assumed future trends.

(viii) GAO take-up rates

Rates are used for all With-profits funds, based on recent experience.

(ix) Guarantee charge

An annual charge of 0.7% pa for the first 10 years of the policy is assumed in the NWPSF and the OWPSF in respect of some inflation protection guarantee bonds.

27. Liability for investment contracts

(a) Carrying amounts

The liability for investment contracts (gross of reinsurance) at 31 December comprised:

	2019	2018
	£m	£m
Participating investment contracts	21,982	21,897
Non-participating investment contracts	118,218	105,141
Outstanding claims provision	—	181
Total	140,200	127,219

(b) Investment liabilities

Investment contracts are those that do not transfer significant insurance risk from the contract holder to the issuer, and are therefore treated as financial instruments under IFRS.

Many investment contracts contain a discretionary participation feature in which the contract holder has a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts and are measured according to the methodology and practice for insurance liabilities as described in note 26. They are not measured at fair value as there is currently no agreed definition of fair valuation for discretionary participation features under IFRS. In the absence of such a definition it is not possible to provide a range of estimates within which a fair value is likely to fall.

For participating business, the discretionary participation feature is recognised separately from the guaranteed element and is classified as a liability, referred to as the unallocated divisible surplus. Guarantees on long-term investment products are discussed in note 28. Investment contracts that do not contain a discretionary participation feature are referred to as non-participating contracts and the liability is measured at fair value.

Of the non-participating investment contracts measured at fair value, £118,163 million (2018: £105,268 million) are unit-linked in structure and the fair value liability is equal to the unit reserve plus additional non-unit reserves, if required, on a fair value basis.

Notes to the financial statements (continued)

These contracts are classified as “Level 1” in the fair value hierarchy, as the unit reserve is calculated as the publicly quoted unit actively traded price multiplied by the number of units in issue. Of the remaining non-participating contracts measured at fair value, all are non-linked contracts classified as “Level 1” in the fair value hierarchy. For this business, a deferred acquisition cost asset and deferred income reserve liability are recognised in respect of transaction costs and front-end fees, that relate to the provision of investment management services, and which are amortised on a systematic basis over the contract term. The amount of the related deferred acquisition cost asset is shown in note 20 and the deferred income reserve is shown in note 37.

For non-participating investment contracts, deposits collected and amounts withdrawn are not shown on the income statement, but are accounted for directly through the statement of financial position as an adjustment to the gross liabilities for investment contracts. The associated change in investment contract provisions shown on the income statement consists of the attributed investment return. Participating investment contracts are treated consistently with insurance contracts with the change in investment contract provisions primarily consisting of the movement in participating investment contract liabilities (net of reinsurance) over the reporting period.

(c) Movements in the year

(i) Participating investment contracts

	2019	2018
	£m	£m
Carrying amount at 1 January	21,897	23,196
Provisions in respect of new business	14	21
Effect of portfolio transfers, acquisitions and disposals (note 46)	(111)	—
OLAB quota share reinsurance (note 46)	86	—
Expected change in existing business provisions	(1,385)	(1,493)
Variance between actual and expected experience	2,126	148
Impact of operating assumption changes	174	56
Impact of economic assumption changes	185	(32)
Change in liability	1,089	(1,300)
Foreign exchange rate movements	—	1
Other movements ¹	(1,004)	—
Carrying amount at 31 December	21,982	21,897

¹Other movements during 2019 include the reclassification from investment contracts to insurance contracts

(ii) Non-participating investment contracts

	2019	2018
	£m	£m
Carrying amount at 1 January	105,322	111,626
Provisions in respect of new business	3,810	3,723
Effect of portfolio transfers, acquisitions and disposals (note 46)	(4,125)	—
OLAB quota share reinsurance (note 46)	117	—
Expected change in existing business provisions	(2,089)	(3,640)
Variance between actual and expected experience	15,465	(6,426)
Impact of operating assumption changes	(22)	(10)
Impact of economic assumption changes	—	7
Change in liability	13,156	(6,346)
Foreign exchange rate movements	(87)	42
Other movements	(173)	—
Carrying amount at 31 December	118,218	105,322

The £15.5 billion variance between actual and expected experience in 2019 is primarily the result of the impact of strong global equity performance.

The effect of changes in the main assumptions is given in note 30.

28. Financial guarantees and options

As a normal part of operating activities, the Company has given guarantees and options, including investment return guarantees, in respect of certain long-term insurance products. Further information on assumptions is given in accounting policy L.

(a) With-profits business

Notes to the financial statements (continued)

FRS 27, *Life Assurance*, which is grandfathered from PRA requirements prior to the adoption of Solvency II, requires liabilities to be calculated as realistic basis liabilities. Provisions for guarantees and options within realistic liabilities must be measured using a market consistent approach, which generally requires a stochastic approach. A stochastic approach includes measuring the time value of guarantees and options, which represents the additional cost arising from uncertainty surrounding future economic conditions. The material guarantees and options to which this provision relates are:

(i) Maturity value guarantees – Substantially all of the conventional With-profits business and a significant proportion of unitised With-profits business have minimum maturity values reflecting the sums assured plus declared annual bonus. For some unitised With-profits life contracts the amount paid after the fifth anniversary is guaranteed to be at least as high as the premium paid increased in line with the rise in RPI or CPI.

(ii) No MVR guarantees – For unitised business, there are a number of circumstances where a ‘no MVR’ guarantee is applied, for example on certain policy anniversaries, guaranteeing that no market value reduction will be applied to reflect the difference between the accumulated value of units and the market value of the underlying assets.

(iii) GAO – The Company’s With-profits funds have written individual and group pension contracts which contain GAO where the policyholder has the option to take the benefits from a policy in the form of an annuity based on guaranteed conversion rates.

(iv) Guaranteed minimum pension (“GMP”) – The Company’s With-profits funds also have certain policies which contain a guaranteed minimum level of pension as part of the condition of the original transfer from state benefits to the policy.

(v) In addition, the Company has made promises to certain policyholders in relation to their With-profits mortgage endowments. Top up payments will be made on these policies at maturity to meet the mortgage value up to a maximum of the 31 December 1999 illustrated shortfall.

(b) Non-profit business in the With-profits funds

FRS 27 requires the Non-profit liabilities in a With-profits fund to be evaluated by reference to the grandfathered regulatory requirements prior to the adoption of Solvency II.

Guaranteed unit price on certain products – Certain unit-linked pension products linked to long-term life insurance funds provide policyholders with guaranteed benefits at retirement or death. No provision is required for other guarantees because the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates.

(c) Non-profit business

Non-profit business was not subject to the requirements of the PRA’s realistic reporting regime and, therefore, liabilities are evaluated by reference to grandfathered regulatory requirements prior to the adoption of Solvency II.

(i) GAO – Similar options to those written in the With-profits funds have been written in relation to Non-profit products. Provision for these guarantees does not materially differ from a provision based on a market-consistent stochastic model, and amounts to £82 million at 31 December 2019 (2018: £87 million).

(ii) Guaranteed unit price on certain products – Certain unit-linked pension products linked to long-term life insurance funds provide policyholders with guaranteed benefits at retirement or death. Provision is made for guarantees, except where the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates. An additional provision is made for guarantees in the unit-linked Guarantee Fund.

(iii) Mortgage Protection Guarantee – Some mortgage protection policies include a guarantee that the policy will make up any shortfall between the sum assured on the policy schedule and the amount owed to the mortgage provider in the event of a claim, if certain eligibility conditions are met. Provisions are held to meet the potential shortfall.

(iv) Maturity Value Guarantees – One of the linked funds has offered maturity value guarantees on certain unit-linked products.

(v) Return of Premium guarantees – German Pension products sold in Friends Life between 2006 and 2014 are subject to a Return of Premium guarantee whereby the product guarantees to return the maximum of the unit fund value or total premiums paid (before deductions). Provisions for this guarantee are calculated using a market-consistent stochastic model and amount to £178 million at 31 December 2019 (2018: £153 million).

(d) Sensitivity

In providing these guarantees and options, the Company’s capital position is sensitive to fluctuations in financial variables including foreign currency exchange rates, interest rates, real estate prices and equity prices. Interest rate guaranteed returns, such as those available on GAO, are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made.

Notes to the financial statements (continued)

29. Reinsurance assets

(a) Carrying amounts

The reinsurance assets at 31 December comprised:

	2019	2018
	£m	£m
Insurance contracts	58,087	52,089
Participating investment contracts	1	1
Non-participating investment contracts	3,991	3,995
Total at 31 December	62,079	56,085

	2019	2018
	£m	£m
Expected to be recovered in less than one year	2,593	2,556
Expected to be recovered in more than one year	59,486	53,529
	62,079	56,085

(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.

(c) Movements

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

	2019	2018
	£m	£m
Carrying amount at 1 January	56,085	59,252
Transfer to subsidiary	(293)	—
Termination of reinsurance arrangements	—	(28)
Asset in respect of quota share arrangement (note 45)	2,507	2,141
Asset in respect of other new business	878	1,773
Transfer to other financial assets	(277)	(3,559)
Variance between actual and expected experience	4,010	(1,368)
Expected change in existing business assets	(1,097)	(1,254)
Impact of operating assumption changes	(404)	(560)
Impact of economic assumption changes	1,110	(315)
Other movements ¹	(427)	—
Change in assets	6,007	(3,170)
Foreign exchange rate movements	(13)	3
Carrying amount at 31 December	62,079	56,085

¹Following a review of the presentation of negative reinsurance assets, £(427) million of negative reinsurance assets have been reclassified from insurance liabilities to reinsurance assets

30. Effect of changes in assumptions and estimates during the year

Certain estimates and assumptions used in determining liabilities for insurance and investment contract business were changed during 2019 and had the following effect on the UDS and the profit recognised for the year, both gross and net of reinsurance with an equivalent effect on liabilities. This disclosure only shows the impact on liabilities and related assets such as unallocated divisible surplus, and reinsurance, and does not allow for offsetting movements in the value of backing financial assets.

Notes to the financial statements (continued)

	Effect on UDS before reinsurance	Effect on profit before reinsurance	Effect on UDS after reinsurance	2019 Effect on profit after reinsurance	Effect on UDS before reinsurance	Effect on profit before reinsurance	Effect on UDS after reinsurance	2018 Effect on profit after reinsurance
	£m	£m	£m	£m	£m	£m	£m	£m
Assumptions								
Insurance contracts								
Economic assumptions	(344)	(3,008)	(345)	(1,897)	(132)	1,071	(132)	756
Persistency rates	1	(256)	1	4	(1)	56	(1)	(13)
Mortality for assurance contracts	4	(34)	4	(68)	(6)	(49)	(6)	(1)
Mortality for annuity contracts	27	1,144	27	485	66	1,003	66	496
Expenses/(income)	(35)	(52)	(35)	(23)	(2)	(15)	(2)	(33)
Other operating assumptions	11	11	11	11	88	39	88	26
	(336)	(2,195)	(337)	(1,488)	13	2,105	13	1,231
Investment contracts - Participating								
Economic	(210)	25	(210)	25	49	(18)	49	(18)
Persistency rates	(90)	(76)	(90)	(76)	(52)	17	(52)	17
Expenses	(1)	(7)	(1)	(7)	—	(11)	—	(11)
Other operating assumptions	6	(6)	6	(6)	(10)	—	(10)	—
	(295)	(64)	(295)	(64)	(13)	(12)	(13)	(12)
Investment contracts - Non-participating								
Economic	—	—	—	—	(5)	(2)	(5)	(2)
Persistency rates	—	(1)	—	(1)	—	(3)	—	(3)
Expenses	—	23	—	23	—	—	—	—
Other operating assumptions	—	—	—	—	14	—	14	—
	—	22	—	22	9	(5)	9	(5)
Total (decrease)/increase as a result of changes in assumptions and estimates								
	(631)	(2,237)	(632)	(1,530)	9	2,088	9	1,214

The impact of interest rates on long-term business relates primarily to annuities (including any change in credit default and reinvestment risk provisions), where a reduction in the valuation interest rate (in response to narrowing of credit spreads net of default allowances and reductions in interest rates) has increased liabilities. The effect on UDS relates to the impact on liabilities of changes in economic assumptions, including Risk Free Rate and Volatility, and the impact on liabilities of modelling developments during the year.

In 2019, there has been a reduction in reserves due to longevity assumptions and modelling which include:

- Updates to base mortality for individual annuities including the impact of recent experience of £50 million;
- Updates to the rate of mortality improvements for individual annuities, including CMI 2018 and a change in smoothing parameter, of £277 million;
- Refinements to modelling of bulk purchase annuities together with a change to base mortality, improvements and a change in smoothing parameter, of £115 million;
- Refinements to modelling of enhanced annuities of £29 million; and
- Other less significant movements of £11 million.

In 2018 the impact of mortality for annuitant contracts on long-term business related primarily to a reduction in reserves due to recognition of benefits from changes in longevity assumptions including: the impact of completing our review of the allowance for anti-selection risk, updates reflecting our recent experience, and updates to the rate of mortality improvements, including the adoption of CMI 2017.

Notes to the financial statements (continued)

31. Unallocated divisible surplus

An unallocated divisible surplus is established where the nature of policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain at the reporting date. Therefore the expected duration for settlement of the UDS is not defined.

This note shows the movements in the UDS in the year.

	2019	2018
	£m	£m
Carrying amount at 1 January	2,420	2,699
Change in participating fund assets	100	(6,006)
Change in participating fund liabilities	(274)	5,725
Change in liability recognised as expense	(174)	(281)
Effect of portfolio transfers, acquisition and disposals	(161)	—
Foreign exchange rate movements	(4)	2
Carrying amount at 31 December	2,081	2,420

32. Tax assets and liabilities

(a) Current tax

Current tax assets recoverable in more than one year are £99 million (2018: nil).

The Company is party to the CFC & Dividend Group Litigation Order, which challenged the tax treatment of dividends received from non-UK entities before 2009. The Company is attempting to recover claims from HMRC covered by this judgement. The uncertainty in respect of the claims resulted in no recoverable amounts being recognised at 31 December 2018. As a result of recent progress made with the claims a recoverable balance of £99 million is included within current tax assets at 31 December 2019.

Current tax liabilities payable in more than one year are £70 million (2018: £38 million).

(b) Deferred tax

(i) The balance at 31 December comprises:

	2019	2018
	£m	£m
Deferred tax liabilities	569	363
Net deferred tax liability	569	363

(ii) The net deferred tax liability arises on the following items:

	2019	2018
	£m	£m
Deferred acquisition costs	133	146
Unrealised gains on investments	412	155
Provisions and other temporary differences	24	62
Net deferred tax liability	569	363

(iii) The movement in the net deferred tax liability was as follows:

	2019	2018
	£m	£m
Net deferred tax liability at 1 January	363	851
Adjustment at 1 January for adoption of IFRS16	(6)	—
Balance at 1 January restated	357	851
Relating to business transferred out	(16)	—
Amounts charged/(credited) to the income statement (note 7(a))	228	(488)
Net deferred tax liability at 31 December	569	363

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Notes to the financial statements (continued)

(iv) The Company has unrecognised temporary differences of £102 million (2018: £103 million) to carry forward against future taxable income. This comprises £102 million of non-trade losses (2018: £103 million).

33. Provisions

(a) Carrying amounts

	2019	2018
	£m	£m
Restructuring provisions	—	6
Other provisions	568	388
Total provisions	568	394

Other provisions relate to costs arising from compensation, litigation and onerous contract provisions.

(b) Movements on restructuring and other provisions

	2019			2018		
	Restructuring provisions	Other provisions	Total	Restructuring provisions	Other provisions	Total
	£m	£m	£m	£m	£m	£m
At 1 January	6	388	394	7	253	260
Additional provisions	—	301	301	—	261	261
(Release) to income statement	(6)	(51)	(57)	—	(34)	(34)
Utilised during the year	—	(70)	(70)	(1)	(92)	(93)
At 31 December	—	568	568	6	388	394

	2019	2018
	£m	£m
Expected to be settled in less than one year	109	114
Expected to be settled in more than one year	459	280
	568	394

Other provisions have increased during the year mainly due to the recognition of a new product governance provision of £175 million. This provision relates to past communications to a specific sub-set of pension policyholders that may not have adequately informed them of switching options into With-profits funds that were available to them. This issue is restricted to a product originally sold between 1985 and 1989 and acquired by the Company through the purchase of Friends Life. It does not affect any other part of our business. We are completing a review to identify and contact affected customers to ensure they are not disadvantaged. The most significant assumption in relation to the calculation of the provision is the estimated rates of customer switching. Each 10% reduction/increase in the rates of switching would reduce/increase the estimate of the provision by £40 million. The valuation of the provision involves a high degree of judgement and estimation uncertainty due to the dependence on decisions made by customers, and therefore the possible range of outcomes is significant.

34. 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 ("ASPS") in the UK. They receive benefits on either a defined benefit or defined contribution basis. New entrants join the defined contribution section of the scheme, as the defined benefit scheme is now closed.

Full details of the ASPS are given in note 52 of the Aviva plc Annual Report and Accounts 2019.

Additionally the Company makes monthly deficit recovery contributions into the Friends Provident Pension Scheme ("FPPS"), a defined benefit pension scheme.

The FPPS has been closed to new members since 1 July 2007 and was closed to active membership on 31 December 2012. The assets of FPPS are held in separate trustee-administered funds to meet long-term pension liabilities to past and present employees. The appointment of trustees is determined by trust documentation. Trustees are required to act in the best interests of the scheme's beneficiaries. The long-term investment objectives of the trustees and the employer are to limit the risk of the assets failing to meet the liabilities of the scheme over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of the scheme. The scheme operates within the UK pensions' regulatory framework.

In the absence of any contractual arrangements or stated policy to allocate the net defined benefit cost for the FPPS, measured in accordance with IAS 19 Employee Benefits, to individual businesses it is Aviva Group's policy to allocate this cost fully to AESL (the statutory employer of the FPPS). The pension surplus/deficit, calculated in accordance with IAS 19, is reflected within the balance sheet of AESL. The cost recognised by the Company is equal to its contribution payable for the period.

The disclosures required by IAS 19 in respect of group pension plans where there is no contractual arrangement or stated policy to allocate the net defined benefit cost are set out in this note.

Notes to the financial statements (continued)

(b) IAS 19 disclosures

Full details of the ASPs are given in note 52 of the Aviva plc Annual Report and Accounts 2019.

The details for the FPPS are given below.

(i) Movements in the scheme's surplus

Movements in the pension scheme's surplus comprise:

	2019		
	Scheme assets	Scheme liabilities	Pension scheme surplus
	£m	£m	£m
Net surplus in the Scheme at 1 January	1,898	(1,676)	222
Administrative expenses	(3)	—	(3)
Net interest on the pension scheme	51	(44)	7
Total recognised income	48	(44)	4
Remeasurements			
Return on scheme assets excluding interest income	176	—	176
Losses from change in financial assumptions	—	(235)	(235)
Gains from change in demographic assumption	—	12	12
Experience gains	—	1	1
Total remeasurements recognised in other comprehensive income	176	(222)	(46)
Plan participant contributions	23	—	23
Benefits paid	(64)	64	—
Net surplus in the Scheme at 31 December	2,081	(1,878)	203

	2018		
	Scheme assets	Scheme liabilities	Pension scheme surplus
	£m	£m	£m
Net surplus in the Scheme at 1 January	1,945	(1,746)	199
Past service costs – amendments ¹	—	(20)	(20)
Administrative expenses	(3)	—	(3)
Net interest on the pension scheme	46	(41)	5
Total recognised income	43	(61)	(18)
Remeasurements			
Return on scheme assets excluding interest income	(58)	—	(58)
Losses from change in financial assumptions	—	95	95
Gains from change in demographic assumption	—	(39)	(39)
Experience gains	—	(3)	(3)
Total remeasurements recognised in other comprehensive income	(58)	53	(5)
Plan participant contributions	46	—	46
Benefits paid	(78)	78	—
Net surplus in the Scheme at 31 December	1,898	(1,676)	222

¹ In 2018, past service costs include a charge of £20 million relating to the estimated additional liability arising in the FPPS as a result of the requirement to equalise members' benefits for the effects of Guaranteed Minimum Pension ("GMP"). This additional liability has arisen following the High Court judgement in October 2018 in the case involving Lloyds Banking Group.

Notes to the financial statements (continued)

(ii) Scheme assets

Total scheme assets are analysed by those that have a quoted market price in an active market and other, as follows:

			2019
	Total quoted	Total other	Total
	£m	£m	£m
Bonds			
Fixed interest	559	—	559
Index linked	1,033	—	1,033
Equities	—	—	—
Pooled investment vehicles	—	601	601
Cash and other (note 1)	(261)	(497)	(758)
Insurance contract	—	646	646
Total fair value of assets at 31 December	1,331	750	2,081

Note 1 - Cash and other assets comprise cash at bank, receivables, payables and repurchase agreements. At 31 December 2019, cash and other assets primarily consist of repurchase agreements of £503 million (2018: £650 million).

			2018
	Total quoted	Total other	Total
	£m	£m	£m
Bonds			
Fixed interest	539	—	539
Index linked	914	—	914
Equities	—	—	—
Pooled investment vehicles	—	571	571
Cash and other (note 1)	(98)	(648)	(746)
Insurance contract	—	620	620
Total fair value of assets at 31 December	1,355	543	1,898

(iii) Assumptions on scheme liabilities

The valuations used for accounting under IAS 19 have been based on the most recent full actuarial valuations, updated to take account of the standard's requirements in order to assess the liabilities of the material schemes at 31 December 2019.

The projected unit credit method

The inherent uncertainties affecting the measurement of scheme liabilities require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit credit method. This is an accrued benefits valuation method which calculates the past service liability to members and makes allowance for their projected future earnings. It is based on a number of actuarial assumptions, which vary according to the economic conditions. Changes in these assumptions can materially affect the measurement of the pension obligations.

Notes to the financial statements (continued)

Financial assumptions

The main financial assumptions used to calculate scheme liabilities under IAS 19 are:

	2019	2018
Inflation rate ¹	3.0%/2.2%	3.3%/2.2%
Pension increases	Relevant inflation assumption with Black-Scholes Model & Caps and floors	Relevant inflation assumption with Black-Scholes Model & Caps and floors
Deferred pension increases	RPI assumption less 1% over the period before 2030; less 0.6% from 2030	RPI assumption less deduction 1.1% at all terms
Discount rate for active and deferred members	1.9%	2.7%
Discount rate for pensioners	1.8%	2.6%
Basis of discount rate	AA-rated Corporate Bonds	AA-rated Corporate Bonds

¹Assumptions shown are RPI / CPI single rates. For the FPPS, RPI / CPI swap curves are used, which are broadly equivalent to the single rates disclosed.

The discount rate and pension increase rate are the two assumptions that have the largest impact on the value of the liabilities, with the difference between them being known as the net discount rate. The discount rate is based on current average yields of high quality debt instruments, taking account of the maturity of the defined benefit obligation.

Mortality assumptions

Mortality assumptions are significant in measuring the Company's obligations under its defined benefit scheme. The assumptions used are summarised in the table below and have been selected to reflect the characteristics and experience of the membership of the scheme. The mortality table, average life expectancy and pension duration used at 31 December 2019 for scheme members are as follows:

Mortality table 2019	Normal retirement age ("NRA")	Life expectancy (pension duration) at NRA of a male			Life expectancy (pension duration) at NRA of a female	
		Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA	
SAPS, including allowance for future improvement		87.6	90.0	90.1	92.2	
	60	(27.6)	(30.0)	(30.1)	(32.2)	

Mortality table 2018	Normal retirement age ("NRA")	Life expectancy (pension duration) at NRA of a male			Life expectancy (pension duration) at NRA of a female	
		Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA	
SAPS, including allowance for future improvement		87.9	90.4	90.5	92.6	
	60	(27.9)	(30.4)	(30.5)	(32.6)	

The table make allowance for observed variations in such factors as age, gender, pension amount, salary and postcode-based lifestyle group, and has been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption.

Maturity profile of the defined benefit obligation

The FPPS discounted scheme liabilities have an average duration of 21 years.

(iv) Risk management and asset allocation strategy

As noted above, the long-term investment objectives of the Trustee and the employer are to limit the risk of the assets failing to meet the liabilities of the scheme over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term cost of the scheme. The investment strategy will continue to evolve over time and is expected to match to the liability profile increasingly closely.

The Group works closely with the Trustee, who is required to consult with the Group on the investment strategy. Interest rate and inflation risks are managed using a combination of liability-matching assets and derivatives. The other principal risk is longevity risk which is reduced by the insurance contract the FPPS has entered into.

(v) Funding

Formal actuarial valuations normally take place every three years and where there is a deficit, the Company and the Trustee would agree a deficit recovery plan. The assumptions adopted for triennial actuarial valuations are determined by the Trustee and agreed with the Group and are normally more prudent than the assumptions adopted for IAS19 purposes, which are best estimate.

On 18 December 2018 the FPPS trustees signed a new deficit recovery plan and supporting schedule of contributions which requires contributions of £20 million per annum from January 2019 to March 2022 increasing each year in line with RPI price inflation until the scheme is at least 100% funded on a technical provisions basis.

Notes to the financial statements (continued)

Charges to the income statement

The total management charge borne by the Company in relation to the ASPS is disclosed below.

	2019
	£m
Defined benefit scheme	32
Defined contribution scheme	55
Total ASPS pension costs	87

In 2019, following changes to the management services agreement with UKLS, ASPS scheme costs were charged in full to the Company. In 2018, the total charge was £50 million included within the amounts set out in note 45 (a) (ii).

The total management charge borne by the Company in relation to the FPPS is disclosed below.

	2019	2018
	£m	£m
Deficit reduction contribution	20	43
Contribution to administrative expenses	3	3
Total FPPS pension costs	23	46

35. Borrowings

Borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, most borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. This note shows the carrying values and contractual maturity amounts of each type, and explains their main features and movements during the year.

(a) Contractual maturity

The following table provides information about the maturity periods of the Company's borrowings.

Borrowings are considered current if the contractual maturity dates are within a year. The carrying amount is a reasonable approximation for fair value at the statement of financial position date. Contractual undiscounted cash flows of these borrowings are shown below. The figures include contractual interest payments and so do not agree directly to the carrying amounts shown on the statement of financial position.

					2019
	Subordinated debt	Amounts owed to fellow subsidiaries	Amounts owed to subsidiaries	Amounts owed to reinsurers	Total
	£m	£m	£m	£m	£m
Contractual maturity date					
Within 1 year	401	—	50	—	451
Between 1 and 5 years	767	—	—	—	767
Over 5 years	—	—	—	—	—
Total	1,168	—	50	—	1,218

					2018
	Subordinated debt	Amounts owed to fellow subsidiaries	Amounts owed to subsidiaries	Amounts owed to reinsurers	Total
	£m	£m	£m	£m	£m
Contractual maturity date					
Within 1 year	356	150	50	177	733
Between 1 and 5 years	500	—	—	—	500
Over 5 years	200	—	—	—	200
Total	1,056	150	50	177	1,433

(b) Description and features

(i) Amounts owed to fellow subsidiaries

Amounts owed to fellow subsidiaries includes £nil million (2018: £150 million) to Aviva Life Services UK Limited ("UKLS").

(ii) Amounts owed to subsidiaries

Amounts owed to subsidiaries includes £50 million (2018: £50 million) to Aviva Equity Release UK Limited ("UKER").

Notes to the financial statements (continued)

(iii) Subordinated debt

Since December 2014 £200 million 5.9% undated subordinated debt has been callable at par at the option of the Company. In the event that the Company does not call the debt, the coupon will reset at each application reset date to 5-year Benchmark Gilt plus 1.2%. Interest payable on the loan from December 2019 and the next five years is chargeable at an annual rate of 1.7102% and equates to £3 million per annum.

Under the FLL Scheme transfer in 2017, the following subordinated debt transferred to the Company:

- (a) £500 million lower tier two subordinated debt with Friends Life Holdings plc ("FLH") with an interest rate of 8.25% and a maturity date of 2022.
- (b) £356 million upper tier two subordinated debt with FLH with an interest rate of 7.92%. In 2018, this debt was novated from FLH to Aviva Group Holdings Limited ("AGH") and the interest rate was revised to 10.05%. The debt is redeemable at the option of the issuer in May 2019 and every six months thereafter.

The subordinated debt ranks below the senior obligations of the Company and ahead of its preference shares and ordinary share capital.

(iv) Amounts owed to reinsurers

These amounts represent obligations to repay third parties arising out of financial reinsurance operations.

(c) Movements in carrying amount during the year

Movements in borrowings during the year were:

	2019	2018
	£m	£m
Balance at 1 January	1,433	1,317
New borrowings drawn down, excluding commercial paper, net of expenses	—	50
Repayment of borrowings, excluding commercial paper	(176)	—
Reduction of borrowings from parent, in consideration for share capital issued	(151)	—
Net cash (outflow)/inflow	(327)	50
Amortisation of discounts and other non-cash items	—	66
Movements in the year	(327)	116
Balance at 31 December	1,106	1,433

36. Payables and other financial liabilities

	2019	2018
	£m	£m
Payables arising out of direct insurance	718	704
Payables arising out of reinsurance operations	116	236
Deposits and advances received from reinsurers	56,046	49,235
Bank overdrafts	432	93
Lease liabilities	117	—
Derivative financial liabilities	4,627	4,405
Obligations for repayment of cash collateral received	3,465	3,307
Amounts due to brokers for investment purchases	292	232
Amounts due to other group companies	422	436
Other financial liabilities	791	989
Total as at 31 December	67,026	59,637
Expected to be settled within one year	10,735	7,186
Expected to be settled in more than one year	56,291	52,451
	67,026	59,637

Notes to the financial statements (continued)

37. Other liabilities

	2019	2018
	£m	£m
Deferred income	116	127
Accruals	494	364
Total as at 31 December	610	491
Expected to be settled within one year	191	178
Expected to be settled in more than one year	419	313
Total as at 31 December	610	491

38. Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 26 gives details of the estimation techniques used in determining the long-term business. These approaches are designed to allow for the appropriate cost of policy-related liabilities, with a degree of 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, and hence there is uncertainty in respect of these liabilities.

(b) Guarantees on long term savings products

As a normal part of their operating activities, the Company has given guarantees and options, including interest rate guarantees, in respect of certain long-term insurance and investment products. Note 26 gives details of these guarantees and options. In providing these guarantees and options, the Company's capital position is sensitive to fluctuations in financial variables including foreign currency exchange rates, interest rates, property values and equity prices. Interest rate guaranteed returns, such as those available on GAO, are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made. The directors continue to believe that the existing provisions for such guarantees and options are sufficient.

(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 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.

(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.

The Company has indemnified the overdrafts of certain other Group companies. In the opinion of the directors, no material loss will arise in respect of these indemnities.

The Company has granted a floating charge to a fellow Group Company, All, in respect of the exposure to the funds withheld by the Company under the terms of a 50% (2018: 50%) quota share reinsurance agreement. The charge, subordinate to policyholders, is issued over the Non-profit fund assets of the Company, excluding the financial investments of the BPA schemes disclosed in note 18 and those providing cover for derivative transactions as required by regulatory reporting regulations.

39. Commitments

(a) Capital commitments

Contractual commitments for acquisitions or capital expenditures of subsidiaries and joint ventures, associates and minority holdings in property partnerships, infrastructure loans and equity funds, which have not been recognised in the financial statements, are as follows:

Notes to the financial statements (continued)

	2019	2018
	£m	£m
Infrastructure loan advances	853	875
Equity funds	113	70
Property partnerships		
Associates	13	13
Joint ventures	6	6
	985	964

40. Statement of cash flows

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

	2019	2018
	£m	£m
Profit before tax	1,834	574
Adjustments for:		
Profit/(loss) on the sale of:		
Investment property	(33)	(44)
Investments	(5,955)	(3,222)
Fair value (gains)/losses on:		
Subsidiaries and joint ventures	—	174
Investment property	181	(100)
Investments	(15,636)	12,473
Capitalised expenditure on properties	(180)	(96)
Impairment and expensing of:		
Acquired value of in-force business and intangibles	18	21
Subsidiaries	1	7
Amortisation of:		
Premium/discount on borrowings	—	66
Premium/discount on non-participating investment contracts	743	380
Deferred acquisition costs	141	308
Interest expense on borrowings	3	—
Foreign currency exchange losses/(gains)	306	(226)
Change in economic assumptions	(21)	(31)
	(20,432)	9,710
Changes in working capital:		
(Increase)/decrease in reinsurance assets	(6,294)	3,170
Increase in deferred acquisition costs and prepayments	(167)	(167)
Increase/(decrease) in insurance and investment contracts liabilities	21,990	(13,755)
Increase in other assets and liabilities	7,293	444
	22,822	(10,308)
Net (purchases)/sales of operating assets:		
Net purchases of investment property	(249)	(149)
Net proceeds on sale of investment property	784	466
Net (purchases)/sales of financial investments	(2,686)	2,802
	(2,151)	3,119
Total cash generated from operating activities	2,073	3,095

Notes to the financial statements (continued)

The cash flows presented in this statement cover all the Company's activities and include flows from both policyholder and shareholder activities. Operating cash flows reflect the movement in both policyholder and shareholder controlled cash and cash equivalent balances.

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

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

	2019	2018
	£m	£m
Cash at bank and in hand	1,239	929
Cash equivalents	21,000	22,226
	22,239	23,155
Bank overdrafts	(432)	(93)
	21,807	23,062

Of the above total, £5,385 million (2018: £4,860 million) is shareholder controlled, with the remainder representing policyholder controlled cash and cash equivalents.

41. 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 Solvency II which is a Europe-wide prudential regulatory framework that came into force on 1 January 2016. 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 42) 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 own funds under Solvency II were £11,810 million (2018: £12,059 million). The Company's own funds are sufficient to meet its capital requirements under Solvency II. The Company fully complied with the relevant regulatory requirements during the year.

Notes to the financial statements (continued)

The reconciliation below is between total IFRS funds and total own funds under Solvency II.

	2019	2018
	£m	£m
Total IFRS shareholders' funds	4,874	4,936
Unallocated divisible surplus	2,081	2,420
Adjustments onto a regulatory basis:		
Intangible assets	(44)	(58)
Regulatory valuation differences	4,948	5,681
Solvency II net assets	11,859	12,979
Ring fenced funds restriction	(1,144)	(2,032)
Subordinated debt	1,095	1,112
Total own funds	11,810	12,059

42. Risk management

(a) Risk management framework

The Company operates a risk management framework that forms an integral part of the management and Board processes and decision-making framework, aligned to the Group's risk management framework. The 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, life insurance (including long-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 their business 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 risk committees.

Risk models are an important tool in the measurement of risks and are used 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. 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.

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

(b) Credit risk

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

The Company's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. The Company's credit risks arise principally through exposures to debt securities, structured asset investments, bank deposits, derivative counterparties, mortgage lending and reinsurance counterparties.

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 by credit ratings

Financial assets 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. The following table provides information regarding the aggregated credit risk exposure of the Company for financial assets with external credit ratings. Whilst not externally rated, the risk

Notes to the financial statements (continued)

characteristics of commercial mortgages are assessed before acquisition and are monitored thereafter. "Not rated" assets capture assets not rated by external ratings agencies. The majority of non-rated debt securities are allocated an internal rating using a methodology consistent with that adopted by an external rating agency and are considered to be of investment grade credit quality. 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 policies L, T and U.

31 December 2019							Carrying value
	AAA	AA	A	BBB	Below BBB	Not-rated	£m
Debt securities	7,498	25,732	11,870	8,675	174	5,607	59,556
Reinsurance assets	—	59,787	1,952	196	—	144	62,079
Other investments	—	—	—	—	—	104,063	104,063
Loans	—	1,263	—	—	—	25,882	27,145
Total	7,498	86,782	13,822	8,871	174	135,696	252,843

31 December 2018							Carrying value
	AAA	AA	A	BBB	Below BBB	Not-rated	£m
Debt securities	7,870	27,176	11,632	8,402	353	6,421	61,854
Reinsurance assets	—	53,769	1,880	405	—	31	56,085
Other investments	—	22	31	—	—	88,200	88,253
Loans	—	1,620	1	—	—	23,421	25,042
Total	7,870	82,587	13,544	8,807	353	118,073	231,234

The Company's maximum exposure to credit risk of financial assets, without taking collateral into account, is represented by the carrying value of the financial instruments in the statement of financial position plus guarantees that are set out in note 28, and the undrawn portion of an inter company loan commitment of £50 million (2018: £30 million). These comprise debt securities, reinsurance assets, derivative assets, loans and receivables. The carrying values of these assets are disclosed in the relevant notes: financial investments (note 18), reinsurance assets (note 29), loans (note 16), and receivables (note 19). The collateral in place for these credit exposures is disclosed in note 44; Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

To the extent that collateral held is greater than the amount receivable that it is securing, the table above shows only an amount equal to the latter. In the event of default, any over-collateralised security would be returned to the relevant counterparty.

SPPI financial exposure by credit ratings

31 December 2019	AAA	AA	A	BBB	Below BBB	Not rated
Loans	—	1,243	—	—	—	798
Receivables	—	152	75	225	—	1,610
Total	—	1,395	75	225	—	2,408

31 December 2018	AAA	AA	A	BBB	Below BBB	Not rated
Loans	—	1,567	—	—	—	841
Receivables	—	213	116	187	—	1,788
Total	—	1,780	116	187	—	2,629

(ii) Other investments

Other investments include unit trusts and other investment vehicles; derivative assets, representing positions to mitigate the impact of adverse market movements; and other financial assets includes deposits with credit institutions and minority holdings in property management undertakings.

The credit quality of the underlying debt securities within investment vehicles is managed by the safeguards built into the investment mandates for these funds which determine the funds' risk profiles. The asset quality of unit trusts and other investment vehicles is monitored against set limits.

A proportion of the assets underlying these investments are represented by equities and so credit ratings are not generally applicable. Equity exposures are managed against agreed benchmarks that are set with reference to overall appetite for market risk.

(iii) Loans

The Company's loan portfolio principally comprises:

- Policy loans which are generally collateralised by a lien or charge over the underlying policy;
- Loans and advances to banks which primarily relate to loans of cash collateral received in stock lending transactions. These loans are fully collateralised by other securities;

Notes to the financial statements (continued)

- Healthcare, infrastructure and PFI loans secured against healthcare, education, social housing and emergency services related premises; and
- Mortgage loans collateralised by property assets.

The Company uses loan-to-value; interest and debt service cover; and diversity and quality of the tenant base metrics to internally monitor its exposures to mortgage loans. The Company uses credit quality, based on dynamic market measures, and collateralisation rules to manage our stock lending activities. Policy loans are loans and advances made to policyholders, and are collateralised by the underlying policies.

(iv) 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.

Reinsurance credit exposures

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 tolerance. Exposures are actively monitored with escalation to the Chief Financial Officer, Chief Risk Officer, Asset and Liabilities Committee ("ALCO") and the Risk Committee as appropriate.

The Company's largest intra-group reinsurance counterparty is All as a result of the quota share reinsurance ceded to All. At 31 December 2019, the reinsurance asset recoverable from All, excluding the unearned premium, was £53,103 million (2018: £46,969 million). The credit exposure has been partially mitigated by agreeing to withhold a significant portion of the balance due to All (see note 43).

(v) Derivative credit exposures

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

(vi) Unit-linked business

In unit-linked business the policyholder bears the direct market risk and credit risk on investment assets in the unit-funds and the shareholders' exposure to credit risk is limited to the extent of the income arising from asset management charges based on the value of assets in the fund.

(vii) Impairment of financial assets

In assessing whether financial assets carried at amortised cost are impaired, due consideration is given to the factors outlined in accounting policy T. 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.

31 December 2019	Neither past due nor impaired £m	Financial assets that are past due but not impaired				Financial assets that have been impaired £m	Carrying value £m
		0-3 months £m	3-6 months £m	6 months-1 year £m	Greater than 1 year £m		
Reinsurance assets	62,079	—	—	—	—	—	62,079
Loans	2,042	—	—	—	—	—	2,042
Receivables and other financial assets	3,953	—	—	—	—	—	3,953

31 December 2018	Neither past due nor impaired £m	Financial assets that are past due but not impaired				Financial assets that have been impaired £m	Carrying value £m
		0-3 months £m	3-6 months £m	6 months-1 year £m	Greater than 1 year £m		
Reinsurance assets	56,085	—	—	—	—	—	56,085
Loans	2,447	—	—	—	—	—	2,447
Receivables and other financial assets	3,961	—	—	—	—	—	3,961

Excluded from the tables above are financial and reinsurance assets carried at fair value through profit or loss that are not subject to impairment testing, as follows: £59,556 million of debt securities (2018: £61,854 million), £104,063 million of other investments (2018: £88,253 million), £18,484 million of mortgage loans (2018: £16,863 million), £232 million of loans to subsidiaries (2018: £230 million), £302 million of loans to credit institutions (2018: £303 million) and £6,086 million of other loans (2018: £5,199 million).

(c) Market risk

Market risk is the risk of adverse financial impact resulting directly or indirectly from fluctuations in interest rates, 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 management of market risk is undertaken at business unit and at Group level. Businesses manage market risks locally using the Group market risk framework and within local regulatory constraints. Group Capital is responsible for monitoring and managing market risk at Group level and has established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

Notes to the financial statements (continued)

In addition, where the Company's long-term savings business has written insurance and investment products where the majority of investment risks are borne by its policyholders, these risks are managed in line with local regulations and marketing literature, in order to satisfy the policyholders' risk and reward objectives. Company shareholders' exposure to market risk on unit-linked business is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

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's most material indirect equity price risk exposures are to policyholder unit-linked funds, which are exposed to a fall in the value of the fund thereby reducing the fees the Company earns on those funds, and participating contracts, which are exposed to a fall in the value of the funds thereby increasing the Company's costs for policyholder guarantees. The full list of material guarantees and options is set out in note 28. The Company also has some equity exposure in shareholder funds through equities held to match inflation-linked liabilities.

The Company continues to limit its direct equity exposure in line with its risk preferences. This includes investments in subsidiaries and shareholdings in strategic business partners, with regular management information presented to the Board Investment Committee. 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. The Company actively models the performance of equities through the use of risk models, in particular to understand the impact of equity performance on guarantees, options and bonus rates.

Sensitivity of profit and shareholders' equity to changes in equity prices is given in section (g) '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, mortgages, and mortgage backed securities. 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. Exposure to property risk on equity release mortgages from sustained underperformance in UK house price inflation is managed by setting suitably low loan to value levels at origination and monitoring levels of business written against agreed credit limits.

Sensitivity of profit and shareholders' equity to changes in property prices is given in section (g) '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 income securities and their movement relative to the value placed on the insurance liabilities. A number of policyholder product features have an influence on the Company's interest rate risk. The major features include guaranteed surrender values, GAO, and minimum surrender and maturity values. Details of material guarantees and options are given in note 28.

Exposure to interest rate risk is monitored through several measures that include duration, capital modelling, sensitivity testing and stress and scenario testing. The impact of exposure to sustained low interest rates is considered within our scenario testing.

The Company typically manages interest rate risk by investing in fixed interest securities which closely match the interest rate sensitivity of the liabilities where such investments are available. In particular, a key objective is to at least match the duration of the Company's annuity liabilities with assets of the same duration, and in some cases where appropriate cash flow matching has been used. These assets include corporate bonds, residential mortgages and commercial mortgages. Should they default before maturity, it is assumed that the Company can reinvest in assets of a similar risk and return profile, which is subject to market conditions. Interest rate risk is also managed using a variety of derivative instruments, including futures, options, swaps, caps and floors.

Some of the Company's products, principally participating contracts, expose it to the risk that changes in interest rates will impact on profits through a change in the interest spread (the difference between the amounts that the Company is required to pay under the contracts and the investment income the Company is able to earn on the investments supporting the Company's obligations under those contracts).

The continued low interest rate environment has resulted in the Company's current reinvestment yields being lower than the overall current portfolio yield, primarily for the Company's investments in fixed income securities and commercial mortgage loans. As long as market yields remain below the current portfolio level, the portfolio yield, and as a result net investment income, will continue to decline. While the Company anticipates interest rates may remain below historical averages before the 2008 financial crisis for some time to come, it is also possible that further future increases in interest rates or market anticipation of such increases, if larger and more rapid than expected, could adversely impact market values of the Company's portfolio of fixed income securities and increase the risk of credit defaults and downgrades.

Other product lines of the Company, such as protection, are not significantly sensitive to interest rate or market movements. For unit-linked business, the shareholder margins emerging are typically a mixture of annual management fees and risk/expense charges. Risk and expense margins will be largely unaffected by low interest rates. Annual management fees may increase in the short term as the move towards low interest rates increases the value of unit funds. However, in the medium term, unit funds will grow at a lower rate which will reduce fund charges. For the Company's annuities business interest rate exposure is mitigated by closely matching the duration of liabilities with assets of the same duration.

The Company's participating business includes contracts with features such as guaranteed surrender values, GAO, and minimum surrender and maturity values. These liabilities are managed through duration matching of assets and liabilities and the use of derivatives, including swaptions. As a result, the Company's exposure to sustained low interest rates on this portfolio is not material.

Sensitivity to changes in interest rates is given in section (g) 'risk and capital management' below.

(iv) Inflation risk

Inflation risk arises primarily from the Company's exposure to inflation linked benefits within the annuity portfolio 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 its investment strategy and, in particular, by investing in inflation linked securities and through a variety of derivative instruments, including inflation linked swaps.

Notes to the financial statements (continued)

(v) Currency risk

The Company has minimal exposure to currency risk from financial instruments held in currencies other than sterling, as nearly all such holdings are backing either unit-linked or With-profits contract liabilities or mitigated by hedging. As a result the foreign exchange and losses on investments (see note 3) are largely offset by changes in unit-linked and With-profits liabilities and fair value changes in derivatives attributable to changes in foreign exchange rates recognised in the income statement.

(vi) Derivatives risk

Derivatives are used for efficient investment management, risk hedging purposes, or to structure specific retail savings products. Derivatives are used within policy guidelines agreed by the Board of directors 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.

(vii) Correlation risk

The Company recognises that lapse behaviour and potential increases in consumer expectations are sensitive to and interdependent with market movements and interest rates. These interdependencies are taken into consideration in the internal capital model and in scenario analysis.

(d) Liquidity risk

Liquidity risk is the risk that financial obligations to policyholders and other relevant external and internal parties cannot be met in a timely and cost-effective manner as they fall due. Liquidity issues may arise from uncertainty in the value and timing of liabilities as well as uncertainty in the ability to realise assets as cash to meet obligations.

The relatively illiquid nature of insurance liabilities is a potential source of additional investment return by allowing investment in higher yielding, but less liquid assets such as commercial mortgages. 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 has a liquidity risk appetite which requires that sufficient liquid resources be maintained to cover net outflows in a stress scenario. The Company monitors its position relative to its agreed liquidity risk appetite.

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

Maturity analysis

The following tables show the maturities of the Company's insurance and investment contract liabilities, and of the financial and reinsurance assets held to meet them. A maturity analysis of the contractual amounts payable for borrowings, payables, other financial liabilities and derivatives is given in notes 35, 36, 37, and 43, respectively. Contractual obligations under operating capital commitments are given in note 39.

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

For insurance and investment business, the following table shows the gross liability at 31 December 2019 and 2018 analysed by remaining duration. The total liability is split by remaining duration in proportion to the present value of cash-flows expected to arise during that period, as permitted under IFRS 4, Insurance Contracts.

Almost all linked business and non-linked investment contracts may be surrendered or transferred on demand. For such contracts, the earliest contractual maturity date is therefore the current statement of financial position date, for a surrender amount approximately equal to the current statement of financial position liability. However, the Company expects surrenders, transfers and maturities to occur over many years, and therefore the tables below reflect the expected cash flows for these contracts, rather than their contractual maturity date.

2019					
	Total	On demand or within 1 year	1-5 years	5-15 years	Over 15 years
	£m	£m	£m	£m	£m
Insurance contracts non-linked	90,650	7,804	22,161	35,261	25,424
Investment contracts non-linked	17,361	2,239	5,751	7,264	2,107
Linked business	131,892	4,352	15,843	45,377	66,320
Total contract liabilities	239,903	14,395	43,755	87,902	93,851

2018					
	Total	On demand or within 1 year	1-5 years	5-15 years	Over 15 years
	£m	£m	£m	£m	£m
Insurance contracts non-linked	88,175	7,745	21,741	40,721	17,968
Investment contracts non-linked	17,953	2,041	5,822	7,962	2,128
Linked business	118,356	4,084	15,831	43,157	55,284
Total contract liabilities	224,484	13,870	43,394	91,840	75,380

(ii) Analysis of maturity of financial assets

Notes to the financial statements (continued)

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. The Company also has non-financial assets, such as investment property of £4,879 million (2018: £5,640 million), for which a maturity analysis has not been provided.

	2019				
	Total	On demand or within 1 year	1-5 years	Over 5 years	No fixed term (perpetual)
	£m	£m	£m	£m	£m
Debt securities	59,556	3,402	12,857	43,297	—
Equity securities	27,476	27,476	—	—	—
Other investments (including derivatives)	104,063	98,754	262	5,047	—
Loans	27,145	1,407	4,016	21,722	—
Reinsurance assets	62,079	2,593	10,419	49,067	—
Deposits received from reinsurers	(56,046)	(2,341)	(9,406)	(44,299)	—
Cash and cash equivalents	22,239	22,239	—	—	—
	246,512	153,530	18,148	74,834	—

	2018				
	Total	On demand or within 1 year	1-5 years	Over 5 years	No fixed term (perpetual)
	£m	£m	£m	£m	£m
Debt securities	61,854	5,395	13,175	43,284	—
Equity securities	25,262	25,262	—	—	—
Other investments (including derivatives)	88,253	83,875	269	4,109	—
Loans	25,042	955	5,010	19,077	—
Reinsurance assets	56,086	2,556	10,181	43,349	—
Deposits received from reinsurers	(49,235)	(2,493)	(9,377)	(37,365)	—
Cash and cash equivalents	23,155	23,155	—	—	—
	230,417	138,705	19,258	72,454	—

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company. Where an instrument is transferable back to the issuer on demand, such as a unit trust or similar type of investment vehicle, it is included in the 'On demand or within 1 year' column. Debt securities with no fixed contractual maturity date are generally callable at the option of the issuer at the date the coupon rate is reset under the contractual terms of the instrument. The terms for resetting the coupon are such that the Company expects the securities to be redeemed at this date, as it would be uneconomic for the issuer not to do so, and for liquidity management purposes the Company manages these securities on this basis. The first repricing and call date is normally ten years or more after the date of issuance. Most of the Company's investments in equity securities and debt securities are market traded and therefore, if required, can be liquidated for cash at short notice in unstressed circumstances.

(e) Life insurance risk**(i) Types of risk**

Life insurance risk in the Company arises through its exposure to longevity risk, mortality risk and exposure to worse than anticipated operating experience on factors such as persistency levels, exercising of policy holder options and management and administration expenses. The Company's health insurance business (including private health insurance, critical illness cover, income protection and personal accident insurance, as well as a range of corporate healthcare products) exposes the Company to morbidity risk (the proportion of our customers falling sick) and medical expense inflation.

(ii) Risk management

The Company has developed a policy for the management of life insurance risk and guidelines for the practical application of key areas of life insurance practice. The impact of life insurance risk is monitored by the Company as part of the control cycle of business management. Exposure is monitored through the assessment of liabilities, the asset liability management framework, operation of deals governance framework that includes economic capital assessment of insurance risk-related deals, profit reporting under IFRS, Stress & Scenario analysis, and the Internal Model process. The individual life and health insurance risks are managed as follows:

- *Mortality and morbidity risks* are, in part, mitigated by use of reinsurance. The Company assesses the risk exposures and monitors the aggregation of risk ceded to individual reinsurers.
- *Longevity risk* and internal experience analysis are monitored against the latest external industry data and emerging trends.
- *Persistency risk* is managed through frequent monitoring of the Company's experience, and benchmarked against local market information and expectations. Generally, persistency risk arises from customers lapsing their policies earlier than has been assumed. Where possible the financial impact of lapses is reduced through appropriate product design and risk management actions. The Company also implements specific initiatives to improve the retention of policies which may otherwise lapse.
- *Expense risk* is primarily managed through the assessment of profitability and frequent monitoring of expense levels.

Notes to the financial statements (continued)

In addition to economic capital modelling and Stress & Scenario analysis, Solvency II reporting uses sensitivity testing to measure the impact of the Solvency II closing balance sheet due to exposure to life insurance risks. This enables the Company to determine whether action is required to reduce risk, or whether that risk is within the overall risk appetite.

(iii) Concentration risk

The Company writes a diverse mix of business that is subject to similar risks (mortality, persistency etc). The Company assesses the relative costs and concentrations of each type of risk through the Internal Model. This analysis enables the Company to assess whether accumulations of risk exceed risk appetite.

The main concentrations of insurance risk for the Company are persistency and longevity, with lesser levels of mortality and morbidity risks. The Company continually monitors these risks and the opportunities for mitigating actions through use of reinsurance, improved asset liability matching, or innovative solutions that emerge in the market.

Internal Model analysis helps identify both concentrations of risk types and the benefits of diversification of risk.

(iv) Embedded derivatives

The Group is exposed to the risk of changes in policyholder behaviour due to the exercise of options, guarantees and other product features embedded in its long-term savings products. These product features offer policyholders varying degrees of guaranteed benefits at maturity or on early surrender, along with options to convert their benefits into different products on pre-agreed terms.

Examples of each type of embedded derivative affecting the Company are:

- Options: call, put, surrender and maturity options, GAO, options to cease premium payment, options for withdrawals free of market value adjustment, annuity options, and guaranteed insurability options.
- Guarantees: embedded floor (guaranteed return), maturity guarantee, guaranteed death benefit, and guaranteed minimum rate of annuity payment.
- Other: indexed interest or principal payments, maturity value, loyalty bonus.
- The impact of these is reflected in the capital model and managed as part of the asset liability framework. Further disclosure on financial guarantees and options embedded in contracts and their inclusion in insurance and investment contract liabilities is provided in note 28.

(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) Life insurance and investment contracts

The nature of long-term business is such that a number of assumptions have been made in compiling these financial statements. Assumptions are made about investment returns, expenses, mortality and morbidity rates, and persistency in connection with the in-force policies. Assumptions are best estimates based on historical and expected experience of the business. A number of the key assumptions are disclosed in note 26.

Some results of sensitivity testing for long-term business are set out below. For each sensitivity test the impact of a change in a single factor is shown, with other assumptions left unchanged. This reflects the sensitivity of profit and shareholders' equity in the Non-profit funds and NWPSF only. Profit in the other With-profits funds arises on the shareholders' share of bonuses paid on claims during the year, or added to policies at the end of the year. Changes in the sensitivity factors will have no impact upon this figure.

Notes to the financial statements (continued)

(ii) Sensitivity results

Sensitivity factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in market interest rates by $\pm 1\%$
Expenses	The impact of an increase in maintenance expenses by 10%
Equity/property market values	The impact of a change in equity/property market values by $\pm 10\%$
Assurance mortality/morbidity	The impact of an increase in mortality/morbidity rates for assurance contracts by 5%.
Annuitant mortality	The impact of a reduction in mortality rates for annuity contracts by 5%
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]. [In allowing for the liability impacts the credit default allowances have been increased by 25% of the changes in spreads.]

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

Long-term Business

The tables above indicate the impact of stated changes after the effect of reinsurance. The impact of changes in assurance in mortality and interest rates would be significantly higher if existing reinsurance arrangements were not in place

Impact on profit before tax and shareholder's equity

	2019							
	Interest rates +1%	Interest rates -1%	Equity/property +10%	Equity/property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality 5%	Credit spreads +0.5%
	£m	£m	£m	£m	£m	£m	£m	£m
Insurance participating	2	27	(41)	40	(16)	8	(9)	(3)
Insurance non-participating	(535)	743	(124)	106	(144)	(91)	(602)	(485)
Investment participating	(14)	38	(27)	27	(20)	—	—	(3)
Investment non-participating	(1)	2	4	(4)	(2)	—	(1)	(2)
Total	(548)	810	(188)	169	(182)	(83)	(612)	(493)

	2018							
	Interest rates +1%	Interest rates -1%	Equity/property +10%	Equity/property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality 5%	Credit spreads +0.5%
	£m	£m	£m	£m	£m	£m	£m	£m
Insurance participating	(44)	36	(66)	52	(21)	—	(9)	(4)
Insurance non-participating	(538)	634	(121)	102	(141)	(71)	(565)	(425)
Investment participating	(32)	31	(36)	29	(5)	—	—	(3)
Investment non-participating	—	—	7	(15)	(19)	—	—	(1)
Total	(614)	701	(216)	168	(186)	(71)	(574)	(433)

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.

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.

43. 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 Swaps and Derivatives Association ("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 44 for further information on collateral and net credit risk of derivative instruments.

Notes to the financial statements (continued)

(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	7,033	183	(73)	7,816	46	(93)
Swaps	6,059	133	(286)	7,094	18	(666)
Total	13,092	316	(359)	14,910	64	(759)
Interest rate contracts						
OTC						
Swaps	38,084	4,508	(1,911)	40,937	3,551	(1,463)
Exchange traded						
Futures	8,482	18	(58)	5,065	52	(34)
Swaptions	403	65	—	358	126	(5)
Total	46,969	4,591	(1,969)	46,360	3,729	(1,502)
Equity/Index contracts						
OTC						
Swaps	219	—	(4)	—	—	—
Options	77	35	(2)	132	58	(1)
Exchange traded						
Futures	5,898	57	(38)	9,803	59	(197)
Options	1,164	186	—	1,696	353	—
Total	7,358	278	(44)	11,631	470	(198)
Credit contracts						
OTC						
Options	249	—	—	—	—	—
Swaps	287	1	(3)	569	2	(5)
Swaps index	4,236	—	(110)	2,244	—	(44)
Total	4,772	1	(113)	2,813	2	(49)
Other	11,735	457	(2,142)	13,764	344	(1,897)
Total as at 31 December	83,926	5,643	(4,627)	89,478	4,609	(4,405)

Fair value assets of £5,643 million (2018: £4,609 million) are recognised as 'Derivative financial instruments' in note 18, while fair value liabilities of £4,627 million (2018: £4,405 million) are recognised as 'Derivative liabilities' in note 36.

The Company's derivative risk management policies are outlined in note 42.

The contractual undiscounted cash flows in relation to non-hedge derivative liabilities have the following maturities

	2019	2018
	£m	£m
Within 1 year	587	995
Between 1 and 2 years	348	378
Between 2 and 3 years	335	296
Between 3 and 4 years	314	277
Between 4 and 5 years	278	251
After 5 years	3,246	2,706
	5,108	4,903

(a) 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 19 and 36 respectively.

Notes to the financial statements (continued)

44. Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

(a) Offsetting financial assets and liabilities and related net exposures

Financial assets and liabilities are offset in the statement of financial position when the Company has a currently enforceable legal right to offset and has the intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

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 some of these arrangements cash is exchanged by the Company for securities and a related receivable is recognised within 'Loans to banks' (note 16). These arrangements are reflected in the table below. In instances where the collateral is recognised on the statement of financial position, the obligation for its return is included within '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, and accordingly not included in the tables below. If risks and benefits are exchanged then the transactions are recognised on the statement of financial position and reflected in the tables below.

								2019
								Related amounts not set off in the statement of financial position
	Gross amounts	Gross amounts offset	Net amounts presented in the statement of financial position	Financial instruments	Cash collateral	Securities collateral received / pledged	Net amount	
	£m	£m	£m	£m	£m	£m	£m	
Financial assets								
Derivative financial assets	5,244	—	5,244	(3,546)	(1,035)	(141)	522	
Loans to banks and repurchase arrangements	1,565	—	1,565	—	(300)	(1,247)	18	
Total financial assets	6,809	—	6,809	(3,546)	(1,335)	(1,388)	540	
Financial liabilities								
Derivative financial liabilities	4,357	—	4,357	(3,346)	(45)	(953)	13	
Total financial liabilities	4,357	—	4,357	(3,346)	(45)	(953)	13	
								2018
								Related amounts not set off in the statement of financial position
	Gross amounts	Gross amounts offset	Net amounts presented in the statement of financial position	Financial instruments	Cash collateral	Securities collateral received / pledged	Net amount	
	£m	£m	£m	£m	£m	£m	£m	
Financial assets								
Derivative financial assets	3,674	—	3,674	(2,802)	(675)	(143)	54	
Loans to banks and repurchase arrangements	1,923	—	1,923	—	(300)	(1,614)	9	
Total financial assets	5,597	—	5,597	(2,802)	(975)	(1,757)	63	
Financial liabilities								
Derivative financial liabilities	4,092	—	4,092	(2,842)	(72)	(1,157)	21	
Total financial liabilities	4,092	—	4,092	(2,842)	(72)	(1,157)	21	

Derivative assets are recognised as 'Derivative financial instruments' in note 18, while fair value liabilities are recognised as 'Derivative financial liabilities' in note 36. £399 million (2018: £935 million) of derivative assets and £270 million (2018: £313 million) of derivative liabilities are not subject to master netting agreements and are therefore excluded from the table above.

Amounts receivable related to securities lending and reverse-repurchase agreements totalling £1,565 million (2018: £1,923 million) are recognised within 'Loans to credit institutions' in note 16.

(b) Collateral

In the tables above, the amounts of assets or liabilities presented in the statement of financial position are offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than amounts presented in the tables above in the case of over collateralisation.

The total amount of collateral received which the Company is permitted to sell or re-pledge in the absence of default was £20,382 million (2018: £21,334 million), all of which other than £6,300 million (2018: £3,974 million) is related to securities lending arrangements. Collateral of £1,247 million (2018: £1,614 million) has been received related to balances recognised within 'Loans to credit institutions' in note 16.

Notes to the financial statements (continued)

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

45. Related party transactions

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

(a) The Company had the following related party transactions

(i) Quota share arrangements

Aviva International Insurance Limited ("All")

During the year, 50% of new business premiums, claims, investment returns and expenses of the relevant Non-profit fund of the Company have been ceded to All.

The reinsurance arrangement with All is priced on an economic basis which makes allowance for items not included within the IFRS valuation. The net impact of the reinsurance in the income statement and the statement of financial position may be summarised as follows:

	2019	2018
	£m	£m
Premiums ceded to reinsurers	(2,293)	(1,886)
Net investment income ceded	(6,128)	1,395
Reinsurance claims	1,498	1,451
Change in reinsurance assets	5,939	(1,806)
Change in deferred acquisition costs	8	(22)
Fee and commission expenses ceded	12	237
Net result ceded	(964)	(631)

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

	2019	2018
	£m	£m
Reinsurance asset	53,103	46,969
Deposits received from reinsurer	56,046	49,224

Aviva Life & Pensions Ireland DAC ("ALPI")

On 29 March 2019, following the Part VII transfer referred to in note 46, the Company entered into a quota share reinsurance agreement with ALPI. Under the terms of this agreement, the Company reinsures and indemnifies ALPI for policies in respect of the Overseas Life and Pension Business ("OLAB").

The rate of reinsurance is one hundred percent (100%).

The aim of the quota share reinsurance agreement is to mitigate the need to divide the With-profits funds that contain OLAB policies and allow OLAB policyholders to continue to share in the Estate of the With-profits fund to which they are currently allocated. The quota share reinsurance agreement also mitigates the need to set up new OLAB unit-linked funds in ALPI and ensures that the unit-linked OLAB policyholders will continue to have access to the same range of unit-linked funds before and after the transfer. It also ensures that the OLAB policies continue to be subject to the same support arrangements.

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

	2019
	£m
Premiums accepted from cedant	1,038
Claims incurred	(36)
Net result accepted	1,002

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

	2019
	£m
Receivables	1,073
Gross insurance liabilities	(1,073)
Net Result	—

Notes to the financial statements (continued)

(ii) Other transactions

Services provided to, and by related parties

	2019				2018			
	Income earned in the year	Expenses incurred in the year	Payable at year end	Receivable at year end	Income earned in the year	Expenses incurred in the year	Payable at year end	Receivable at year end
	£m							
Parent	19	41	6	30	3	—	6	36
Subsidiaries	10	86	111	—	—	54	105	—
Fellow subsidiaries	—	1,131	305	62	—	1,069	325	87
	29	1,258	422	92	3	1,123	436	123

Under separate management agreements UKLS, AMSL and Aviva Administration Limited ("AAL") supply and make charges for the provision of operational assets and staff to the Company. The agreements specify the amounts payable to UKLS, AMSL and AAL in respect of acquisition costs and administrative expenses. From 1 January 2019, all charges for the provision of operational assets and staff to the Company have been made by UKLS only. The amount of this charge in UKLS is £1,091 million (2018: £718 million) in AMSL £nil (2018: £217 million) and in AAL £nil (2018: £138 million).

During the year, the Company paid dividends of £1,294 million (2018: £2,241 million) to its parent.

Also included within distributions received from subsidiaries (note 10) are distributions from property limited partnerships of £90 million (2018: £34 million). Included within distributions received from joint ventures and associates (note 11) are distributions from property limited partnerships of £24 million (2018: £27 million).

Included within debt securities in note 18 are £484 million (2018: £877 million) of loan notes issued by a wholly owned subsidiary Aviva ERFA 15 UK Limited and £224 million (2018: £239 million) of loan notes issued by the five special purpose securitisation companies: Equity Release Funding (No.1) plc, Equity Release Funding (No.2) plc, Equity Release Funding (No.3) plc, Equity Release Funding (No.4) plc and Equity Release Funding (No.5) plc, which directly, or in trust, hold the beneficial interest in five portfolios of mortgages transferred by a fellow group subsidiary. Interest receivable during the year in respect of these loan notes amounted to £8 million (2018: £nil) in respect of Aviva ERFA 15 UK Limited and £5 million (2018: £3 million) in respect of the other five special purpose securitisation vehicles.

The Company issued £114 million Restricted Tier 1 Subordinated Notes to its parent Aviva Group Holdings Limited in May 2018. Further details of this transaction are given in other equity note 24.

The Company has borrowings and other equity instruments with related parties. The details are disclosed in note 35 and note 24 respectively. Interest payments to related parties for these equity instruments total £28 million (2018: £26 million).

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.

During the period the Aviva Staff Pension Scheme, a related party, completed a bulk annuity buy-in transaction with the Company. At inception, the buy-in insured approximately 4,300 deferred and 1,500 current pensioner liabilities. A premium of £1,665 million was paid by the scheme to the Company. The Company recognised gross insurance liabilities of £1,334 million. The difference between the premium and the gross liabilities implies a profit of £331 million, which does not include costs incurred by the Company associated with the transaction, and is driven primarily by differences between the measurement bases used to calculate the premium and the accounting value of the associated gross liabilities. As at 31 December 2019, the Company recognised technical provisions of £1,243 million in relation to the buy-in which have been included within the Company's gross insurance liabilities.

(iii) 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
	£'000	£'000
Salary and other short-term benefits	8,142	9,097
Other long-term benefits	915	949
Post-employment benefits	109	109
Termination benefits	705	325
Total	9,871	10,480

Details of directors' emoluments are given in note 5.

(iv) Parent entity

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

(v) 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. The Group 2019 Annual report and accounts 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)

46. Business transfers to subsidiaries

On 29 March 2019, as disclosed in the Strategic Report, an insurance portfolio transfer of a subset of business of the Company, under Part VII of the Financial Services and Markets Act 2000, was made to Aviva Life and Pensions Ireland DAC ("ALPI"), which is incorporated in Ireland. The purpose of this Part VII transfer was to ensure that Aviva retains the ability to service its policyholders following the UK's departure from the EU ("Brexit"). The High Court of Justice approved the Scheme on 20 February 2019.

The Part VII Transfer during the year is considered to meet the definition of business combinations under common control which are scoped out of the requirements of IFRS 3 Business Combinations. The value of assets and liabilities transferred from the Irish Non-profit Sub Fund ("INPSF") and Irish With-profits Sub Fund ("IWPSF") has been determined using the carrying value of the assets and liabilities, with the surplus assets contributing to the capitalisation of ALPI.

Following the Scheme transfer, the Company entered into a quota share reinsurance arrangement with ALPI in consideration of a premium of £993 million receivable by the Company from ALPI. Refer to note 45 (a) (ii) for further details.

The following table summarises the transfer of the INPSF, IWPSF, and OLAB business to ALPI on 29 March 2019 and the subsequent quota share reinsurance arrangement:

	Note	Scheme transfers (from) the Company and quota share reinsurance impacts on 29th March 2019		
		Part VII £m	OLAB quota share reinsurance £m	Total £m
Assets				
Investment property	Q,13	(252)	—	(252)
Debt Securities - Fair Value	T,18	(2,092)	—	(2,092)
Equity Securities - Fair Value	T,18	(594)	—	(594)
Other Investments - Fair Value	T,18	(2,527)	—	(2,527)
Loans	Y,16	(256)	—	(256)
Reinsurance assets	N,29	(293)	—	(293)
Receivables	U,19	(1,050)	993	(57)
Deferred acquisition costs	AA,20	(161)	—	(161)
Prepayments and accrued income	20	(35)	—	(35)
Cash and cash equivalents		(867)	—	(867)
Total assets		(8,127)	993	(7,134)
Liabilities				
Gross insurance and investment contract liabilities	L,25	7,424	(993)	6,431
Unallocated divisible surplus	L,31	161	—	161
Net tax liabilities	AE,32	28	—	28
Payables and other financial liabilities	V,36	328	—	328
Pensions obligations and other provisions		12	—	12
Other liabilities	37	5	—	5
Total liabilities		7,958	(993)	6,965
Net assets transferred		(169)	—	(169)

Under the Part VII scheme transfer, transferring assets and liabilities totalling £169 million have been treated as a capital contribution and therefore recorded as an increase to the Company's investment in ALPI.

Notes to the financial statements (continued)

47. 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, joint ventures, associates and other significant holdings. Significant holdings are where the Company either has a shareholding greater than or equal to 20% of the nominal value of any share class, or a book value greater than 20% of the Company's assets.

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 list also includes holdings in open-ended investment companies ("OEICs"), sociétés d'investissement a capital variable ("SICAVs"), investment companies with variable capital ("ICVCs") and liquidity funds where the Company has a significant holding in the underlying assets of the fund, where information is available.

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	% owned by Aviva Life & Pensions UK Limited
10-11 GNS LIMITED	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1.00 Ordinary shares	100%
Anna Livia Properties Limited	Ireland	25/28, North Wall Quay, Dublin 1. Ireland	€1.00 Ordinary shares	100%
Atlas Park Management Company Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Limited by Guarantee	100%
Aviva Equity Release UK Limited	England and Wales	Aviva, Wellington Row , York. YO90 1WR	£1.00 Ordinary shares	100%
Aviva ERFA 15 UK Limited	England and Wales	Aviva, Wellington Row , York. YO90 1WR	£1.00 Ordinary shares	100%
Aviva Investors European Renewable Energy S.A	Luxembourg	16, Avenue de la Gare, Luxembourg, Grand duchy of Luxembourg, L-1610. Luxembourg	€1.00 Ordinary shares	100%
Aviva Investors Property Fund Management Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1.00 Ordinary shares	100%
Aviva Life & Pensions Ireland DAC ("ALPI")	Ireland	Friends First House, Cherrywood Business Park, Loughlinstown, Dublin 18. Ireland	Ordinary A shares Ordinary B shares	100%
Aviva Life Investments International LP	England and Wales	Aviva, Wellington Row, York, YO90 1WR	N/A (Limited Liability Partnership)	100%
Aviva Pension Trustees UK Limited ("UKPTL")	England and Wales	Aviva, Wellington Row , York. YO90 1WR	£1.00 Ordinary shares	100%
Aviva UKLAP De-Risking Limited	England and Wales	St Helen's, 1 Undershaft, LONDON. EC3P 3DQ	£1.00 Ordinary shares	100%
Aviva Undershaft Four Limited	Ireland	One Park Place, Hatch Street, Dublin 2. Ireland	€1.25 Ordinary shares	100%
AXA Property Trust Limited	Guernsey	Trafalgar Court, Les Banques, St Peter Port. Guernsey	Ordinary – no par value shares	28.40%
AXA UK Infrastructure SAS	France	20 Place Vendome, Paris, 75001. France	€1.00 Ordinary Shares	100%
Axcess 10 Management Company Limited	United Kingdom	St Helen's, 1 Undershaft, LONDON. EC3P 3DQ	Limited by guarantee	100%
Barwell Business Park Nominee Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1.00 Ordinary shares	100%
BMO Commercial Property Trust Limited	Guernsey	PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3QL, Channel Islands	£0.01 Ordinary Shares	20.65%
Cannock Consortium LLP	England and Wales	Nations House, 3rd Floor, 103 Wigmore Street, London. W2U 1WH	N/A (Limited Liability Partnership)	42.50%
Centaurus CER (Aviva Investors) Sarl	Luxembourg	47 Avenue John F. Kennedy, L - 1855, Luxembourg.	€100.00 Ordinary shares	100%
Cornerford Limited	England and Wales	St Helen's , 1 Undershaft, London, EC3P, 3DQ	Ordinary Shares	100%
EPI NU Societe a responsabilite limitee	Luxembourg	47 Avenue John F. Kennedy, L - 1855. Luxembourg	€25.00 Ordinary shares	100%
FPB Holdings GmBH	Germany	c/o WSWP Weinert GmbH, Theaterstr. 31, 80333, Munich. Germany	€1.00 A Ordinary €1.00 B Ordinary	100%

Notes to the financial statements (continued)

Friends AEL Trustees Limited	England and Wales	Pixham End, Dorking, Surrey. RH4 1QA	£1.00 Ordinary Shares	100%
Friends AELRIS	England and Wales	Pixham End, Dorking, Surrey. RH4 1QA	£1.00 Ordinary Shares	100%
Friends SL Nominees Limited	England and Wales	Pixham End, Dorking, Surrey. RH4 1QA	£1.00 Ordinary Shares	100%
Goodman European Business Park Fund (Lux) Sarl	Luxembourg	47 Avenue John F. Kennedy, L - 1855. Luxembourg	€25.00 Ordinary	42.30%
Hemel Hempstead Estate Management Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1.00 Ordinary shares	100%
Hexagone Sarl	Luxembourg	16, Avenue de la Gare, Luxembourg, Grand duchy of Luxembourg, L-1610. Luxembourg	€25.00 Ordinary	100%
Hillswood Management Limited	England and Wales	Shakespeare House, 42 Newmarket Road, Cambridge. CB5 8EP	£0.10 A Ordinary £0.10 B Ordinary	23.53%
Matthew Parker Street (Nominee no 1) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1.00 Ordinary shares	100%
Matthew Parker Street (Nominee no 2) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1.00 Ordinary shares	100%
MPS L014 S.ar.l	Luxembourg	16, Avenue de la Gare, Luxembourg, Grand duchy of Luxembourg, L-1610. Luxembourg	£1.00 Ordinary shares	100%
Norwich Union (Shareholder GP) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1.00 Ordinary shares	100%
Norwich Union Life Insurance Company Limited	England and Wales	Aviva, Wellington Row , York. YO90 1WR	£1.00 Ordinary shares	100%
Opus Park Management Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Limited by Guarantee	100%
Origo Services Limited	Scotland	7 Lochside View, Edinburgh, EH12 9DH. United Kingdom	£1.00 Ordinary shares	21.60%
Quarryvale One Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1.00 Ordinary shares	100%
Stonebridge Cross Management Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Limited by Guarantee	100%
Suntrust Limited	England and Wales	Pixham End, Dorking, Surrey. RH4 1QA	£1.00 Ordinary shares	100%
Swan Valley Management Limited	England and Wales	St Helen's, 1 Undershaft, LONDON. EC3P 3DQ	£1 A Ordinary shares £1 B Ordinary shares	0%
Synergy Sunrise (Sentinel House) Limited	England and Wales	Aviva, Wellington Row , York. YO90 1WR	£1.00 Ordinary shares	100%
Tenet Group Limited	England and Wales	5 Lister Hill, Horsforth, Leeds, West Yorkshire. LS18 5AZ	£0.0001 B Ordinary Shares	22.85%
UKP Holdings Inc.	United States	2711 Centreville Road, Suite 400, Wilmington, New Castle, Delaware, 19808. USA	\$100.00 Non-Cumulative Preferred Stock \$1.00 Common Stock	100%
Victor Hugo 1 Sarl	Luxembourg	16, Avenue de la Gare, Luxembourg, Grand duchy of Luxembourg, L-1610. Luxembourg	€25.00 Ordinary Shares	100%
Voyager Park South Management Company Limited	England and Wales	Aviva, Wellington Row , York. YO90 1WR	Ordinary shares	51.85%
Winslade Investments Inc	Cogency Global Inc. 850 New Burton Road Suite 201 Dover Delaware Kent County 19904, USA	United States	US\$ Common Stock US\$ A Preference US\$ B Preference	100%
Yatra Capital	Jersey	C/O Citco Jersey Limited, Second Floor, No. 4 The Forum, Grenville Street, St Helier, JE2 4UF. Jersey	Ordinary - no par value shares	27.27%

Notes to the financial statements (continued)

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

Name of undertaking	Country of incorporation	Registered address	Share class	% owned by Aviva Life & Pensions UK Limited
1 Liverpool Street General Partner Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	100%
1 Liverpool Street Nominee 1 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	100%
1 Liverpool Street Nominee 2 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	100%
11-12 Hanover Square Lp Property Unit Trust	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Limited Partnership	50%
130 Fenchurch Street General Partner Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	100%
1-5 Lowndes Square Management Company Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£0.25 A Ordinary £0.25 B Ordinary	76%
20 Gracechurch (General Partner) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 A Ordinary	100%
20 Gracechurch Unit Trust - Closed	Jersey	Lime Grove House, Green Street, St Helier, Jersey, Channel Islands. JE1 2ST	Unit Trust	100%
20 Lowndes Square Management Company Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£0.25 A Ordinary £0.25 B Ordinary	77%
2-10 Mortimer Street (GP No. 1) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
2-10 Mortimer Street GP Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 B Ordinary	50%
30 Warwick Street Nominee 1 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	50%
30 Warwick Street Nominee 2 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	50%
30-31 Golden Square Nominee 1 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	50%
30-31 Golden Square Nominee 2 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	50%
30-31 Golden Square S Lp Property Unit Trust	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Limited Partnership	50%
40 Spring Gardens Unit Trust- Closed Ended Fund	Jersey	FUND 3rd Floor, Liberation House, Castle Street, St Helier, Jersey, JE1 1BL	Unit trust	100%
41-42 Lowndes Square Management Company Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£0.25 A Ordinary £0.25 B Ordinary	78%
43 Lowndes Square Management Company Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£0.25 A Ordinary £0.25 B Ordinary	77%
44-49 Lowndes Square Management Company Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£0.25 A Ordinary £0.25 B Ordinary	76%
6-10 Lowndes Square Management Company Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£0.25 A Ordinary £0.25 B Ordinary	76%
Aep Feeder Fund V	USA	200 Clarendon Street, 55th Floor, Boston, Massachusetts. USA	Unit trust	100%
AFRP Sarl	Luxembourg	16, Avenue de la Gare, Luxembourg, Grand duchy of Luxembourg, L-1610. Luxembourg	€25.00 Ordinary	100%
AIEREF Holding 1	Luxembourg	16, Avenue de la Gare, Luxembourg, Grand duchy of Luxembourg, L-1610. Luxembourg	€1.00 Ordinary shares	100%
AIEREF Holding 2	Luxembourg	16, Avenue de la Gare, Luxembourg, Grand duchy of Luxembourg, L-1610. Luxembourg	€1.00 Ordinary shares	100%

Notes to the financial statements (continued)

AIEREF Renewable Energy SRO	Czech Republic	5/482, Ve Svahu, Prague 4, 147 00. Czech Republic	CZK1.00 Ordinary shares	100%
Architas Multi-Manager Diversified Protector 70	England and Wales	5 Old Broad Street, London. EC2N 1AD	OEIC	50%
Architas Multi-Manager Diversified Protector 80	England and Wales	5 Old Broad Street, London. EC2N 1AD	OEIC	37%
Artemis UK Special Situations Fund	England and Wales	Artemis Fund Managers Limited, 57-59 St James's Street, London. SW1A 1LD	Unit trust	24%
Ascot Real Estate Investments GP LLP	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Limited Partnership	50%
Ascot Real Estate Investments Lp	England and Wales	1 Poultry, London, EC2R 8EJ, United Kingdom	Limited Partnership	50%
Ashtown Management Company Limited	Ireland	Friends First House, Cherrywood Science & Technology Park, Loughlinstown, Dublin. Ireland	Ordinary shares	50%
Asl Infrastructure Equity Npv	England and Wales	50 Lothian Road, Festival Square, Edinburgh. EH3 9WJ1	Private Equity	100%
Aspire Financial Management Limited	England and Wales	5 Lister Hill, Horsforth, Leeds, West Yorkshire. LS18 5AZ	£1.00 Ordinary shares	23%
Atrium Nominees Limited	Ireland	Friends First House, Cherrywood Business Park, Loughlinstown, Dublin 18. Ireland	Ordinary shares	100%
Aviva Investors (FP) Limited	Scotland	Pitheavlis, Perth. PH2 0NH	£1.00 Ordinary shares	100%
Aviva Investors (GP) Scotland Limited	Scotland	Pitheavlis, Perth. PH2 0NH	£1.00 Ordinary shares	100%
Aviva Investors 30 70 Global Eq Ccy Hedged Ind Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors 40 60 Global Equity Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors 50 50 Global Equity Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors 60 40 Global Equity Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Alt Income Solutions Fund Open Ended	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	Limited Partnership	55%
Aviva Investors Asia Pacific Ex Japan Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Asia Pacific Property Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	80%
Aviva Investors Asian Equity Income Fund	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	SICAV	99%
Aviva Investors Balanced Life Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Balanced Pension Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Cash Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	56%
Aviva Investors Cautious Pension Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Continental Euro Equity Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Continental European Eq Alpha Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Continental European Long Lease Strategy Fund	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	PLP	44%
Aviva Investors Corporate Bond Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	93%

Notes to the financial statements (continued)

Aviva Investors Dev Asia Pacific Ex Japan Eq Ind Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Dev Euro Ex UK Equity Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Dev World Ex UK Equity Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Developed Overseas Gov Bd Ex UK Ind Fd	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Distribution Life Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors EBC GP Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1.00 Ordinary shares	100%
Aviva Investors EBC SARL	Luxembourg	16 Avenue de la Gare,, Luxembourg, 1610, Luxembourg, .	€125 A Ordinary €125 B Ordinary €125 C Ordinary €125 D Ordinary €125 E Ordinary €125 F Ordinary €125 G Ordinary €125 H Ordinary €125 I Ordinary €125 J Ordinary	100%
Aviva Investors Emerging Markets Bond Fund	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	SICAV	83%
Aviva Investors Emerging Markets Corporate Bond Fund	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	SICAV	84%
Aviva Investors Emerging Markets Equity Income Fund	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	SICAV	100%
Aviva Investors Emerging Markets Equity Small Cap Fund	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	SICAV	85%
Aviva Investors Emerging Markets Local Currency Bond Fund	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	SICAV	90%
Aviva Investors Europe Equity Ex UK Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors European Corporate Bond Fund	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	SICAV	64%
Aviva Investors European Equity Income Fund	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	SICAV	100%
Aviva Investors European Property Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	77%
Aviva Investors European Real Estate Securities Fund	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	SICAV	66%
Aviva Investors European Renewable Energy Fund Sicav	Luxembourg	14 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	SICAV	100%
Aviva Investors Global Aggregate Bond Fund	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	SICAV	96%
Aviva Investors Global Convertibles Absolute Return Fund	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	SICAV	78%
Aviva Investors Global Emerging Markets Index Fund	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	SICAV	90%
Aviva Investors Global Equity Alpha Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Global Equity Endurance Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	100%
Aviva Investors Global Equity Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%

Notes to the financial statements (continued)

Aviva Investors Global Equity Income Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	78%
Aviva Investors Global High Yield Bond Fund	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	SICAV	68%
Aviva Investors Global Investment Grade Corporate Bond Fund	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	SICAV	88%
Aviva Investors High Yield Bond Fund	Luxembourg	St Helen's, 1 Undershaft, London, EC3P 3DQ	SICAV	40%
Aviva Investors Idx-Lkd Gilts Ovr 5 Yrs Idx Fd	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Scheme	100%
Aviva Investors Index Linked Gilt Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors International Index Tracking Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	70%
Aviva Investors Japan Equity Alpha Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Japan Equity Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Japan Equity Mom 1 Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	100%
Aviva Investors Japanese Equity Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Managed High Income Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	63%
Aviva Investors Money Market Vnav Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Multi-Asset 40 85 Shares Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Multi-Asset I Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	50%
Aviva Investors Multi-Asset Ii Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	87%
Aviva Investors Multi-Asset Iii Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	50%
Aviva Investors Multi-Asset Iv Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	87%
Aviva Investors Multi-Asset V Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	40%
Aviva Investors Multi-Manager 20-60% Shares Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	75%
Aviva Investors Multi-Manager 40-85% Shares Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	71%
Aviva Investors Multi-Manager Flexible Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	82%
Aviva Investors Multi-Strategy Target Income Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	44%
Aviva Investors Multi-Strategy Target Return Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	44%
Aviva Investors Non-Gilt Bond All Stocks Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Non-Gilt Bond Over 15 Yrs Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Non-Gilt Bond Up To 5 Years Index Fd	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme Collective Investment Scheme	100%
Aviva Investors North American Equity Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors North American Equity Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Pacific Ex Japan Equity Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme Scheme	100%

Notes to the financial statements (continued)

Aviva Investors Polish Retail GP Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1.00 Ordinary shares	100%
Aviva Investors Polish Retail SARL	Luxembourg	16 Avenue de la Gare,, Luxembourg, 1610. Luxembourg	€100 Ordinary Shares	100%
Aviva Investors Pre-Annuity Fixed Interest Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Private Equity Programme 2008 Onshore Closed	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Limited Partnership	40%
Aviva Investors Infrastructure Income No.1 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	100%
Aviva Investors Sterling Corporate Bond Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Sterling Gilt Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Sterling Government Liquidity Fund	Ireland	25/28 North Wall Quay, Dublin, Ireland	Liquidity Fund	94%
Aviva Investors Sterling Liquidity Fund	Ireland	25/28 North Wall Quay, Dublin, Ireland	Liquidity Fund	77%
Aviva Investors Sterling Strategic Liquidity Fund	Ireland	25/28 North Wall Quay, Dublin, Ireland	Liquidity Fund	77%
Aviva Investors Stewardship Fixed Interest Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Stewardship International Equity Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Stewardship UK Equity Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Stewardship UK Equity Income Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors Strategic Bond Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	43%
Aviva Investors Strategic Global Equity Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors UK Eq Ex Aviva Inv Trusts Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors UK Equity Alpha Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors UK Equity Dividend Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors UK Equity Ex Tobacco Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors UK Equity Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors UK Equity Income Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors UK Equity Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors UK Equity Mom 1 Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	40%
Aviva Investors UK Gilts All Stocks Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors UK Gilts Over 15 Years Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors UK Gilts Up To 5 Years Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Investors UK Index Tracking Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	61%
Aviva Investors UK Listed High Alpha Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	OEIC	94%
Aviva Investors Us Equity Index Fund	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Collective Investment Scheme	100%
Aviva Special PFI Limited Partnership	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Limited Partnership	95%

Notes to the financial statements (continued)

AXA Ethical Distribution Fund	England and Wales	AXA Investment Managers UK Limited, 7 Newgate Street,	OEIC	33%
AXA LBO Fund IV Feeder	France	20, Place Vendome, 75001 Paris, France	Private Equity Fund	39%
AXA Rosenberg American Fund	England and Wales	AXA Investment Managers UK Limited, 7 Newgate Street,	OEIC	89%
AXA Rosenberg Asia Pacific Ex-Japan Fund	England and Wales	AXA Investment Managers UK Limited, 7 Newgate Street,	OEIC	88%
AXA Rosenberg Global Fund	England and Wales	AXA Investment Managers UK Limited, 7 Newgate Street,	OEIC	89%
AXA Rosenberg Japan Fund	England and Wales	AXA Investment Managers UK Limited, 7 Newgate Street,	OEIC	95%
AXA SUN LIFE PRIVATE EQUITY (NO1) LP	Jersey	22 Grenville Street, St. Helier, Jersey, JE4 8PX Channel Islands	Unit Trust	100%
Baillie Gifford Investment Funds II ICVC-Baillie Gifford UK Equity Core Fund	England and Wales	Calton Square, 1 Greenside Row	OEIC	20%
Barratt House Lp Property Unit Trust	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Limited Partnership	50%
Barratt House Nominee 1 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	50%
Barratt House Nominee 2 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	50%
Blackrock Aquila Connect Currency Hedged Gbl Equit	England and Wales	BlackRock Pensions, 33 King William Street	OEIC	72%
Blackrock Market Advantage Fund Class X Accu Gbp	England and Wales	12 Throgmorton Avenue,	Unit Trust	32%
Bmo Investment Funds Uk ICVC	England and Wales	Exchange House, Primrose Street, London, EC2A 2NY	Unit Trust	50%
Cambridge Research + Innovatio Ord Shares	England and Wales	Wellington House, East Road, Cambridge CB1 1BH	Unit Trust	100%
Cannock Consortium Llp Unit Trust Closed	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Ordinary Shares	42.5%
Cannock Designer Outlet (GP Holdings) Limited	England and Wales	Nations House, 3rd Floor, 103 Wigmore Street. London	Ordinary shares	37%
Cannock Designer Outlet (GP) Limited	England and Wales	Nations House, 3rd Floor, 103 Wigmore Street. London	Ordinary shares	19%
Cannock Designer Outlet (Nominee 1) Limited	England and Wales	Nations House, 3rd Floor, 103 Wigmore Street. London	Ordinary shares	19%
Cannock Designer Outlet (Nominee 2) Limited	England and Wales	Nations House, 3rd Floor, 103 Wigmore Street. London	Ordinary shares	19%
Capital Residential Fund - Life Co Holdings Only	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Unit Trust	88%
Cardiff Bay GP Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1.00 Ordinary shares	100%
Centaurus Cer (Aviva Investors) Sarl Ord	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	Ordinary Shares	100%
CGU Equilibre	France	47 rue du Faubourg Saint-Honoré, 75008, Paris 8, France	FCP	100%
Chesterford Park Limited Partnership	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Limited Partnership	50%
Chesterford Park (General Partner) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 A Ordinary Shares	50%

Notes to the financial statements (continued)

Chesterford Park (Nominee) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	50%
Crieff Road Limited	Jersey	3rd Floor, One The Esplanade, St Helier. JE2 3QA	Ordinary shares	100%
DB X-Trackers li Iboxx Eur Sovereigns Eurozone 15+	Luxembourg	2, boulevard Konrad Adenauer, 1115 Luxembourg,	SICAV	27%
Designer Retail Outlet Centres Unit Trust	Jersey	Lime Grove House, Green Street, St Helier, Jersey, Channel Islands, JE1 2ST	Unit Trust	97%
Dif Infrastructure lii Off-Shore Open Ended	Netherlands	Schiphol, Neterlands	Unit Trust	100%
Eif Uspf Iv Blocker Fund Closed	USA	Three Charles River Place, Needham, Massachusetts	Unit Trust	100%
Eólica Almatret S.L.	Spain	1D, 13 Edificio América, Av. de Bruselas, 28108,, Alcobendas (Madrid), Spain	€2861.9427 Ordinary shares	50%
EPI Nu Sarl	Luxembourg	46a Avenue John F Kennedy, L-1855, Luxembourg, Grand Duchy of Luxembourg	Sarl	100%
Exeter Properties Inc.	USA	Cogency Global Inc., 850 New Burton Road, Suite 201. Dover Delaware Kent County	Common Stock WPV shares	95%
F&C Diversified Growth Fund	Luxembourg	49 Avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg	Unit Trust	87%
F&C Diversified Growth Fund A Gbp Inc Hedged	Luxembourg	50 Avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg	Unit Trust	187%
F&C Diversified Growth X Eur Inc	Luxembourg	50 Avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg	Unit Trust	287%
F&C European Growth & Income Fund	Luxembourg	49 Avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg	Unit Trust	87%
F&C European Growth & Income A Gbp Inc	Luxembourg	50 Avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg	Unit Trust	87%
F&C Mm Navigator Progressive Fund	England and Wales	Exchange House, Primrose Street, London, EC2A 2NY, United Kingdom	Unit Trust	94%
F&C Strategic Bond 1 Acc	England and Wales	Exchange House, Primrose Street, London, EC2A 2NY, United Kingdom	Unit Trust	50%
F&C Strategic Bond 1 Inc	England and Wales	Exchange House, Primrose Street, London, EC2A 2NY, United Kingdom	Unit Trust	100%
F&C Strategic Bond 4 Inc	England and Wales	Exchange House, Primrose Street, London, EC2A 2NY, United Kingdom	Unit Trust	100%
FPPE Fund Public Limited Company	Ireland	Georges Court, 54-62 Townsend Street, Dublin 2. Ireland	€1.00 Shares of No Par Value €1.00 Subscriber Shares	100%
FF UK Select Limited	Jersey	3rd Floor, One The Esplanade, St Helier. JE2 3QA	Ordinary shares	100%
Fitzroy Place GP 2 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Fitzroy Place Management Co Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Fitzroy Place Residential Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Focus Mall Zielona Gora Sp. Z.o.o	Poland	A1., Jana Pawla II 25,, Warsaw, Poland	PLZ50 Ordinary Shares	100%
Focus Park Piotrkow Trybunalski Sp.Zo.o	Poland	A1., Jana Pawla II 25,, Warsaw, Poland	PLZ500 Ordinary Shares	100%

Notes to the financial statements (continued)

Friends First Managed Pensions Funds DAC	Ireland	Friends First House, Cherrywood Business Park, Loughlinstown, Dublin 18. Ireland	Ordinary shares	100%
Friends First US Property Company Limited	Ireland	Friends First House, Cherrywood Business Park, Loughlinstown, Dublin 18. Ireland	Ordinary shares	100%
German Retail Fund	Germany	Max-Planck-Strasse, 3,85609 Aschheim-Dornach, Germany	Ordinary Shares	98%
Gobafoss Equity Value – 1	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Limited Partnership	100%
Gobafoss General Partner Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1.00 Ordinary shares	100%
Gobafoss Partnership Nominee No 1 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	100%
Gs Mezzanine Partners V Offshore Lp	Cayman Islands	George Town, Cayman Islands	Unit Trust	100%
Haspa Trendkonzept	Luxembourg	3 rue des Labours, L-1912 Luxembourg, Luxembourg	FCP	55%
Hexagpone Sarl Equity	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	Ordinary Shares	100%
Houlton Commercial Management Company Limited	England and Wales	St Helen's, 1 Undershaft,	Limited by Guarantee	100%
Houlton Community Management Company Limited	England and Wales	St Helen's, 1 Undershaft,	Limited by Guarantee	100%
Igloo Regeneration (Butcher Street) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Igloo Regeneration (General Partner) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 A Ordinary	50%
Igloo Regeneration (Nominee) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Igloo Regeneration Developments (General Partner) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Igloo Regeneration Developments (Nominees) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Igloo Regeneration Partnership	England and Wales	St Helen's, 1 Undershaft, London, EC3P 3DQ	Limited Partnership	40%
Irongate House LP Property Unit Trust	Jersey	19-21 Broad Street, St Helier, Jersey, Channel Islands, JE1 3PB	Unit Trust	50%
Irongate House Nominee 1 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	50%
Irongate House Nominee 2 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	50%
Lazard Multicap UK Income R Acc	England and Wales	50 Stratton Street, London, W1J 8LL	OEIC	50%
Liontrust Sustainable Future Absolute Growth Fund	England and Wales	Liontrust Fund Partners LLP, 2 Savoy Court, London. WC2R 0EZ	OEIC	54%
Liontrust Sustainable Future Corporate Bond Fund	England and Wales	Liontrust Fund Partners LLP, 2 Savoy Court, London. WC2R 0EZ	OEIC	37%
Liontrust Sustainable Future European Growth Fund	England and Wales	Liontrust Fund Partners LLP, 2 Savoy Court, London. WC2R 0EZ	OEIC	57%
Liontrust Sustainable Future Global Growth Fund	England and Wales	Liontrust Fund Partners LLP, 2 Savoy Court, London. WC2R 0EZ	OEIC	45%
Liontrust Sustainable Future Managed Fund	England and Wales	Liontrust Fund Partners LLP, 2 Savoy Court, London. WC2R 0EZ	OEIC	68%

Notes to the financial statements (continued)

Liontrust Sustainable Future UK Growth Fund	England and Wales	Liontrust Fund Partners LLP, 2 Savoy Court, London. WC2R 0EZ	OEIC	47%
Liontrust UK Ethical Fund	England and Wales	Liontrust Fund Partners LLP, 2 Savoy Court, London. WC2R 0EZ	OEIC	69%
Living in Retirement Limited	England and Wales	5 Lister Hill, Horsforth, Leeds, West Yorkshire. LS18 5AZ	£1.00 Ordinary shares	23%
Lodz B.C. Sp. Zoo	Poland	A1., Jana Pawla II 25,, Warsaw, Poland	PLZ50 Ordinary Shares	100%
Mercer Diversified Retirement M-1 Acc	Ireland	Charlotte House, Charlemont St, Saint Kevin's, Dublin 2, Ireland	OEIC	27%
Mercer Multi Asset Defensive S5	Ireland	Charlotte House, Charlemont St, Saint Kevin's, Dublin 2	OEIC	37%
Mercer Multi Asset Defensive S8	Ireland	Charlotte House, Charlemont St, Saint Kevin's, Dublin 2	OEIC	37%
Mercer Multi Asset Growth S0	Ireland	Charlotte House, Charlemont St, Saint Kevin's, Dublin 2	OEIC	33%
Mercer Multi Asset Growth S3	Ireland	Charlotte House, Charlemont St, Saint Kevin's, Dublin 2	OEIC	33%
Mercer Multi Asset Growth S5	Ireland	Charlotte House, Charlemont St, Saint Kevin's, Dublin 2	OEIC	33%
Mercer Multi Asset Growth S8	Ireland	Charlotte House, Charlemont St, Saint Kevin's, Dublin 2	OEIC	33%
Mercer Multi Asset Growth Z	Ireland	Charlotte House, Charlemont St, Saint Kevin's, Dublin 2	OEIC	33%
Mercer Multi Asset High Growth S5	Ireland	Charlotte House, Charlemont St, Saint Kevin's, Dublin 2	OEIC	24%
Mercer Multi Asset High Growth S8	Ireland	Charlotte House, Charlemont St, Saint Kevin's, Dublin 2	OEIC	24%
Mercer Multi Asset Moderate Growth S5	Ireland	Charlotte House, Charlemont St, Saint Kevin's, Dublin 2	OEIC	47%
Mercer Multi Asset Moderate Growth S8	Ireland	Charlotte House, Charlemont St, Saint Kevin's, Dublin 2	OEIC	47%
Middlesex Hospital Site Property Unit Trust Open	England and Wales	Middlesex, UK	Fund	100%
Mountpark Logistics Eu 2017 23 Sarl	Luxembourg	16, Avenue de la Gare, L-1610 Luxembourg	Unit Trust	100%
Mortimer Street Associated Co 1 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Mortimer Street Associated Co 2 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Mortimer Street Nominee 1 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Mortimer Street Nominee 2 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Mortimer Street Nominee 3 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
New Broad Street House LP Property Unit Trust	Jersey	19-21 Broad Street, St Helier, Jersey, Channel Islands, JE1 3PB	Unit Trust	50%
New Broad Street House Nominee 1 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	50%
New Broad Street House Nominee 2 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	50%
Nordea 1 Swedish Bond Bp Sek Acc	Luxembourg	562, rue de Neudorf, L - 2220, Luxembourg LU	SICAV	32%
Nordea 1 Swedish Kroner Reserve Bp Sek Acc	Luxembourg	562, rue de Neudorf, L - 2220, Luxembourg LU	SICAV	32%
Paddington Central 3 Unit Trust Closed	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Limited Partnership	100%
Paddington Central III (GP) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 A Ordinary £1 B Ordinary	100%
Paragon Insurance Company Guernsey Limited	Guernsey	St Martin's House, Le Bordage, St Peter Port	£1 Ordinary Shares	23%

Notes to the financial statements (continued)

Patriarch Classic B&W Global Freestyle	Luxembourg	1c, rue Gabriel Lippmann, L-5365 Munsbach, Luxembourg	FCP	40%
Pegasus House And Nuffield House LP Property Unit Trust	Jersey	19-21 Broad Street, St Helier, Jersey, Channel Islands, JE1 3PB	Unit Trust	50%
Pegasus House and Nuffield House Nominee 1 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	50%
Pegasus House and Nuffield House Nominee 2 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary Shares	50%
Porth Teigr Management Company Limited	England and Wales	St Helen's, 1 Undershaft, LONDON. EC3P 3DQ	£1.00 Ordinary A shares £1.00 Ordinary B shares	50%
Project Lion Vitus Group	Luxembourg	2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg	Fund	100%
Qep Us Core I Acc	England and Wales	1 London Wall Place, London, UK	Unit Trust	44%
Quantum Property Partnership (General Partner) Limited	England and Wales	180 Great Portland Street, London, England. W1W 5QZ	£1.00 Ordinary shares	50%
Quantum Property Partnership (Nominee) Limited	England and Wales	180 Great Portland Street, London, England. W1W 5QZ	£1 Ordinary shares	50%
Quantum Unit Trust - Closed	Jersey	Lime Grove House, Green Street, St Helier, Jersey, Channel Islands, JE1 2ST	Unit Trust	50%
Quarryvale Three Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1.00 Ordinary shares	100%
Reschop Carre Hattingen GmbH	Germany	Thurn-und-Taxis-Platz 6, 60313, Frankfurt am Main. Germany	€0.00 Ordinary	95%
Reschop Carre Marketing GmbH	Germany	Thurn-und-Taxis-Platz 6, 60313, Frankfurt am Main. Germany	€1.00 Ordinary	100%
Rugby Radio	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	Limited Partnership	50%
Rugby Radio Station (Nominee) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Rugby Radio Station (General Partner) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary B shares	50%
Sapphire Ile de France 1 Sarl	Luxembourg	16, Avenue de la Gare, Luxembourg, Grand duchy of Luxembourg, L-1610. Luxembourg	€25.00 Ordinary	100%
Sapphire Ile de France 2 Sarl	Luxembourg	16, Avenue de la Gare, Luxembourg, Grand duchy of Luxembourg, L-1610. Luxembourg	€25.00 Ordinary	100%
Sapphire Ile de France SCI	France	24 - 26, rue de la Pepiniere, 75008 Paris. France	€1.23 Ordinary	100%
Schroder Institutional QEP Us Core I Inc	England and Wales	1 London Wall Place, London, UK	Unit Trust	44%
Serviced Offices UK GP Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 A Ordinary shares	50%
Slas Axa Private Equity	Jersey	22 Grenville Street, St. Helier, Jersey, JE4 8PX Channel Islands	Unit Trust	100%
Slas Venture Capital Ye Cash Ordinary Shares	Jersey	22 Grenville Street, St. Helier, Jersey, JE4 8PX Channel Islands	Unit Trust	100%
Southgate General Partner Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 A Ordinary shares	100%
Southgate LP (Nominee 1) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Southgate LP (Nominee 2) Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Southgate Property Unit Trust Open	Jersey	Lime Grove House, Green Street, St Helier, Jersey, Channel Islands, JE1 2ST	Unit Trust	50%

Notes to the financial statements (continued)

Station Road Cambridge LP NPV	England and Wales	St Helen's, 1 Undershaft, London, EC3P 3DQ	Limited Partnership	50%
Station Road General Partner LLP	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	100%
30 Station Road Nominee 1 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	100%
30 Station Road Nominee 2 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	100%
50-60 Station Road Nominees 1 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	100%
50-60 Station Road Nominees 2 Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	100%
SUE Developments Limited Partnership	England and Wales	Artemis Fund Managers Limited, 57-59 St James's Street, London SW1A 1LD,	Limited Partnership	50%
SUE GP LLP	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Sue GP Nominee Limited	England and Wales	St Helen's, 1 Undershaft, London. EC3P 3DQ	£1 Ordinary shares	50%
Tenet Platform Services Limited	England and Wales	5 Lister Hill, Horsforth, Leeds, West Yorkshire. LS18 5AZ	£1.00 Ordinary shares	23%
Tenet Business Solutions Limited	England and Wales	5 Lister Hill, Horsforth, Leeds, West Yorkshire. LS18 5AZ	£1.00 Ordinary shares	23%
Tenet Client Services Limited	England and Wales	5 Lister Hill, Horsforth, Leeds, West Yorkshire. LS18 5AZ	£1.00 Ordinary shares	23%
Tenet Connect Limited	England and Wales	5 Lister Hill, Horsforth, Leeds, West Yorkshire. LS18 5AZ	£1.00 Ordinary shares	23%
Tenet Connect Services Limited	England and Wales	5 Lister Hill, Horsforth, Leeds, West Yorkshire. LS18 5AZ	£1.00 Ordinary shares	23%
Tenet Financial Services Limited	England and Wales	5 Lister Hill, Horsforth, Leeds, West Yorkshire. LS18 5AZ	£1 A Ordinary shares £1 Redeemable Ordinary shares	18%
Tenet Limited	England and Wales	5 Lister Hill, Horsforth, Leeds, West Yorkshire. LS18 5AZ	£1.00 Ordinary shares	23%
TenetFinancial Solutions Limited	England and Wales	5 Lister Hill, Horsforth, Leeds, West Yorkshire. LS18 5AZ	£1.00 Ordinary shares	23%
TenetLime Limited	England and Wales	5 Lister Hill, Horsforth, Leeds, West Yorkshire. LS18 5AZ	£1.00 Ordinary shares	23%
TenetSelect Limited	England and Wales	5 Lister Hill, Horsforth, Leeds, West Yorkshire. LS18 5AZ	£1.00 Ordinary shares	23%

Notes to the financial statements (continued)**The indirect related undertakings of the Company (managed, not owned) as at 31 December 2019 are listed below:**

Company name	Address	Incorporated in
Equity Release Funding (No.1) plc	c/o Wilmington Trust SP Services (London) Limited, Third Floor,1 King's Arms Yard, London.EC2R 7AF	England and Wales
Equity Release Funding (No.2) plc	c/o Wilmington Trust SP Services (London) Limited, Third Floor,1 King's Arms Yard, London.EC2R 7AF	England and Wales
Equity Release Funding (No.3) plc	c/o Wilmington Trust SP Services (London) Limited, Third Floor,1 King's Arms Yard, London.EC2R 7AF	England and Wales
Equity Release Funding (No.4) plc	c/o Wilmington Trust SP Services (London) Limited, Third Floor,1 King's Arms Yard, London.EC2R 7AF	England and Wales
Equity Release Funding (No.5) plc	c/o Wilmington Trust SP Services (London) Limited, Third Floor,1 King's Arms Yard, London.EC2R 7AF	England and Wales
Equity Release Holdings Limited	c/o Wilmington Trust SP Services (London) Limited, Third Floor,1 King's Arms Yard, London.EC2R 7AF	England and Wales
ERF Trustee (No. 4) Limited	c/o Wilmington Trust SP Services (London) Limited, Third Floor,1 King's Arms Yard, London.EC2R 7AF	England and Wales
ERF Trustee (No. 5) Limited	c/o Wilmington Trust SP Services (London) Limited, Third Floor,1 King's Arms Yard, London.EC2R 7AF	England and Wales
Equity Equity Release Holdings (Jersey) Limited	c/o Wilmington Trust SP Services (London) Limited, Third Floor,1 King's Arms Yard, London.EC2R 7AF	Jersey
Equity Equity Release Holdings (No. 5) Limited	c/o Wilmington Trust SP Services (London) Limited, Third Floor,1 King's Arms Yard, London.EC2R 7AF	England and Wales

48. Subsequent events

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

As an insurer the Company is impacted by the Covid-19 pandemic through its life protection products as a result of increased mortality and income protection, critical illness and health insurance products as a result of increased morbidity, offset by a potential reduction in annuity payments. The Company is also keeping its pricing and strategy under review given changes in the risk profile of future new business and expected future investments. The Company's balance sheet exposure has been reviewed and actions are being taken to further reduce the sensitivity to economic shocks. The company continues to maintain 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 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.