AVIVA INVESTORS PENSIONS LIMITED

Registered in England and Wales No. 1059606

Annual report and financial statements 2019

Aviva Investors Pensions Limited

Report and financial statements for the year ended 31 December 2019

Registered in England and Wales: No.1059606

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Directors and Officers

Directors
M A Atkinson
D Clayton
N R Cosgrove
M D T Craston (non-executive)
C A Jones

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

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Registered office
St Helen's
1 Undershaft
London
EC3P 3DQ

Company number
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Other Information

Aviva Investors Pensions Limited (the 'Company') is a member of the Association of British Insurers and its activities are covered by the Financial Ombudsman Service. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

The Company is a 100% subsidiary of Aviva Investors Holdings Limited ('the Group' or 'Aviva Investors') and is a member of the Aviva plc group of companies ('Aviva Group').

Strategic Report

The directors present their Strategic Report for the Company for the year ended 31 December 2019.

Review of the Company's Business

Principal Activities

The principal activity of the Company is the provision and administration of unit-linked pension business in the United Kingdom.

Financial Position and Performance

The financial position of the Company at 31 December 2019 is shown in the Statement of Financial Position on page 19, with trading results shown in the Statement of Comprehensive Income on page 18 and the Statement of Cash Flows on page 20. The main factor affecting the performance in the year was:

- An overall decrease in policyholder assets of £125.8 million. Policyholder's assets at 31 December 2019 totalled £899.3 million (2018: £1,025.1 million). The decrease is mainly due to redemptions of £188.5 million (2018: £239.8 million) and charges of £4.7 million (2018: £6.1 million) offset by net investment and other income of £60.6 million (2018: £31.7 million) and inflows of £6.8 million (2018: £11.9 million).

- Lower fee income during the year of £5.0 million (2018: £5.9 million) as a result of lower policyholder assets partially offset by lower administrative expenses.

Section 172 (1) Statement and our stakeholders

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

The Company Board is responsible for monitoring and upholding the culture, values, standards, ethics, and reputation of the Company to ensure that our obligations to our shareholder and to our stakeholders are met. It monitors adherence to the Aviva Group business standards and compliance with local corporate governance requirements.

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.

Our culture

The Company Boards and Executives of Aviva Investors seek to embed a culture that ensures all employees act in the best interest of the clients by putting clients' interests ahead of their own and treating clients fairly. Culture and conduct considerations are key to Aviva Investors' strategy and are embedded in all business processes. Aviva Investors has strategic themes to support growth, which are integrated around the client. These are called "diversified excellence", "operational simplicity" and "grow and protect".

Diversified Excellence - The continued growth of outcome-orientated products to assist clients seeking specific investment solutions across the alpha and real asset offerings.

Operational Simplicity - Initiatives to improve operational simplicity within Aviva Investors will benefit clients as well as reduce risk. Significant and continuous projects are in progress resulting in delivering improved client reporting and enhanced client experience.

Grow and Protect - Aviva Investors' presence continues to focus on the development, promotion and sale of products where there are client needs.

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

Our culture is shaped by our clearly defined values to help ensure we do the right thing. We value diversity and inclusivity in our workforce and beyond. The commitment we make to each customer extends to all our stakeholders; that we are 'with you today, for a better tomorrow.' Throughout our business, we are proud that our people live by our core value of Caring More for our customers, for each other and for the communities we serve.

Strategic Report (continued)

Key strategic decisions in 2019

In November 2019, it was announced that as a result of the wider Aviva Group strategic review, Aviva Investors and the UK Life Savings and Retirement businesses would be brought together to form a new business division; Investment, Savings and Retirement ("IS&R"). The IS&R division will provide a holistic savings and retirement solution, which would look after all stages of customers' savings and retirement needs.

Stakeholder Engagement

(i) Engagement with employees:

The Company had no employees during the year, instead there were service agreements in place between the Company and various Aviva Group companies for the provision of employee services.

Aviva Group are committed to recruiting, training and retaining the best talent possible. Aviva Group are proud to be a pioneer in some areas of employee benefits, including providing six months paid parental leave for all employees.

Mechanisms for engagement include employee forums, internal communication channels and employee engagement surveys.

The Executive Directors appear regularly on 'Uncut,' our global employee broadcast channel, where each episode includes time for employees to ask live and unscripted questions on any subject. Together with members of the Aviva Leadership Team, they also participate in series of 'town hall' meetings.

Our people share in the business' success as shareholders through membership of our global share plans.

(ii) Our customers

- The Board closely monitors customer metrics and engages with the leadership team to understand the issues if our performance does not meet our customers' expectations.
- The Board continues to monitor and review developments concerning changes to our IT platforms which will allow us to simplify and support service delivery to our customers.

(iii) Our 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.

An important part of our culture is the promotion of high legal, ethical, environmental and employee related standards within our business and also among our suppliers. Before working with any new suppliers, we provide them with our Supplier Code of Behaviour, and our interaction with them is guided by our Business Code of Ethics.

Aviva Investors is aligned to the Group Corporate Responsibility commitment to prevent modern slavery and associated practices in any part of our supply chain and approves our Modern Slavery Act statement each year.

In the UK, our ultimate parent, Aviva plc is a signatory of the Prompt Payment Code which sets standards for high payment practices. We are a Living Wage employer in the UK, and our 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.

The Company Board receives information on the most critical or important suppliers to the Company and receives regular updates on their performance. During the year, our internal Aviva Central Service provider, successfully progressed our UK migration to a new data centre infrastructure provider, including partial migration to the Cloud.

Strategic Report (continued)

Stakeholder Engagement (continued)

(iv) Our communities

Aviva Investors has financially supported the following charitable projects to promote more sustainable financial markets and communities.

- Comic Relief: We supported Comic Relief's Futures Lab, which works to enhance the sustainable impact of its funded partners, therefore increasing the effectiveness of their work to help marginalised adults and children, living in poverty in the UK and the rest of the world. We have also funded Comic Relief's Red Shed - a social enterprise programme that supports environmental and community resilience.
- WWF and the One Campaign: We have funded thought-leadership work on sustainable finance at both organisations this year.
- Rosa UK: We have funded projects which aim to give women an equal voice, to improve their safety and to help them live without fear and violence. The projects also promote good health and well-being and help women to achieve social justice.
- The University of Surrey: We made a grant to the Centre for Environment and Sustainability to conduct research into improving investment valuation techniques by incorporating sustainability factors.

(v) Shareholders

Our 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 its parent.

(vi) Our regulators

The Company has a programme of regular meetings between Board members, its Compliance function, senior staff, the FCA and the PRA. The Company routinely provides copies of Board papers to the FCA and also responds to requests for information when required, maintaining constructive and open relationships with its UK regulators.

Future Outlook

The directors continually assess the long-term strategy of the Company to ensure it can adapt to changing market conditions, changes in regulations and changes in client and operational demands. When assessing and setting the Company's long-term strategy, the directors take into consideration client, regulator and legal requirements, its shareholders and other stakeholders. In addition, the directors undertake stress and scenario testing as part of the Own Risk and Solvency Assessment process to ensure that the Company continues to meet its financial objectives and adherence to internal capital and liquidity risk appetite limits over the business planning cycle.

The directors will continue to monitor the situation with COVID-19 including further stress and scenario testing and taking actions to mitigate the impact on the Company where appropriate. As at the reporting date, no changes have been made to the long-term strategy of the business.

Principal Risks and Uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk and capital management policies are set out in note 19 to the financial statements.

Although the directors do not believe that Brexit has a significant operational impact on our business, the influence that it will continue to have on the UK economy will require careful monitoring. During the year the Board reviewed the impact of potential exit scenarios and the operational response plan.

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 the UK, where 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 deepen and result in further declines in financial markets.

Strategic Report (continued)

Principal Risks and Uncertainties (continued)

As a company providing insured non-participating investment contracts, the Company is impacted by the COVID-19 pandemic through the impact of the pandemic on the UK economy and the Company's clients, the valuation and liquidity characteristics of the underlying assets backing its non-participating investment contracts and the valuation of the Company's investment contract provisions. The nature of the Company's unit-linked insurance business results in the value of the Company's insurance contract provisions being directly linked to the value of the related investment assets with a decrease in the investment assets being met by an equal and opposite change in the value of the Company's investment contract provisions. Therefore, the Company's exposure relates solely to the management fees earned on the assets. Due to the size and nature of the property fund, relative to other funds, the Company has a concentrated exposure to property valuation risk in so far as it impacts the management fees earned on the assets.

The Company's balance sheet has been reviewed and actions are being taken to manage the balance sheet position, including the suspension of the Property Fund on 17 March 2020, due to the Company's Standing Independent Valuer for Property Fund assets, CB Richard Ellis, informing the business that material uncertainty should be associated with the valuations they have provided for the Company's investment property assets.

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 fully operational, with key activities such as cash payments and transaction processing being maintained.

Notwithstanding the Company's robust capital position, and the operational and financial actions being taken, the deterioration in the external situation has adverse implications arising from the impact on financial markets. As the situation is rapidly evolving it is not practicable to quantify the potential financial impact on the Company at this stage nor, in particular, when CB Richard Ellis will be able to change the view that there is material valuation uncertainty over the valuation of the Company's investment properties.

Key performance indicators

The Company's KPIs are those that are used by the directors to measure the Company's success in achieving targets and include the following:

	2019	2018	Change
Profit before tax (£'m)	0.4	0.6	(0.2)
Policyholders' assets (£'m)	899.3	1,025.1	(125.8)
Shareholders' assets (£'m)	9.1	8.6	0.5

The changes in profit before tax and policyholders' assets are explained in the Financial Position and Performance section above. The Shareholders' assets increase is attributable to the current year profit after tax.

On behalf of the Board, 7 April 2020

D Clayton
Director

Directors' Report

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

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

M A Atkinson (appointed 25 February 2020)
D Clayton
N R Cosgrove
M D T Craston
C A Jones
G R Neilson (resigned 24 February 2020)
D S C Skinner (resigned 16 July 2019)

Future Outlook

Likely future developments of the Company are discussed in the Strategic Report.

Dividend

No interim dividend was paid during the year (2018: £2.0 million). The directors do not recommend the payment of a final dividend for the financial year ending 31 December 2019.

Events after the reporting period

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

The Company held £821.6 million of financial investments and investment property at the reporting date, with £302.2 million of financial investments across seven liquid funds and £519.4 million of investment property assets in the Property Fund. The recent economic downturn and decline in financial markets as a result of COVID-19 will likely impact the valuation of these assets and if this downturn is sustained, this could materially impact the annual management charges (AMCs) charged on the assets and the corresponding investment management fees and other costs payable to Aviva Investors Global Services Limited, reducing the profitability of the business.

As a result of these market conditions the Company's Standing Independent Valuer for Property Fund assets, CB Richard Ellis, informed the Company that material uncertainty should be associated with the valuations they have provided. This is a UK wide industry issue in relation to the valuation of UK property. This external valuation uncertainty makes it difficult for the Company to calculate the price used to buy and sell units in the Property Fund, presenting a material risk that investors may buy or sell units at a price which does not fairly reflect the underlying value of the property assets. If dealing were to continue, some investors may be advantaged at the expense of others. As such, in order to treat all customers fairly, on 17 March 2020 the directors of the Company took the decision to suspend dealing in the Property Fund. This means that that the Company cannot take instructions to buy or sell units in the Property Fund until further notice which is in line with the fund's guidelines.

The decision to suspend the Property Fund is not indicative of circumstances that existed at the reporting date and there is no material uncertainty associated with the valuation of investment property on the balance sheet of the Company nor the corresponding liability for investment contracts as at the reporting date. Any future change in the valuation of investment property when the suspension is lifted will be met by an equal and opposite change in the value of investment contract provisions. As such, the risk to the financial performance of the Company is that a lower valuation and lower rental income will impact asset management charges charged to investors, thereby reducing revenue earned by the business.

As a result of the market volatility caused by the current pandemic, the value of other financial investments is likely to have decreased. However, this is offset by an equivalent reduction in the liability to policyholders. As the situation is dynamically evolving it is not practicable to quantify the potential financial impact on the Company at this stage.

Directors' Report (continued)

Events after the reporting period (continued)

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 fully operational, with key activities such as cash payments and transaction processing being maintained.

Notwithstanding the Company's robust capital and liquidity position and the operational and financial actions that are being taken, any deterioration in the situation has potential adverse implications arising from the impacts on financial markets and operations. As the situation is rapidly evolving it is not practicable to quantify the potential financial impact of the outbreak on the Company at the date of signing these accounts.

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. In addition, note 19 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instrument exposures; and its exposures to operational risk, market risk, credit risk and liquidity risk.

Notwithstanding the potential material and sustained impact that COVID-19 might have on financial markets, the Company is expected to continue to generate positive cash flows on its own shareholder account for the foreseeable future and has a diverse group of policyholders who bear the market risk of the financial investments through the unit-linked investment contracts. As a consequence, the directors believe that the Company remains 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 the foreseeable future. For this reason, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Employees

The Company has no employees (2018: none).

Disclosure of information to the auditors

Each person who was a director of the Company on the date that this report was approved confirms that:

- so far as the director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing their report, of which the auditor is unaware; and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with Section 418 of the Companies Act 2006.

Directors' Report (continued)

Independent Auditors

It is the intention of the directors to reappoint the auditor under the deemed appointment rules of Section 487 of the Companies Act 2006.

Qualifying Indemnity Provisions

The directors have the benefit of an 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 in Section 234 of the Companies Act 2006.

Aviva plc, the Company's ultimate parent, granted in 2004 an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 (which continue to apply in relation to any provision made before 1 October 2007). This indemnity is a 'qualifying third party indemnity' for the purposes of Sections 309A to 309C of the Companies Act 1985. These qualifying third-party indemnity provisions remain in force throughout the year and 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.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

On behalf of the Board, 7 April 2020

D Clayton
Director

Aviva Investors Pensions Limited

Report and financial statements for the year ended 31 December 2019

Registered in England and Wales: No.1059606

Independent auditors' report to the members of Aviva Investors Pensions Limited

Report on the audit of the financial statements

Opinion

In our opinion, Aviva Investors Pensions 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 statement of comprehensive income for the year then ended 31 December 2019, the statement of cash flows for the year ended 31 December 2019, the statement of changes in equity for the year ended 31 December 2019; and the notes to the financial statements, which include a description of the significant accounting policies.

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.

We have provided no non-audit services to the company in the period from 1 January 2019 to 31 December 2019.

Independent auditors' report to the members of Aviva Investors Pensions Limited (continued)

Our audit approach

Context

Aviva Investors Pensions Limited is a unit linked pension provider which is part of the Aviva plc group.

Overview

- Overall materiality: £22,417 (2018: £30,310), based on 5% of Profit before tax for all balances other than policyholder assets and liabilities and associated income statement line items for which £4.50 million (2018: £5.18 million) is applied based on 1% of total assets.
- In accordance with guidance on the audit of insurers issued in the United Kingdom issued by the Financial Reporting Council we have applied a higher materiality (as outlined above) solely for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities.
- We have performed a full scope audit of Aviva Investors Pensions Limited in accordance with our materiality and risk assessment.

Our key audit matters are as follows:

- Risk of fraud in revenue recognition
- Valuation of Investment Property
- Impact of COVID-19 subsequent event

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to The Companies Act 2006, UK tax legislation, the Financial Conduct Authority's and Prudential Regulation Authority's regulation, 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, Prudential Regulatory Authority's regulations and UK tax legislation. We evaluated management’s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue of the company, and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of underlying assets. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, internal audit, senior management involved in Risk and Compliance functions and the company's legal advisors/function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Prudential Regulation Authority in relation to compliance with laws and regulations;

Independent auditors' report to the members of Aviva Investors Pensions Limited (continued)

- Reviewing relevant meeting minutes including those of the Audit and Risk Committees, and Board of Directors;
- Identifying and testing, journal entries, in particular any journal entries posted with unusual account combinations;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing over areas such as revenue and journals; and
- Testing disclosure note 19 affected by the regulatory solvency requirements for capital risk management.

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Revenue Refer to page 18 (Accounting Policies). We focused on the accuracy and completeness of revenue recognition and its presentation in the Income Statement. This is because incomplete or inaccurate revenue could have a material impact on the company's profit before tax.	We have: • Understood and evaluated the design and, where appropriate, validate the operating effectiveness of the controls; • Obtained an understanding of the activities performed by and the controls in place at the company's outsourced service providers; • Considered the accounting treatment and the accounting policies for the recognition of revenue; • Obtained comfort over the funds under management ('FUM') through evaluating controls reports to obtain assurance that the FUM is complete, exists and correctly valued; and • Tested a sample of management fees by obtaining the underlying agreements and recalculating the expected fee for the year. We found no material exceptions in our testing.
Valuation of Investment Property Refer to page 19 (Accounting Policies) and page 25 (Notes). We focused on the valuation of investment property as the valuation assumptions used to fair value these investments do not have observable market inputs that reflect quoted prices in active markets, and are more subjective.	We have: • utilised our valuation experts to determine which properties were outside of the industry average and met with the external valuers to understand their approach to the valuation; • gained an understanding and substantiated the reasons why properties have been valued outside of the expected industry bench marks where relevant; • understood and tested key inputs in the external valuer's valuations; and • evaluated the independence and objectivity of

Independent auditors' report to the members of Aviva Investors Pensions Limited (continued)

Key audit matter	How our audit addressed the key audit matter
	management's expert. We also held meetings with the expert to discuss and challenge their valuation, and obtain evidence to back up any assumptions outside industry bench marks. We found no material exceptions in our testing.
As disclosed in the Director's report and note 22, subsequent to the balance sheet date and up to the point of reporting there has been a global pandemic of a new strain of Coronavirus (COVID-19) which has caused significant economic disruption. Management have assessed that this outbreak and the subsequent spread of the virus does not provide additional evidence about the situation that existed at 31 December 2019, and it is therefore considered to be a non-adjusting event. The Directors have performed procedures to assess the financial and operational impacts of COVID-19 post the year end, which include: • Reviewed the assets and liabilities on the Company's balance sheet to identify whether COVID-19 has had a material impact on their valuation; • Monitoring of the Company's solvency coverage ratio and other performance indicators as well as performing and evaluating of stress tests; and • Actively managing of the Company's capital and liquidity position. The Directors have prepared the financial statements of the Company on a going concern basis, and believe this assumption remains appropriate. This conclusion is based on the expectation that the Company is, and will continue to be, solvent and meet its capital requirements and that the Company and its key third party service providers have in place appropriate business continuity plans and will be able to maintain service levels through the Coronavirus pandemic.	We evaluated the Directors' assessment of the impact of the impact of COVID-19 pandemic on the Company by: • Evaluating management's assessment of operational impacts, considering their consistency with other available information and our understanding of the business and assessing the potential impact on the financial statements; • Assessed the going concern assessment performed by management, including the impact of COVID-19 on the company's balance sheet position (assets and liabilities), future cash flow forecasts, liquidity and ability to continue to operate; • Reviewed regulatory correspondence; • Reviewed minutes from internal meetings, including Board meetings which considered COVID-19 in advance of reporting; and • 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. Based on the work performed and the evidence obtained, we consider the disclosure of the potential impact of COVID-19 in the financial statements to be appropriate.

How we tailored the audit scope

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

Independent auditors' report to the members of Aviva Investors Pensions Limited (continued)

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	£22,417 (2018: £30,130) for all balances other than policyholder assets and liabilities and associated income statement line items, for which £4.50 million (2018: £5.18 million) is applied.
How we determined it	5% of profit before tax for all balances other than policyholder assets and liabilities and associated income statement line items, and 1% of total assets for policyholder related financial statement line items.
Rationale for bench mark applied	The company's primary objective is to generate profit through earning investment management fee. As such we deem that profit before tax is the most appropriate bench mark in determining materiality. The Company manages pension assets on behalf of its clients in a series of unit linked pooled and segregated funds. As a result, any liability owed to its clients is covered by the assets held by the entity and the investment return derived on the associated assets is offset by the change in provisions for investment contract liabilities. In accordance with guidance on the audit of insurers in the United Kingdom issued by the Financial Reporting Council, we have applied a higher materiality based on 1% of total assets solely for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead a reclassification between line items within assets and liabilities.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £168,000 (2018: £258,800) on policyholder assets and liabilities and £1,121 (2018: £1,516) for all other balances as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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.

Independent auditors' report to the members of Aviva Investors Pensions Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page [10], the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Independent auditors' report to the members of Aviva Investors Pensions Limited (continued)

Responsibilities for the financial statements and the audit (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume

responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

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

Sandra Dowling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

7 April 2020

Aviva Investors Pensions Limited

Report and financial statements for the year ended 31 December 2019

Registered in England and Wales: No.1059606

Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	2019	2018
		£'m	£'m
Income			
Revenue		5.0	5.9
Net investment income	2	60.6	31.7
		65.6	37.6
Expenses			
Change in investment contract provisions		(60.4)	(30.9)
Administrative expenses	3	(4.7)	(5.4)
Other operating expenses	4	(0.1)	(0.7)
		(65.2)	(37.0)
Profit before tax		0.4	0.6
Tax credit/(expense)	7	0.1	(0.1)
Profit for the year and total comprehensive income for the year		**0.5**	**0.5**

All amounts reported in the statement of comprehensive income relate to continuing operations. There were no other recognised gains or losses in the year.

Statement of Changes in Equity

For the year ended 31 December 2019

	Ordinary share capital	Retained earnings	Total equity
	£'m	£'m	£'m
Balance at 1 January 2018	8.0	2.1	10.1
Profit for the year and total comprehensive income for the year	-	0.5	0.5
Dividends paid	-	(2.0)	(2.0)
Balance at 31 December 2018	**8.0**	**0.6**	**8.6**
Profit for the year and total comprehensive income for the year	-	0.5	0.5
Balance at 31 December 2019	**8.0**	**1.1**	**9.1**

The accounting policies on pages 21 to Reference source not found. and notes on 26 to 47 are an integral part of these financial statements.

Aviva Investors Pensions Limited

Report and financial statements for the year ended 31 December 2019

Registered in England and Wales: No.1059606

Statement of Financial Position

As at 31 December 2019

	Note	2019	2018
		£'m	£'m
ASSETS			
Investment property	8	519.4	622.3
Financial investments	9	302.2	277.2
Trade and other receivables	10	19.8	29.2
Cash and cash equivalents	18	80.8	129.7
Total assets		922.2	1,058.4
EQUITY AND LIABILITIES			
Equity			
Ordinary share capital	12	8.0	8.0
Retained earnings		1.1	0.6
Total equity		9.1	8.6
Liabilities			
Liability for investment contracts	13	899.3	1,025.1
Finance lease liabilities	14	2.6	6.3
Trade and other payables	15	10.1	17.6
Provisions	16	1.0	0.7
Deferred tax liability	7	0.1	0.1
Total liabilities		913.1	1,049.8
Total equity and liabilities		922.2	1,058.4

The financial statements on pages 18 to 46 were approved by the Board of directors on 7 April 2020 and were signed on its behalf by

D Clayton
Director

Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019	2018
		£'m	£'m
Cash flows (used in)/generated from operating activities			
Cash (used in)/generated from operations	18(a)	(48.7)	39.4
Group relief paid		(0.2)	(0.4)
Net cash (used in)/generated from operating activities		(48.9)	39.0
Cash flows generated from/(used in) financing activities			
Dividends paid		-	(2.0)
Net cash generated from/(used in) financing activities		-	(2.0)
Net (decrease)/increase in cash and cash equivalents		(48.9)	37.0
Cash and cash equivalents at 1 January		129.7	92.7
Cash and cash equivalents at 31 December	18(b)	**80.8**	**129.7**

The accounting policies on pages 21 to 26 and notes on 26 to 47 are an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

The Company is a limited liability company incorporated and domiciled in the United Kingdom.

The principal accounting policies adopted in the preparation of the Company's financial statements are set out below and have been applied consistently throughout the financial statements.

(A) Basis of presentation

The financial statements are prepared under the historical cost convention, except for those financial assets and financial liabilities that have been measured at fair value. Items included in the financial statements are measured in the currency of the primary economic environment in which the Company operates (‘the functional currency’). The Company’s presentational currency is pounds sterling. Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds sterling (£'m).

Statement of compliance

The Company's financial statements have been prepared and approved by the directors in accordance with the International Financial Reporting Standards ('IFRSs') as endorsed by the European Union ('EU'), the Companies Act 2006 that applies to companies reporting under IFRS and IFRS Interpretation Committee ('IFRS IC') interpretations. The Company's financial statements have been prepared in accordance with IFRS applicable at 31 December 2019 and have been prepared on a going concern basis.

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

The Company has adopted the following new amendments to standards which became effective for financial years beginning on or after 1 January 2019.

(i) IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB published IFRIC 23 Uncertainty over Income Tax Treatments. The standard is effective for annual reporting beginning on or after 1 January 2019 and has been endorsed by the EU. The adoption of this standard does not have an impact on the Company's financial statements.

(ii) Amendments to IFRS 4, Insurance Contracts

In September 2016, the IASB published amendments to IFRS 4 *Insurance Contracts* that address the accounting consequences of the application of IFRS 9 to insurers prior to implementing the new accounting standard for insurance contracts, IFRS 17, which replaces IFRS 4. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The Company does not issue insurance policies in the scope of IFRS 17, therefore the adoption of this standard does not have an impact on the financial statements.

(iii) IFRS 16, Leases

In January 2016, the IASB published IFRS 16 *Leases* which replaced IAS 17 *Leases*. IFRS 16 introduced a definition of a lease with a single lessee accounting model eliminating the classification of either operating or finance leases. Lessees will be required to account for all leases in a similar manner to the current finance lease accounting model recognising lease assets and liabilities on the statement of financial position. Lessor accounting remains similar to current practice.

The impact of the adoption of IFRS 16 has been assessed by the Company and will not have an impact on the financial statements. The Company recognises investment property lease liabilities and assets under IAS 40 *Investment Property,* and as a lessor the accounting under the new standard is substantially unchanged from accounting under IAS 17.

This standard applies to annual reporting periods beginning on or after 1 January 2019 and has been endorsed by the EU.

1. Accounting policies (continued)

(A) Basis of presentation (continued)

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

The following applicable new standards and amendments to existing standards and interpretations have been issued, are not yet effective and have not been adopted early by the Company:

(i) IFRS 17, Insurance Contracts

In May 2017, the IASB published IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 that was issued in 2005. IFRS 17 applies to all types of insurance contracts 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 adaption for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts.

This standard applies to annual reporting periods beginning on or after 1 January 2023 and has not yet been endorsed by the EU.

(ii) Interest Rate Benchmark Reform

Published by the IASB in October 2019. The amendments are effective for annual reporting beginning on or after 1 January 2020 and have not yet been endorsed by the EU.

(B) Critical accounting policies and use of estimates

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

These major areas of judgement on policy application are summarised below:

Item	Critical accounting judgement	Accounting policy
Non – participating investment contract liabilities	Assessment of the significance of insurance risk passed	D
Investment property and Financial investments	Classification of investments including the application of the fair value option	G,H,K
Provisions and contingent liabilities	Probability of uncertain future event	M

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 we consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

Item	Accounting policy
Valuation of investment property	G
Valuation of financial investments	H
Fair value of derivative financial instruments	K
Provisions and contingent liabilities	M

1. Accounting policies (continued)

(C) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates 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 within net investment income in the statement of comprehensive income. Translation differences on all monetary and non-monetary financial assets and liabilities that are measured at fair value are reported as part of the fair value gain or loss and included in net investment income in the statement of comprehensive income.

(D) Non-participating investment contract liabilities

Non-participating investment contracts are unit-linked contracts that are held at fair value. The fair value of the unit-linked liability is determined in accordance with IFRS 13 *Fair Value Measurement,* based on a reliable estimate of the amount for which the liability could be transferred in an orderly transaction between market participants at the measurement date.

The Company's business consists of investment contracts without a discretionary participating feature (non-participating investment contracts). Deposits collected under such contracts are accounted for directly through the statement of financial position as an adjustment to the investment contract liability. Non-participating investment contracts have no associated premium income.

(E) Revenue

Fees related to policy administration, investment advisory for a range of pooled investment funds, and other contract 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.

Fees that are related to services to be provided in future periods are deferred and recognised when the performance obligation is fulfilled.

All revenue is net of any value added tax, rebates and distribution allowances.

(F) Net investment income

Investment income arises from the financial assets held by the Company on behalf of policyholders and consists of dividends, rental income and interest receivable for the year and realised and unrealised gains and losses on investment property and investments held at fair value through profit or loss. Dividends on equity securities are recorded as revenue on an ex-dividend basis. Interest income is recognised as it accrues, taking into account the effective yield on the investment. Rental income is recognised on a straight-line basis over the life of the contract.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its brought forward carrying value. Unrealised gains and losses 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.

Deposit interest on cash held at bank is recognised on an accrual basis.

1. Accounting policies (continued)

(G) Investment property

Investment property is held for long-term rental yields and capital appreciation and is not occupied by the Company. The Company's portfolio of investment property is attributable to policyholders upon redemption of their investment contracts. Investment property is recognised at the point that the risks and rewards of ownership are deemed to pass to the Company and is measured initially at cost, including transaction costs.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably.

Subsequent to initial recognition, investment property is measured at its fair value, which is supported by market evidence, as assessed by qualified external valuers. Changes in fair values are recorded in the statement of comprehensive income within net investment income. Investment properties carried at fair value are classified using a fair value hierarchy table, described in note 19(j).

An investment property is derecognised upon disposal. Any gain or loss arising on derecognition of the property is included in profit or loss in the year in which the property is derecognised.

(H) Financial investments

The Company designates its investments upon initial recognition as financial assets held at fair value through the profit or loss. The Company's portfolio of financial investments is attributable to policyholders upon redemption of their investment contracts. The assets held by the Company are monitored internally and reported to policyholders on a fair value basis therefore the directors consider the designation of these investments as 'held at fair value through the profit or loss' to be appropriate.

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 and are valued initially at their fair values less transaction costs. Transaction costs are recognised immediately in the statement of comprehensive income. Debt securities are recorded at fair value. Changes in the fair value are included in the statement of comprehensive income in the year in which they arise.

Investments carried at fair value are classified using a fair value hierarchy table, described in note 19(j). The fair values of listed investments are based on the quoted price within the bid-ask spread that is most representative of fair value, or amounts derived from independent pricing services or quotes sourced from brokers. Fair values for unlisted securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer.

(I) Leases

Policyholder investment properties held under finance leases are initially recognised as assets at their fair value at the inception of the lease, or lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Rental income from policyholder investment property operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(J) Trade and other receivables

Trade and other receivables are measured at amortised cost, less an allowance for expected credit loss. The Company has adopted the Simplified approach specified in IFRS 9 Financial Instruments and measures the loss allowance at an amount equal to lifetime expected credit losses.

When the company has no reasonable expectations of recovering an amount due in its entirety or portion thereof the gross carrying amount is reduced. A write-off constitutes a derecognition event under IFRS 9 *Financial Instruments*.

1. Accounting policies (continued)

(K) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, interest rate futures and other derivative contracts that derive their value mainly from underlying financial and equity instruments. All derivatives are classified as held for trading and are recognised as financial instruments held at fair value through profit or loss. Derivatives are recognised when the risks and rewards of ownership are deemed to transfer to the Company and are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently re-measured at their fair value with all movements in fair value being recognised within net investment income in the statement of comprehensive 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. 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. A derivative financial instrument is derecognised when the contractual rights to the cash flow expire or when it is transferred and subsequently all the risks and rewards of the ownership to another entity.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the statement of financial position, as they do not represent the potential gain or loss associated with such transactions.

(L) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and on hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments, all of which have less than 90 days maturity from the date of acquisition that are readily convertible to known amounts of cash, and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, if applicable, which are included within payables and other financial liabilities in the statement of financial position. Cash on deposit with a longer maturity is included in other financial investments.

(M) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, where 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. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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.

(N) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(O) Income tax

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

1. Accounting policies (continued)

(O) Income tax (continued)

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 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.

(P) Share Capital

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable. The Company's share capital is considered to be an equity instrument.

(Q) Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on ordinary shares are recognised in equity in the year in which they are declared.

2. Net investment income

	2019	2018
	£'m	£'m
Rental income from investment properties	27.3	29.7
Investment property expenses	(2.8)	(6.4)
Interest receivable and similar income	3.5	4.5
Dividend income receivable	3.6	4.5
Realised gains on investments held at fair value through profit or loss	11.5	13.4
Realised gains in investment property held at fair value	0.1	9.7
Unrealised gains/(losses) on investments held at fair value through profit or loss	30.7	(38.8)
Unrealised (losses)/gains on investment property held at fair value	(13.3)	15.1
	60.6	31.7

3. Administrative expenses

	2019	2018
Administrative expenses include the following:	**£'m**	**£'m**
Investment management fees	3.4	4.0
Costs recharged from fellow subsidiaries	1.3	1.4
	4.7	5.4

These expenses are payable to Aviva Investors Global Services Limited (AIGSL). Further details are shown in note 21 on Related Parties transactions.

Auditors' remuneration is charged in the financial statements of AIGSL and is not recharged to the Company.

Auditors' remuneration in relation to the Company for 2019 was £63,105 (2018: £60,100).

If applicable fees paid to the auditors for services other than the statutory audit of the Company are not disclosed in these financial statements since the consolidated financial statements of the Company's ultimate parent company, Aviva plc, are required to disclose other non-audit services on a consolidated basis. No non-audit services were provided to the Company in 2019.

4. Other operating expenses

	2019	2018
	£'m	**£'m**
Policyholder fund administrative expenses	0.1	0.7

The expenses recognised above represent costs payable on behalf of policyholders by the underlying funds in which the policyholder assets are held, such as transaction charges, safe custody fees and bank charges.

5. Employee information

The Company has no employees (2018: nil). Certain costs associated with the activities of the Company by the employees of the Group were recharged to the Company and are included in administrative expenses.

6. Directors' emoluments

Mr M Craston was a non-executive director and his fees were paid for and borne by Aviva Investors Holdings Limited, the immediate parent undertaking. The other directors are remunerated in respect of their services in connection with the management of the affairs of the Aviva Investors' business as a whole. There has been no re-charge to the Company.

7. Tax expense

(a) Tax charged to the statement of comprehensive income

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

	2019	2018
Current tax:	**£'m**	**£'m**
For this year	-	0.1
Prior year adjustments	(0.1)	-
Total current tax	(0.1)	0.1
Total tax (credited)/ charged to the statement of comprehensive income	(0.1)	0.1

(b) Tax reconciliation

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

	2019	2018
	£'m	**£'m**
Profit before tax	0.4	0.6
Tax calculated at standard UK corporation tax rate of 19% (2018: 19%)	0.1	0.1
Adjustment in respect of prior years	(0.1)	-
Surrender of losses from group undertakings for no charge	(0.1)	-
Total tax (credited)/ charged to statement of comprehensive income (note 7a)	(0.1)	0.1

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

As of 31 December 2019, this measure had not been substantively enacted and therefore no impact is reflected in the calculation of the Company’s deferred tax assets and liabilities as at 31 December 2019.

7. Tax expense (continued)

(c) Tax assets and liabilities

(a) General

	2019	2018
Tax liability	**£'m**	**£'m**
Expected to be payable in more than one year	-	0.1
Tax liability recognised in statement of financial position	-	0.1

(b) Deferred taxes

(i) The balance at the period end comprises:

	2019	2018
	£'m	**£'m**
Other temporary differences	0.1	0.1
Net deferred tax liability	0.1	0.1

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

Net deferred tax liability at 1 January	0.1	0.1
Net deferred tax liability at 31 December	0.1	0.1

The company does not have any unprovided deferred tax items in either 2019 or 2018.

8. Investment property

	Freehold £'m	Leasehold £'m	Total £'m
Fair value			
At 1 January 2018	701.6	104.6	806.2
Capitalised expenditure on existing properties	21.0	1.4	22.4
Additions	-	0.5	0.5
Transfer between Freehold and Leasehold properties	22.0	(22.0)	-
Proceeds on disposal	(202.8)	(17.4)	(220.2)
Realised gains on disposal	9.3	0.4	9.7
Unrealised fair value gains/(losses)	28.0	(12.9)	15.1
Net movement in head leases capitalised	-	(11.4)	(11.4)
At 31 December 2018	579.1	43.2	622.3
Capitalised expenditure on existing properties	5.6	0.3	5.9
Proceeds on disposal	(91.9)	-	(91.9)
Realised gains on disposal	0.1	-	0.1
Unrealised fair value losses	(5.1)	(8.2)	(13.3)
Net movement in head leases capitalised	-	(3.7)	(3.7)
At 31 December 2019	487.8	31.6	519.4

During 2018 the freehold of a property was purchased resulting in the fair value being transferred from Leasehold to Freehold in the table above.

Investment properties are stated at their fair values as assessed by qualified external valuers as at 31 December 2019. CB Richard Ellis is the principal valuer of all of the individual property assets. All valuers are Chartered Surveyors, being Members of the Royal Institution of Chartered Surveyors (‘RICS’). Each property was valued on the basis of open market value and valuations were carried out in accordance with the RICS Appraisal and Valuation Manual.

Properties in the development programme are typically valued using a residual valuation method. Under this methodology, the valuer assesses the completed development value using income and yield assumptions. Deductions are then made for estimated costs to complete, including finance and developer's profit, to arrive at the valuation. As the development approaches completion, the valuer may consider the income capitalisation approach to be more appropriate.

8. Investment property (continued)

The following table reconciles the net book value of the investment properties to the market value.

	Freehold £m	Leasehold £m	Total £m
Net book value at 31 December 2018	579.1	43.2	622.3
Less: head leases capitalised	-	(6.3)	(6.3)
Plus: lease incentives	9.2	0.8	10.0
Less: capital expenditures incurred but not paid	(0.4)	-	(0.4)
Market value at 31 December 2018	587.9	37.7	625.6
Net book value at 31 December 2019	487.8	31.6	519.4
Less: head leases capitalised	-	(2.6)	(2.6)
Plus: lease incentives	5.9	0.7	6.6
Market value at 31 December 2019	493.7	29.7	523.4

Information about fair value measurements using significant unobservable inputs (Level 3)

Segment	Segment Valuation (£m)	Valuation Technique	Estimated Rental Value (£ per square foot)	Equivalent Yield (%)
Retail	131.65	Income capitalisation	9.00-52.22 (21.40)	4.54-7.83 (6.27)
Offices	203.35	Income capitalisation	11.00-82.50 (34.71)	4.65-13.13 (5.98)
Industrial	150.35	Income capitalisation	5.95-15.95 (11.91)	4.00-6.00 (4.30)
Other	38.08	Income capitalisation	12.00-17.50 (14.73)	4.38-5.59 (4.87)

The capital value of investment property is sensitive to changes in the estimated rental value and the equivalent yield. An increase in the equivalent yield will lead to a decrease in the capital value and an increase in the estimated rental value ('ERV') will lead to an increase in the capital value. There are inter-relationships between unobservable inputs. In an oversupplied market, in which supply of properties exceeds demand, the vacancy rate is increasing and rents are declining so the ERV may be lower than the passing rent, thus increasing the equivalent yield. For investment property under construction (including refurbishments), increases in construction costs that add to the property's features may lead to an increase in the future rental potential of the property, leading to a decrease in the equivalent yield. The equivalent yield may also fall as the term to lease expiry increases, demonstrating that investors are willing to pay more for a sustained income stream.

8. Investment property (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		Change in fair value	
	Fair value	**Unobservable input**	**+25bps**	**+50bps**
	£'m		£m	£m
Investment property	523.4	Equivalent yield	(22.1)	(42.1)

Note, the above sensitivity does not include four property assets which were sold after the reporting date for a consideration of £55.0 million which was reflective of the fair value as at 31 December 2019.

9. Financial investments

(a) Analysis of financial investments:

	2019	2018
	£'m	**£'m**
Assets held at fair value through profit or loss		
Debt securities		
UK government	57.8	65.1
Non-UK government	7.9	6.1
Listed corporate - UK	40.6	29.7
Listed corporate - Non-UK	38.3	39.3
Unlisted corporate	9.4	5.8
	154.0	146.0
Equity securities		
UK equities	38.1	33.6
Overseas equities	62.2	53.8
	100.3	87.4
Other investments		
Specialised investment companies	47.0	43.6
Derivative financial assets	0.9	0.2
	47.9	43.8
Total financial investments assets	302.2	277.2

All amounts above are classified as current as they are fair value to profit and loss.

We are required to disclose our interests in consolidated and unconsolidated structured entities as per IFRS 12. The standard is defined as follows; IFRS 12 *Disclosure of Interests in Other Entities* is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'.

Several of the investments held within the specialised investment companies business meet the definition of an interest in a structured entity per IFRS 12, these are classified as 'other investments' in the above table.

The investments held are specialised investment companies of £47.0 million (2018: £43.6 million) comprising:

- £30.1 million (2018: £28.6 million) of investments into externally managed UK based equity tracker funds.

9. Financial investments (continued)

- £14.4 million (2018: £11.5 million) invested in overseas Sociétés d'Investissement à Capital Variables ('SICAVs'), which are internally managed by a fellow subsidiary of the Company (Aviva Investors Luxembourg S.A.). Total assets under management in these SICAVs is £8,619.4 million (2018: £7,582.5 million).

- £2.5 million (2018: £3.5 million) invested in open-ended investment company ('OEIC') funds, which are managed by a fellow subsidiary of the Company Aviva Investors UK Fund Services Limited. Total assets under management in the OEIC is £4,280.0 million (2018: £4,876.3 million).

(a) Analysis of financial investments (continued)

The Company does not control any of the aforementioned vehicles into which policyholder funds are invested. The policyholders of the Company have exposure to fair value movements on the underlying investments for their internal holding only. The Company's exposure to variable returns is limited to management fee income in the investing fund. The Company does not sponsor or provide support to any unstructured entities.

Please note that the full IFRS 12 disclosures for the investments managed by AIGSL noted above are included in the financial statements for AIGSL.

For information regarding the derivative financial instruments see note 20.

10. Trade and other receivables

	2019	2018
	£'m	£'m
Amounts due from fellow subsidiaries	0.7	0.3
Accrued investment income	1.7	1.8
Other policyholder fund receivables	17.1	26.6
Trade receivables	0.3	0.5
	19.8	29.2
Expected to be recovered in less than one year	19.8	29.2

Trade receivables are non-interest bearing and are generally on 30 day payment terms. All other receivables relate to policyholder assets and are due within one year.

To determine the amount of lifetime expected credit loss under the IFRS 9 simplified approach the Company has used its historical observed default rates adjusted for forward-looking estimates. The amount of the lifetime expected credit losses based on past due Other policyholder fund receivables was £0.5 million (2018: £0.4 million). The nature of the Company's unit-linked insurance product results in the credit risk on these assets held to cover linked liabilities being borne by the policyholders. No other Trade and other receivables balances were classified as past due or impaired (2018: £nil), and consequently no lifetime expected credit loss has been recognised. The carrying value of all the receivables and other financial assets approximates fair value.

The nature of the Company's unit-linked insurance product results in the credit risk on these assets held to cover linked liabilities being borne by the policyholders. No other Trade and other receivables balances were classified as past due or impaired (2018: £nil). The carrying value of all the receivables and other financial assets approximates fair value.

Trade and other receivables are categorised as amortised cost under IFRS 9, *Financial Instruments*.

11. Assets held to cover linked liabilities

The Company's unit-linked insurance products have been classified as investment contracts. The assets backing these unit-linked liabilities are included within the statement of financial position and correspond to the liability for investment contracts disclosed in note 13.

The carrying values of the assets backing these unit-linked liabilities are as follows:

	2019	2018
	£'m	£'m
Investment properties	519.4	622.3
Debt securities	154.0	146.0
Equity securities	100.3	87.4
Other investments	47.9	43.8
Receivables	18.8	28.7
Payables	(10.1)	(17.5)
Finance lease liabilities	(2.6)	(6.3)
Cash and cash equivalents	71.6	120.7
	899.3	1,025.1
The associated liabilities are:		
Unit-linked contracts classified as investment contracts	(899.3)	(1,025.1)

In the normal course of business certain policyholders have registered floating charges amounting to £36.4 million (2018: £44.6 million) over the whole of the unit linked insurance assets of the Company to secure amounts due from the Company. The Company does not anticipate that any of the charges will crystallise.

12. Ordinary share capital

Details of the Company's ordinary share capital at 31 December are as follows:

	2019	2018
	£'m	£'m
The allotted, called up and fully paid share capital of the Company at 31 December was:		
8,000,000 (2018: 8,000,000) ordinary shares of £1 each	8.0	8.0

All ordinary shares rank equally with regards to voting rights and dividend entitlements declared, made or paid by the Company. All shares will also be entitled to a proportional share of the residual net assets of the Company upon winding up.

13. Liability for investment contracts

The liability for investment contracts, all of which are unit-linked, comprised:

	2019	2018
	£'m	£m
Carrying amount at 1 January	1,025.1	1,227.4
Inflows	6.8	11.9
Redemptions	(188.5)	(239.8)
Investment and other income	60.6	31.7
Charges	(4.7)	(6.1)
Carrying amount at 31 December	899.3	1,025.1

(a) Methodology

The liability for investment contracts represents the bid value of units, held on behalf of the policyholders, which is equal to the surrender value of the units.

(b) Assumptions

No actuarial valuation assumptions are required to assess the carrying value of the provision held for the unit-linked business, which is based only on the bid value of units at the valuation date.

The liability is classified as current as the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. The liability is categorised as a financial liability at fair value through profit or loss.

14. Finance lease liabilities

Certain of the policyholder investment properties are leased under finance leases. The average lease term is 99 years (2018: 103 years). The interest rate underlying obligations under finance leases is 1.505% (2018: 1.505%) per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2019	2018	2019	2018
	£'m	£'m	£'m	£'m
Not later than one year	0.1	0.1	0.1	0.1
Later than one year and not later than five years	0.5	0.5	0.5	0.5
Later than five years	7.2	11.7	2.0	5.7
	7.8	12.3	2.6	6.3
Less: future finance charges	(5.2)	(6.0)	-	-
Present value of minimum lease payments	2.6	6.3	2.6	6.3

Finance lease liabilities are classified as Level 3 under the fair value hierarchy.

15. Trade and other payables

	2019	2018
	£'m	£'m
Derivative liabilities	0.3	0.7
Group relief payable	-	0.3
Policyholder fund payables	9.8	16.6
	10.1	17.6
Total amount that is attributable to policyholders	10.1	17.3
Total amount that is attributable to shareholders	-	0.3
	10.1	17.6
Expected to be settled in less than one year	10.1	17.5
Expected to be settled after more than one year	-	0.1
	10.1	17.6

As at 31 December 2019, all policyholder payables were classified as current, because they were payable on demand. All trade and other payables are carried at amortised cost, which approximates to fair value.

16. Provisions

	2019	2018
	£'m	£'m
At 1 January	0.7	0.4
Additions	0.3	0.3
At 31 December	1.0	0.7

The non-current provision is £1.0 million (2018: £0.7 million).

Provision

The Company has made a provision of £1.0 million for liabilities expected to be settled in 2020 (2018: £0.7 million). The actual amount of the liability is dependent upon a number of factors and represents management's best estimate of the liability at the year end. The investment manager, Aviva Investors Global Services Limited, has agreed to fully reimburse the Company for these costs and in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, an offsetting asset of equal value has been recognised and is included with Amounts due from fellow subsidiaries which is analysed further in note 21.

17. Contingent liabilities and commitments

The Company has capital commitments of £2.1 million (2018: £2.4 million) in respect of capital expenditures contracted for at the date of the statement of financial position.

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

	2019	2018
	£'m	£'m
Within 1 year	2.9	4.5
Later than 1 year and not later than 5 years	13.0	14.1
Later than 5 years	8.8	9.4
	24.7	28.0

18. Additional cash flow information

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

	2019	2018
	£'m	£'m
Profit before tax	0.4	0.6
Amortisation of premium/discount on debt securities	0.8	-
Net realised gains on financial investments	(11.5)	(13.4)
Net realised gains on investment properties	(0.1)	(9.7)
Net unrealised losses on financial investments	(30.7)	38.8
Net unrealised losses/(gains) on investment properties	13.3	(15.1)
Change in liability for investment and insurance contracts	(125.8)	(202.3)
Changes in working capital:		
Change in receivables and other financial assets	9.4	2.5
Change in payables and other financial liabilities	(6.5)	(3.2)
(Purchases)/sales of operating assets:		
Additions of investment property	(5.9)	(22.9)
Disposals of investment property	91.9	220.2
Additions of financial investments	(271.5)	(382.6)
Disposals of financial investments	287.5	426.5
Cash generated (used in)/from operations	(48.7)	39.4

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

18. Additional cash flow information (continued)

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

	2019	2018
	£'m	£'m
Cash at bank and in hand	3.3	1.9
Cash equivalents	77.5	127.8
	80.8	129.7

Cash at bank earns interest at floating rates based on daily bank deposit rates. Cash equivalents represent short-term deposits that are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates (representing a margin above LIBOR).

As at 31 December 2019, cash and cash equivalent attributable to shareholders was £9.2 million (2018: £9.0 million), the remaining balance of £71.6 million (2018: £120.7 million) was held by policyholders. This cash is attributable to the policyholders only and not available for the Company to use.

Cash and cash equivalents are categorised as amortised cost under IFRS 9, *Financial Instruments*.

19. Risk and capital management policies

(a) Overview

The Company seeks to optimise its business performance subject to remaining within risk appetite and meeting stakeholders' expectations. This is achieved by embedding rigorous and consistent risk and oversight management within the business. The Company's Risk and Oversight Management Framework (ROMF) includes the strategies, policies, processes, governance arrangements, tools, and reporting procedures necessary to support this. The ROMF adopts the Aviva Investors Holdings Limited (AIHL) Risk Management Framework (RMF) risk principles.

(b) Risk and Oversight Management Framework

The ROMF is reviewed, challenged and approved by the Company Board on an annual basis (and with every significant change in the business).

The ROMF provides a framework for managing risk across AIPL. In order to facilitate this goal, the following principles are followed:

- The business strategy and the risk strategy must align with each other considering risk and return and deliberately taking AIPL from its current risk profile to the desired future risk profile articulated in the business' risk appetite statement.
- The exposure to risk must be taken into account in all key business decisions.
- An appropriate culture must be in place to ensure that there is an effective management of risk exposures, to remain within risk appetite, where this is within management's control. Action plans for risks out of appetite must be documented and, once agreed, followed without undue delay.

19. Risk and capital management policies (continued)

(b) Risk and Oversight Management Framework (continued)

- An appropriate governance structure, supported by documented Board and committee terms of reference, must exist to ensure effective implementation of the ROMF.
- The Three Lines of Defence model must be operated effectively, supported by clear and documented delegations of authority and role profiles, which maintain an appropriate segregation of duties.
- Current and future risks must be actively identified, measured, monitored, managed and reported. Risk identification must be forward-looking to allow management to take proactive action.
- Risks must be measured by considering the significance of the risk to the enterprise and its stakeholders (both internal, such as employees, and external, such as customers) in the context of strategy, objectives and risk appetite.
- Tracking and observing tools must be used to monitor data results across the business, calibrated appropriately and respectively to risk appetites, objectives and strategic targets. Examples include (but are not limited to) indicators, reviews, risk events, capital adequacy assessments and stress and scenario testing ("SST").
- Management should seek to take on only those exposures to risks for which there are appropriate appetite and resources (capital, liquidity, staff and knowhow) and avoid concentrations of exposures to risks.
- The risk management and reporting requirements of regulators must be met.
- The business must ensure it can provide documented evidence of effective risk management and annual review of both the risk management system and systems of governance.

To promote a consistent and rigorous approach to risk and oversight management AIPL maintains frameworks, policies, methodologies, registers and supplementary guidance documents (as is appropriate) that are aligned with the policies and standards prescribed by Aviva Group. On an annual basis the Aviva Investors CEO, supported by the Aviva Investors CRO, signs-off compliance with the Aviva Group policies and standards (which includes AIPL), providing assurance to the relevant oversight committee that the framework is being used for managing its business and associated risks.

Several elements of the ROMF constitute the Own Risk and Solvency Assessment (ORSA), which is defined as the processes and tools that underpin the consideration of risk and capital implications on key decisions and business planning. These elements support AIPL's risk strategy to manage risk.

Furthermore, there is an Aviva Investors Conduct Risk Policy, to which AIPL adheres, which draws together and consolidates the elements of the risk management framework that relate specifically to conduct risk.

The Board is responsible for promoting the long-term success of AIPL for the benefit of its shareholders and policyholders. This includes ensuring that an appropriate system of governance is in place for the company. The specific duties of the Board are clearly set out in the terms of reference which addresses a wide range of corporate governance issues and lists those items that are specifically reserved for decision by the Board.

The Board’s terms of reference also set out those matters that must be reported to the AIHL Board, such as significant litigation or material regulatory breaches, and explain how matters requiring consideration by the AIHL Board that arise between scheduled meetings should be dealt with.

As part of its annual work plan, the Board reviews and approves all financial results announcements, the Report and financial statements, ORSA report, Solvency and Financial Conditions Report (SFCR) under Solvency II, the operational plan and dividend payments, all changes to the composition of the Board and its committees; and receives regular updates on progress against strategy.

A description of the ROMF; core governance committees; risk management processes, roles and responsibilities; and the key risks faced by AIPL is documented in the Company's Market Disclosures document SCFR available at https://www.avivainvestors.com/en-gb/capabilities/regulatory/.

19. Risk and capital management policies (continued)

(c) Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or external events, including changes in the regulatory environment. The Company has a low appetite for operational risk and aims to reduce this risk as far as it is commercially sensible.

Conduct risk is assessed as part of operational risk and is the risk that appropriate customer outcomes are not achieved and arises throughout the whole product lifecycle from the development of products, the sales and investment processes to handling client redemptions.

Operational risk arises mainly through the investment process, distribution channels, product development, information technology and operations, including the transfer agency activities, the majority of which have been outsourced to AIGSL.

The Global Funds Services (GFS) UK Management Committee reviews current issues, risks and emerging risks on a regular basis. The GFS UK Management Committee reports to the relevant committees within the Aviva Investors group, and the Company Board. The oversight and monitoring of the Company's outsource providers are performed by the GFS oversight functions, reporting into the GFS Supplier Oversight Committee. Matters to be reported to the Board would include: details of any significant operational breach of regulation, legislation or any of the operational risk policies or standards; and key operational risks outside of tolerance.

(d) Regulatory compliance

The Company is authorised by the PRA, and regulated by the FCA and the PRA. The PRA and FCA have broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation; to investigate marketing and sales practices; and to require the maintenance of adequate financial resources.

The Company has compliance resources to respond to regulatory enquiries in a constructive way and take corrective action when warranted. However, all regulated financial services companies face the risk that their 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 and potential clients. Regulatory action against the Company could result in adverse publicity for 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.

(e) 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 in the business due to fluctuations in the value of investments held, which has an impact on the management charges earned by the Company.

The nature of the Company's unit-linked insurance business results in the value of the Company's insurance contract liability being directly linked to the value of the related investment assets and therefore the Company's exposure relates solely to the management fees earned on the assets. Due to the size and nature of the property fund, relative to other funds, the Company has a concentrated exposure to property price risk in so far as it impacts the management fees earned on the assets.

Investment performance and activities are overseen by the Global Funds Services (GFS) Investment Oversight Committee, which has been established to oversee the investment management activities of the funds under remit of GFS, including those of AIPL. The GFS Investment Oversight Committee is chaired by the GFS Head of Global Investment Oversight. The GFS Investment Oversight Committee has a dual reporting and escalation relationship with the Board and the AIHL Investment Committee, which in turn has a reporting and escalation relationship with the Aviva Investors Executive Committee and Aviva Investors Risk Management Committee.

19. Risk and capital management policies (continued)

The Aviva Investors second line Investment Risk team provides additional review and challenge of investment risk, both within asset classes and at a total fund level and provides risk analysis and recommendations to the fund managers. Its objective is to ensure that each portfolio's risk profile is consistent with the funds' objectives and the stated investment process.

Sensitivity analysis and stress and scenario testing are conducted to assess the Company's exposure to fluctuations in the value of assets. A fall in policyholder assets impact revenue, which is accrued based on those values and which is partially offset by amounts payable by the Company for investment sub-advisory services provided by other entities within the Aviva Investors group.

(f) Credit / Counterparty risk

Credit risk is the risk of financial loss as a result of the default or otherwise failure of third parties to meet their obligations to the Company.

The nature of the Company's unit-linked insurance product results in the credit risk on the assets held to cover linked liabilities being borne by the policyholders.

The Company's exposure credit risk from trade and other receivables is mainly influenced by the default risk of its client base. Remaining credit risk relates to cash and cash equivalents held on deposit at credit institutions.

The Company adheres to the Aviva Investors Global Counterparty Credit Risk Policy in managing the credit risk associated with cash and cash equivalents, notably through placement of funds with high credit ratings assigned by international credit agencies. Credit exposures are identified, evaluated and managed in accordance with best practice and agreed risk appetite, so as to ensure that risks are managed within bounds acceptable to clients, the Aviva Investors UK Credit Risk Officer and, where appropriate, the Aviva Group Credit Risk Director. Credit risk on cash and cash equivalents is considered low.

(g) Liquidity risk

Liquidity risk is the risk that liabilities 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 into cash to meet its obligations. The Company is exposed to liquidity risk from a shareholder (principal) and a policyholder (fund liquidity) perspective.

The Company evaluates its liquidity requirements on an ongoing basis and generates sufficient cash flows from its operating activities to meet its obligations arising from its operational liabilities. The Board set a liquidity appetite for the Company to ensure financial obligations can be met in both unstressed and stressed conditions.

In instances where redemption requirements for unit-linked investment contract liabilities exceed liquid resources available in a fund, assets will be sold to meet additional liquidity requirements.

The AIPL Suspension of Dealing Policy allows the Company to defer any transaction involving the cancellation of units in any AIPL fund, other than investments in direct property, for a period of up to 3 months if the encashment is more than 5% of the respective fund's asset value or up to 12 months in the case of investments in direct property (or any investment that have holdings in funds that invest in direct property) if it is in the interest of existing policyholders or if there is insufficient liquidity in the respective fund. The deferral period operates individually for each redemption instruction. This however does not apply in the case of payments required to provide retirement benefits.

There is a remote risk that the Company may not raise sufficient liquidity to meet the redemption requirements upon expiry of the 3 months redemption deferral period or, in the case of funds that invest in real property (or have holdings in funds that invest in real property), the 12 months redemption deferral period. In that case, the Company may seek to extend the deferral period in consultation with its investors.

The Property Fund has been operating a deferral queue for redemptions. This was undertaken in order to manage the liquidity of the fund following the receipt of substantial redemption requests in the first half of 2016 and which continued after the EU Referendum. As at 31 December 2019, Property Fund redemption requests were being met with a deferral.

19. Risk and capital management policies (continued)

(g) Liquidity risk (continued)

All requests received prior to 9 January 2020 have been settled in full, and all subsequent redemption requests have been queued. The Property Fund has now been suspended during which time the fund will remain closed to policyholders seeking to purchase or redeem units. Management and the Board are closely monitoring the deferral process.

The table below analyses the Company's financial liabilities, excluding investment contract liabilities, into relevant maturity groupings. It is anticipated that the Company is able to settle any financial liabilities when required:

At 31 December 2019	Total	Due within 12 months	1-5 years	5-15 years	Over 15 years
	£'m	£'m	£'m	£'m	£'m
Trade and other payables	10.1	10.1	-	-	-
Provisions	1.0	1.0	-	-	-
	11.1	11.1		-	-

At 31 December 2018	Total	Due within 12 months	1-5 years	5-15 years	Over 15 years
	£'m	£'m	£'m	£'m	£'m
Trade and other payables	17.6	17.5	0.1	-	-
Provisions	0.7	-	0.7	-	-
	18.3	17.5	0.8	-	-

The Company's finance lease liabilities are analysed separately in note 14.

The impact of discounting is excluded from the insurance liabilities balance in order to show the anticipated contractual cash flows.

(h) Underwriting risk

Underwriting risk is the risk of loss on underwriting activity caused by an adverse change in the value of liabilities arising from inappropriate insurance pricing, inadequate claims reserving assumptions as well as unforeseen fluctuations in the timing, frequency and severity of insured events relative to the expectations at the time of underwriting. The risk excludes operational risk arising from internal processes in the writing of insurance business or settling of claims.

The Company's life insurance risk arises through its exposure to worse than anticipated operating experience on factors such as persistency levels (customers lapsing or surrendering their policies) and expense risk (the amount it costs to administer policies).

The Company is exposed to persistency (lapse) and expense risk in the unit-linked pensions business.

(i) Climate change financial risks

The PRA issued its Supervisory Statement SS3/19 in April 2019, titled "Enhancing banks' and insurers' approaches to managing the financial risks from climate change", that sets out its expectations regarding firms' responsibility to manage financial risks from climate change.

19. Risk and capital management policies (continued)

(i) Climate change financial risks (continued)

The PRA expects a firm's Company board to understand and assess the financial risks from climate change that affect the firm, and to be able to address and oversee these risks within the firm's overall business strategy and risk appetite. The approach should demonstrate an understanding of the distinctive elements of the financial risks from climate change and a sufficiently long-term view of the financial risks that can arise beyond standard business planning horizons. A firm's response should be proportionate to the nature, scale and complexity of its business.

An assessment of the current climate change financial risks relating to the Property fund was undertaken in 2019. Regarding the remaining AIPL funds, Aviva Investors' analysts and portfolio managers integrate environmental, social and governance ('ESG') factors into the investment analysis and decision-making process across all asset classes. Aviva Investors also engages proactively with companies on ESG risks.

Overall the Property Fund is well positioned to manage current and developing climate change financial risks with an active approach in place to monitor the assets. The approach to ESG modelling and governance around climate risks will be enhanced in conjunction with the wider Real Assets business and Aviva Group to ensure alignment to future developments.

(i) Capital management

Capital is managed within the regulatory framework in which the Company operates with the purpose of maintaining a strong capital base to uphold investor, creditor and policyholder confidence and sustain the future development of the business. Quantitative risk appetites for regulatory capital have been approved by the Board and are monitored by the Board and Aviva Investors Capital Committee on a regular basis.

(i) Sensitivity test analysis

The Company uses a number of sensitivity test-based risk management tools to understand the volatility of earnings and capital requirements and to manage its capital more efficiently. The Company continuously reviews these sensitivities through Solvency II and the ORSA framework. Sensitivities to economic and operating expenses are regularly produced on all of the Company's 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.

(ii) Regulatory capital

The Company's regulatory capital is calculated in accordance with Solvency II regulatory rules. No adjustment is made to IFRS equity of £9.1 million which equates to regulatory capital on a Solvency II basis.

The Company uses the standard formula methodology to calculate their solvency capital requirement (SCR) under Solvency II.

The Company has complied with its regulatory capital requirements throughout the financial year.

(iii) Own Risk and Solvency Assessment

The Company's capital management framework uses the ORSA process of the PRA. The ORSA includes a detailed assessment of the risks to which the business is exposed and an estimate of the amount of capital required to mitigate those risks to a selected remote level of risk.

The Board chooses to assess capital under the ORSA basis as it believes that it is a more realistic quantification of the risks to which the Company is exposed.

(j) Fair value methodology

For investments carried at fair value, we have categorised the investments into a 'fair value hierarchy' (FVH) based on the degree of subjectivity associated with the data used to value each asset.

(i) Quoted market prices in active markets - ('Level 1')

Assets classified as Level 1 in the hierarchy are valued based on unadjusted quoted prices in active markets for identical assets. An active market is one in which transactions for the assets occur with sufficient frequency and volume to provide pricing

19. Risk and capital management policies (continued)

information on an ongoing basis.

(ii) Internal models with significant observable market parameters - ('Level 2')
Assets classified as Level 2 in the hierarchy are valued based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. If the asset has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset. Level 2 inputs include the following:

- Quoted prices for similar (i.e. not identical) assets in active markets;
- Quoted prices for identical or similar assets 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 (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment spreads, loss severities, credit risks, and default rates);
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market - corroborated inputs).

(j) Fair value methodology (continued)

(iii) Internal models with significant unobservable market parameters - ('Level 3')
Assets classified as Level 3 in the hierarchy are valued based on unobservable inputs for the asset. 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 at the measurement date (or market information for inputs to any valuation models). As such, unobservable inputs reflect the assumptions that the Company considers that market participants would use in pricing the asset.

The table below illustrates the Company's fair value hierarchy classification:

	2019				2018			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial Investments								
Debt securities	57.8	96.3	-	154.1	65.2	80.8	-	146.0
Equity securities	100.3	-	-	100.3	87.4	-	-	87.4
Specialised investment companies	46.9	-	-	46.9	43.6	-	-	43.6
Derivative assets	0.9	-	-	0.9	0.2	-	-	0.2
	205.9	96.3	-	302.2	196.4	80.8	-	277.2
Investment property	-	-	519.4	519.4	-	-	622.3	622.3
Liability for investment contracts	(899.3)	-	-	(899.3)	(1,025.1)	-	-	(1,025.1)
Derivative liabilities	(0.3)	-	-	(0.3)	(0.7)	-	-	(0.7)

The fair value hierarchy of finance lease liabilities is disclosed in notes 14. Investment property is included within the fair value hierarchy. Investment properties are unique assets within markets which are widely considered illiquid. Due to the irregularity of similar transactions, management has deemed significant inputs into the valuation methodology as non-market observable and classified as FVH Level 3. Movements in the Level 3 Investment Property assets measured at fair value is included in note 8.

20. Derivative financial instruments and hedging

This note gives details of the various instruments used by the Company to mitigate risk. The instruments are policyholder assets.

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. 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 by the Company.

The Company's policyholder derivative activity at 31 December 2019 and 2018 was as follows:

	2019		
	Contract/ notional amount	**Fair value asset**	**Fair value liability**
	£m	**£m**	**£m**
Over the counter foreign exchange forward contracts	9.7	0.6	-
Exchange-traded interest rate futures contracts	20.0	-	(0.3)
Exchange-traded equity/index futures contracts	18.4	0.3	-
	48.1	0.9	(0.3)

	2018		
	Contract/ notional amount	**Fair value asset**	**Fair value liability**
	£m	**£m**	**£m**
Over the counter foreign exchange forward contracts	9.9	-	(0.3)
Exchange-traded interest rate futures contracts	5.7	-	-
Exchange-traded equity/index futures contracts	16.4	0.2	(0.4)
	32.0	0.2	(0.7)

21. Related party transactions

(a) Aviva Investors Global Services Limited (AIGSL), a fellow Aviva Investors company, invests on behalf of certain of its segregated clients in unit-linked pension products issued by the Company. AIGSL collects fees directly from the clients, with the Company receiving an agreed fee rate from AIGSL for services provided.

AIGSL provides investment management services to the Company in respect of all unit-linked assets.

(b) Services provided to related parties	**2019**		**2018**	
	Income earned in year	**Receivable at year end**	**Income earned in year**	**Receivable at year end**
	£m	**£m**	**£m**	**£m**
Segregated fee income for assets managed on behalf of a fellow Aviva Investors company	0.8	0.1	1.1	-
Recovery cost of provision	-	1.0	-	0.7
	0.8	1.1	1.1	0.7

21. Related party transactions (continued)

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

Included above is an amount of £1.0 million (2018: £0.7 million) to be recovered from Aviva Investors Global Services Limited (see note 16).

(c) Services provided by related parties	**2019**		**2018**	
	Expense incurred in year	**Payable at year end**	**Expense incurred in year**	**Payable at year end**
	£m	**£m**	**£m**	**£m**
Investment management fee charged by fellow subsidiary	3.4	0.3	4.0	0.3
Costs incurred by fellow subsidiary and recharged to the Company	1.3	0.1	1.4	0.1
	4.7	0.4	5.4	0.4

(d) Key management compensation

Members of the Board of directors are listed on page 3 of these financial statements. There are no amounts receivable from or payments due to members of the Board. The directors are considered to be the only key management personnel of the Company. Details of their remuneration arrangements are contained in note 6.

(e) Ultimate controlling party

The immediate parent undertaking of the Company is Aviva Investors Holdings Limited.

The ultimate parent undertaking and controlling party is Aviva plc, a company incorporated and domiciled in the United Kingdom.

Aviva plc is the parent undertaking of both the largest and the smallest group of undertakings to consolidate these financial statements at 31 December 2019. The consolidated financial statements of Aviva plc are available on application to the:

Group Company Secretary
Aviva plc
St Helen's
1 Undershaft
London, EC3P 3DQ

22. Events after the reporting period

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. The spread of COVID-19 has resulted in an economic downturn in the UK 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.

22. Events after the reporting period (continued)

The Company held £821.6 million of financial investments and investment property at the reporting date, with £302.2 million of financial investments across seven liquid funds and £519.4 million of investment property assets in the Property Fund. The recent economic downturn and decline in financial markets as a result of COVID-19 will likely impact the valuation of these assets and if this downturn is sustained, this could materially impact the annual management charges (AMCs) charged on the assets and the corresponding investment management fees and other costs payable to Aviva Investors Global Services Limited, reducing the profitability of the business.

As a result of these market conditions the Company's Standing Independent Valuer for Property Fund assets, CB Richard Ellis, informed the Company that material uncertainty should be associated with the valuations they have provided. This is a UK wide industry issue in relation to the valuation of UK property. This external valuation uncertainty makes it difficult for the Company to calculate the price used to buy and sell units in the Property Fund, presenting a material risk that investors may buy or sell units at a price which does not fairly reflect the underlying value of the property assets. If dealing were to continue, some investors may be advantaged at the expense of others. As such, in order to treat all customers fairly, on 17 March 2020 the directors of the Company took the decision to suspend dealing in the Property Fund. This means that that the Company cannot take instructions to buy or sell units in the Property Fund until further notice which is in line with the fund's guidelines.

The decision to suspend the Property Fund is not indicative of circumstances that existed at the reporting date and there is no material uncertainty associated with the valuation of investment property on the balance sheet of the Company nor the corresponding liability for investment contracts as at the reporting date. Any future change in the valuation of investment property when the suspension is lifted will be met by an equal and opposite change in the value of investment contract provisions. As such, the risk to the financial performance of the Company is that a lower valuation and lower rental income will impact asset management charges charged to investors, thereby reducing revenue earned by the business.

As a result of the market volatility caused by the current pandemic, the value of other financial investments is likely to have decreased. However, this is offset by an equivalent reduction in the liability to policyholders. As the situation is dynamically evolving it is not practicable to quantify the potential financial impact on the Company at this stage.