

AVIVA MANAGEMENT SERVICES UK LIMITED

COMPANY INCORPORATED IN ENGLAND AND WALES
REGISTRATION NUMBER 983330

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2019

Aviva Management Services UK Limited

Directors and Officers

Directors

J C Baddeley
K J Bye
S E Robinson

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

Pixham End
Dorking
Surrey
RH4 1QA

Company Number

Registered in England and Wales: No. 983330

Other Information

Aviva Management Services UK Limited (the Company) is a private company limited by shares and is a member of the Aviva plc group of companies (the Group)

Aviva Management Services UK Limited
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Aviva Management Services UK Limited

Strategic report

The directors present their strategic report for Aviva Management Services UK Limited (the Company) for the year ended 31 December 2019.

Principal activity

The Company is a wholly owned subsidiary of Aviva Life Services UK Limited (UKLS) and is incorporated in the United Kingdom. The Company operates as part of the Aviva plc group of companies (the Group). Further information is contained in the 2019 financial statements of Aviva plc. The Company's ultimate parent and controlling company is Aviva plc.

The principal activity of the Company was the provision of management services to companies of the Group. The renegotiation of Management Service Agreements (MSA's) in 2019 has provided an opportunity to rationalise the UK service company charging structure. From 1 January 2019, all administration and distribution services to the UK Life funds are provided through UKLS only. Extant contracts and agreements for the provision of such services have therefore passed from the Company to UKLS, with no further expenses or recharges being made to or from the Company for these services and the Company is now in run-off.

Results and business review

The profit for the year ended 31 December 2019 is set out in the profit and loss account on page 10.

Trading performance:

| | 2019 | 2018 |
|-------------------------------|---------------|-----------|
| | £'000 | £'000 |
| Turnover | 16 | 217,153 |
| Administrative expenses | (382) | (213,762) |
| Profit for the financial year | 4,869 | 2,946 |
| Capital and reserves | 15,260 | 11,188 |

The Company formerly provided management services to other companies in the Group. As with previous years all expenses incurred within the Company were charged to the other group companies based on the MSAs.

Turnover has fallen significantly in 2019 as a result of the decrease in expense charges as a result of the revised MSAs.

The net assets of the Company at 31 December 2019 are £15.3 million (2018: £11.2 million). The movement in the year is primarily the result of net profits in the year of £4.9 million, offset by a lease net liability of £0.8 million arising on the implementation of IFRS 16.

Following a review of the Aviva Pay pilot in September 2019, the decision was taken to close down the live test and to close customer accounts.

Section 172 (1) statement

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

The Board is responsible for monitoring and upholding the culture, values, standards, ethics, and reputation of the Company to ensure that its obligations to its shareholder and to its stakeholders are met.

The Board monitors adherence to the Aviva Group business standards and compliance with the Aviva Governance Framework. The Company, as a wholly owned subsidiary of Aviva plc Group, is managed as part of its UK Life business.

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

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

Aviva Management Services UK Limited

Strategic report (continued)

The Company's culture

The Company's culture is shaped by clearly defined values to help ensure it operates appropriately and does the right thing.

Key strategic decisions in 2019

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

Stakeholder engagement

(i) Employees

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

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

Aviva employees share in the business' success as shareholders through membership of the Group's global share plans.

(ii) Customers

The Company has no customers.

(iii) Suppliers

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

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

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

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

(iv) Communities

Aviva runs a health and wellbeing proposition for UK employees, Wellbeing@Aviva, providing products, improved policies and better support to enhance employees mental, physical, community & financial wellbeing. This has led to Aviva's people creating of a number of internal communities to enable colleagues connect over activities they are passionate about.

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

Aviva Management Services UK Limited

Strategic report (continued)

Aviva Group actively encourages and supports colleagues to volunteer in their communities, to make a positive impact and help build stronger communities.

(v) Shareholders

The Company's ultimate shareholder is Aviva plc and its immediate shareholder is Aviva Life Services UK Limited. Any matters requiring escalation are escalated by the Board through the Chairman to its parent.

Future outlook

The Company is expected to continue with its existing activities for the foreseeable future.

Principal risks and uncertainties

The Company is exposed to financial risk through its financial assets and liabilities in the ordinary course of its business. It is also exposed to operational risk resulting from inadequate or failed internal processes, personnel or systems, or from external events, including regulatory risk.

The Company uses a number of metrics to identify, measure, manage, monitor and report risks and a fuller explanation of these risks, other than operational risk, may be found in note 14 to the financial statements.

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, as well as causing increased volatility and declines in financial markets. The spread of the virus is now slowing down and restrictions are beginning to lift but the risk of subsequent peaks means the adverse impact on the UK economy could be deepened and result in further declines in financial markets.

The company continues to maintain healthy liquidity and expects to meet its cash requirements. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained, IT systems remaining operational, and Group employees including frontline customer facing staff being supported to ensure that that we were there to support our customers when they need us most. As the situation is still evolving it is not practicable to quantify the potential impact of volatile financial markets on expected earnings or the Company at this stage.

Approved by the Board on 3 November 2020 and signed on its behalf by:

Aviva Company Secretarial Services Limited
Company Secretary

Aviva Management Services UK Limited

Directors' report

The directors present their annual report and financial statements for Aviva Management Services UK Limited (the Company) for the year ended 31 December 2019.

Directors

The names of the present directors of the Company appear on page 1.

M Harper was appointed as a director of the company on 15 January 2019.

A M Jenkins resigned as a director of the Company on 14 August 2019.

S E Robinson was appointed as a director of the Company on 30 August 2019.

M Harper resigned as a director of the Company on 3 February 2020.

Dividends

No dividend was paid for the financial year ending 31 December 2019 (2018: £30 million).

Major events

There are no major events to report for 2019.

Statement of going concern

The financial statements have been prepared on a going concern basis. In assessing whether the going concern basis is appropriate, the directors have considered the information contained in the financial statements of the Company. The directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and at least 12 months from the approval of the financial statements.

Future developments

Likely future developments in the business of the Company are discussed in the Strategic Report on page 5.

Financial risk management

Details of financial risk management are discussed in the principal risks and uncertainties section of the Strategic Report on page 5 and note 14 to the financial statements.

Employees

All staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited, who make a management charge for services, including the provision of staff to the Company. It is not possible to ascertain separately the element of the management charge that relates to staff costs. Disclosures relating to employee remuneration and the average number of persons employed are made in the Financial Statements of Aviva Employment Services Limited.

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 of which the auditors are unaware; and
- each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

Aviva Management Services UK Limited

Directors' report (continued)

Independent auditors

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

Qualifying indemnity provisions

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

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

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the audited financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

By order of the Board

Aviva Company Secretarial Services Limited
Company Secretary

3 November 2020

Aviva Management Services UK Limited

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); 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 balance sheet as at 31 December 2019; the profit and loss account, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

Aviva Management Services UK Limited

Independent auditors' report to the members of Aviva Management Services UK Limited (continued)

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 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

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

3 November 2020

Aviva Management Services UK Limited

Profit and loss account

For the year ended 31 December 2019

| | Note | 2019 £'000 | 2018 £'000 |
|--|------|---------------|---------------|
| Turnover | | 16 | 217,153 |
| Administrative expenses | | (382) | (213,762) |
| Gross (loss)/profit | | (366) | 3,391 |
| Interest receivable and similar income | | 310 | 509 |
| Other operating income/(expense) | | 952 | (1,637) |
| Profit before taxation | 5 | 896 | 2,263 |
| Tax on profit | 6 | 3,973 | 683 |
| Profit for the financial year | | 4,869 | 2,946 |

All of the above amounts are in respect of continuing operations.

The Company has no other comprehensive income.

The information on pages 13 to 21 forms an integral part of these financial statements.

Aviva Management Services UK Limited

Balance sheet

As at 31 December 2019

| | Note | 2019 £'000 | 31 Dec 2018 £'000 restated | 1 Jan 2018 £'000 restated |
|--|------|-----------------|-------------------------------------|------------------------------------|
| Fixed assets | | | | |
| Right-of-use assets | 8 | 215 | - | - |
| Current assets | | | | |
| Amounts owed by group undertakings | | 9,597 | 15,497 | 41,489 |
| Other debtors | 9 | 9,140 | 8,193 | 11,201 |
| Total debtors | | 18,737 | 23,690 | 52,690 |
| Cash at bank and in hand | | 41,389 | 67,520 | 112,754 |
| Creditors: amounts falling due within one year | | | | |
| Amounts owed to group undertakings | | (30,426) | (63,733) | (107,248) |
| Other creditors including taxation and social security | 10 | (6,626) | (6,403) | (6,959) |
| | | (37,052) | (70,136) | (114,207) |
| Net current assets | | 23,074 | 21,074 | 51,237 |
| Total assets less current liabilities | | 23,289 | 21,074 | 51,237 |
| Provisions for liabilities | 11 | (5,101) | (9,886) | (12,995) |
| Lease liability | 8 | (2,928) | - | - |
| Net assets | | 15,260 | 11,188 | 38,242 |
| Capital and reserves | | | | |
| Called up share capital | 12 | 10,100 | 10,100 | 70,100 |
| Profit and loss account | | 5,160 | 1,088 | (69,901) |
| Other reserves | | - | - | 38,043 |
| Total equity | | 15,260 | 11,188 | 38,242 |

The financial statements were authorised for issue by the Board of directors on 3 November 2020 and were signed on its behalf:

S E Robinson *Director*

The information on pages 13 to 21 forms an integral part of these financial statements.

Aviva Management Services UK Limited

Statement of changes in equity

For the year ended 31 December 2019

| Note | Called up share capital £'000 | Profit and loss account £'000 | Other reserves £'000 | Total equity £'000 |
|---|--|--|----------------------------|--------------------------|
| Balance at 1 January 2018 | 70,100 | (69,901) | 38,043 | 38,242 |
| Profit for the financial year | - | 2,946 | - | 2,946 |
| Dividends | - | (30,000) | - | (30,000) |
| Capital reduction | (60,000) | 98,043 | (38,043) | - |
| Balance at 31 December 2018 | 10,100 | 1,088 | - | 11,188 |
| Adjustments in respect of IFRS 16 | - | (797) | - | (797) |
| Balance at 1 January 2019 restated | 10,100 | 291 | - | 10,391 |
| Profit for the financial year | - | 4,869 | - | 4,869 |
| Balance at 31 December 2019 | 10,100 | 5,160 | - | 15,260 |

The information on pages 13 to 21 forms an integral part of these financial statements.

Aviva Management Services UK Limited

Notes to the financial statements

For the year ended 31 December 2019

1. Accounting policies

(a) Basis of presentation

The financial statements have been prepared in accordance with The Companies Act 2006, as applicable to companies using Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared on a going concern basis. In assessing whether the going concern basis is appropriate, the directors have considered the information contained in the financial statements of the Company. The directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and at least 12 months from the approval of the financial statements.

The financial statements are stated in sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling (£'000).

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019. These policies have been consistently applied to all years presented, unless otherwise stated.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of paragraphs 10(d) and 111 of IAS 1 Presentation of Financial Statements to include a statement of cash flows and the requirements of IAS 7 Statement of Cash Flows;
- (b) the requirements of paragraph 16 of IAS 1 to make a statement of compliance with the international accounting standards;
- (c) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose when an entity has not applied a new accounting standard that has been issued but is not yet effective;
- (d) the requirements of paragraph 17 of IAS 24 Related Party Disclosure to disclose key management personnel compensation;
- (e) the requirements of paragraph 18A of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

New standards and minor clarifications to existing guidance on a number of standards became effective for the reporting period beginning on 1 January 2019. The principle clarifications are to IFRS 16, Leases which replaces IAS 17 and introduces a definition of a lease with a single lessee accounting model, eliminating the previous classification of either operating or finance leases, IFRIC 23, Uncertainty over Income Tax treatments, Amendments to IAS 19, Plan Amendment, Curtailment or Settlement and Amendments to IAS 28, Long Term interests in Associates and Joint Ventures. The amendments do not have any impact on the Company's financial statements with the exception of IFRS 16.

(i) IFRS 16, Leases

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

The adoption of IFRS 16 has resulted in an update to the Company's stated accounting policy for leases. The standard has introduced a definition of a lease with a single lessee accounting model, eliminating the previous classification of either operating or finance leases. Lessees are required to recognise lease assets and liabilities on the statement of financial position for all leases, with the exception of short-term and low-value leases. Further information can be found in note 7.

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

Aviva Management Services UK Limited

Notes to the financial statements

For the year ended 31 December 2019 (continued)

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

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

Application of the modified retrospective approach has resulted in a reduction of retained earnings of £0.8 million at 1 January 2019. This reflects the fact that the right-of-use assets and lease liabilities amortise to nil at different rates over the lease term. A higher initial amortisation of the right-of-use asset compared to the lease liability results in the asset value being lower than the lease liability during the lease term, with the difference between the two generally converging to nil as the lease term ends. There have been corresponding increases in the value of assets (£0.2 million) and liabilities (£2.9 million), representing the right-of-use assets and liabilities, net of any tax impacts, not previously recognised on the balance sheet in accordance with IAS 17. There has been no material impact on profit before tax.

Future contractual aggregate minimum lease payments under non-cancellable operating leases were £5.9 million at 31 December 2018. Lease liabilities in respect of the Company's operating leases brought onto the balance sheet at 1 January 2019 following the adoption of IFRS 16 were £2.9 million. The balance shown at 1 January 2019 represents a present value of lease payments, whereas the figure disclosed at 31 December 2018 is the aggregated undiscounted payments. Other differences between the commitments disclosed and the opening IFRS 16 lease liabilities recognised relate primarily to amounts payable for surplus property not part of the IFRS 16 1 January 2019 lease balance.

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

(b) Interest receivable and payable

Interest receivable and payable is accounted for on an accruals basis.

(c) Administrative expenses

Administrative expenses, including commission payable, are accounted for on an accruals basis.

(d) Leases

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

(e) Income taxes

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

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

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

Aviva Management Services UK Limited

Notes to the financial statements

For the year ended 31 December 2019 (continued)

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

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

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

2. Use of judgements, estimates and assumptions

The preparation of the Company's financial statements, in accordance with FRS 101, requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. 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 item considered particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy, is provisions for liabilities (as detailed in note 11).

The Company holds a property provision for two properties for which it is the lessee. The amount of the provision is determined based on the Company's estimation of expenditure required to settle the obligation at the statement of financial position date. The valuation of the provision involves a high degree of judgement and estimation uncertainty due to the length of the lease periods and reliance on 3rd party expertise.

3. Prior period restatement

Following the introduction of IFRS 16, accounting for property leases, a subsequent review determined that the Company retained the contractual obligations for two onerous property provisions, previously held on the balance sheet of the Company's parent, Aviva Life Services UK Limited. The corresponding comparative amounts have therefore been restated in the Company's financial statements. The impact of this change on the statement of financial position is as follows:

| | 1 January 2018 | | | 31 December 2018 | | |
|-------------------------------------|---------------------|------------------------------|------------------|---------------------|------------------------------|------------------|
| | As reported £000 | Effect of changes £000 | Restated £000 | As reported £000 | Effect of changes £000 | Restated £000 |
| Total assets | 153,170 | 12,274 | 165,444 | 83,139 | 8,071 | 91,210 |
| <i>Effect analysed as</i> | | | | | | |
| Amounts owed by group undertakings | 29,215 | 12,274 | 41,489 | 7,426 | 8,071 | 15,497 |
| Total equity and liabilities | 153,170 | 12,274 | 165,444 | 83,139 | 8,071 | 91,210 |
| Total liabilities | 114,928 | 12,274 | 127,202 | 71,951 | 8,071 | 80,022 |
| <i>Effect analysed as:</i> | | | | | | |
| Provisions | 721 | 12,274 | 12,995 | 1,815 | 8,071 | 9,886 |

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Notes to the financial statements

For the year ended 31 December 2019 (continued)

4. Auditors' remuneration

The following table provides analysis of the total fees, excluding VAT, in respect of services provided to the Company during the year ended 31 December 2019. Fees paid to the Company's auditors, PricewaterhouseCoopers LLP (PwC) and its associates for services other than the statutory audit of the Company and other Group undertakings are disclosed in the consolidated financial statements of Aviva plc.

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Audit services | | |
| Audit of the Company's financial statements | 73 | 72 |
| Total fees | 73 | 72 |

5. Profit before taxation

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Profit before tax is stated after charging: | | |
| Auditors' remuneration | 73 | 72 |

6. Tax on profit

(a) Tax credited to the profit and loss account

(i) The total tax credit comprises:

| | 2019 £'000 | 2018 £'000 |
|--|----------------|----------------|
| Current tax | | |
| For this year | 1,239 | 1,998 |
| Prior period adjustments | 3,927 | 1,716 |
| Total current tax credit | 5,166 | 3,714 |
| Deferred tax | | |
| Origination and reversal of timing differences | (1,193) | (1,370) |
| Prior period adjustments | - | (1,661) |
| Total deferred tax | (1,193) | (3,031) |
| Total tax credited to the profit and loss account | 3,973 | 683 |

(ii) Deferred tax charged to the profit and loss account represents movements on the following items.

| | 2019 £'000 | 2018 £'000 |
|--|----------------|----------------|
| Accelerated capital allowances | (1,122) | (3,031) |
| Other temporary differences | (71) | - |
| Total deferred tax charged to the profit and loss account | (1,193) | (3,031) |

(b) Tax charged to other comprehensive income

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

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Notes to the financial statements

For the year ended 31 December 2019 (continued)

(c) Tax reconciliation

The tax on the Company's profit before tax differs from (2018: *differs from*) the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Total profit before tax | 896 | 2,263 |
| Tax calculated at standard UK corporation tax rate of 19% (2018: 19%) | (170) | (430) |
| Disallowable expense provisions | 76 | 897 |
| Change in future statutory tax rate | 140 | 161 |
| Adjustment to tax charge in respect of prior years | 3,927 | 55 |
| Total tax credit to the profit and loss account | 3,973 | 683 |

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

As of 31 December 2019, this measure had not been substantively enacted and therefore no impact is reflected in the calculation of the Company's deferred tax assets and liabilities as at 31 December 2019. This measure would increase the Company's deferred tax asset by a approximately £600 thousand.

7. Tax assets and liabilities

(a) Current tax

Current tax assets recoverable in more than one year are £1,239,000 (2018: asset of £249,000 recoverable).

(b) Deferred tax

(i) The balance at 31 December comprises:

| | 2019 £'000 | 2018 £'000 |
|-------------------------------|---------------|---------------|
| Deferred tax assets | 5,382 | 6,411 |
| Net deferred tax asset | 5,382 | 6,411 |

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

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Provisions and other temporary differences | 93 | - |
| Accelerated capital allowances | 5,289 | 6,411 |
| Net deferred tax asset | 5,382 | 6,411 |

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For the year ended 31 December 2019 (continued)

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

| | 2019 | 2018 |
|---|----------------|---------|
| | £'000 | £'000 |
| Net deferred tax asset at 1 January | 6,411 | 9,442 |
| Adjustment at 1 January for a doption of IFRS16 | 164 | - |
| Amounts charged to profit and loss account | (1,193) | (3,031) |
| Net deferred tax asset at 31 December | 5,382 | 6,411 |

8. Lease assets and liabilities

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

£0.6 million right-of-use asset
£0.2 million deferred tax asset; and
£5.7 million lease liabilities

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

| | 2019 |
|----------------------------------|--------------|
| | £'000 |
| Balance at 1 January | 639 |
| Depreciation charge for the year | (424) |
| Balance at 31 December | 215 |

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

| | 2019 |
|--------------------------|--------------|
| | £'000 |
| Within one year | 2,454 |
| Within two to five years | 498 |
| | 2,952 |

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

| | 2019 |
|--------------------------|--------------|
| | £'000 |
| Within one year | 999 |
| Within two to five years | 156 |
| | 1,155 |

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Notes to the financial statements

For the year ended 31 December 2019 (continued)

9. Other debtors

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Amounts falling due within one year: | | |
| Corporation tax receivable | 1,999 | - |
| Other debtors | 481 | 1,493 |
| | 2,480 | 1,493 |
| Amounts falling due after more than one year: | | |
| Corporation tax receivable | 1,239 | 249 |
| Deferred tax | 5,382 | 6,411 |
| Policy related debtors | 39 | 40 |
| | 6,660 | 6,700 |
| | 9,140 | 8,193 |

10. Other creditors including taxation and social security

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Amounts falling due within one year: | | |
| Other creditors | 6,626 | 6,403 |

11. Provisions for liabilities

| | 2019 | | | 2018 restated | | |
|-------------------------------------|------------------|---------------|---------------|------------------|---------------|---------------|
| | Property £000 | Other £000 | Total £000 | Property £000 | Other £000 | Total £000 |
| Balance at 1 January | 8,071 | 1,815 | 9,886 | 12,274 | 721 | 12,995 |
| IFRS16 a doption adjustment | (4,097) | - | (4,097) | - | - | - |
| Revised balance at 1 January | 3,974 | 1,815 | 5,789 | 12,274 | 721 | 12,995 |
| Provided in the year | - | 1,153 | 1,153 | - | 1,328 | 1,328 |
| Utilised in the year | (111) | - | (111) | (4,203) | - | (4,203) |
| Amounts released | - | (1,730) | (1,730) | - | (234) | (234) |
| Balance at 31 December | 3,863 | 1,238 | 5,101 | 8,071 | 1,815 | 9,886 |

The property provision contains an element related to restoration costs of £3,178,000 (2018: £3,097,273). The other provisions balance relates to amounts held in respect of commission creditor balances.

12. Called up share capital

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

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Allotted and issued | | |
| 10,100,000 ordinary shares of £1 each (2018: 10,100,000) | 10,100 | 10,100 |

On 4 December 2018, the Company resolved to reduce its issued share capital from £70,100,000 to £10,100,000 by cancelling and extinguishing in full 60,000,000 ordinary shares of £1 each. On the same date other reserves of £38,043,000 were extinguished in full as part of the capital restructure.

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Notes to the financial statements

For the year ended 31 December 2019 (continued)

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

13. Directors' emoluments

All directors were remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate parent company, Aviva plc. The emoluments are recharged, as part of a head office management charge under management service agreements, to all operating divisions of the Aviva Group. No direct recharge has been made to the Company in respect of these emoluments as these directors were not primarily remunerated for their services to the Company. Accordingly, no emoluments are disclosed in respect of these directors.

14. Risk management

(a) Risk management framework

The Company operates a risk management framework (RMF) that forms an integral part of the management and Board processes and decision-making framework, aligned to the Group's risk management framework. The key elements of the risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes the Company uses to identify, measure, manage, monitor and report (IMMMR) risks, including the use of risk models and stress and scenario testing.

For the purposes of risk identification and measurement, and aligned to the Company's risk policies, risks are usually grouped by risk type: credit, market, liquidity, life insurance (including long-term health), and operational risk. Risks falling within these types may affect a number of metrics including those relating to statement of financial position strength, liquidity and profit. They may also affect the performance of the products the Company delivers to its customers and the service to its customers and distributors, which can be categorised as risks to brand and reputation or as conduct risk.

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

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

Risk models are an important tool in the measurement of risks and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. The Company carries out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged.

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

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

The Company's position against risk appetite is monitored and reported to the Board on a regular basis.

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Notes to the financial statements

For the year ended 31 December 2019 (continued)

(b) Market risk

Market risk is the risk of loss or averse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates, foreign exchange rates, equity, property and commodity prices. The nature of the business means that the Company is not exposed to significant market risk.

(c) Credit risk

Credit risk is the risk of averse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. The Company's management of credit risk under the oversight of the Asset & Liability Committee (ALCO), includes the articulation of risk appetite, exposure limit frameworks and investment and lending criteria within credit risk policies and management agreements.

The nature of the Company's business means that it is not exposed to significant credit risk. This is because its receivables are mainly inter-company balances. A significant amount of business relates to the Aviva Group of companies and exposure is managed through regular and timely payments. At the balance sheet date there are no material financial assets subject to credit risk that are past due or impaired.

(d) Liquidity risk

The nature of the business means that the Company is not exposed to significant liquidity risk. ALCO seeks to determine that the Company has sufficient financial resources to meet its obligations as they fall due.

15. Related party transactions

The Company is a wholly owned subsidiary undertaking of Aviva plc. The results of the Company are consolidated in the results of Aviva plc, the Company's ultimate parent and controlling company, whose financial statements are publicly available.

Under FRS 101 the Company is exempt from the requirements of IAS 24 Related Party Disclosures, concerning the disclosure of transactions entered into between two or more members of a group provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

16. Ultimate parent company

The Company's ultimate parent undertaking is Aviva plc, St Helens, 1 Undershaft, London, EC3P 3DQ. Copies of the Group Financial Statements of Aviva plc can be viewed via its website at www.aviva.com.

17. Subsequent events

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. The spread of COVID-19 has resulted in an economic downturn in the UK, as well as causing increased volatility and declines in financial markets. The spread of the virus is now slowing down and restrictions are beginning to lift but the risk of subsequent peaks means the averse impact on the UK economy could be deepened and result in further declines in financial markets.

The company continues to maintain healthy liquidity and expects to meet its cash requirements. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained, IT systems remaining operational, and Group employees including frontline customer facing staff being supported to ensure that that we were there to support our customers when they need us most. As the situation is still evolving it is not practicable to quantify the potential impact of volatile financial markets on expected earnings or the Company at this stage.