

AVIVA INVESTORS PENSIONS LIMITED

Registered in England and Wales No. 1059606

Annual report and financial statements 2020



Aviva Investors Pensions Limited

Report and financial statements for the year ended 31 December 2020

Registered in England and Wales: No.1059606

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Aviva Investors Pensions Limited

Report and financial statements for the year ended 31 December 2020

Registered in England and Wales: No.1059606

Directors and Officers

Directors

N R Cosgrove

M D T Craston (non-executive)

T Howard

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

Registered in England and Wales: No. 1059606

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').

Aviva Investors Pensions Limited

Report and financial statements for the year ended 31 December 2020

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Strategic Report

The directors present their Strategic Report for the Company for the year ended 31 December 2020.

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. After the decision to wind up three unit-linked policyholder funds in January 2021, a further decision was taken to wind up the five remaining funds. As a result of the decision to serve notice on all remaining unit-linked policyholder funds in April 2021 and following the expected closure of all funds within 24 months of the notice being served, the Company is expected to cease operating and commence a voluntary liquidation.

Financial Position and Performance

The financial position of the Company at 31 December 2020 is shown in the Statement of Financial Position on page 21, with trading results shown in the Statement of Comprehensive Income on page 20 and the Statement of Cash Flows on page 22. The main factor affecting the performance in the year was:

- An overall decrease in policyholder assets of £176.4 million. Policyholder's assets at 31 December 2020 totalled £722.9 million (2019: £899.3 million). The decrease is mainly due to redemptions of £193.0 million (2019: £188.5 million) and charges of £3.8 million (2019: £4.7 million) offset by net investment and other income of £17.1 million (2019: £60.6 million) and inflows of £3.3 million (2019: £6.8 million).
- Lower fee income during the year of £4.0 million (2019: £5.0 million) as a result of lower policyholder assets partially offset by lower administrative expenses.

Section 172 (1) Statement and our stakeholders

The Directors report here on how they have discharged their duties under Section 172 (s.172) of the Companies Act 2006 which the directors must have regard to in their duty to promote the success of the Company for the benefit of its shareholders which includes having regard to other stakeholders.

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

The Board is also focused 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.

The Company's culture

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

The Company's culture is shaped, in conjunction with its parent company, Aviva Investors Holdings Limited ("AIHL") and its ultimate shareholder Aviva Plc by jointly held and clearly defined values to help ensure it does the right thing. The commitment the Company makes to each customer extends to all the Company's stakeholders; that is 'with you today, for a better tomorrow.'

- Throughout the Company's business, the Board is proud that our people live by our core value of Care for our customers, for each other and for the communities they serve.

Key strategic decisions in 2020

In 2020, the Aviva Group took a number of strategic decisions to protect both customers and employees in view of the COVID-19 pandemic. These included a greater facilitation in home working, which allowed managers and traders to be able to work from other sites or from home in the event they were unable to attend a main office. In addition, there was increased levels of monitoring in the financial markets to ensure investor interests were being protected.

During the year and following the appointment of a new Group CEO, Aviva has taken the decision to focus on its UK, Ireland and Canada business where it has leading market positions and significant potential. In addition, Aviva Investors has set about to drive Aviva's ESG agenda and to become a global leader in sustainable solutions by continuing to develop market leading ESG capabilities.

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Strategic Report (continued)

Key strategic decisions in 2020 (continued)

The Aviva Investors' strategy is underpinned by a 'Pan-UK' approach, supporting Aviva to become the UK's leading insurer and the go-to customer brand in Britain. The key drivers of our strategy are:

- Customer: Deliver our customers' investment needs, placing Environmental, Social and Governance (ESG) and a rigorous risk and control culture at the core of our future strategies
- Simplification: Streamline our business to become more efficient and deliver better customer outcomes
- Growth: Continue to grow in both our Aviva client and external businesses
- People: Develop a high-performance culture, focusing on our diversity and inclusion strategy, talent and career development

Stakeholder Engagement

Stakeholders	Why are they important to Aviva?	What is our approach to engaging with them and how does it support the decision-making process?
Customers	Our purpose, 'with you today, for a better tomorrow,' captures the reason we exist as a business.	<p>The Board receives regular reporting on customer outcomes and customer-related strategic initiatives throughout the year. 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.</p> <ul style="list-style-type: none"> • As part of our COVID-19 response the Board discussed and supported the activities to support customers. As part of this, there has been increased levels of monitoring in the financial markets to ensure investor interest were being protected. One example of this was the suspension of the Aviva Investors Property Fund due to the inclusion of a material uncertainty being placed on property valuations and a lack of liquidity in the market.
Employees	Our people's commitment to serving our customers is essential for us to deliver on our vision to earn customers' trust as the best place to save for the future, navigate retirement, and insure what matters most to them.	<p>The Company has no direct employees, instead there is a service agreement in place with various Aviva Group employing companies for the services provided. Across the Aviva Group, there is a focus on recruiting, training and retaining the best talent we can find. We are proud to have been a pioneer in some areas of employee benefits, including providing six months paid parental leave for all UK employees. The Group Chief Executive is a member of the 30% Club, a business-led organisation committed to accelerating progress towards better gender balance at all levels of organisations.</p> <ul style="list-style-type: none"> • The Aviva Group recognises the benefits of a diverse workforce and an inclusive culture and as a result there has been significant activity and investment on Diversity and Inclusion, with a priority on gender and ethnic minorities particularly following the Black Lives Matter movement.
Suppliers	We operate in conjunction with a wide range of suppliers to deliver services to our customers. It is vital that we build strong working relationships with our intermediaries, including around risk management and customer service	<p>The Company, through the AIHL Risk Committee, receives reports on the performance and oversight of critical or important outsourcing arrangements including any renewals or material alterations to existing arrangements that support a business-critical function.</p> <ul style="list-style-type: none"> • The Group is a Living Wage employer in the UK, and the Company's supplier contracts include a commitment to paying eligible employees not less than the Living Wage in respect of work provided to Aviva in the UK. The Group is also an accredited living hours employer. • In the UK, the Company's ultimate parent, Aviva plc, is a signatory of the Prompt Payment Code which sets standards for high payment practices.

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****Strategic Report (continued)****Stakeholder Engagement (continued)**

Stakeholders	Why are they important to Aviva?	What is our approach to engaging with them and how does it support the decision-making process?
Communities	We recognise the importance of contributing to our communities through volunteering, community investment, and long-term partnerships with non-governmental organisations, and as a major asset manager we are fully engaged in building resilience against the global impact of climate change.	<p>The Group actively encourages and supports colleagues to volunteer in their communities providing 21 hours of paid volunteering time to each UK Employee annually to help make a positive impact and help build stronger communities</p> <p>Climate-related risks and opportunities are included in Financial/Risk MI provided to the Board.</p> <p>During 2020, Aviva significantly increased community investment in light of Covid-19 to support vulnerable customers and the communities in which the Company operates. This included Aviva and the Aviva Foundation donating £310 million to the British Red Cross and other national societies to support communities across our markets, including the creation of a hardship fund in the UK to provide financial support to those most in need</p> <ul style="list-style-type: none"> • Aviva Investors is committed to minimising its impact on our customers, and our business for the long term — such as continuing to reduce our CO2 emissions, which has included a commitment by Aviva plc to reach Net Zero carbon emissions by 2040. • Supporting the UN's Sustainable Development Goals (SDGs) is important to Aviva. These goals are focused on ending poverty, protecting the planet, and ensuring prosperity for all by 2030. And we believe we have a key role in helping to achieve this vision. We use the Sustainable Development Goals to guide us, our customers and society towards a better future. • The Company is committed to systematically embedding Environmental, Social and Governance ('ESG') considerations across the Aviva Investors business. This included the development of asset class specific ESG policies; the build out of enhanced ESG research capabilities, including new proprietary ESG data tools; and extensive ESG training for global investment desks.
Regulators	As an asset management firm, we are subject to financial services regulations and approvals in all the markets we operate in.	<p>As the subject of close and continuous supervision by both the FCA and PRA, we maintain constructive and open relationships with the regulators, facilitated by a programme of regular meetings between them and the directors.</p> <ul style="list-style-type: none"> • The Company routinely provides copies of the Board, Audit and Risk papers to the FCA and responds to requests for information when required.
Shareholders	Our retail and institutional shareholders are the owners of the Company.	<p>The Company's ultimate shareholder is Aviva plc and there is ongoing communication and engagement with the Aviva plc Board.</p> <ul style="list-style-type: none"> • Any matters requiring escalation are escalated by the Board through the Chair to its parent, AIHL and where required, to the Aviva plc Board. • The Chairman of AIHL, the direct shareholder of AIPL, is a regular attendee to all Aviva Plc Board meetings.

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Strategic Report (continued)

Future Outlook

As explained above, the Company is expected to cease operating and commence a voluntary liquidation within 24 months. Despite the changes to the business, the directors expect that the Company has sufficient resources to continue to meet its liabilities as they fall due.

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.

We have seen COVID-19 have a significant impact on the global economy and markets. Key impacts have been observed from volatile equity markets and falls in interest rates.

Due to adverse impact of COVID-19 on the UK commercial property sectors, and in particular the difficulty in being able to assign values to our commercial property portfolios, we temporarily suspended our unit-linked property fund to redemptions for six months in March 2020. Following the lifting of the suspension on 9 September, the fund continues to operate its redemption deferral policy. In order to protect investors remaining in the Property Fund and to provide the fund managers with sufficient time to raise liquidity, particularly under prolonged adverse market conditions, a notice period of 90 days and an extension of the maximum deferral period from 12 to 24 months was introduced effective from 18 November 2020.

During the year the Company's unit linked funds have continued to experience significant net redemptions, however, this is generally not directly as a result of the impact of the COVID-19 pandemic but driven primarily by de-risking and asset allocation decisions by Policyholders.

The Company continues to maintain strong solvency and liquidity positions through a range of scenarios and stress testing. These scenarios allow for the potential impacts of COVID-19 both directly on operations of the Company and also the wider macroeconomic environment. We have been closely engaging with regulators on their response to COVID-19.

The UK-EU Future Relationship Agreement came into effect on 1 January 2021, ending the Brexit transition period, for which the Company was fully prepared. It provides scope for managed policy divergence or maintaining alignment, if the UK chooses. The agreement will have evolving consequences in 2021 and beyond on future financial services and data regulation, UK-EU data transfers, EU market access and the UK economy which will require careful monitoring.

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Strategic Report (continued)


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:

	2020	2019	Change
Profit before tax (£'m)	0.3	0.4	(0.1)
Policyholders' assets (£'m)	722.9	899.3	(176.4)
Shareholders' assets (£'m)	9.4	9.1	0.3

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, 29 July 2021

DocuSigned by:

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T Howard
Director

Aviva Investors Pensions Limited

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Directors' Report

The directors present their annual report and audited financial statements of the Company for the year ended 31 December 2020.

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	(resigned on 30 June 2021)
D Clayton	(resigned 31 August 2020)
N R Cosgrove	
M D T Craston	
T Howard	(appointed 25 January 2021)
C A Jones	(resigned on 17 June 2021)
G R Neilson	(resigned 24 February 2020)

Major events

As discussed in the Strategic Report on page 4, the Company is expected to commence a voluntary liquidation within 24 months following the decision to close all its funds. An application to cancel the Company's regulatory permissions will be made before the Company is placed into voluntary liquidation.

Future Outlook

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

Dividend

No interim dividend was paid during the year (2019: £nil). The directors do not recommend the payment of a final dividend for the financial year ending 31 December 2020.

Events after the reporting period

In January 2021, the decision was taken to wind up three unit-linked policyholder funds, the Balanced Managed Fund, the Corporate Bond Fund, and the High Alpha Gilt Fund. Policyholders invested in these funds were served notice which was effective from 22 January 2021. The Corporate Bond Fund and the High Alpha Gilt Fund closed on 22 April 2021. In April 2021, a further decision was taken to wind up the five remaining funds, the Property Fund, the Long-Dated Corporate Bond Fund, the Global Return-Seeker Fund, the UK Equity Active Fund and the Index Linked Gilt Fund. Policyholders invested in these funds were served notice which was effective from 14 April 2021. The closure of the Property Fund and the Balanced Managed Fund are expected in line with the 24-month deferral period. The other funds closed on 14 July 2021. As a result of the decision to serve notice on all remaining unit-linked policyholder funds and following the expected closure of all funds within 24 months of the final notice being served, the Company is expected to cease operating and commence a voluntary liquidation.

Going concern

As discussed in the Strategic Report, following the expected closure of all funds within 24 months of the final notice being served, the Company will be placed into a voluntary liquidation during 2022. As such, the directors have adopted a basis of preparation other than that of a going concern in the annual financial statements.

Employees

The Company has no employees (2019: none).

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Directors' Report (continued)

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.

Independent Auditors

It is the intention of the directors to reappoint the auditors 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.

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Directors' Report (continued)

Statement of Directors' Responsibilities (continued)

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.

DocuSigned by:

Tom Howard

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On behalf of the Board, 29 July 2021

T Howard

Director

Aviva Investors Pensions Limited

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

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 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 2020; the statement of comprehensive income, the statement of cash flows and 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.

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.

We have provided no non-audit services to the company in the period under audit.

Emphasis of matter - financial statements prepared on a basis other than going concern

In forming our opinion on the financial statements, which is not modified, we draw attention to note 1(A) to the financial statements which describes the directors' reasons why the financial statements have been prepared on a basis other than going concern.

Our audit approach

Context

Aviva Investors Pensions Limited is a unit linked pension provider which is part of the Aviva plc group. Aviva Investors Pensions Limited is being voluntarily wound up by the directors given the significant redemptions seen over the past few years. The directors have noted that the company will remain solvent during the closure period based upon assessments that were performed by management.

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

Overview

Audit Scope

- We have performed a full scope audit of Aviva Investors Pensions Limited in accordance with our materiality and risk assessment.
- 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 (as outlined below) 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.

Key audit matters

- Risk of material misstatement Valuation of Investment Property
- Impact of Covid-19

Materiality

- Overall materiality: £40,938 (2019: £22,417) based on 1% of total revenue and 5% of profit before tax in 2019 for all balances. With respect to policyholder assets, liabilities and associated income statement line items we utilised 1% of total assets in 2020 (£7,457,687) and 0.5% of total assets (£4,496,620) in 2019 solely for the purposes of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities. There was a change in measure we used to assess materiality from profit before tax to total revenue in 2020 for shareholder balances. This was done because revenue was determined to be the more appropriate measure. We also updated our materiality basis in relation to policyholder assets, liabilities and associated income statement line items to align with industry practice.
- Performance materiality: £30,703.

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.

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.

Fraud risk in revenue recognition, which was a key audit matter last year, is no longer included because of the lack of judgement and complexity involved in the revenue calculation process. As a result, there are no particular fraud factors or procedures to highlight as a key audit matter other than those outlined in the "Auditors' responsibility for the audit of the financial statements" section below.. Otherwise, the key audit matters below are consistent with last year.

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Key audit matter	How our audit addressed the key audit matter
<p>Risk of material misstatement Valuation of Investment Property</p> <p>Refer to Note 1G Accounting Policy Investment property and Note 8 Investment Property. Investment properties are held at a net realisable value of £436.4 million as at 31 December 2020 in the Statement of Financial Position. The valuation of the Company's investment property is the key component of the net asset value and underpins the Company's result for the year. The result of the revaluation this year was a loss of £10.5 million, which is accounted for within 'Unrealised losses on investment property held at fair value' in Note 2.</p> <p>Investment property valuations were carried out by a third-party valuer, CB Richard Ellis (CBRE' or the 'Valuer'). The Valuer, engaged by the Directors, performed their work in accordance with the Royal Institute of Chartered Surveyors ('RICS') RICS Valuation – Professional Standards and the requirements of International Accounting Standard 40 'Investment Property'.</p> <p>In determining the value of a property, the Valuer has taken into account property-specific information including the lease term and rental income payable. They applied assumptions for the yield rates which are influenced by prevailing market conditions and comparable transactions, to arrive at the final valuation as at the valuation date. The valuation of the Company's investment property portfolio was identified as a key audit matter given the valuation is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental streams for that particular property. The wider challenges currently facing real estate investor markets as a result of COVID-19 further contributed to the subjectivity for the year ended 31 December 2020. The significance of the estimates and judgements involved, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement, warranted specific audit focus in this area.</p> <p>As the Company financial statements are prepared on a basis other than going concern, in accordance with accounting standards, the investment property is carried at net realisable value. As such, the investment property's fair value is further reduced by expected disposal costs.</p>	<ul style="list-style-type: none"> Given the inherent subjectivity involved in the valuation of the property portfolio, and therefore the need for deep market knowledge when determining the most appropriate assumptions and the technicalities of valuation methodology, we engaged our internal valuation experts (qualified chartered surveyors) to assist us in our audit of this area. <ol style="list-style-type: none"> <i>Assessing the valuers' expertise and objectivity</i> <ul style="list-style-type: none"> We read the Valuer's report and confirmed that the approach used was consistent with the RICS guidelines. We assessed the Valuer's qualifications and expertise and read their terms of engagement with the Company, determining that there were no matters that affected their independence and objectivity or imposed scope limitations upon them. We also considered fees and other contractual arrangements that might exist between the Company and the Valuer. We found no evidence to suggest that the objectivity of the Valuer was compromised. <i>Data provided to the Valuer and legal title</i> <ul style="list-style-type: none"> We validated the data provided to the Valuer by management and found that it was consistent with the information we audited. This data included inputs such as current rent and lease term, which we have agreed on a sample basis to executed lease agreements as part of our audit work. We verified legal ownership of properties through independent title deed confirmations on a sample basis. <i>Assumptions and estimates used by the Valuer</i> <ul style="list-style-type: none"> In our testing, which involved the use of our internal real estate valuation experts, we considered the assumptions utilised by the Valuer within the valuation and benchmarked to market evidence. We obtained details of each property held by the Company and set an expected range for yield and capital value movement, determined by reference to published benchmarks and using our experience and knowledge of the market. We compared the investment yields used by the Valuers with the range of expected yields and the year on year capital movement to our expected range. We spoke with the Valuers to discuss and challenge their approach to the valuations, particularly in light of assumptions potentially impacted by COVID-19, the key assumptions and their

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	<p>rationale behind the more significant valuation movements during the year. We challenged the Valuer regarding the impact of the regulatory environment on investor sentiment and asset values. We attended meetings with management and the Valuer, at which the valuation methodology and the key assumptions were discussed. We challenged their approach to the valuations, and the rationale behind the more significant valuation assumptions adopted. Where assumptions were outside the expected range, we undertook further investigations, held further discussions with the Valuer and obtained evidence to support explanations received including recent comparable transactions where appropriate. We determined that the assumptions used by the Valuer were consistent with our expectations and comparable benchmarking and market transaction information for the asset type.</p> <ul style="list-style-type: none"> • As the investment property balance is further reduced by expected disposal costs, we have discussed with management the rationale for the estimates made in calculating these disposal costs. Inclusive of performing a lookback testing to confirm the reasonableness of this by comparing this to actual sales. We have independently compared the percentage of disposal costs applied to industry standards and any contradictory evidence (for example disposal costs previously incurred by the Company). • We have no issues to report in respect of this work.
<p>Impact of Covid-19 Refer to the Strategic Report - Principal risks and uncertainties. The global pandemic of a new strain of Coronavirus (COVID-19) continues to cause economic disruption and uncertainty into 2021 with new, more aggressive variants continuing to appear. This has made predicting the negative impact of the future performance of the business to be difficult given the dynamic market place and significant level of government intervention taken to curb the spread of the virus. Management have prepared an analysis of the impact of COVID-19 on the future cashflows and liquidity position of the company for the next 12 months. The company is required to maintain specific capital resources in excess of regulatory minimum requirements for the company. The directors plan to maintain adequate capital reserves in order to continue to meet the minimum capital reserve requirements. After considering these factors, management has concluded that the company will remain solvent during the wind-up period and will maintain adequate capital reserves to fulfil future obligations. Adequate liquidity to fulfill future commitments.</p>	<ul style="list-style-type: none"> • We have reviewed and assessed the reasonableness of the cashflow assessment prepared by Management in the wake of the COVID-19 pandemic. As part of this, we have performed the following audit procedures outlined as follows: Evaluated management stress and scenario testing as well as challenging management's key assumptions. This included performing a worst case scenario stress test to evaluate liquidity based upon the assumption of no collection of management fees; Reviewed the appropriateness of disclosures within the Financial Statements with respect to COVID-19. This included performing procedures to validate the consistency of the information included within the Strategic and Directors' reports to ensure that it is consistent with the financial statements. As a result of this, we have no matters to report in relation to the company's liquidity position and concur with management that the entity will remain solvent.

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****Independent auditors' report to the members of Aviva Investors Pensions Limited (continued)***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.

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 company materiality	£40,938 (2019: £22,417).
How we determined it	1% of total revenue and 5% of profit before tax in 2019 for all balances. With respect to policyholder assets, liabilities and associated income statement line items we utilised 1% of total assets in 2020 (£7,457,687) and 0.5% of total assets (£4,496,620) in 2019 solely for the purposes of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities. There was a change in measure we used to assess materiality from profit before tax to total revenue in 2020 for shareholder balances. This was done because revenue was determined to be the more appropriate measure. We also updated our materiality basis in relation to policyholder assets, liabilities and associated income statement line items to align with industry practice.
Rationale for benchmark applied	The company's primary objective is the provision and administration of the unit-linked pension business, as such, the fees received from investment management services are low and the entity operates at near break even. As such we deem that total revenues is the most appropriate benchmark 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. With regards to the policyholder materiality, we have increased this from 0.5% of total assets to 1% of total assets. This amendment was performed to bring our materiality threshold in line with the industry standard for public interest entities ('PIE')

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****Independent auditors' report to the members of Aviva Investors Pensions Limited (continued)**

	which outlines that materiality can be up to 1% of total assets for a PIE unless there are indicators of material misstatement that may exist due to this. Given that there have not been any material misstatements to assets or liabilities reported in prior year audits we have determined that the change in materiality is reasonable.
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We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £30,703 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2,047 for shareholder balances and £372,884 on policyholder balances (2019: £1,121 for shareholder balances and £156,000 on policyholder balances) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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.

Aviva Investors Pensions Limited

Report and financial statements for the year ended 31 December 2020

Registered in England and Wales: No.1059606

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

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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 UK tax legislation and breaches of UK regulatory principles, such as those governed by the Prudential Regulatory Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. 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;
- Reviewing relevant meeting minutes including those of the Audit Committee, Risk Committee, 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;
- Testing disclosure note 19 affected by the regulatory solvency requirements for capital risk management; and
- Obtaining management information and external market data to validate the inputs into the calculation of the valuation of investment property, as well as challenging assumptions made, where appropriate.

Aviva Investors Pensions Limited

Report and financial statements for the year ended 31 December 2020

Registered in England and Wales: No.1059606

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

Auditors' responsibilities for the audit of the financial statements (continued)

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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

We were appointed by the directors on 3 March 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 9 years, covering the years ended 31 December 2012 to 31 December 2020.



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

29 July 2021

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****Statement of Comprehensive Income****For the year ended 31 December 2020**

	Note	2020	2019
		£'m	£'m
Income			
Revenue		4.0	5.0
Net investment income	2	17.1	60.6
		<u>21.1</u>	<u>65.6</u>
Expenses			
Change in investment contract provisions		(16.8)	(60.4)
Administrative expenses	3	(3.8)	(4.7)
Other operating expenses	4	(0.2)	(0.1)
		<u>(20.8)</u>	<u>(65.2)</u>
Profit before tax		<u>0.3</u>	<u>0.4</u>
Tax credit	7	-	0.1
Profit for the year and total comprehensive income for the year		<u><u>0.3</u></u>	<u><u>0.5</u></u>

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 2020**

	Ordinary share capital	Retained earnings	Total equity
	£'m	£'m	£'m
Balance at 1 January 2019	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	<u>8.0</u>	<u>1.1</u>	<u>9.1</u>
Profit for the year and total comprehensive income for the year	-	0.3	0.3
Balance at 31 December 2020	<u><u>8.0</u></u>	<u><u>1.4</u></u>	<u><u>9.4</u></u>

The accounting policies on pages 23 to 28 and notes on 29 to 47 are an integral part of these financial statements.

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****Statement of Financial Position****As at 31 December 2020**

	Note	2020	2019
		£'m	£'m
ASSETS			
Investment property	8	436.4	519.4
Financial investments	9	250.1	302.2
Trade and other receivables	10	22.5	19.8
Cash and cash equivalents	18	36.8	80.8
Total assets		745.8	922.2
EQUITY AND LIABILITIES			
Equity			
Ordinary share capital	12	8.0	8.0
Retained earnings		1.4	1.1
Total equity		9.4	9.1
Liabilities			
Liability for investment contracts	13	722.9	899.3
Finance lease liabilities	14	2.6	2.6
Trade and other payables	15	10.9	10.1
Provisions	16	-	1.0
Deferred tax liability	7	-	0.1
Total liabilities		736.4	913.1
Total equity and liabilities		745.8	922.2

The financial statements on pages 20 to 47 were approved by the Board of directors on 29 July 2021 and were signed on its behalf by

DocuSigned by:

Tom Howard

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T Howard
Director

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****Statement of Cash Flows****For the year ended 31 December 2020**

	Note	2020	2019
		£'m	£'m
Cash flows used in operating activities			
Cash used in operations	18(a)	(44.0)	(48.7)
Group relief paid		-	(0.2)
<i>Net cash used in operating activities</i>		(44.0)	(48.9)
Net decrease in cash and cash equivalents		(44.0)	(48.9)
Cash and cash equivalents at 1 January		80.8	129.7
Cash and cash equivalents at 31 December	18(b)	36.8	80.8

The accounting policies on pages 23 to 28 and notes on 29 to 47 are an integral part of these financial statements.

Aviva Investors Pensions Limited

Report and financial statements for the year ended 31 December 2020

Registered in England and Wales: No.1059606

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 on a basis other than going concern with assets and liabilities recognised at their net realisable 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).

The financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

As discussed in the Strategic Report, the Company is expected to cease operating and commence a voluntary liquidation within 24 months. An application to cancel the Company's regulatory permissions will be made before the Company is placed into a members' voluntary liquidation. As required by IAS 1 *Presentation of Financial Statements*, the financial statements are prepared on a basis other than going concern with assets and liabilities recognised at their net realisable value.

Statement of compliance

The Company's financial statements have been prepared and approved by the directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The Company's financial statements have been prepared in accordance with IFRS applicable at 31 December 2020.

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 annual reporting periods beginning on or after 1 January 2020. The amendments have been issued and endorsed by the EU and do not have an impact on the Company's financial statements.

(i) *Amendments to references to the Conceptual Framework in IFRS Standards (published by IASB in March 2018)*

(ii) *Amendment to IFRS 3 Business Combinations (published by the IASB in October 2018)*

(iii) *Amendment to IAS 1 and IAS 8: (published by the IASB in October 2018)*

(iv) *Interest Rate Benchmark Reform: amendments to IFRS 9, IAS 39 and IFRS 7 (published by the IASB in October 2019)*

Aviva Investors Pensions Limited

Report and financial statements for the year ended 31 December 2020

Registered in England and Wales: No.1059606

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 new standards and amendments to existing standards have been issued and are not yet effective and are not expected to have an impact on the company's financial statements.

(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 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) Amendment to IFRS 16 Leases: Covid related rent concessions

Published by IASB in May 2020. The amendments are effective for annual reporting beginning on or after 30 June 2020 and have not yet been endorsed by the EU.

(iii) Interest Rate Benchmark reform phase 2: Amendment to IFRS 9, IAS 39, IFRS 4, IFRS 7 and IFRS 16

Published by the IASB in August 2020. The amendments are effective for annual reporting beginning on or after 1 January 2021 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

Aviva Investors Pensions Limited

Report and financial statements for the year ended 31 December 2020

Registered in England and Wales: No.1059606

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, service charge income, 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 represents rent from investment properties leased out under operating lease agreements, is measured at the fair value of the consideration received or receivable and is recognised in the Net investment income within Statement of Comprehensive Income on a straight line basis over the lease term. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, it is reasonably certain that the tenant will exercise that option. Incentives for entering lease arrangements are spread evenly over the non-cancellable period of the lease, even if payments are not made on that basis.

Service charge income is recognised in the accounting period in which control of the services are passed to the tenant, which is when the service is rendered. Service charge income is charged in advance on a quarterly basis based on an annual budget. Any income in excess of annual expenditure, or expenditure in excess of annual income, is held as a payable or a receivable and contributed towards the subsequent year's service charge expenditure or income respectively.

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.

Aviva Investors Pensions Limited

Report and financial statements for the year ended 31 December 2020

Registered in England and Wales: No.1059606

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*.

Aviva Investors Pensions Limited

Report and financial statements for the year ended 31 December 2020

Registered in England and Wales: No.1059606

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.

Derivative financial instruments carried at fair value are classified using a fair value hierarchy table, described in note 19(j).

(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.

Aviva Investors Pensions Limited

Report and financial statements for the year ended 31 December 2020

Registered in England and Wales: No.1059606

1. Accounting policies (continued)

(O) Income tax (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 accounting profit nor taxable profit or loss at the time of the transaction.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively, except for the tax consequences of distributions from certain equity instruments, to be recognised in the income statement. 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.

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****2. Net investment income**

	2020	Restated 2019
	£'m	£'m
Rental income from investment properties	20.8	27.3
Service charge income from investment properties	3.8	5.6
Investment property expenses	(6.6)	(2.8)
Investment property service charge expenses	(3.8)	(5.6)
Interest receivable and similar income	3.0	3.5
Dividend income receivable	2.1	3.6
Realised gains on investments held at fair value through profit or loss	22.7	11.5
Realised (losses)/gains in investment property held at fair value	(1.0)	0.1
Unrealised (losses)/gains on investments held at fair value through profit or loss	(6.8)	30.7
Unrealised losses on investment property held at fair value	(10.5)	(13.3)
Expected investment property disposal costs	(6.6)	-
	<u>17.1</u>	<u>60.6</u>

In the prior year service charge income and service charge expense on the Company's investment properties were netted off within Net investment income, rather than being reflected as income and a corresponding expense. The 2019 comparatives have been restated to gross up for service charge income and service charge expense of £5.6 million each.

3. Administrative expenses

	2020	2019
	£'m	£'m
Administrative expenses include the following:		
Investment management fees	2.9	3.4
Costs recharged from fellow subsidiaries	0.9	1.3
	<u>3.8</u>	<u>4.7</u>

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 2020 was £68,505 (2019: £63,105).

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 2020.

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****4. Other operating expenses**

	2020	2019
	£'m	£'m
Policyholder fund administrative expenses	0.2	0.1

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. Associated wind up costs will be borne by the Group.

5. Employee information

The Company has no employees (2019: 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 AIHL, 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/(credited) to the statement of comprehensive income**

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

	2020	2019
	£'m	£'m
Current tax:		
For this year	0.1	-
Prior year adjustments	-	(0.1)
Total current tax	0.1	(0.1)
Deferred tax:		
Origination and reversal of temporary differences	(0.1)	-
Total deferred tax	(0.1)	-
Total tax credited to the statement of comprehensive income	-	(0.1)

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****7. Tax expense (continued)****(b) Tax reconciliation**

The tax on the Company's profit before tax differs from (2019: differs from) the theoretical amount that would arise using the tax rate in the United Kingdom as follows:

	2020	2019
	£'m	£'m
Profit before tax	0.3	0.4
Tax calculated at standard UK corporation tax rate of 19% (2019: 19%)	0.1	0.1
Adjustment in respect of prior years	-	(0.1)
Surrender of losses from group undertakings for no charge	(0.1)	(0.1)
Tax credited for the year (note 7(a))	-	(0.1)

During 2020, the reduction in the UK corporation tax rate that was due to take effect from 1 April 2020 was cancelled and as a result, the rate has remained at 19%.

In the Budget of 3 March 2021, the UK Government announced that the UK corporation tax rate will increase to 25% from 1 April 2023. As of 31 December 2020, this measure had not been substantively enacted.

As the Company has no deferred tax assets or liabilities at the year end, there is no impact on the Company's net assets as a consequence of the amendments in the tax rates.

(c) Tax assets and liabilities**(i) General**

The Company has no corporation tax assets or liabilities receivable or payable in more than one year (2019: £nil)

(ii) Deferred taxes

(i) The balance at the year end comprises:

	2020	2019
	£'m	£'m
Other temporary differences	-	0.1
Net deferred tax liability	-	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
Amounts credited to income statement	(0.1)	-
Net deferred tax liability at 31 December	-	0.1

The Company has no unrecognised temporary differences (2019: £nil) to carry forward indefinitely against future taxable income.

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****8. Investment property**

	<u>Freehold</u> <u>£'m</u>	<u>Leasehold</u> <u>£'m</u>	<u>Total</u> <u>£'m</u>
Fair value			
At 1 January 2019	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
Capitalised expenditure on existing properties	1.9	1.2	3.1
Proceeds on disposal	(44.9)	(23.1)	(68.0)
Realised losses on disposal	(0.4)	(0.6)	(1.0)
Unrealised fair value losses	(8.6)	(1.9)	(10.5)
Expected disposal costs	(6.5)	(0.1)	(6.6)
At 31 December 2020	429.3	7.1	436.4

Investment properties are stated at their fair values as assessed by qualified external valuers as at 31 December 2020 less the anticipated costs of selling the properties as a result of the decision to close the Property Fund. 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.

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****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 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	<u>493.7</u>	<u>29.7</u>	<u>523.4</u>
Net book value at 31 December 2020	429.3	7.1	436.4
Less: head leases capitalised	-	(2.6)	(2.6)
Plus: expected disposal costs	6.5	0.1	6.6
Plus: lease incentives	3.4	0.2	3.6
Market value at 31 December 2020	<u>439.2</u>	<u>4.8</u>	<u>444.0</u>

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

Segment	Segment Valuation £m	Valuation Technique	Estimated Rental Value £ per square foot (average)	Equivalent Yield % (average %)
Retail	83.35	Income capitalisation	13.90-37.65 (24.56)	4.42-9.19 (6.80)
Offices	174.40	Income capitalisation	29.36-79.73 (43.65)	4.60-6.64 (5.59)
Industrial	152.60	Income capitalisation	5.58-17.68 (12.57)	3.84-5.85 (4.08)
Other	33.65	Income capitalisation	12.00-17.50 (14.73)	5.18-6.30 (5.74)

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.

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:

	2020		Change in fair value	
	Fair value £m	Unobservable input	+25bps £m	+50bps £m
Investment property	436.4	Equivalent yield	(21.5)	(41.0)

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****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:

	2020		Change in fair value	
	Fair value	Unobservable input	+25bps	+50bps
	£'m		£m	£m
Investment property	436.4	Equivalent yield	(21.5)	(41.0)

9. Financial investments**(a) Analysis of financial investments:**

	2020	2019
	£'m	£'m
<u>Assets held at fair value through profit or loss</u>		
<u>Debt securities</u>		
UK government	42.1	57.8
Non-UK government	5.9	7.9
Listed corporate - UK	42.2	40.6
Listed corporate - Non-UK	37.4	38.3
Unlisted corporate	10.8	9.4
	138.4	154.0
<u>Equity securities</u>		
UK equities	29.0	38.1
Overseas equities	47.2	62.2
	76.2	100.3
<u>Other investments</u>		
Specialised investment companies	35.3	47.0
Derivative financial assets	0.2	0.9
	35.5	47.9
Total financial investments assets	250.1	302.2

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.

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****9. Financial investments (continued)****(a) Analysis of financial investments (continued)**

The investments held are specialised investment companies of £35.3 million (2019: £47.0 million) comprising:

- £22.3 million (2019: £30.1 million) of investments into externally managed UK based equity tracker funds.
- £11.7 million (2019: £14.4 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 £8,828.9 million (2019: £8,619.4 million).
- £1.3 million (2019: £2.5 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's is £3,410.8 million (2019: £4,280.0 million).

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

	2020	2019
	£'m	£'m
Amounts due from fellow subsidiaries	-	0.7
Accrued investment income	1.4	1.7
Other policyholder fund receivables	20.8	17.1
Trade receivables	0.3	0.3
	<u>22.5</u>	<u>19.8</u>
Expected to be recovered in less than one year	<u>22.5</u>	<u>19.8</u>

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 £3.4 million (2019 £0.5 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 (2019: £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 (2019: £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*.

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****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:

	2020	2019
	£'m	£'m
Investment properties	436.4	519.4
Debt securities	138.4	154.0
Equity securities	76.2	100.3
Other investments	35.5	47.9
Receivables	22.5	18.8
Payables	(10.9)	(10.1)
Finance lease liabilities	(2.6)	(2.6)
Cash and cash equivalents	27.4	71.6
	<u>722.9</u>	<u>899.3</u>
The associated liabilities are:		
Unit-linked contracts classified as investment contracts	<u>(722.9)</u>	<u>(899.3)</u>

In the normal course of business certain policyholders have registered floating charges amounting to £44.9 million (2019: £36.4 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:

	2020	2019
	£'m	£'m
The allotted, called up and fully paid share capital of the Company at 31 December was:		
8,000,000 (2019: 8,000,000) ordinary shares of £1 each	<u>8.0</u>	<u>8.0</u>

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.

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

	2020	2019
	£'m	£m
Carrying amount at 1 January	899.3	1,025.1
Inflows	3.3	6.8
Redemptions	(193.0)	(188.5)
Investment and other income	17.1	60.6
Charges	(3.8)	(4.7)
Carrying amount at 31 December	722.9	899.3

(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 (2019: 99 years). The interest rate underlying obligations under finance leases is 1.505% (2019: 1.505%) per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2020	2019	2020	2019
	£'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	0.4	0.5
Later than five years	7.1	7.2	2.1	2.0
	7.7	7.8	2.6	2.6
Less: future finance charges	(5.1)	(5.2)	-	-
Present value of minimum lease payments	2.6	2.6	2.6	2.6

The table above represents the Company's future lease obligations at 31 December 2020. As disclosed in Note 22, all investment properties are expected to be sold within 24 months. As a result, the finance lease liabilities will also be transferred subsequently. As at 31 December 2020, all investment properties remain unsold.

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

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****15. Trade and other payables**

	2020	2019
	£'m	£'m
Derivative liabilities	0.3	0.3
Policyholder fund payables	10.6	9.8
	<u>10.9</u>	<u>10.1</u>

As at 31 December 2020, all payable amounts are attributable to policyholders and are classified as current, because they are payable on demand. All trade and other payables are carried at amortised cost, which approximates to fair value.

16. Provisions

	2020	2019
	£'m	£'m
At 1 January	1.0	0.7
Additions	-	0.3
Unutilised in the year	(0.1)	-
Utilised in the year	(0.9)	-
At 31 December	<u>-</u>	<u>1.0</u>

Provision

The Company previously made a provision for liabilities expected to be settled during the year. The actual amount of the liability was dependent upon a number of factors and represented management's best estimate of the liability at 31 December 2019. The liability crystallised in 2020 and the investment manager, AIGSL reimbursed the Company for these costs.

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****17. Lease assets and commitments**

The Company has capital commitments of £1.1 million (2019: £2.1 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:

	2020	2019
	£'m	£'m
Within 1 year	3.0	2.9
Later than 1 year and not later than 5 years	12.8	13.0
Later than 5 years	4.1	8.8
	<u>19.9</u>	<u>24.7</u>

The table above represents the Company's future contractual aggregate minimum lease rentals receivable at 31 December 2020. As disclosed in Note 22, all investment properties are expected to be sold within 24 months. As a result, the finance lease assets will also be transferred subsequently. As at 31 December 2020, all investment properties remain unsold.

18. Additional cash flow information

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

	2020	2019
	£'m	£'m
Profit before tax	0.3	0.4
Amortisation of premium/discount on debt securities	0.7	0.8
Net realised (gains) on financial investments	(22.7)	(11.5)
Net realised losses/(gains) on investment properties	1.0	(0.1)
Net unrealised losses/(gains) on financial investments	6.8	(30.7)
Net unrealised losses on investment properties	10.5	13.3
Expected investment property disposal costs	6.6	-
Change in liability for investment contracts	(176.4)	(125.8)
Changes in working capital:		
Change in receivables and other financial assets	(2.7)	9.4
Change in payables and other financial liabilities	(0.3)	(6.5)
(Purchases)/sales of operating assets:		
Additions of investment property	(3.1)	(5.9)
Disposals of investment property	68.0	91.9
Additions of financial investments	(259.2)	(271.5)
Disposals of financial investments	326.5	287.5
Cash used in operations	<u>(44.0)</u>	<u>(48.7)</u>

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.

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****18. Additional cash flow information (continued)****(b) Cash and cash equivalents in the statement of cash flows as at 31 December comprised:**

	2020	2019
	£'m	£'m
Cash at bank and in hand	1.1	3.3
Cash equivalents	35.7	77.5
	<u>36.8</u>	<u>80.8</u>

As at 31 December 2020, cash and cash equivalent attributable to shareholders was £9.4 million (2019: £9.2 million), the remaining balance of £27.4 million (2019: £71.6 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, culture, governance arrangements, tools, and reporting procedures necessary to support this. The ROMF applies the AIHL Risk Management Framework (RMF) risk principles, which have been adapted to the needs and requirements of the Company.

A description of the Company's system of governance is documented in Section B of the Company's Solvency and Financial Conditions Report (SFCR), available at <https://www.avivainvestors.com/en-gb/capabilities/regulatory>.

Further information on the types and management of specific risk types is provided below:

(b) Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, people and systems, or external events, including changes in the regulatory environment. The definition includes legal risk but excludes business, strategic and reputational risk. 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 provides reports to the Board and to relevant committees within the Aviva Investors group. The oversight and monitoring of the Company's outsource providers are performed by the GFS oversight functions,

reporting into the GFS Supplier Governance Forum which, in turn, reports into the Operations and 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.

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19. Risk and capital management policies (continued)

(b) Operational risk (continued)

In addition, operational risks for AIPL are identified and assessed through risk identification workshops and at Board meetings. The Board reviews and updates the risk appetite statements at least annually and sets its tolerances for operational risk. The Company's exposure against risk appetites is reported and monitored at the board meetings.

(c) Regulatory compliance

The Company's insurance business is subject to dual regulation in the UK, directly authorised by both the PRA (for prudential regulation) and the FCA (for conduct regulation). Between them, the PRA and the 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.

(d) 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 GFS Investment Oversight Committees for liquid markets and real assets, which have been established to oversee the investment management activities of the funds under remit of GFS, including but not restricted to reviewing and recommending changes to investment guidelines and mandates, reviewing investment performance, and challenging investment strategies. The GFS Investment Oversight Committees are chaired by the GFS Head of Global Investment Oversight. The GFS Investment Oversight Committees have a 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.

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.

As part of the ORSA process, stress and scenario testing, including reverse stress tests, are conducted to assess the Company's exposure to fluctuations in the value of assets and the business model resilience to the risks it faces. 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.

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19. Risk and capital management policies (continued)

(e) 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 risk management of the underlying liquid and illiquid asset investments are overseen by the GFS Investment Oversight Committees.

The Company's exposure credit risk from trade and other receivables is mainly influenced by the default risk of its client base. Aviva Investors has credit control procedures in place to ensure prompt settlement of fees due and, ultimately, has recourse to the clients' funds. Historic losses in respect of unpaid invoices have been immaterial.

Remaining credit risk relates to cash and cash equivalents held on deposit at credit institutions. The credit risk associated with cash and cash equivalents is managed through adherence to internal credit policy and limit frameworks and placement of funds with counterparties with high credit ratings assigned by international credit agencies. Credit exposures are identified, evaluated and managed in accordance with best practice and AIPL's risk appetite.

Credit risk is managed conservatively in accordance with Aviva Investors Investment Policy Statement. This document establishes the governance, principals and parameters for the management of credit risk, including the minimum requirements that counterparties must adhere to for Aviva Investors to invest cash with that counterparty.

The Aviva Investors Investment Policy Statement applies the principals of the Aviva Group Credit Risk policy and Aviva Group Credit and Collateral Management Business Standard 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 and, where appropriate, the Aviva Group Credit Risk Director. Expected loss associated with credit risk on cash and cash equivalents is considered low and within risk appetite.

(f) 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. Liquidity risk is categorised into shareholder and a policyholder liquidity risk..

Shareholder liquidity risk

Key risks include: a medium to long term reduction of business resulting in reduced cash generation, late receipt of fee income or high levels of bad debt write-offs, or exceptional fines or other operational risk event crystallisation.

The Company complies with the Aviva Group Liquidity Business Standard and Aviva Group Liquidity Policy that requires management to consider a range of approaches to determine the appropriate minimum liquidity appetite.

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 under both stressed and unstressed conditions.

The Company's financial liabilities, excluding investment contract liabilities are all payable within 1 year. It is anticipated that the Company is able to settle any financial liabilities when required.

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.

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19. Risk and capital management policies (continued)

(f) Liquidity risk (continued)

Policyholder liquidity risk

Key risks include: liquidity nature of the assets held in the funds, dealing and redemption terms provided to policyholders, concentrations of investors in the funds, or investor sentiment.

The Property Fund has been deferring redemptions since 2016 because it has not seen sufficient stability or predictability in redemption demand.

Due to the outbreak of COVID-19, the directors of the Company took the decision on 17 March 2020 to suspend dealing in the Property Fund when, as a result of the market conditions, the company's standing independent valuer expressed material uncertainty about the value of a significant part of the properties in the portfolio.

The Board on 4 September 2020 authorised the lifting of the suspension of dealing in the Property Fund, following confirmation from the standing independent valuer that material uncertainty regarding the value of the properties in the Property fund had reduced to below 20%. Following the lifting of the Property Fund's suspension on 9 September, the Property Fund continued to operate its redemption deferral policy. Available cash (net of minimum working capital) is being paid out to investors in the redemption queue. Rebuilding of the cash resources is being achieved through a combination of net rental income and receipts from a disposal program.

On 10 August 2020, the Board approved the introduction of a 90 days' notice period for redemptions from the Property Fund, and an extension of the maximum deferral period from 12 to 24 months, effective from 18 November 2020. These measures were required to protect investors remaining in the Property Fund and to provide the fund managers with sufficient time to raise liquidity, particularly under prolonged adverse market conditions. This however does not apply in the case of payments required to provide retirement benefits. The deferral periods for the cancellation of units in the remaining AIPL funds, as set out in the AIPL Policy Document, remain unchanged.

The current position and forecast projections of liquidity in the Property Fund are reported at the GFS Investment Oversight Committee for illiquid assets, to AIPL management, and to the Board.

(g) Life underwriting risk

Life 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.

Lapse risk assumptions, which impact the level of fees generated by the Company are included in the scenario testing undertaken by the Company.

(h) 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. On 1 July 2020, the PRA sent a 'Dear CEO' letter to PRA-regulated firms, building on the expectations set out in the Supervisory Statement, providing observations on good practice, and setting out next steps for implementation.

The PRA asked firms to have an implementation plan in place by October 2019 and have clarified that firms should have fully embedded their approaches to managing climate-related financial risks by end of 2021.

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19. Risk and capital management policies (continued)

(h) 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.

Given the proportion of the total AUM the Property Fund represents relative to the business, and the inherent risk of climate change, an assessment of the current climate change financial risks relating to the Property fund was undertaken. 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 continually be enhanced in conjunction with the wider Real Assets business and Aviva Group to ensure alignment to future developments and regulatory expectations.

(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 Aviva Investors Capital Committee and the Board 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. Net adjustment of £0.1 million is made to IFRS equity of £9.4 million resulting in regulatory capital on a Solvency II basis of £9.5 million.

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.

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****19. Risk and capital management policies (continued)****(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 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).

(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:

	2020				2019			
	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	41.3	97.1	-	138.4	57.8	96.3	-	154.1
Equity securities	76.2	-	-	76.2	100.3	-	-	100.3
Specialised investment companies	35.3	-	-	35.3	46.9	-	-	46.9
Derivative assets	0.2	-	-	0.2	0.9	-	-	0.9
	153.0	97.1	-	250.1	205.9	96.3	-	302.2
Investment property	-	-	436.4	436.4	-	-	519.4	519.4
Liability for investment contracts	(722.9)	-	-	(722.9)	(899.3)	-	-	(899.3)
Derivative liabilities	(0.3)	-	-	(0.3)	(0.3)	-	-	(0.3)

The fair value hierarchy of finance lease liabilities is disclosed in note 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.

Aviva Investors Pensions Limited**Report and financial statements for the year ended 31 December 2020****Registered in England and Wales: No.1059606****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 2020 and 2019 was as follows:

	Contract/ notional amount £m	2020 Fair value asset £m	Fair value liability £m
Over the counter foreign exchange forward contracts	6.5	0.1	-
Exchange-traded interest rate futures contracts	9.8	-	(0.1)
Exchange-traded equity/index futures contracts	16.1	0.1	(0.2)
	<u>32.4</u>	<u>0.2</u>	<u>(0.3)</u>
		2019	
	Contract/ notional amount £m	Fair value asset £m	Fair value liability £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	-
	<u>48.1</u>	<u>0.9</u>	<u>(0.3)</u>

21. Related party transactions

(a) 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

	2020		2019	
	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	0.8	0.1
Recovery cost of provision	-	-	-	1.0
	<u>0.8</u>	<u>0.1</u>	<u>0.8</u>	<u>1.1</u>

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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.

Include above at 31 December 2019 is an amount of £1.0 million to be recovered from Aviva Investors Global Services Limited (see note 16) which has now been settled.

(c) Services provided by related parties

	2020		2019	
	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	2.9	0.3	3.4	0.3
Costs incurred by fellow subsidiary and recharged to the Company	0.9	0.1	1.3	0.1
	3.8	0.4	4.7	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 AIHL.

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 2020. 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

In January 2021, the decision was taken to wind up three unit-linked policyholder funds, the Balanced Managed Fund, the Corporate Bond Fund, and the High Alpha Gilt Fund. Policyholders invested in these funds were served notice which was effective from 22 January 2021. The Corporate Bond Fund and the High Alpha Gilt Fund closed on 22 April 2021. In April 2021, a further decision was taken to wind up the five remaining funds, the Property Fund, the Long-Dated Corporate Bond Fund, the Global Return-Seeker Fund, the UK Equity Active Fund and the Index Linked Gilt Fund. Policyholders invested in these funds were served notice which was effective from 14 April 2021. The closure of the Property Fund and the Balanced Managed Fund are expected in line with the 24-month deferral period. The other funds closed on 14 July 2021. As a result of the decision to serve notice on all remaining unit-linked policyholder funds and following the expected closure of all funds within 24 months of the final notice being served, the Company is expected to cease operating and commence a voluntary liquidation.