

Aviva Health UK Limited

Registered in England and Wales No. 2464270

Annual Report and Financial Statements 2017



Aviva Health UK Limited
Registered in England and Wales No. 2464270
Annual Report and Financial Statements 2017
Directors and Officers

Directors and officers

Directors

P C Brencher
M A Noble
A L Nye
A Beckett

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
Central Square
29 Wellington Street
Leeds
LS1 4DL

Registered office

8 Surrey Street
Norwich
NR1 3NG

Company number

Registered in England and Wales no. 2464270

Other Information

Aviva Health UK Limited ("the Company") is a member of the Association of British Insurers, is covered by the Financial Ombudsman Service and is authorised and regulated by the Financial Conduct Authority.

The Company is a member of the Aviva plc group of companies ("the Group").

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Strategic report

The directors present their Strategic Report for Aviva Health UK Limited ("the Company") for the year ended 31 December 2017.

Principal activities

The principal activity of the Company is the marketing and administration of healthcare products. The Company is authorised to act as an intermediary for the sale and administration of private medical insurance business and wellness products on behalf of the underwriting business, Aviva Insurance Limited. The Company also administers non insurance trust business.

As a result of the historical interaction with Aviva's Life insurance business, the Company also provides a small amount of residual services to Aviva Life & Pensions UK Ltd.

Review of the Company's business

Financial position and performance

Total revenue has increased for 2017 to £94.9 million (*2016: £86.3 million*) as have total operating expenses incurred to £94.4 million for 2017 (*2016: £84.6 million*). The increase is reflective of a higher level of investment in change activity.

Total equity has increased by £0.6 million (*2016: increase of £1.2 million*), reflecting the profit for the year.

Future outlook

Health business volumes are expected to rise in future years as the business continues its growth strategy. Income is expected to rise modestly as the costs of servicing higher volumes and inflationary pressures are dampened by expense efficiency initiatives.

Financial risks and uncertainties

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

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

Key performance indicators (KPIs)

Revenue primarily represents fees charged by the Company for the provision of operational assets and services to Group companies during the year. Revenue has increased by 10% to £94.9 million (*2016: £86.3 million*), due to an increase to the chargeable expense base which is passed on in the fees charged to Aviva Insurance Limited.

Profit after tax for the year is £0.6 million (*2016: £1.2 million*).

Shareholders' equity has increased by £0.6 million (*2016: £1.2 million*), reflecting the profit for the year.

Signed on behalf of the Board



M A Noble
Director
Date: 25 July 2018

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Directors' report

The directors present their annual report and financial statements for the Company for the year ended 31 December 2017.

Directors

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

D J R McMillan resigned as a director of the Company on 31 March 2017.

L C Rix resigned as a director of the Company on 12 April 2018.

A Beckett was appointed as a director of the Company on 29 January 2018.

Dividend

The directors do not recommend the payment of a dividend for the financial year ending 31 December 2017 (2016: £nil).

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Financial risk management

Details of financial risk management are discussed in the principal risks and uncertainties section of the strategic report on page 3.

Employees

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

Disclosure of information to the auditors

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

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

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

Independent auditors

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

Qualifying indemnity provisions

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

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Directors' report

Directors' Report by virtue of paragraph 15, schedule 3 of the Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

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

Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Signed on behalf of the Board



M A Noble
Director
Date: 25 July 2018

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Independent auditors' report to the members of Aviva Health UK Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the income statement, the statement of cash flows, the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

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Independent auditors' report to the members of Aviva Health UK Limited

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 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Martin Cross (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
25 July 2018

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Accounting policies

The Company is a limited company incorporated and domiciled in the United Kingdom (UK). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) Basis of presentation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The financial statements have been prepared under the historical cost convention, except for investments in associates which are at fair value through profit and loss.

The Company's financial statements are prepared on the going concern basis.

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

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

The Company has adopted the following amendments to standards which became effective for the annual reporting period beginning on 1 January 2017:

(i) Narrow scope amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The revisions to IAS 12 *Income Taxes* clarify the accounting for deferred tax assets on unrealised losses and state that deferred tax assets should be recognised when an asset is measured at fair value and that fair value is below the asset's tax base. It also provides further clarification on the estimation of probable future taxable profits that may support the recognition of deferred tax assets. The adoption of this amendment does not have an impact on the financial statements as the clarifications are consistent with our existing interpretation.

(ii) Amendments to IAS 7 – Disclosure initiative

The amendments to IAS 7, *Statement of Cash Flows*, which form part of the IASB's Disclosure Initiative, require disclosure of the movements in liabilities arising from financing activities with cash and non-cash changes presented separately. The adoption of this amendment does not have an impact on the financial statements.

(iii) Amendments to IFRS 12: Disclosure of Interests in Other Entities

The amendments to IFRS 12, which form part of the IASB's annual improvements process for the 2014-2016 cycle, clarify existing guidance. The adoption of these amendments does not have an impact on the Company's financial statements as the clarifications are consistent with our existing interpretation.

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

(v) IFRS 15, Revenue from Contracts with Customers

IFRS 15 will replace IAS 18 Revenue and establishes a principle based five-step model to be applied to all contracts with customers, except for insurance contracts, financial instruments and lease contracts. IFRS 15 also includes enhanced disclosure requirements. The impact of the adoption of the new standard is being assessed by the Company. This standard applies to annual reporting periods beginning on or after 1 January 2018.

(vi) IFRS 17, Insurance Contracts

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Accounting policies

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 guarantee and financial instruments with discretionary participation features. In contrast to the requirements in IFRS 4, which are largely based on grandfathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to insurance contracts.

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

The impact of the adoption of IFRS 17 has yet to be fully assessed by the Company but it is expected there may be significant impacts relating to the measurement and presentation of the contracts in scope of the standard. This standard applies to annual reporting periods beginning on or after 1 January 2021 and has not yet been endorsed by the EU.

(B) Critical accounting policies and areas of judgements

The preparation of the Company's financial statements, in accordance with IFRS, requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. The major areas of judgement on policy application are summarised below:

Item	Accounting policy
Deferred tax asset	1

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. There are no items considered to be particularly susceptible to changes in estimates and assumptions for the Company.

(C) Revenue

Revenue represents fees charged by the Company for the provision of operational assets and services during the year. Revenue is recognised in the accounting period in which the services are provided when there are probable future economic benefits and when these can be reliably measured. Revenue is measured at the fair value of consideration receivable.

(D) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Company takes into account the asset's use that is physically possible, legally permissible and financially feasible.

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Accounting policies

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. In certain circumstances, the fair value at initial recognition may differ from the transaction price. If the fair value is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or is based on a valuation technique whose variables include only data from observable markets, then the difference between the fair value at initial recognition and the transaction price is not recognised immediately in the income statement but deferred and recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out or otherwise matured.

(E) Investments in associates

Investments in associates are managed on a fair value basis and classified as held at fair value through profit or loss, with movements recognised in the income statement.

(F) Receivables and payables

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

(G) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand.

(H) Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Payments made as lessees under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the relevant lease.

Leases, where substantially all of the risks and rewards of ownership are transferred to the lessee, are classified as finance leases. Assets held for use under such leases are capitalised, and are depreciated to their residual values over their estimated useful lives. Payments made under finance leases are set against the creditor and interest is charged to the income statement on an actuarial method.

The Company has not entered into any material finance lease arrangements either as lessor or lessee.

(I) Income taxes

The current tax expense is based on the 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 tax and amounts charged or credited to reserves as appropriate.

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

The principal temporary differences arise from capital allowances available on fully depreciated equipment. The rates enacted or substantively enacted at the statement of financial position date are used to determine the deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which 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.

(J) Share capital

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

- (i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- (ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

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Income statement

	Note(s)	2017 £'000	2016 £'000
Income			
Revenue	C	94,893	86,273
Expenses			
Operating expenses	1	(94,395)	(84,637)
Operating profit		498	1,636
Profit before tax from continuing operations		498	1,636
Tax credit	I & 4	150	(442)
Profit for the year		648	1,194

The Company has no other comprehensive income.

The accounting policies (identified alphabetically) on pages 9 to 12, and the notes (identified numerically) on pages 17 to 26 are an integral part of these financial statements.

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Statement of financial position

	Note(s)	2017 £'000	2016 £'000
Assets			
Investments in associates	E & 5	-	-
Receivables	F & 6	37,080	31,897
Tax assets	1 & 9a	159	-
Deferred tax assets	1 & 9(b)	146	248
Cash and cash equivalents	G & 12(b)	65,487	33,434
Total assets		102,872	65,580
Equity			
Ordinary share capital	J & 7	7,700	7,700
Retained earnings	8	5,494	4,846
Total equity		13,194	12,546
Liabilities			
Payables and other financial liabilities	F & 10	89,678	52,648
Tax liabilities		-	386
Total liabilities		89,678	53,034
Total equity and liabilities		102,872	65,580

The financial statements on pages 13 to 26 were approved by the Board of directors on (25 July 2018) and were signed on its behalf by



M A Noble *Director*

The accounting policies (identified alphabetically) on pages 9 to 12, and the notes (identified numerically) on pages 17 to 26 are an integral part of these financial statements.

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Statement of changes in equity

	Note	Ordinary share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016		7,700	3,652	11,352
Profit for the year	8	-	1,194	1,194
Balance at 31 December 2016		7,700	4,846	12,546
Profit for the year	8	-	648	648
Balance at 31 December 2017		7,700	5,494	13,194

The accounting policies (identified alphabetically) on pages 9 to 12, and the notes (identified numerically) on pages 17 to 26 are an integral part of these financial statements.

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Annual Report and Financial Statements 2017**Statement of cash flows**

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash generated from operations	12(a)	<u>32,053</u>	<u>12,195</u>
Net cash generating from operating activities		32,053	12,195
Cash flows from investing activities			
Loan repayment from associate undertakings	5(b)	<u>-</u>	<u>-</u>
Net cash generated from investing activities		-	-
Net increase in cash and cash equivalents		32,053	12,195
Cash and cash equivalents at 1 January		33,434	21,239
Cash and cash equivalents at 31 December	12(b)	<u>65,487</u>	<u>33,434</u>

The accounting policies (identified alphabetically) on pages 9 to 12, and the notes (identified numerically) on pages 17 to 26 are an integral part of these financial statements.

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Notes to the financial statements

1. Operating expenses

Under management agreements, fellow group undertakings, including Aviva Central Services UK Limited, Aviva Life Services UK Limited, Aviva Insurance Limited and Aviva Employment Services Limited supply and make a charge for the provision of operational assets, services and staff to the Company.

	2017 £'000	2016 £'000
Aviva Employment Services Limited	39,017	37,759
Other payments	16,627	13,382
Other group recharges	38,751	33,496
	94,395	84,637

2. Directors' emoluments

Emoluments of directors in office during the year were:

	2017 £'000	2016 £'000
Aggregate emoluments in respect of qualifying services	2,113	2,222
Company pension contributions to money purchase scheme	23	43
Accrued pension at end of year from defined benefit pension scheme	196	266
Termination benefits	354	93
	2,686	2,624

Emoluments of the highest paid director:

Aggregate emoluments in respect of qualifying services	651	551
Company pension contributions to money purchase scheme	-	-
Accrued pension at end of year from defined benefit pension scheme	60	147
	711	698

The highest paid director received no shares under the executive long-term incentive scheme (2016: none).

Certain of the directors are covered by private medical insurance provided by Aviva Insurance Limited. Payments may be made to, or on behalf of, directors, subject to the normal policy rules.

No lump sum in relation to the defined benefit pension scheme had accrued at the end of the current or previous year.

During the year none of the directors exercised share options (2016: none) and two of the directors received shares under long term incentive schemes (2016: four).

3. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors, PricewaterhouseCoopers LLP and its associates, in respect of the audit of these financial statements, is shown below:

	2017 £'000	2016 £'000
Fees payable for the audit of the Company's financial statements	53	52

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Fees paid to PricewaterhouseCoopers LLP and its associates 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 undertaking, Aviva plc (see note 15), are required to disclose other (non-audit) services on a consolidated basis.

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

4. Tax charge

(a) Tax charged / (credited) to the income statement

The total tax charge / (credit) comprises:

	2017 £'000	2016 £'000
Current tax		
For this year	(159)	386
Prior year adjustments	(93)	1
Total current tax charge / (credit)	(252)	387
Deferred tax		
Origination and reversal of temporary differences	36	45
Adjustments in respect of prior years	70	-
Changes in tax rates	(4)	10
Total deferred tax charge / (credit)	102	55
Total tax charge / (credit) in the income statement	(150)	442

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(b) Tax reconciliation

The tax on the Company's profit before tax on continuing operations differs from tax calculated at the standard UK corporation tax rate as follows:

	2017 £'000	2016 £'000
Profit before tax	498	1,636
Tax calculated at standard UK corporation tax rate of 19.25% (2016: 20.00%)	96	327
Adjustments in respect of prior years	(23)	0
Disallowable expenses	(219)	105
Changes in UK tax rate	(4)	10
Tax charge / (credit) for the year	(150)	442

The rate of corporation tax changed to 19% with effect from 1 April 2017. Finance Act 2016, which received Royal Assent on 15 September 2016, will reduce the corporation tax rate further to 17% from 1 April 2020.

The Company's deferred tax assets have been calculated at 17%. The reduction in the future tax rate has provided a net credit to the income statement of £4,000 (2016: charge of £10,000).

5. Investments in associates

(a) The Company's principal associate undertakings are shown below:

	Type of business	Class of share	Proportion held	Country of incorporation
Healthcode Limited	On-line billing	Ordinary	20.00%	England
Ballard Investment Company Limited	Investment	Preference	25.10%	England
Ballard Investment Company Limited	Investment	Ordinary	25.10%	England
Healthcare Purchasing Alliance Limited	Negotiation	Preference	50.00%	England

Registered address of Associates

Healthcode Limited	Ballard Investment Company Limited	Healthcare Purchasing Alliance Limited
Swan Court	Melrose House	8 Surrey Street
Waterman's Business Park	42 Dingwall Road	Norwich
Kingsbury Crescent	Croydon	Norfolk
Staines	Surrey	NR1 3NG
Surrey	CRO 2NE	
TW18 3BA		

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(b) Movements in the Company's investments in its associate undertakings are as follows:

	Shares in associated undertakings £'000	Loans to associated undertakings £'000	2017 Total £'000	Shares in associated undertakings £'000	Loans to associated undertakings £'000	2016 Total £'000
At 1 January	-	-	-	-	-	-
Repayments	-	-	-	-	-	-
At 31 December	-	-	-	-	-	-

The Company holds an equity investment in Ballard Investment Company Limited (Ballard). A subsidiary undertaking of Ballard, Health and Case Management Limited (HCML), provides professional rehabilitation case management for the Company's customers on its behalf. The acquisition was in furtherance of the Company's strategy to become a Solutions Provider. The equity investment was fully impaired in 2011.

The equity investment in Healthcode Limited has been fully impaired. The investments were deemed to have no fair value on the basis that no income would be received from Healthcode Limited.

On 20 October 2015, the Company entered into a joint venture with Vitality Corporate Services Limited to form Healthcare Purchasing Alliance Limited (HPA) for the purpose of procuring hospital treatment on behalf of Aviva and Vitality. The preference shares held in the joint venture were acquired for a consideration of £50.

Investments are reviewed annually for any material changes in its fair value.

Distributions received from associates during the year amounted to £nil (2016: £nil). The associates have no significant contingent liabilities to which the Company is exposed, nor has the Company any significant contingent liabilities in relation to its interest in the associates.

6. Receivables

	2017 £'000	2016 £'000
Trade receivables	28,831	17,689
Amounts due from fellow subsidiaries	7,656	11,544
Other receivables	593	2,664
	37,080	31,897

Of the above total, £nil (2016: £nil) is expected to be recovered more than one year after the statement of financial position date.

As at 31 December 2017, £6,000,000 of trade receivables was due from an overseas government body (2016: £6,000,000). The Standard & Poors credit rating of this country stands at A-/A2.

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7. Ordinary share capital

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

	2017 £'000	2016 £'000
The allotted, called up and fully paid share capital of the Company was: 7,700,000 (2016: 7,700,000) ordinary shares of £1 each	<u>7,700</u>	<u>7,700</u>

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

8. Retained earnings

	2017 £'000	2016 £'000
At 1 January	4,846	3,652
Profit for the year	648	1,194
At 31 December	<u>5,494</u>	<u>4,846</u>

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to intermediary firms imposed by the Financial Conduct Authority (FCA). Its ability to transfer retained earnings to its parent company is therefore restricted to the extent these earnings form part of regulatory capital.

9. Tax assets and liabilities

(a) Tax liabilities

Tax assets receivable in more than one year are £159,000 (2016: *Tax liabilities payable* £386,000).

(b) Deferred tax asset

(i) The balance at 31 December comprises:

	2017 £'000	2016 £'000
Capital allowances	146	178
Provisions and other temporary differences	0	70
	<u>146</u>	<u>248</u>

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

	2017 £'000	2016 £'000
Deferred tax asset at 1 January	248	303
Amounts debited to the income statement (note 4(a))	(102)	(55)
Deferred tax asset at 31 December	<u>146</u>	<u>248</u>

The timing of reversal of deferred tax assets and liabilities depends on a number of external factors and cannot be calculated with certainty. The majority of deferred tax assets and liabilities are however expected to reverse in more than one year. The Company has unrecognised temporary differences of £nil (2016: £nil) to carry forward.

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10. Payables and other financial liabilities

	2017 £'000	2016 £'000
Trade payables	8,285	9,532
Amounts owed to fellow subsidiaries	57,082	25,176
Expense accruals	7,969	8,461
Deferred income	501	208
Other payables	15,842	9,271
	89,678	52,648

Of the above total, £nil (2016: £nil) is payable more than one year after the statement of financial position date.

11. Commitments

Future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017 £'000	2016 £'000
Land & buildings		
Within 1 year	657	670
Later than 1 year and not later than 5 years	-	657
	657	1,327

12. Statement of cash flows

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

	2017 £'000	2016 £'000
Profit before tax	498	1,636
Changes in working capital:		
Decrease in receivables	(5,183)	11,164
Increase in payables and other financial liabilities	36,737	(605)
Cash generated from operations	32,053	12,195

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

	2017 £'000	2016 £'000
Cash at bank and in hand	65,487	33,434

13. Capital

In managing its capital, the Company seeks to:

- Match the profile of its assets and liabilities, taking account of the risks inherent in the business;

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- Maintain sufficient, but not excessive, financial strength to support new business growth and satisfy the requirements of its customers and its regulator, the Financial Conduct Authority (FCA);
- Retain financial flexibility by maintaining liquidity; and
- Allocate capital efficiently to support growth and repatriate excess capital where appropriate.

The Company is subject to the capital requirements applicable to intermediary firms imposed by the FCA. The Company fully complied with these regulatory requirements during the year.

The analysis below sets out the Company's capital resources available to meet its regulatory capital requirements:

	2017	2016
	£'000	£'000
Total equity	13,194	12,546
Adjustments onto a regulatory basis:		
Deferred tax assets	(146)	(248)
Total available capital resources	13,048	12,298

The intangible assets deduction relates to the deferred tax asset, which is inadmissible for FCA purposes.

In addition to the minimum regulatory requirements outlined above, the Company complies with Group mandated Capital Management Risk Standards which include the setting of risk appetites which are designed to give some buffer against adverse events when compared with minimum solvency. These appetites define what action should be taken by management where the actual capital level is above or below the desired target level.

14. Risk management

(a) Risk management framework

The Company operates a risk management framework that forms an integral part of the management and Board processes and decision making framework aligned to the Aviva Group's risk management framework. The key elements of the risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes the Company uses to identify, measure, manage, monitor and report ("IMMMR") risks, including the use of risk models and stress and scenario testing. The risk management framework has been adopted in the Aviva businesses collectively referred to as "UK Health" (including this Company and the UK Health Insurance business carried out primarily within Aviva Insurance Limited).

For the purposes of risk identification and measurement, risks are usually grouped by risk type: credit, market, liquidity and operational risk. Risks falling within these types may affect a number of metrics including those relating to strength within statement of financial position, liquidity and profit. They may also affect the performance of the products or services the Company delivers, which can be categorised as risks to brand and reputation.

To promote a consistent and rigorous approach to risk management across the business, the Company has a set of formal risk policies and business standards, which set out the risk strategy, appetite, framework and minimum requirements for the Company's operations. The Chief Executive Officer and Chief Risk Officer sign off compliance with these policies and standards, providing assurance to the relevant oversight committees that there is a consistent framework for managing the business and the associated risks.

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

The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. The oversight of risk and risk management in UK Health is supported by the Asset & Liability Committee ("ALCO"), which focuses on insurance and financial risks, and the Operational Risk Committee ("ORC"), which focuses on operational and reputational risks.

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

(b) Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations. The Company's management of credit risk under the oversight of the UK Health & Protection Risk Management Committee (RMC) includes the articulation of risk appetite, exposure limit frameworks and investment and lending criteria within credit risk policies and management agreements.

The nature of the Company's business means that it is not exposed to significant credit risk. This is because its receivables are mainly inter-company balances. A significant amount of business relates to the Aviva Group of companies and exposure is managed through regular and timely payments.

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date equates to carrying value. At the balance sheet date all financial assets subject to credit risk were neither past due nor impaired.

(c) Liquidity risk

Liquidity risk is the risk of the Company not being able to make payments as they become due because there are insufficient liquid assets.

The nature of the business means that the Company is not exposed to significant liquidity risk. The Business Trading Committee seeks to determine that the Company has sufficient financial resources to meet its obligations as they fall due. In extreme circumstances, the Company would approach the Aviva Group for additional short-term borrowing whilst the Company liquidated other assets.

(d) Market risk

Market risk is the risk of adverse financial impact resulting directly or indirectly from fluctuations in interest rates, property prices, foreign currency exchange rates and inflation. UK Health has limited exposure to market risk.

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment. The Company has limited appetite for operational risk and an aim to reduce these risks as far as is commercially sensible.

Management is responsible for identifying and managing operational risks of the business, within the Aviva Group-wide operational risk framework including the risk and control self-assessment process. Management must be satisfied that all material risks falling outside risk tolerance are being mitigated, monitored and reported to an appropriate level. Management uses key indicator data to help monitor the status of the risk and control

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environment, and identifies and captures loss events, taking appropriate action to address actual control breakdowns and promote internal learnings.

The management of operational risk is overseen by the ORC.

15. Related party transactions

(a) The members of the Board of Directors are listed on page 1 of these financial statements. There are no amounts receivable from or payments due to members of the Board of Directors.

Amounts receivable from, or payments due to, related parties are disclosed separately in the relevant notes. The related parties' receivables (note 6) and payables (note 10) are not secured and no guarantees were received in respect thereof. No provision or expense has been recognised during the year in respect of bad and doubtful debts (2016: £nil).

(b) Income receivable from related parties

During the year, the Company received income of £91,974,000 (2016: £83,982,000), from fellow group undertakings.

(c) Services provided by related parties

Under management agreements Group companies supply and make charges for the provision of operational assets and services to the Company. The agreements specify the amounts payable in respect of these services. Details of these charges are included in note 1 to the financial statements.

Amounts payable in respect of services from Healthcode Limited were £470,433 (2016: £610,000). At the end of the year £nil remained outstanding (2016: £nil).

Amounts payable in respect of services from Health and Case Management Limited were £2,372,185 (2016: £2,136,000).

Key management compensation

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

	2017 £'000	2016 £'000
Salary and other short-term benefits	2,113	2,109
Termination benefits	354	402
Other long-term benefits	219	113
	2,686	2,624

There are no amounts receivable from, or payments due to, key management.

The directors are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate holding company, Aviva plc. The emoluments of these directors are recharged to Aviva Life Services UK Limited, and details of their emoluments are given in note 2.

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(d) Immediate parent company

The Company's immediate parent is Aviva Insurance Limited registered in Scotland.

(e) Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party is Aviva plc, a company incorporated in England.

Aviva plc is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2017. The consolidated financial statements of Aviva plc are available on www.aviva.com or by application to the Group Company Secretary, Aviva plc, St. Helen's, 1 Undershaft, London EC3P 3DQ.