# Aviva Employment Services Limited

**Registered in England and Wales No. 3280551**

# Annual Report and Financial Statements 2016

# Contents

Directors and Officers ... 3
Strategic Report ... 4
Directors' Report ... 6
Independent Auditors' Report on the Financial Statements ... 9
Accounting Policies ... 11
Income Statement ... 15
Statement of Comprehensive Income ... 16
Statement of Changes in Equity ... 17
Statement of Financial Position ... 18
Statement of Cash Flows ... 19
Notes to the Financial Statements ... 20
1. Revenue ... 20
2. Cost of sales ... 20
3. Investment income ... 20
4. Other income ... 20
5. Employees ... 20
6. Directors ... 21
7. Auditors' remuneration ... 21
8. Tax charge ... 21
9. Receivables and other financial assets ... 22
10. Tax assets and liabilities ... 23
11. Retirement benefit obligations ... 24
12. Cash and cash equivalents ... 30
13. Ordinary share capital ... 31
14. Retained earnings ... 31
15. Payables and other financial liabilities ... 31
16. Provisions ... 31
17. Borrowings ... 32
18. Risk management ... 32
19. Related party transactions ... 35

# Directors and Officers

## Directors

B Bergin
K A Cooper
A J Darlington
S L Morris
A G Pooley
L C Rix
M T Sigsworth

## Officer – Company Secretary

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

## Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

## Registered Office

St Helen's
1 Undershaft
London
EC3P 3DQ

## Company Number

Registered in England and Wales No. 3280551

## Other Information

Aviva Employment Services Limited (the Company) is regulated by the Financial Conduct Authority ("FCA").

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

# Strategic Report

The directors present their strategic report for the Company for the year ended 31 December 2016.

## Review of the Company's Business

The principal activity of the Company is that of the employing company for staff of the Aviva plc group of companies (the Group) in the United Kingdom (UK), excluding Aviva Investors.

## Financial position and performance

The financial position of the Company at 31 December 2016 is shown in the Statement of Financial Position on page 18, with the trading results shown in the Income Statement on page 15 and the Statement of Cash Flows on page 19.

Profit for the year before tax has increased from £250 million in 2015 to £402 million in 2016. The increase is largely driven by a £244 million gain on the transfer of the Friends Provident Pension Scheme (FPPS) to the Company from Friends Life Management Services Limited (FLMS), partly offset by the reduction in revenue in respect of the defined benefit pension schemes.

From 1 July 2015, the Company no longer contributed to the Aviva Staff Pension Scheme (ASPS) as it became self-funded. This resulted in a reduction in the recharge of the contributions payable by the Company to fellow Group companies.

Net assets have increased from £2,094 million as at 31 December 2015 to £2,809 million as at 31 December 2016. The increase is primarily due to the transfer of the FPPS scheme and remeasurements recognised in other comprehensive income which reflected increased asset values mainly driven by a reduction in interest rates in the UK partly offset by an increase in the defined benefit obligation following a decrease in the UK discount rate.

## Significant transactions

On 1 July 2016, the majority of the Friends Life employees were transferred to the Company from Friends Life Management Services Limited (FLMS).

As at 1 October 2016, the statutory employer of the FPPS, a defined benefit pension scheme, was transferred to the Company via a flexible apportionment agreement from FLMS, a management service company within the Aviva Group.

From 3 October 2016, the Company became responsible for the FPPS scheme liabilities including the contributions required as part of the deficit recovery plan. This transaction involved transferring all of the scheme assets and liabilities from FLMS to the Company and it took place without the payment of any consideration from the Company to FLMS or vice versa. As a result of the transfer, a gross of tax gain of £244 million (with a related £85 million deferred tax charge) was recognised within the Income Statement reflecting the recognition of the IAS 19 pension surplus (and associated deferred tax liabilities) at 3 October 2016 on the Statement of Financial Position.

## Future outlook

High level strategies of the Aviva Group are determined by the Board of Aviva plc and these are shown in the Aviva plc Report and Accounts and Preliminary Announcement for the year ended 31 December 2016. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

It is anticipated that the Company's significant financial assets will continue to comprise the assets of the pension schemes held. The long-term investment objectives are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes.

## Principal risks and uncertainties

A description of the material risks and uncertainties facing the Company and the Company's risk management policies to manage and mitigate these risks are set out in note 18 to the financial statements.

The principal risks and uncertainties faced by the Company relate to exposure to risks affecting its pension scheme surplus, which can be summarised as follows:

- Market risks affecting the valuation of pension scheme assets, being interest rates, equity prices, property prices and foreign exchange rates.
- Credit and market risk affecting the average rate yield on AA-rated corporate bonds used to discount pension scheme liabilities.
- Other risks affecting assumptions used to calculate pension scheme liabilities, such as retail / consumer price inflation and mortality assumptions. Mortality assumptions are subject to longevity risk.

# Strategic Report continued

## Key performance indicators

The performance of the business can be assessed through the use of key performance indicators (KPIs). The most relevant KPIs that communicate the financial performance are as follows:

- Revenue
- Profit before tax as a percentage of revenue
- Pension surplus

A summary of the KPIs is set out below:

| | **2016** | 2015 |
|---|---|---|
| | **£m** | £m |
| Decrease in revenue | **(0.6%)** | (16.7%) |
| Profit before tax as a percentage of revenue | **47.0%** | 29.0% |
| Pension surplus | **3,375** | 2,523 |

By order of the Board

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

22 June 2017

# Directors' Report

The directors present their annual report and audited financial statements for Aviva Employment Services Limited (the Company) for the year ended 31 December 2016.

## Directors

The names of the present directors of the Company appear on page 3.

A G Pooley was appointed as a director of the Company on 5 December 2016
L C Rix was appointed as a director of the Company on 5 December 2016
M T Sigsworth was appointed as a director of the Company on 5 December 2016
N B M Amin resigned as a director of the Company on 5 December 2016
A D Briggs resigned as a director of the Company on 5 December 2016
M E Tulloch resigned as a director of the Company on 5 December 2016
B Bergin was appointed as a director of the Company on 21 March 2017
D F S Rogers resigned as a director of the Company on 21 March 2017

## Future outlook

Likely future developments in the business of the Company are discussed in the Strategic Report on page 4.

## Dividends

No interim ordinary dividends on the Company's ordinary shares were declared and paid during 2016 *(2015: £nil)*. The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2016 *(2015: £nil)*.

## Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. In addition, the financial statements include notes on the Company's management of its risks including market, credit and liquidity risk (note 18).

The Company has obligations in respect of the RAC Pension Scheme for which funding is received from Aviva Group Holdings Limited (AGH). The Company has a letter of support from AGH, a wholly owned subsidiary of the ultimate controlling entity, Aviva plc. The letter states that, in the event the Company is unable to meet its obligations, AGH will provide financial support for a twelve month period up to the value of £26 million, being 12 months gross obligations payable to the RAC Pension Scheme. 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 instruments

The business of the Company includes the use of financial instruments. Details of the Company's risk management objectives and policies and exposures to risk relating to financial instruments are set out in note 18 to the financial statements.

## Employees

The Aviva Group, of which the Company is a part, is committed to continuing communication and dialogue with employees. The existence of a Group wide intranet enables engagement and communication with employees throughout the Group on a single platform. It also helps management to share information, ideas and opportunities quickly and to achieve a common awareness on the part of all employees of the financial and economic factors affecting the performance of the Company. A strong emphasis is placed on the provision of news and information through a range of media.

Employees have opportunities to voice their opinion and ask questions through intranet sites, questions and answer sessions with the Group Chief Executive Officer, via telephone conferencing, opinion surveys and the Voice of Aviva Survey which is open to all employees. Face-to-face briefings and team meetings are actively encouraged and are held in all business units across the Group. The Group's businesses in the UK have established employee consultative forums and a European Consultative Forum convenes annually to discuss matters impacting the business across Europe.

# Directors' Report continued

## Employees continued

The Group respects all fundamental human rights and is guided in the conduct of its business by the provisions of the United Nations Universal Declaration of Human Rights and the International Labour Organisation core labour standards. The Group also supports the United Nations Global Compact Principles. The Group companies are committed to providing equal opportunities to all employees, irrespective of their gender, sexual orientation, marital status, race, nationality, ethnic origin, disability, age, religion or union membership status. Aviva is an inclusive employer and values diversity in its employees. These commitments extend to recruitment and selection, training, career development, flexible working arrangements, promotion and performance appraisal.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through electronic newsletters and the distribution of the annual report.

The Group ensures that involvement for employees in its performance is encouraged by allowing eligible employees to participate in the Group's Matching Share Plan and Save As You Earn Plan. There are also executive share schemes in place for senior employees.

## 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:

(a) 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

(b) each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself 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 auditor, PricewaterhouseCoopers LLP, 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 were in force throughout the year and remain in force as at the date of approving the Directors' Report by virtue of paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

# Directors' Report continued

## Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' 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. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

RHostler

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

22 June 2017

# Independent Auditors' Report to the members of Aviva Employment Services Limited

## Report on the financial statements

**Our opinion**
In our opinion, Aviva Employment Services Limited's financial statements (the financial statements):
- give a true and fair view of the state of the Company's affairs as at 31 December 2016 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.

**What we have audited**
The financial statements, included within the Annual Report and Financial Statements (the Annual Report) comprise:
- the Statement of Financial Position as at 31 December 2016;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

## Other matters on which we are required to report by exception

**Adequacy of accounting records and information and explanations received**

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

**Directors' remuneration**
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

**Our responsibilities and those of the directors**
As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

# Independent Auditors' Report to the members of Aviva Employment Services Limited continued

## Responsibilities for the financial statements and the audit continued

**What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Marcus Hine

Marcus Hine (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 June 2017

# Accounting Policies

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

## (A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. In addition to fulfilling their legal obligation to comply with IFRS as adopted by the EU, the Company has also complied with IFRS as issued by the IASB and applicable at 31 December 2016. The financial statements have been prepared under the historical cost convention. The date of transition to IFRS was 1 January 2004.

The Company and its immediate holding company, Aviva plc, have considerable financial resources and as a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain macro-economic outlook. 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.

The Company's financial statements are stated in sterling, which is the Company's functional and presentation currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of pound sterling (£m).

**New standards, interpretations 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 1 January 2016.

***(i) Amendments to IAS 1 – Disclosure Initiative***

These amendments form part of the IASB's Disclosure Initiative and are intended to assist entities in applying judgement in considering presentation and disclosure requirements. The amendments clarify guidance in IAS 1 *Presentation of Financial Statements* on materiality and aggregation, the presentation of subtotals, the order of the notes to financial statements and the disclosure of accounting policies. The adoption of these amendments has no impact on the Company's financial statements.

***(ii) Annual Improvements to IFRSs 2012-2014***

These improvements consist of amendments to five IFRSs including IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, *IFRS 7 Financial Instruments: Disclosures* and *IAS 19 Employee Benefits*. The amendments clarify existing guidance and there is no impact on the Company's financial statements.

**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 and interpretations have been issued, are not yet effective and have not been adopted early by the Company:

***(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 is not expected to have an impact on the Company's financial statements as the clarifications are consistent with our existing interpretation. The amendment is effective from 1 January 2017 and has not yet been endorsed by EU.

***(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 amendment is effective from 1 January 2017 and has not yet been endorsed by EU. The adoption of this amendment will have no impact on the Company's financial statements.

# Accounting Policies continued

## (A) Basis of preparation continued

### *(iii) IFRS 15, Revenue from Contracts with Customers*

IFRS 15 will replace IAS 18 *Revenue* and establishes a principle based five-step model to be also 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 this new standard is being assessed by the Company. This standard applies to annual reporting periods beginning on or after 1 January 2018 and has not yet been endorsed by the EU.

### *(iv) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions*

In June 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*. The amendments clarify that the fair value of a cash-settled share-based payment is determined on a basis that is consistent with that used for equity-settled share-based payments. The amendments also clarify the classification of share-based payments settled net of withholding tax as well as the accounting consequences resulting from a modification of share-based payments from cash-settled to equity-settled. The adoption of this amendment will have no impact on the Company's financial statements. The amendments are effective from 1 January 2018 and have not yet been endorsed by the EU.

### *(v) IFRS 9, Financial Instruments*

In July 2014, the IASB published IFRS 9 *Financial Instruments* which will replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach.

The adoption of this amendment will have no impact on the Company's financial statements as all financial instruments are measured at amortised cost.

### *(vi) Annual Improvements to IFRSs 2014-2016*

These improvements consist of amendments to three IFRSs including IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates*. The amendments clarify existing guidance. The amendments to IFRS 1 and IAS 28 are effective for annual reporting periods beginning on or after 1 January 2018; the amendment to IFRS 12 for annual reporting periods beginning on or after 1 January 2017. The adoption of these amendments will have no impact on the Company's financial statements. These amendments have not yet been endorsed by the EU.

## (B) Critical accounting policies and the use of estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the Income Statement, Statement of Financial Position, other primary statements and notes to the financial statements.

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 |
|---|---|
| Deferred income taxes | F |
| Pension obligations | J |
| Provisions | L |

# Accounting Policies continued

## (C) Revenue recognition

Revenue, which excludes VAT, represents income from the provision of staff to UK companies within the Group, which is recognised in the accounting period in which the services are rendered.

## (D) Foreign currency transactions

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 in the Income Statement.

## (E) Finance costs

All borrowing costs are expensed as they are incurred.

## (F) Income taxes

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

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity is similarly recognised in other comprehensive income and directly in equity respectively. Deferred tax related to fair value re-measurement of available for sale investments, owner-occupied properties 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.

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.

## (G) Statement of Cash Flows

***Cash and cash equivalents***

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

For the purposes of the Statement of Cash Flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the Statement of Financial Position.

## (H) Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders.

## (I) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- The Company has transferred its rights to receive cash flows from the asset and either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a currently enforceable legal right to set off the recognised amounts and there is the ability and intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

# Accounting Policies continued

## (J) Employee benefits

***Annual leave and long service leave***

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the Statement of Financial Position date.

***Pension obligations***

The Company operates three schemes, whose members receive benefits on either a defined benefit or defined contribution basis. Under a defined contribution plan, the Company's legal or constructive obligation is limited to the amount it agrees to contribute to a fund and there is no obligation to pay further contributions if the fund does not hold sufficient assets to pay benefits. A defined benefit pension plan is a pension plan that is not a defined contribution plan and typically defines the amount of pension benefit that an employee will receive on retirement.

The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The pension obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The resultant net surplus or deficit recognised as an asset or liability on the Statement of Financial Position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

If the fair value of plan assets exceeds the present value of the defined benefit obligation, the resultant asset is limited to the asset ceiling defined as the present value of economic benefits available in the form of future refunds from the plan or reductions in contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company.

Remeasurements of defined benefit plans comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets (excluding net interest) and the effect of the asset ceiling (if any). The Company recognises remeasurements immediately in other comprehensive income and does not reclassify them to the Income Statement in subsequent periods.

Service costs comprising current service costs, past service costs, gains and losses on curtailments and net interest expense/(income) are charged or credited to the Income Statement.

Past service costs are recognised at the earlier of the date the plan amendment or curtailment occurs or when related restructuring costs are recognised.

The Company determines the net interest expense/(income) on the net defined liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period of the net defined benefit liability/(asset). Net interest expense is charged to finance costs, whereas net interest income is credited to investment income.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Company, as employer, has no further payment obligations. The Company's contributions are charged to the Income Statement in the year to which they relate and are included in staff costs.

## (K) Borrowings

Borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, most borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest rate method.

## (L) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recorded as a provision is the best estimate of the expenditure required to settle the present value of obligation at the balance sheet date. Where the effect of the time value of money is material, the provision is the present obligation at the balance sheet date. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

# Income Statement
## For the year ended 31 December 2016

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Revenue** | C, 1 & 19(a)(i) | **856** | 861 |
| Cost of sales | J & 2 | **(794)** | (714) |
| **Gross profit** | | **62** | 147 |
| Investment income | J & 3 | **96** | 103 |
| Other income | 4 | **244** | - |
| **Profit for the year before tax** | | **402** | 250 |
| Tax charge | F & 8(a) | **(102)** | (33) |
| **Profit for the year after tax attributable to owners of the Company** | | **300** | 217 |

The accounting policies (identified alphabetically) on pages 11 to 14 and notes (identified numerically) on pages 20 to 36 are an integral part of these financial statements.

# Statement of Comprehensive Income
## For the year ended 31 December 2016

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Profit for the year** | | **300** | 217 |
| **Other comprehensive income/(expense):** | | | |
| ***Items that will not be reclassified to income statement*** | | | |
| Remeasurements of pension schemes | J & 11(b)(i) | **485** | (419) |
| Tax (charge)/credit | F & 8(b) | **(70)** | 124 |
| **Total comprehensive income/(expense) for the year** | | **715** | (78) |

The accounting policies (identified alphabetically) on pages 11 to 14 and notes (identified numerically) on pages 20 to 36 are an integral part of these financial statements.

# Statement of Changes in Equity
## For the year ended 31 December 2016

| | Ordinary share capital £m | Retained earnings £m | Total equity £m |
|---|---|---|---|
| **Balance at 1 January 2015** | - | 2,172 | 2,172 |
| Profit for the year | - | 217 | 217 |
| Other comprehensive expense | - | (295) | (295) |
| Total comprehensive expense for the year | - | (78) | (78) |
| **Balance at 31 December 2015** | - | **2,094** | **2,094** |
| Profit for the year | - | **300** | **300** |
| Other comprehensive income | - | **415** | **415** |
| Total comprehensive income for the year | - | **715** | **715** |
| **Balance at 31 December 2016** | - | **2,809** | **2,809** |

The accounting policies (identified alphabetically) on pages 11 to 14 and notes (identified numerically) on pages 20 to 36 are an integral part of these financial statements.

# Statement of Financial Position
## As at 31 December 2016

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Current tax asset | F & 10(a) | **11** | 19 |
| Deferred tax asset | F & 10(b) | **18** | 28 |
| Retirement benefit surplus | J & 11(a) | **3,375** | 2,523 |
| **Current assets** | | | |
| Receivables and other financial assets | 9 | **77** | 31 |
| Cash and cash equivalents | G &12(b) | **13** | 10 |
| **Total assets** | | **3,494** | 2,611 |
| **Equity** | | | |
| Ordinary share capital | 13 | **-** | - |
| Retained earnings | 14 | **2,809** | 2,094 |
| **Total equity** | | **2,809** | 2,094 |
| ***Liabilities*** | | | |
| **Non-current liabilities** | | | |
| Deferred tax liability | F & 10(b) | **656** | 483 |
| **Current liabilities** | | | |
| Payables and other financial liabilities | 15 | **24** | 29 |
| Provisions | L & 16 | **4** | 4 |
| Borrowings | K & 17 | **1** | 1 |
| **Total liabilities** | | **685** | 517 |
| **Total equity and liabilities** | | **3,494** | 2,611 |

The financial statements were approved by the Board of Directors on 22 June 2017 and signed on its behalf by

S Morris
Director

The accounting policies (identified alphabetically) on pages 11 to 14 and notes (identified numerically) on pages 20 to 36 are an integral part of these financial statements.

# Statement of Cash Flows
## For the year ended 31 December 2016

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from/(used in) operations | 12(a) | **3** | (1) |
| **Net cash generated from/(used in) operating activities** | | **3** | (1) |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **3** | (1) |
| Cash and cash equivalents at 1 January | | **10** | 11 |
| **Cash and cash equivalents at 31 December** | 12(b) | **13** | 10 |

The accounting policies (identified alphabetically) on pages 11 to 14 and notes (identified numerically) on pages 20 to 36 are an integral part of these financial statements.

# Notes to the financial statements

## 1. Revenue

The Company's activities consist solely of acting as the employing company for staff of the Aviva plc group in the United Kingdom (UK) excluding Aviva Investors. Refer to note 19 for further information on income earned during the year.

## 2. Cost of sales

Cost of sales comprises the following staff costs:

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| Wages and salaries | | **492** | 448 |
| Social security costs | | **71** | 69 |
| Other pension costs | | | |
| Defined benefit scheme | 11(b)(i) & 11(d) | **46** | 13 |
| Defined contribution scheme | 11(d) | **93** | 84 |
| Profit sharing and incentive plans | | **77** | 87 |
| Termination benefits | | **12** | 13 |
| Other | | **3** | - |
| **Total staff costs** | | **794** | 714 |

## 3. Investment income

Investment income comprises:

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| Net interest income on pension schemes | 11(b)(i) | **96** | 103 |
| | | **96** | 103 |

## 4. Other income

Other income comprises:

| | 2016 £m | 2015 £m |
|---|---|---|
| Gain on FPPS transfer | **244** | - |

As at 1 October 2016, the statutory employer of the FPPS, a defined benefit pension scheme, was transferred to the Company via a flexible apportionment agreement from FLMS, a management service company within the Aviva Group.

From 3 October 2016, the Company became responsible for the scheme liabilities including the contributions required as part of the deficit recovery plan. This transaction involved transferring all of the scheme assets and liabilities from FLMS to the Company and it took place without the payment of any consideration from the Company to FLMS or vice versa. As a result of the transfer, a gross of tax gain of £244 million was recognised within the Income Statement.

## 5. Employees

The average number of persons employed by the Company during the year was:

| | 2016 | Restated 2015 |
|---|---|---|
| United Kingdom[1] | **14,137** | 13,402 |

1 Following a review of the average number of persons employed, comparative amounts have been amended from amounts previously reported.

# Notes to the financial statements continued

## 6. Directors

All directors are remunerated by the Company for their services to the Aviva Group as a whole. They are not remunerated directly for their services as directors of the Company and the amount of time spent performing their duties is incidental to their role across the Aviva Group. This is consistent with the prior year.

A D Briggs is a director of Aviva plc and his emoluments are disclosed in that Company's annual report and accounts. N B M Amin's, and A J Darlington's and K A Cooper's remuneration is disclosed within the aggregate of key management compensation in the annual report and accounts of Aviva plc.

M E Tulloch is a director of Aviva Insurance Limited and his emoluments are disclosed within the aggregate of key management compensation in the annual report and financial statements of that entity.

## 7. Auditors' remuneration

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

| | 2016<br>£'000 | 2015<br>£'000 |
|---|---|---|
| Fees payable to the Company's auditors for the audit of the Company's financial statements | **70** | 46 |

There were no non-audit fees paid to the Company's auditors during the year *(2015: £nil)*. Audit fees are borne by the ultimate parent, Aviva plc. Refer to note 19(a)(ii).

## 8. Tax charge

### (a) Tax charged to the Income Statement

(i) Tax charge comprises:

| | Note | 2016<br>£m | 2015<br>£m |
|---|---|---|---|
| **Current tax** | | | |
| For this year | | **(13)** | (23) |
| Adjustments in respect of prior years | | **(1)** | 1 |
| **Total current tax** | | **(14)** | (22) |
| **Deferred tax:** | | | |
| Origination and reversal of temporary differences | | **(12)** | (17) |
| Deferred tax liability on pension scheme transfer | | **(85)** | - |
| Changes in the tax rates or tax laws | | **9** | 6 |
| **Total deferred tax** | 8(a)(ii) | **(88)** | (11) |
| **Total tax charged to the Income Statement** | 8(c) | **(102)** | (33) |

(ii) Deferred tax charged to the Income Statement represents movements on the following items:

| | 2016<br>£m | 2015<br>£m |
|---|---|---|
| Pensions and other post retirement obligations | **(87)** | (12) |
| Other temporary differences | **(1)** | 1 |
| **Total deferred tax charged to the Income Statement** | **(88)** | (11) |

# Notes to the financial statements continued

## 8. Tax charge continued

### (b) Tax (charged)/credited to other comprehensive income

The tax (charged)/credited to other comprehensive income comprises:

| | 2016 £m | 2015 £m |
|---|---|---|
| **Current tax** | | |
| In respect of pensions and other post retirement obligations | **25** | 42 |
| **Deferred tax:** | | |
| In respect of pensions and other post retirement obligations | **(95)** | 82 |
| **Total tax (charged)/credited to other comprehensive income** | **(70)** | 124 |

### (c) Tax reconciliation

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

| | 2016 £m | 2015 £m |
|---|---|---|
| Profit for the year before tax | **402** | 250 |
| Tax calculated at standard UK corporation tax rate of 20% *(2015: 20.25%)* | **(80)** | (51) |
| Adjustments in respect of prior years | **(1)** | 1 |
| Share schemes | **7** | 9 |
| Change in future local statutory tax rates | **9** | 6 |
| Tax effect of pension scheme transfer | **(36)** | - |
| Other | **(1)** | 2 |
| **Total tax charged to the Income Statement** | **(102)** | (33) |

Finance (No 2) Act 2015 introduced legislation reducing the rate of corporation tax from 20% at 1 April 2016 to 19% from 1 April 2017 and to 18% from 1 April 2020. The Finance Act 2016, which received Royal Assent on 15 September 2016, will further reduce the corporation tax rate to 17% from 1 April 2020.

The reductions in rates from 20% to 19% and then to 17% have been used in the calculation of the UK's deferred tax assets and liabilities as at 31 December 2016. This has resulted in a reduction to the Company's net deferred tax liability of £20 million *(2015: £43 million)* comprising £9 million credit (*2015: £6 million credit*) included in the Income Statement and £11 million credit (*2015: £37 million)* included in the Statement of Comprehensive Income.

## 9. Receivables and other financial assets

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| Amounts due from parent | 19(a)(i) | **28** | 28 |
| Amounts due from fellow Group companies | 19(a)(i) | **35** | - |
| Group relief asset | 19(a)(i) | **9** | - |
| Other receivables | | **5** | 3 |
| **Total at 31 December** | | **77** | 31 |

All receivables are carried at amortised cost, which approximates to fair value, and are expected to be settled within one year.

# Notes to the financial statements continued

## 10. Tax assets and liabilities

### (a) Current tax

| | 2016 £m | 2015 £m |
|---|---|---|
| *Tax asset* | | |
| Expected to be recoverable in more than one year | **11** | 19 |
| **Net tax asset recognised in the Statement of Financial Position** | **11** | 19 |

Receivables for prior years' tax to be settled by Group Relief of £9 million *(2015: £10 million liabilities)* are included within receivables and other financial assets *(2015: payables and other financial liabilities)* in note 9 *(2015: note 15)* and within the related party transactions in note 19 and are receivable in less than one year.

### (b) Deferred tax

(i) The balances at 31 December comprise:

| | 2016 £m | 2015 £m |
|---|---|---|
| Provisions and other timing differences | **1** | 1 |
| Pensions and other post retirement obligations | **(646)** | (465) |
| Other temporary differences | **7** | 9 |
| **Total deferred tax liability** | **(638)** | (455) |
| These balances are disclosed as: | | |
| Deferred tax asset | **18** | 28 |
| Deferred tax liability | **(656)** | (483) |
| | **(638)** | (455) |

The prior year deferred tax liability of £455 million has been reclassified as a deferred tax asset of £28 million and a deferred tax liability of £483 million in the balance sheet, to reflect the revised disclosure requirement.

(ii) The movement in the deferred tax liability comprises:

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| At 1 January | | **(455)** | (526) |
| Amounts charged to income statement | 8(a)(ii) | **(88)** | (11) |
| Amounts (charged)/credited to other comprehensive income | 8(b) | **(95)** | 82 |
| **At 31 December** | | **(638)** | (455) |

The Company has unrecognised capital losses of £27 million (*2015: £27 million*) to carry forward indefinitely against future taxable gains.

# Notes to the financial statements continued

## 11. Retirement benefit obligations

### (a) Introduction

The Company operates the Aviva Staff Pension Scheme (ASPS) and the RAC (2003) Pension Scheme which was retained after the sale of RAC Limited in September 2011.

As at 1 October 2016, the statutory employer of the Friends Provident Pension Scheme (FPPS), a defined benefit pension scheme, was transferred to the Company via a flexible apportionment agreement from Friends Life Management Services Limited (FLMS), a management service company within the Aviva Group.

From 3 October 2016, the Company became responsible for the scheme liabilities including the contributions required as part of the deficit recovery plan. This transaction involved transferring all of the scheme assets and liabilities from FLMS to the Company and it took place without the payment of any consideration from the Company to FLMS or vice versa. As a result of the transfer, a gross of tax gain of £244 million (with a related £85 million deferred tax charge) was recognised within the Income Statement reflecting the recognition of the IAS 19 pension surplus (and associated deferred tax liabilities) at 3 October 2016 on the Statement of Financial Position.

As the defined benefit section of each scheme is now closed to both new members and future accrual, existing deferred members and new entrants participate in the defined contribution section of the ASPS. Each scheme operates within the UK pensions' regulatory framework.

The assets and liabilities of these defined benefit schemes as at 31 December are shown below:

| | | | | **2016** | | | | 2015 |
|---|---|---|---|---|---|---|---|---|
| | **ASPS** | **RAC** | **FPPS** | **Total** | ASPS | RAC | FPPS | Total |
| | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m |
| Total fair value of the scheme assets (see b(ii) below) | **15,556** | **1,941** | **1,966** | **19,463** | 12,921 | 1,529 | - | 14,450 |
| Present value of defined benefit obligation | **(12,629)** | **(1,655)** | **(1,804)** | **(16,088)** | (10,568) | (1,359) | - | (11,927) |
| **Net surplus in the schemes** | **2,927** | **286** | **162** | **3,375** | 2,353 | 170 | - | 2,523 |

The assets of the schemes are held in separate trustee-administered funds to meet long-term pension liabilities to past and present employees. In all schemes, the appointment of trustees of the funds is determined by their trust documentation, and they are required to act in the best interests of the schemes' beneficiaries. The long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes. Closure of the schemes has removed the volatility associated with additional future accrual for active members.

A full actuarial valuation of each of the defined benefit schemes is carried out at least every three years for the benefit of scheme trustees and members. Actuarial reports have been submitted for each scheme within this period.

# Notes to the financial statements continued

## 11. Retirement benefit obligations continued

### (b) IAS 19 disclosures

Disclosures under IAS 19 are given below. Where schemes provide both defined benefit and defined contribution pensions, the assets and liabilities shown exclude those relating to defined contribution pensions.

*(i) Movements in the scheme surpluses and deficits*

Movements in the pension schemes' surpluses and deficits comprise:

| 2016 | Note | Fair Value of Scheme Assets £m | Present Value of defined benefit obligation £m | IAS 19 Pensions net surplus £m |
|---|---|---|---|---|
| **Net surplus in the schemes at 1 January** | | 14,450 | (11,927) | 2,523 |
| Past service costs - amendments | | - | (30) | (30) |
| Administrative expenses[1] | | - | (16) | (16) |
| Total pension cost charged to cost of sales | 2 | - | (46) | (46) |
| Net interest credited to investment income | 3 | 544 | (448) | 96 |
| Scheme transfer - FPPS surplus | 4 | 2,052 | (1,808) | 244 |
| **Total recognised in income statement** | | 2,596 | (2,302) | 294 |
| **Remeasurements:** | | | | |
| Actual return on these assets | | 3,610 | - | 3,610 |
| Less: Interest income on scheme assets | | (544) | - | (544) |
| Return on scheme assets excluding amounts in interest income | | 3,066 | - | 3,066 |
| Loss from change in financial assumptions | | - | (3,416) | (3,416) |
| Gains from change in demographic assumptions | | - | 401 | 401 |
| Experience gains | | - | 434 | 434 |
| **Total remeasurements recognised in other comprehensive income** | | 3,066 | (2,581) | 485 |
| Employer contributions | | 73 | - | 73 |
| Plan participants' contributions | | 6 | (6) | - |
| Benefits paid | | (715) | 715 | - |
| Administrative expenses paid from scheme assets[1] | | (13) | 13 | - |
| **Net surplus in the schemes at 31 December** | | 19,463 | (16,088) | 3,375 |

1 Administrative expenses are expensed as incurred.

The increase in the net surplus during the year is primarily due to the transfer of the FPPS scheme and remeasurements recognised in other comprehensive income which reflected increased asset values mainly driven by a reduction in interest rates in the UK partly offset by an increase in the defined benefit obligation following a decrease in the UK discount rate.

# Notes to the financial statements continued

## 11. Retirement benefit obligations continued

### (b) *IAS 19 disclosures continued*

*(i) Movements in the scheme surpluses and deficits continued*

| 2015 | Note | Fair Value of Scheme Assets £m | Present Value of defined benefit obligation £m | IAS 19 Pensions net surplus £m |
|---|---|---|---|---|
| **Net surplus in the schemes at 1 January** | | 14,733 | (12,038) | 2,695 |
| Administrative expenses[1] | | - | (13) | (13) |
| Total pension cost charged to cost of sales | 2 | - | (13) | (13) |
| Net interest credited to investment income | 3 | 538 | (435) | 103 |
| **Total recognised in income statement** | | 538 | (448) | 90 |
| **Remeasurements:** | | | | |
| Actual return on these assets | | 127 | - | 127 |
| Less: Interest income on scheme assets | | (538) | - | (538) |
| Return on scheme assets excluding amounts in interest income | | (411) | - | (411) |
| Losses from change in financial assumptions | | - | 4 | 4 |
| Gains from change in demographic assumptions | | - | - | - |
| Experience losses | | - | (12) | (12) |
| **Total remeasurements recognised in other comprehensive income** | | (411) | (8) | (419) |
| Employer contributions | | 157 | - | 157 |
| Plan participants' contributions | | 3 | (3) | |
| Benefits paid | | (557) | 557 | - |
| Administrative expenses paid from scheme assets[1] | | (13) | 13 | - |
| Net surplus in the schemes at 31 December | | 14,450 | (11,927) | 2,523 |

1 Administrative expenses are expensed as incurred.

# Notes to the financial statements continued

## 11. Retirement benefit obligations continued

### (b) IAS 19 disclosures continued

*(ii) Scheme assets*

Scheme assets are stated at their fair values at 31 December 2016.

Total scheme assets are analysed by those that have a quoted market price in an active market and those that do not as follows:

| | | | 2016 | | | 2015 |
|---|---|---|---|---|---|---|
| | **Total Quoted** | **Total Unquoted** | **Total** | Total Quoted | Total Unquoted | Total |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| Bonds | | | | | | |
| Fixed interest | **3,448** | **3,637** | **7,085** | 2,148 | 2,950 | 5,098 |
| Indexed-linked | **10,984** | **485** | **11,469** | 5,084 | 436 | 5,520 |
| Equities | **71** | **-** | **71** | 70 | - | 70 |
| Property | **-** | **338** | **338** | - | 377 | 377 |
| Pooled investment vehicles | **11** | **3,449** | **3,460** | - | 2,598 | 2,598 |
| Derivatives | **69** | **17** | **86** | 6 | 89 | 95 |
| Cash and other[1] | **678** | **(3,724)** | **(3,046)** | 521 | 171 | 692 |
| **Total fair value of assets** | **15,261** | **4,202** | **19,463** | 7,829 | 6,621 | 14,450 |

1 Cash and other assets comprise cash at bank, insurance policies, receivables and payables.

Plan assets include investments in Aviva Group-managed funds of £1,413 million *(2015: £1,100 million)* and transferrable insurance policies with other Group companies of £174 million *(2015: £163 million)* in ASPS. Where the investment and insurance policies are in segregated funds with specific asset allocations, they are included in the appropriate line in the table above, otherwise they appear in 'Cash and other'.

*(iii) Assumptions on scheme liabilities*

The valuations used for accounting under IAS 19 have been based on the most recent full actuarial valuations, updated to take account of the standard's requirements in order to assess the liabilities of the material schemes at 31 December 2016.

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

***Financial assumptions***
The main financial assumptions used to calculate scheme liabilities under IAS19 are:

| | 2016 | 2015 |
|---|---|---|
| Inflation rate[1] | **3.3%/ 2.2%** | 3.15% / 2.05% |
| General salary increases[2] | **5.10%** | 4.95% |
| Pension increases[3] | **3.3%/ 2.2%** | 3.15% / 2.05% |
| Deferred pension increases[3] | **3.3%/ 2.2%** | 3.15% / 2.05% |
| Discount rate[4] | **2.50%** | 3.75% |
| | **2.5% (pensioners)/** | - |
| | **2.6% (deferred)** | - |
| Basis of discount rate | AA-rated corporate bonds | |

1 Assumptions provided for RPI/CPI. The assumptions for the ASPS and RAC schemes are the single rates for RPI/CPI; for FPPS, relevant RPI/CPI swap curves are used, which are broadly equivalent to these single rates.
2 For ASPS, the only remaining linkage between pension benefits and general salary increases is in respect of a small amount of Guaranteed Minimum Pensions benefits that increases, in line with National Average Earnings.
3 Assumptions provided for RPI/CPI. The assumptions for the ASPS and RAC schemes are the single rates for RPI/CPI; for FPPS, relevant RPI/CPI swap curves are used, which are broadly equivalent to these single rates. The assumptions are also adjusted to reflect the relevant caps/floors and the inflation volatility.
4 To calculate scheme liabilities, a single discount rate is used in ASPS/RAC, whereas in FPPS, separate discount rates are used for the defined benefit obligation for pensioners and deferred.

# Notes to the financial statements continued

## 11. Retirement benefit obligations continued

### (b) IAS 19 disclosures continued

*(iii) Assumptions on scheme liabilities continued*

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

***Mortality assumptions***
Mortality assumptions are significant in measuring the obligations under its defined benefit schemes, particularly given the maturity of these obligations in the material schemes. The assumptions used are summarised in the table below and have been selected to reflect the characteristics and experience of the membership of these schemes.

The mortality tables, average life expectancy and pension duration used at 31 December 2016 for scheme members are as follows:

| | | Life expectancy / (pension duration) at NRA of a male | | Life expectancy / (pension duration) at NRA of a female | |
|---|---|---|---|---|---|
| Mortality table | Normal retirement age (NRA) | Currently aged NRA | 20 years younger than NRA | Currently aged NRA | 20 years younger than NRA |
| ASPS - Club Vita pooled experience, including an allowance for future improvements | 60 | 89.0<br>(29.0) | 91.4<br>(31.4) | 90.2<br>(30.2) | 92.8<br>(32.8) |
| RAC schemes - SAPS, including allowances for future improvement | 65 | 87.4<br>(22.4) | 89.9<br>(24.9) | 89.2<br>(24.2) | 91.5<br>(26.5) |
| FPPS schemes - SAPS, including allowances for future improvement | 60 | 89.1<br>(29.1) | 91.2<br>(31.2) | 89.7<br>(29.7) | 92.0<br>(32.0) |

The assumptions above are based on commonly used mortality tables. The tables make allowance for observed variations in such factors as age, gender, pension amount, salary and postcode-based lifestyle group, and have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. In the UK schemes, the allowance for future mortality improvement is per the actuarial professions CMI 2015 model *(2015: CMI 2013 model)*, with assumed long term rates of improvement of 1.75% p.a. for males *(2015: 1.75% p.a.)*, and 1.50% p.a. for females *(2015: 1.50% p.a.)*.

***Sensitivity analysis***
Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, inflation rate and mortality. The sensitivities analyses below have been determined based on reasonably possible changes of the respective assumptions, holding all other assumptions constant. The following table summarises how the defined benefit obligation of £16,085 million *(2015: £11,927 million)* would have increased/(decreased) as a result of the change in the respective assumptions:

Impact on present value of defined benefit obligation

| | Increase in discount rate +1% £m | Decrease in discount rate -1% £m | Increase in inflation rate +1% £m | Decrease in inflation rate -1% £m | 1 year younger[1] £m |
|---|---|---|---|---|---|
| **Impact on present value of defined benefit obligation at 31 December 2016** | **(2,985)** | **4,047** | **3,212** | **(2,510)** | **559** |
| Impact on present value of defined benefit obligation at 31 December 2015 | (1,971) | 2,615 | 2,260 | (1,759) | 338 |

1 The effect of assuming all members in the schemes were one year younger.

The sensitivity analyses presented above may not be representative as in practice it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. In addition, the sensitivities shown are for liabilities only and ignore the impact on assets, which significantly mitigate the net interest and inflation sensitivity impact on net surplus.

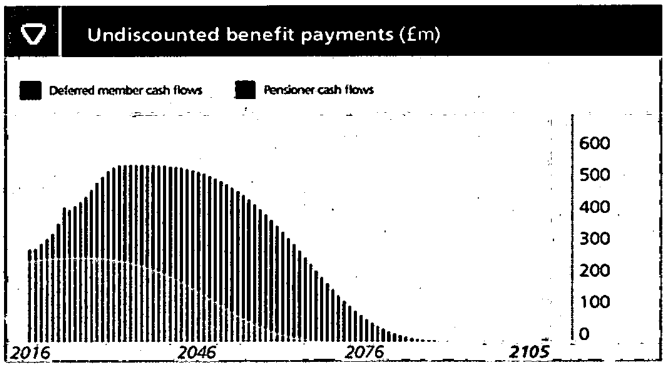
# Notes to the financial statements continued

## 11. Retirement benefit obligations continued

### (b) IAS 19 disclosures continued

*(iii) Assumptions on scheme liabilities continued*

***Maturity profile of the defined benefit obligation***
The discounted scheme liabilities have an average duration of 21 years in ASPS, 20 years in the RAC scheme and 21 years in FPPS. The expected undiscounted benefits payable from ASPS is shown in the chart below:




(iv) *Risk management and asset allocation strategy*

As noted above, the long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes. To meet those objectives, the schemes' assets are invested in a portfolio consisting primarily (approximately 75%) of debt securities. The investment strategy will continue to evolve over time and is expected to match to the liability profile increasingly closely with swap overlays to improve interest rate and inflation matching. The schemes are generally matched to interest rate risk relative to the funding bases.

***ASPS***
The Company works closely with the trustee, who is required to consult it on the investment strategy.

Interest rate and inflation risks are managed using a combination of liability-matching assets and swaps. Exposure to equity risk has been reducing over time and credit risk is managed within risk appetite. Currency risk is relatively small and is largely hedged. The other principal risk is longevity risk. This risk has reduced due to the Aviva Staff Pension Scheme entering into a longevity swap in 2014 covering approximately £5 billion of pensioner in payment scheme liabilities.

***Other schemes***
The RAC scheme and FPPS are considerably less material but their risks are managed in a similar way to those in ASPS. During 2015, the RAC pension scheme entered into a longevity swap covering approximately £600 million of pensioner in payment liabilities.

(v) *Funding*

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

For ASPS, following the latest formal actuarial valuation (with an effective date of 31 March 2012), a deficit recovery plan was agreed. However, the ASPS had become fully funded by 31 December 2016. Despite this, based on the valuation as at 31 March 2015 that is currently being undertaken, the Company has agreed in principle to make a one-off contribution of £50 million on completion of the 2015 valuation and to make monthly contributions totalling £85 million per annum from April 2017, increasing in line with the RPI in future years.

For the FPPS and RAC schemes, following the latest formal actuarial valuations (with effective dates of 30 September 2014 and 31 March 2013 respectively), deficit recovery plans were agreed to make good the deficits over a period of time, consistent with the requirements of the UK pension regulations. As at 31 December 2016 the FPPS had an estimated deficit of £214 million and the RAC scheme had an estimated deficit of £74 million. A valuation of the RAC scheme is currently being undertaken as at 31 March 2016.

Total employer contributions for all schemes in 2017 are currently expected to be £206 million.

# Notes to the financial statements continued

## 11. Retirement benefit obligations continued

### (c) Defined contribution (money purchase) section of the ASPS

The trustees have responsibility for selecting a range of suitable funds in which the members can choose to invest and for monitoring the performance of the available investment funds. Members of this section contribute at least 2% of their pensionable salaries and, depending on the percentage chosen, the Company contributes up to a maximum 14%, together with the cost of the death-in-service benefits. These contribution rates remain unchanged until June 2017. From 1 July 2017, for every 1% additional employee contribution over 8%, the Company will contribute an additional 0.1% employer contribution.

### (d) Credits or charges to staff costs in the income statement

The total pension costs of the pension schemes borne by, and the amounts credited in, the Company were:

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| Defined benefit sections | 2 | **(46)** | (13) |
| Defined contribution sections | 2 | **(93)** | (84) |
| Total pension costs | | **(139)** | (97) |
| Less: Amounts recharged to operating businesses | | **201** | 244 |
| **Net credit to the Income Statement** | | **62** | 147 |

The Company has deferred £35 million of contributions to ASPS pension scheme as part of the agreement with the Pension trustee which will be paid in 2017.

## 12. Cash and cash equivalents

### (a) Reconciliation of profit before tax to the net cash outflow from operating activities:

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| Profit for the year before tax | | **402** | 250 |
| **Adjustments for:** | | | |
| Pension cost charged to Income Statement | 11(b)(i) | **46** | 13 |
| Net investment income on pension scheme | 11(b)(i) | **(96)** | (103) |
| Gain on transfer of FPPS | 11(b)(i) | **(244)** | - |
| Net charge on pension schemes | | **(294)** | (90) |
| **Changes in working capital:** | | | |
| Increase in receivables | 9 | **(37)** | (1) |
| Increase/(decrease) in payables and other financial liabilities | 15 | **5** | (3) |
| | | **(32)** | (4) |
| Pension contributions paid | 11(b)(i) | **(73)** | (157) |
| **Cash generated from/(used in) operations** | | **3** | (1) |

Decrease in receivables are stated after eliminating group relief asset of £9 million. In 2015, the decrease in payables and other financial liabilities are stated after eliminating group relief liabilities of £10 million.

### (b) Cash and cash equivalents in the Statement of Cash Flows at 31 December comprise:

| | 2016 £m | 2015 £m |
|---|---|---|
| Cash at bank and in hand | **13** | 10 |
| **Total at 31 December** | **13** | 10 |

# Notes to the financial statements continued

## 13. Ordinary share capital

**Details of the Company's ordinary share capital are as follows:**

| | 2016 £ | 2015 £ |
|---|---|---|
| Allotted, called up and fully paid | | |
| 2 (*2015: 2*) ordinary shares of £1 each | **2** | 2 |

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital with effect from 1 October 2009. Whilst there is no longer any limitation on the number of shares that the Company may issue, the directors will still be limited as to the number of shares they can allot because authority to allot continues to be required under the Companies Act 2006.

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.

## 14. Retained earnings

| | 2016 £m | 2015 £m |
|---|---|---|
| At 1 January | **2,094** | 2,172 |
| Profit for the year | **300** | 217 |
| Other comprehensive income/(expense) for the year | **415** | (295) |
| **At 31 December** | **2,809** | 2,094 |

## 15. Payables and other financial liabilities

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| Group relief liability | 19(a)(ii) | **-** | 10 |
| Due to fellow Group companies | 19(a)(ii) | **1** | - |
| Other payables including other taxes and social security | | **23** | 19 |
| **Total at 31 December** | | **24** | 29 |

All payables and other financial liabilities are carried at amortised cost, which approximates to fair value, and are expected to be settled in less than one year.

## 16. Provisions

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| Provision for holiday pay | L | **4** | 4 |
| **Total at 31 December** | | **4** | 4 |

There has been no movement in the provision during the year.

# Notes to the financial statements continued

## 17. Borrowings

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| Borrowings | K | 1 | 1 |
| **Total at 31 December** | | **1** | 1 |

Borrowings are stated at amortised cost and interest is charged at 6.72% - 7.16%.

## 18. Risk management

The Company's risk management framework is aligned with that of the Aviva plc Group and forms an integral part of the management and Board processes and decision-making framework.

The Company's risk management approach is proportionate to its activities as the employing company for staff of the Aviva plc group in the UK, excluding Aviva Investors. It does not provide any services to third parties. At least annually the Company's management review the key risks specific to the Company.

To promote a consistent and rigorous approach to risk management, the Aviva plc Group has set out formal risk management policies and business standards which set out the risk strategy, framework and minimum requirements for the Group's worldwide operations, including the Company.

The directors recognise the critical importance of having efficient and effective risk management systems in place and acknowledge that they are responsible for the Company's framework of internal control and of reviewing its effectiveness. The framework is designed to manage rather than eliminate the risk of failure to achieve the Company's objectives, and can only provide reasonable assurance against misstatement or loss. The directors of the Company are satisfied that their adherence to this Group framework provides an adequate means of managing risk in the Company.

Sections (a) to (f) below are limited to the specific risks of the Company.

### (a) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to the Company, or variations in market values as a result of changes in expectation related to these risks.

The Company's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default and rating transition.

The Company's primary financial assets are primarily amounts due from fellow Group companies. The credit risk arising from Aviva Group counterparties failing to meet all or part of their obligations is considered remote.

Financial assets are graded according to current credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as speculative grade. Credit limits for each counterparty are set based on default probabilities that are in turn based on the rating of the counterparty and the type of exposure.

The following table provides information regarding the aggregated credit risk exposure of the Company. "Non-rated" assets capture assets not rated by external ratings agencies.

# Notes to the financial statements continued

## 18. Risk management continued

### (a) Credit risk continued

| | AAA<br>% | AA<br>% | A<br>% | BB<br>% | BBB<br>% | Speculative grade<br>% | Non-rated<br>% | 2016 Carrying value in the financial statements<br>£m |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Credit rating | | |
| Receivables | - | - | - | - | - | - | 100% | 77 |
| Cash and cash equivalents | - | 100% | - | - | - | - | - | 13 |

| | AAA<br>% | AA<br>% | A<br>% | BB<br>% | BBB<br>% | Speculative grade<br>% | Non-rated<br>% | 2015 Carrying value in the financial statements<br>£m |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Credit rating | | |
| Receivables | - | - | - | - | - | - | 100% | 31 |
| Cash and cash equivalents | - | 100% | - | - | - | - | - | 10 |

The carrying amount of receivables and cash equivalents included in the Statement of Financial Position represents the maximum credit exposure.

The credit quality of receivables and other financial assets is monitored by the Company, and provisions for impairment are made for irrecoverable amounts. As at 31 December 2016 and 2015 no receivables were impaired or overdue.

Receivables include amounts due from other group companies of £63 million (*2015: £28 million*) and as such the Company gains some reassurance as to the recoverability of these amounts due from the credit worthiness of the Aviva Group's ultimate parent, Aviva plc, which has an external S&P issuer credit rating of A-. Refer to note 19.

The Company is exposed to movements in the value of the pension scheme assets due to credit defaults and changes in counterparty creditworthiness, and in the value of pension scheme liabilities due to changes in the credit spread of AA-rated corporate bonds, which comprise the benchmark rate used to discount pension scheme liabilities.

### (b) Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly from fluctuations in interest rates, equity prices, foreign currency exchange rates, and property prices. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held.

The management of market risk is undertaken at business unit and at Aviva Group level. Businesses manage market risks locally using the Group market risk framework and within local regulatory constraints. Group Asset Liability Management (ALM) is responsible for monitoring and managing market risk at Group level and has established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

For each of the major components of market risk, described in more detail below, additional policies and business standards are in place to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite.

| | |
|---|---|
| Pension scheme discount rate | The discount rate applied to the Company's pension scheme liabilities is based on the current average yields of AA-rated corporate bonds taking into account the maturities of the liabilities. The unwind of the discount is recognised in investment income. As such the Company's total pension liability and investment income is exposed to fluctuations in the market yield of the benchmark debt instruments, which determine the discount rate |
| Pension scheme assets | The Company is exposed to movements in the value of its pension scheme assets due to fluctuations in interest rates, equity prices, property prices and foreign currency exchange rates. Further details of assets and liabilities of the pension scheme are set out in note 11. |

# Notes to the financial statements continued

## 18. Risk management continued

### (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 assets in cash

The Company has set its investment strategy to ensure it has sufficient liquid funds to meet its expected 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. The Aviva Group maintains significant committed borrowing facilities from a range of highly-rated banks to mitigate this risk further.

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets, which are available to fund the repayment of liabilities as they crystallise:

| | | | | **2016** |
|---|---|---|---|---|
| | Note | **On demand or within 1 year £m** | **1-5 years £m** | **Total £m** |
| Receivables | 9 | **77** | **-** | **77** |
| Cash and cash equivalents | 12 | **13** | **-** | **13** |
| | | **90** | **-** | **90** |

| | | | | 2015 |
|---|---|---|---|---|
| | Note | On demand or within 1 year £m | 1-5 years £m | Total £m |
| Receivables | 9 | 31 | - | 31 |
| Cash and cash equivalents | 12 | 10 | - | 10 |
| | | 41 | - | 41 |

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company.

The following table shows the Company's financial liabilities analysed by duration:

| | | | | **2016** |
|---|---|---|---|---|
| | Note | **On demand or within 1 year £m** | **1-5 years £m** | **Total £m** |
| Trade and other payables | 15 | **24** | **-** | **24** |
| Provisions | 16 | **4** | **-** | **4** |
| Borrowings | 17 | **1** | **-** | **1** |
| | | **29** | **-** | **29** |

| | | | | 2015 |
|---|---|---|---|---|
| | Note | On demand or within 1 year £m | 1-5 years £m | Total £m |
| Trade and other payables | 15 | 29 | - | 29 |
| Provisions | 16 | 4 | - | 4 |
| Borrowings | 17 | 1 | - | 1 |
| | | 34 | - | 34 |

# Notes to the financial statements continued

## 18. Risk management continued

### (d) Other risks affecting pension scheme liabilities

In addition to market risks, other risks affecting assumptions used to calculate pension scheme liabilities are retail / consumer price inflation, general wage inflation and longevity.

The risk of general wage inflation is limited to a small amount of guaranteed minimum pension benefits that increase in line with national average earnings.

Longevity risks impact the mortality assumptions used to calculate pension scheme liabilities.

Further details on the assumptions used to calculate pension scheme liabilities are set out in note 11.

### (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's principal operational risks relate to the employment of people and payment of their salaries and.benefits, including deduction and payment of payroll taxes and pension contributions.

The Company has limited appetite for operational risk and aims to reduce these risks as far as is commercially sensible.

The Company is primarily responsible for identifying and managing operational risks within its business, within the Aviva group-wide operational risk framework including the risk and control self-assessment process. The Company must be satisfied that all material risks falling outside our risk tolerances are being mitigated, monitored and reported to an appropriate level. Any risks with a high potential impact are monitored centrally on a regular basis. The Company uses key indicator data to help monitor the status of the risk and control environment. It also identifies and captures loss events; taking appropriate action to address actual control breakdowns and promote internal learning.

### (f) Capital management

The Company's capital risk is determined with reference to the requirements of the Company's stakeholders. In managing capital, the Company seeks to maintain sufficient, but not excessive, financial strength to support the payment of interest due on loans and the requirements of other stakeholders. The sources of capital used by the Company are equity shareholders' funds. At 31 December 2016 the Company had £2,809 million (*2015: £2,094 million*) of total capital employed.

## 19. Related party transactions

### (a) The Company had the following related party transactions

The Company acts as the principal employing company for staff in the Group in the UK. The Company has the following transactions with related parties, which include parent companies, subsidiaries and fellow group companies, in the normal course of business.

### (i) Services provided and expenses recharged to related parties

| | **2016** Income earned in the year | **2016** Receivable at year end | 2015 Income earned in the year | 2015 Receivable at year end |
|---|---|---|---|---|
| | **£m** | **£m** | £m | £m |
| Parent | **182** | **28** | 153 | 28 |
| Fellow Group companies | **674** | **35** | 708 | - |
| | **856** | **63** | 861 | 28 |

# Notes to the financial statements continued

## 19. Related party transactions continued

### (a) The Company had the following related party transactions continued

### (ii) Services provided and expenses recharged by related parties

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Expenses incurred in the year** | **Payable at year end** | Expenses incurred in the year | Payable at year end |
| | **£m** | **£m** | £m | £m |
| Group employee pension schemes | **139** | **1** | 97 | - |
| | **139** | **1** | 97 | - |

*Group relief*

Transactions with Group Companies for settlement of corporation tax assets and liabilities by group relief are described in note 10(a) *(2015: note 15).*

*Audit fees*

Audit fees as described in note 7 are borne by the ultimate parent, Aviva plc.

### (iii) Transfer of Friends employees

On 1 July 2016, the majority of the Friends Life employees were transferred to the Company from FLMS.

### (iv) Transfer of Friends Provident Pension Scheme

As at 1 October 2016, the statutory employer of the FPPS, a defined benefit pension scheme, was transferred to the Company via a flexible apportionment agreement from FLMS, a management service company within the Aviva Group.

From 3 October 2016, the Company became responsible for the scheme liabilities including the contributions required as part of the deficit recovery plan. This transaction involved transferring all of the scheme assets and liabilities from FLMS to the Company and it took place without the payment of any consideration from the Company to FLMS or vice versa. As a result of the transfer, a gross of tax gain of £244 million was recognised within the Income Statement reflecting the recognition of the IAS 19 pension surplus at 3 October 2016 on the Statement of Financial Position.

### (b) Key management compensation

Key management, which comprises the directors of the Company, are not remunerated directly for their services as directors of the Company and the amount of time spent performing their duties is incidental to their role across the Aviva Group. The majority of such costs are borne by Aviva plc and are not recharged to the Company. Refer note 6 for details of directors' remuneration.

### (c) Immediate parent entity

The immediate parent entity is Aviva Central Services UK Limited, a private limited company incorporated and domiciled in England and Wales.

### (d) Ultimate parent entity

The ultimate parent entity and controlling party is Aviva plc, a public limited company incorporated and domiciled in England and Wales, which is the parent undertaking of the smallest and largest Group to consolidate these financial statements. Copies of Aviva plc consolidated financial statements are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.