Aviva Employment Services Limited

Registered in England and Wales No. 03280551

Annual Report and Financial Statements 2020

Contents

Directors and officers

Directors

B S Turner
A J Gammon
D Williams
S A Hampson
C L Maccarthy
C Moran

Officer – Company Secretary

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

Independent auditors

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

Registered office

St Helen's
1 Undershaft
London
EC3P 3DQ

Company number

Registered in England and Wales No. 03280551

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 2020.

Review of the Company's business

Principal activities

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

Financial position and performance

The financial position of the Company at 31 December 2020 is shown in the statement of financial position on page 21, with the trading results shown in the income statement on page 18, and the statement of cash flows on page 22.

Profit for the year before tax has decreased from £226 million in 2019 to £173 million in 2020. The decrease from the prior year is largely due to a decrease net investment income of £39 million and a reduction in gross profit primarily due to additional past service pension costs of £18 million related to the Guaranteed Minimum Pension (GMP) equalisation not present in 2020.

Net assets have decreased from £2,458 million as at 31 December 2019 to £2,454 million as at 31 December 2020. The decrease is primarily due to an increase in deferred tax liability. This has been partially offset by the increase in retirement benefit surplus driven by a gain on scheme assets and employer contributions paid into the scheme, offset by unfavourable remeasurements which includes the annuity buy-in mentioned below.

Significant events

In October 2020, the Aviva Staff Pension Scheme (ASPS) completed a bulk annuity buy-in transaction with Aviva Life & Pensions UK Limited (AVLAP), a Group company. A premium of £873 million was paid by the scheme to AVLAP. The ASPS recognised a plan asset of £579 million, with the difference between the plan asset recognised and the premium paid being recognised as an actuarial loss through other comprehensive income.

Future outlook

Strategies for the Aviva Group as a whole are determined by the Board of Aviva plc and these are shown in the Aviva plc Annual Report and Accounts 2020 and Preliminary Announcement for the year ended 31 December 2020. The Company will work with the Group to support the implementation of these strategies. 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 principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 17 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.
- *Liquidity risks* affecting the Company's ability to make payments as they become due.
- *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

Section 172 statement

We report here on how our Directors have performed their duty under Section 172 (1) (s.172) of the Companies Act 2006.

The Board considers it crucial that the Company maintains a reputation for high standards of business conduct. The Board is responsible for setting, monitoring and upholding the culture, values, standards, ethics, and reputation of the Company to ensure that our obligations to our shareholders and stakeholders are met. The Board monitors adherence to our policies and compliance with local corporate governance requirements across the Group and is committed to acting where our businesses fall short of the standards we expect.

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

Our culture

The Group's culture is shaped by our clearly defined purpose – with you today for a better tomorrow. As the provider of financial services to millions of customers, Aviva seeks to earn their trust by acting with integrity and a sense of responsibility at all times. We look to build relationships with all our stakeholders based on openness and transparency. We value diversity and inclusivity in our workforce and beyond.

Aviva Employment Services as part of the Group, looks to operate within and support this culture.

Stakeholder Engagement

(i) Engagement with employees

- Through employee forums, internal communications and informal meetings, the directors engage with our people on a wide range of matters and act on the outputs of our annual engagement survey. Our directors have also attended meetings of Your Forum, our fully elected employee forum representing employees.

- We believe these methods of engagement with Aviva employees are effective in building and maintaining trust and communication; allowing for openness, honesty and transparency and increasing innovation and productivity within the business. These methods of engagement also act as a platform for Aviva employees to influence change in relation to matters that affect them.

- We remain focussed on employee health and wellbeing, delivering the Wellbeing@Aviva programme, supporting colleagues physical, mental, financial and social wellbeing.

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

- We are committed to recruiting, training and retaining the best talent we can find. We are proud to have been a pioneer in some areas of employee benefits, including providing six months paid parental leave for all employees. We remain a member of the 30% Club, a business-led organisation committed to accelerating progress towards better gender balance at all levels of organisations.

(ii) Our customers

- The Company has no direct customers.

(iii) Our suppliers

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

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

- The Board reviews the actions we have taken to prevent modern slavery and associated practices in any part of our supply chain and approves our Modern Slavery Act statement each year.

(iv) Shareholders

The Board considers the long-term impact of corporate actions and decisions on our shareholders. Our ultimate shareholder is Aviva plc and there is ongoing communication and engagement with the Aviva plc Board. Any matters requiring escalation are escalated by the Board through the Chairman to its parent. Additionally, members of the Aviva plc board can attend board meetings by invitation.

Strategic Report continued

Key performance indicators

The directors consider that the Company's key performance indicators ("KPIs") that communicate the financial performance are as follows:

	2020 £m	2019 £m
(Decrease)/increase in revenue	**(6%)**	2%
Profit for the year before tax as a percentage of revenue	**13.8%**	17.1%
Retirement benefit surplus	**3,007**	2,948

The decrease in revenue in 2020 is largely due to a decrease in employment costs recharged in line with the decrease in employment costs incurred.

Profit for the year before tax as a percentage of revenue is lower than prior year primarily due to one off additional past service costs relating to the GMP equalisation in 2020 along with a reduction in net investment income.

Retirement benefit surplus is higher in 2020 primarily due to the net interest received on defined benefit assets. The employer contributions paid to the schemes largely offset the past service costs, administration expenses and negative remeasurements during the year.

Non-Financial Metrics

	2020	2019
Average number of employees	**16,752**	17,414

Average headcount continued to fall in 2020 following the downward trajectory from 2019. Reductions across the year have been driven by ongoing cost-cutting initiatives, with decreased attrition experience from COVID-19, offset by limited hiring requirements.

On behalf of the Board on 21 July 2021

D Williams

D Williams
Director

Directors' report

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

Directors

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

C F Prendergast was appointed as a director of the Company on 1 January 2020 and resigned on 31 March 2020.
L C Rix resigned as a director of the Company on 27 February 2020.
D Williams was appointed as a director of the Company on 31 March 2020.
I M Hughes resigned as a director of the Company on 31 March 2020.
A Cairns resigned as a director of the Company on 1 July 2020.
S A Hampson was appointed as a director of the Company on 27 July 2020.
A G Pooley resigned as a director of the Company on 21 August 2020.
C L Maccarthy was appointed as a director of the Company on 9 December 2020.
C Moran was appointed as a director of the Company on 9 December 2020.
M T Sigsworth resigned as a director of the Company on 31 December 2020.

Dividends

No interim ordinary dividend on the Company's ordinary shares was declared or paid during 2020 *(2019: £nil)*. The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2020 *(2019: £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, which includes a section describing the principal risks and uncertainties. In addition, the financial statements include notes on the Company's management of its major risks (note 17).

The Company and its ultimate parent, Aviva plc, have considerable financial resources together with a diversified business model, with a spread of businesses and geographical reach. The Directors believe that the Company is well placed to manage its business risks successfully.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to adopt, and to consider appropriate, the going concern basis in preparing the financial statements.

Future outlook

Likely future developments in the business of the Company are discussed in the strategic report on page 4.

Stakeholder engagement

Statements summarising the Company's employee engagement, and its engagement with suppliers, customers and its other stakeholders are included in the Strategic Report on page 5.

Directors' Report continued

Statement of Corporate Governance Arrangements

For the year ended 31 December 2020, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (the "Principles"). Application of the Principles by the Company during 2020 is set out below:

Principle 1 – Purpose and leadership

The Company is part of the Aviva Group. Following the appointment of Amanda Blanc as Group Chief Executive Officer (CEO) of Aviva plc in July 2020, the Group embarked on a strategic review aimed at optimising its organisational structure. The Group's Purpose is to be 'with you today, for a better tomorrow.' We have been looking after customers for more than 320 years, and as a business we are deeply invested in our people, our communities and the planet. We are here to be with our customers today as well as working for a better tomorrow. Our strategy is centred on putting the customer first, having a strong social purpose, focusing on where we can win, execution discipline, and ultimately creating value for our shareholders.

The Group has three strategic priorities:

Focus the portfolio - our focus is on our Core markets in the UK, Ireland and Canada. These are our strongest businesses where we have market leading positions.

Transform performance - in our Core markets we aim to transform performance to deliver greater customer trust, engagement and retention, and profitable growth for our shareholders.

Financial strength -resilience and sustainability underpin our strategy, and our focus is on maintaining strong solvency and liquidity and reducing debt leverage.

The Board monitors the culture of the Company and raises any concerns during meetings. Culture information is included in the Board's annual planner which ensure the Board has the opportunity to review culture metrics and that employees have the right values, attitudes and behaviours and are focussed on doing the right thing for the customer. The Company complies with the Senior Managers' Certification Regime which further strengthens the drive for individual accountability. Employee engagement is sought through the Voice of Aviva employee surveys, the output of which is reviewed by the Board and an action plan put in place to address areas identified by employees which may require further focus.

The Board is responsible for promoting the long-term success of the Company for the benefit of its members as a whole, taking into account other stakeholders as defined by Section 172 of the Companies Act 2006 and the Articles of Association and including but not limited to; setting the Company's strategic aims, monitoring performance of the Company and management against those aims and monitoring the operation of prudent and effective controls and monitoring compliance with corporate governance principles.

Principle 2 – Board composition

The Board's Chair assesses the composition annually to ensures that the balance of responsibilities, accountabilities and decision making across the Company is effectively maintained. The directors have equal voting rights when making decisions, except the Chair, who has a casting vote. All Directors have access to the advice and services of the Company Secretary.

The Board is responsible for organising and directing the affairs of the Company in a manner that is most likely to promote the success of the Company for its shareholders as a whole and in a way that is consistent with its Articles of Association, applicable regulatory requirements and current corporate governance practice.

The Board undertook a formal effectiveness review of its performance, facilitated by the Company Secretary and Linstock in 2020, which compromised of a detailed survey and external benchmarks. The results were produced by the Company Secretary and presented to the Board at its meeting on the 17 September 2020. The Board's next assessment will take place in mid-2021. The 2020 Board Effectiveness Review assessed that overall the Company was operating effectively with a number of areas prioritised for focus during the coming year.

Principle 3 – Director responsibilities

The Company operates in accordance with the Aviva Governance Framework, as approved by Aviva plc. The Aviva Governance Framework articulates the interrelation between its purpose, culture, values; its reporting and escalation structures and their alignment with legal and regulatory duties and its risk management framework. The core elements are the legal and regulatory flow of accountability and decision making and the Company's frameworks, policies and standards and the checks and balances through the operation of the Company's second and third lines of defence which ensure effective Board oversight.

Within the Aviva Group, accountability is formally delegated by the Board of the Company to the Chair. The Chair delegations are referenced in the Board's Terms of Reference, with accountability resting with the Chair and the Board. The Company must also adhere to the Subsidiary Governance Principles which are a set of internal governance principles.

The Board held five meetings in 2020.The Board's key areas of focus in 2020 were Smart Working & Wellbeing, Corporate Security and Group Staff Pension Scheme matters.

Directors' Report continued

Principle 4 – Opportunity and risk

The role of the Board is to promote the long-term sustainable success of the company, generating value for its shareholder within a framework of prudent and effective controls, which enable risks to be assessed and managed.

The Company operates a risk management framework that forms an integral part of the management and Board processes and decision-making framework, aligned to the Group's risk management framework. The key elements of the risk management framework comprise risk appetite; risk governance, including risk policies and business standards, and the processes the Company uses to identify, measure, manage, monitor and report risks, including the use of risk models and stress and scenario testing. The Company's Risk Representative attends Board meetings and provides independent challenge and influence in key business decisions and in ensures the effective operation of the risk management framework and control environment, in addition to assessing the overall risk culture. Material matters are escalated by the Board and the Risk Representative to the Company's parent legal entity Board and other Group Forums as appropriate.

Principle 5 – Remuneration

Under the Aviva Group Reward Governance Framework, the Company's remuneration policy operates in accordance with the Global Remuneration Policy as approved by the Aviva plc Remuneration Committee, which applies to all employees in entities within the Aviva Group.

The Aviva Group reports on the pay ratio of the Group CEO to UK employees, and details of this can be found in the Directors' Remuneration Report in the Aviva plc Annual Report and Accounts which is available at www.aviva.com/investors/reports/. Aviva plc also reports on its gender pay gap, and the steps it is taking in relation to this which can be found at www.aviva.com/about-us/diversity-and-inclusion.

As employees of Aviva, staff are able to enjoy the comprehensive flexible benefit offering including the Aviva staff pension scheme with matching employer contributions and Aviva's broader Wellbeing offering which aims to promote health and wellbeing among Aviva colleagues.

Please see note 5 on page 23 in relation on the remuneration of the Company's directors.

Principle 6 – Stakeholders

Details about stakeholders can be found in s172 statement in the Strategic Report.

Employees

Employees have opportunities to voice their opinion and ask questions through the Group wide Intranet site, questions and answer sessions with the Group Chief Executive Officer and members of the Executive Committee, pulse surveys and the annual Voice of Aviva Survey which is open to all employees. Team meetings are actively encouraged and are held in all business units across the Group.

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.

One of our drivers for an inclusive culture comes through our employee communities. They act as a lobby group and conscience to the organisation and are actively sponsored by all members of the Executive Committee.

We make reasonable adjustments for our people and also for candidates who are interested in working for us. As a Disability Confident Employer; a Government scheme that support employers to make the most out of the talents that disabled colleagues can bring to our organisation, we will interview every disabled applicant that meets the minimum criteria for the job and offer Workplace Adjustment Passports to colleagues.

The Group remains focussed on employee health and wellbeing, delivering the Wellbeing@Aviva programme, supporting colleagues physical, mental, financial and social wellbeing.

The Group also 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.

Directors' Report continued

Disclosure of information to the auditors

In accordance with section 418 of the Companies Act 2006, the Directors in office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's External Auditors, PricewaterhouseCoopers LLP, are unaware and each director has taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that PricewaterhouseCoopers LLP are aware of that information.

Independent auditors

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

Qualifying indemnity provisions

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

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

Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

On behalf of the Board on 21 July 2021

D Williams
Director

Independent auditors' report to the members of Aviva Employment Services Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2020; the Income statement, Statement of comprehensive income, Statement of changes in equity and statement of cash flows for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Aviva Employment Services Limited continued

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to non-compliance in the reporting requirements of the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to risk of fraud through management override of control. Audit procedures performed by the engagement team included:

- Testing journal entries and other adjustments for appropriateness and testing accounting estimates (because of the risk of management bias);
- Reviewing relevant meeting minutes;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of areas identified as having an increased risk; and
- Testing transactions entered into outside of the Company's normal course of business

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

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

Independent auditors' report to the members of Aviva Employment Services Limited continued

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Philip Watson

Philip Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 July 2021

Accounting policies

The Company, a private limited company incorporated and domiciled in the United Kingdom (UK) and limited by shares, is the employing company for the majority of staff of the Group in the 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 accounting standards in conformity with the requirements of the Companies Act 2006. In addition, the financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss (FVTPL).

The financial statements have been prepared on the going concern basis as explained in the Directors' report on page 7.

The Company's financial statements are stated in pounds sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds 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 on 1 January 2020. The amendments have been issued and endorsed by the EU and do not have a significant impact on the Company's financial statements.

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

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

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

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

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

The following new standards and amendments to existing standards have been issued, are not effective for the current reporting period and are not expected to have a significant impact on the Company's consolidated financial statements:

(v) *Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*

Published by the IASB in August 2020. The amendments are effective for annual reporting beginning on or after 1 January 2021 and have not yet been endorsed by the EU.

(B) Critical accounting policies and 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.

Critical accounting policies

The following accounting policies are those that have the most significant impact on the amounts recognised in the financial statements, with those judgements involving estimation summarised thereafter.

Item	Critical accounting judgement	Accounting policy
Pension obligations	Set out in accounting policy K	K

Use of estimates

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 considered particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy and note disclosures.

Item	Critical accounting estimates	Accounting policy	Note
Pension obligations	Set out in accounting policy K	K	13

Accounting policies continued

(C) Fair value measurement

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

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

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

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value.

(D) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, 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.

(E) Receivables and other financial assets

Receivables and other financial assets are recognised initially at their fair value. Subsequent to initial measurement receivables are measured at amortised cost using the effective interest rate method, less expected credit losses.

(F) Payables and other financial liabilities

Payables and other financial liabilities are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest rate method.

(G) 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.

Accounting policies continued

(H) Provisions and contingent liabilities

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 obligation at the balance sheet date. Where the effect of the time value of money is material, the provision is the present value of the expected expenditure. Provisions are not recognised for future operating losses.

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable, or the amount cannot be reasonably estimated.

(I) Income taxes

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

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

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

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

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

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

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively, except for the tax consequences of distributions from certain equity instruments, to be recognised in the income statement. Deferred tax related to any fair value re-measurement of available for sale investments, owner-occupied properties, pensions and other post-retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability.

(J) Share capital

Equity instruments

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

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

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.

Accounting policies continued

(K) Employee benefits

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.

Plan assets exclude unpaid contributions due from Group entities to the schemes, and any non-transferrable financial instruments issued by a Group entity and held by the schemes. 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 year to 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.

(L) 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.

(M) Expense recognition

Share based payments

Equity-settled share-based payments to employees and others providing services are measured at fair value of the equity instruments of the ultimate parent entity, Aviva plc at the grant date. The fair value excludes the effect of non market-based vesting conditions.

The fair value determined at the grant date of the equity-settled payments is expensed on a straight-line basis over the vesting period, based on estimate of equity instruments that will eventually vest. At each period end, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the statement of comprehensive income.

Income statement
For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Revenue	L, 1 & 18(a)(i)	**1,252**	1,325
Cost of sales	2	**(1,136)**	(1,195)
Gross profit		**116**	130
Net investment income	K & 3	**57**	96
Profit for the year before tax		**173**	226
Tax charge	I & 7(a)(i)	**(37)**	(42)
Profit for the year after tax		**136**	184

The accounting policies (identified alphabetically) on pages 14 to 17 and notes (identified numerically) on pages 23 to 40 of these financial statements.

Statement of comprehensive income
For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Profit for the year		**136**	184
Other comprehensive losses:			
Items that will not be reclassified to income statement			
Remeasurements of pension schemes	K & 13(b)(i)	**(109)**	(752)
Tax (charge)/credit	I & 7(b)	**(31)**	127
Total other comprehensive loss, net of tax		**(140)**	(625)
Total comprehensive loss for the year		**(4)**	(441)

The accounting policies (identified alphabetically) on pages 14 to 17 and notes (identified numerically) on pages 23 to 40 are an integral part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2020

	Ordinary share capital £m	Retained earnings £m	Total equity £m
Balance at 1 January 2019	-	2,899	2,899
Profit for the year	-	184	184
Other comprehensive loss	-	(625)	(625)
Total comprehensive loss for the year	-	(441)	(441)
Balance at 31 December 2019	**-**	**2,458**	**2,458**
Profit for the year	**-**	**136**	**136**
Other comprehensive loss	**-**	**(140)**	**(140)**
Total comprehensive loss for the year	**-**	**(4)**	**(4)**
Balance at 31 December 2020	**-**	**2,454**	**2,454**

The accounting policies (identified alphabetically) on pages 14 to 17 and notes (identified numerically) on pages 23 to 40 are an integral part of these financial statements.

Statement of financial position
As at 31 December 2020

	Note	2020 £m	2019 £m
Assets			
Non-current assets			
Current tax asset	I & 12(a)	**3**	8
Deferred tax asset	I & 12(b)	**9**	13
Retirement benefit surplus	K & 13(a)	**3,007**	2,948
Current assets			
Receivables and other financial assets	E & 9	**219**	196
Cash and cash equivalents	G & 16(b)	**25**	26
Total assets		**3,263**	3,191
Equity			
Ordinary share capital	J & 10	**-**	-
Retained earnings	11	**2,454**	2,458
Total equity		**2,454**	2,458
Liabilities			
Non-current liabilities			
Deferred tax liability	I & 12(b)	**675**	610
Current liabilities			
Payables and other financial liabilities	F & 14	**131**	120
Provisions	H & 15	**3**	3
Total liabilities		**809**	733
Total equity and liabilities		**3,263**	3,191

The financial statements were approved by the Board of Directors on 21 July 2021 and signed on its behalf by

D Williams

D Williams
Director

Registered in England and Wales No. 03280551

The accounting policies (identified alphabetically) on pages 14 to 17 and notes (identified numerically) on pages 23 to 40 are an integral part of these financial statements.

Statement of cash flows
For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Cash generated from operating activities	16(a)	**(1)**	(67)
Net cash used in operating activities		**(1)**	(67)
Net decrease in cash and cash equivalents		**(1)**	(67)
Cash and cash equivalents at 1 January		**26**	93
Cash and cash equivalents at 31 December	G & 16(b)	**25**	26

The accounting policies (identified alphabetically) on pages 14 to 17 and notes (identified numerically) on pages 23 to 40 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 the majority of staff of the Group in the UK. Refer to note 18 for further information on income earned during the year.

2. Cost of sales

	Note	2020 £m	2019 £m
Wages and salaries		**684**	711
Social security costs		**103**	112
Other pension costs		**2**	4
Defined benefit scheme contributions	13(b)(i) & 13(d)	**33**	17
Defined contribution scheme contributions	13(d)	**135**	131
Profit sharing and incentive plans	2(a)	**153**	191
Termination benefits		**21**	24
Other costs		**5**	5
Total staff costs		**1,136**	1,195

(a) Profit sharing and incentive plans

Whilst the expense arising from equity-settled transactions is recorded in the income statement, in accordance with IFRS 2 the corresponding credit entry is classified as a capital contribution received from Aviva plc within equity. However, this capital contribution is immediately offset by a corresponding management recharge of equivalent value.

3. Net investment income

	Note	2020 £m	2019 £m
Net interest income on pension schemes held at amortised cost	13(b)(i)	**57**	96
		57	96

4. Employee information

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

	2020	2019
United Kingdom	**16,752**	17,414

5. Directors' remuneration

All directors are remunerated by the Company for their services to the 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 Group.

D Williams' remuneration is disclosed within the aggregate of key management compensation in the annual report and accounts of Aviva plc.

Notes to the financial statements continued

6. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors, PricewaterhouseCoopers LLP is as follows:

	2020 £	2019 £
Fees payable to PwC LLP for the statutory audit of the Company's financial statements	**220,059**	205,173

The Company is exempt under SI 2008/489 from the obligation to disclose fees in respect of 'Other services' as the Company is a subsidiary of Aviva plc, which prepares consolidated financial statements. Fees paid to the Company's auditors, PricewaterhouseCoopers LLP and its associates for services other than the statutory audit of the Company and other Group undertakings are disclosed in the consolidated accounts of Aviva plc.

There were no non-audit fees paid to the Company's auditors during the year *(2019: £nil)*. All fees have been borne by Aviva plc (see note 18(a)(iii)).

7. Tax

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	Note	2020 £m	2019 £m
Current tax			
For this year		**(32)**	(26)
Prior year adjustments		**(2)**	2
Total current tax		**(34)**	(24)
Deferred tax			
Origination and reversal of temporary differences		**(2)**	(18)
Changes in the tax rates or tax laws		**(1)**	-
Total deferred tax	7(a)(ii)	**(3)**	(18)
Total tax charged to income statement		**(37)**	(42)

(ii) Deferred tax charged to the income statement represents movements on the following items:

	2020 £m	2019 £m
Pensions and other post retirement obligations	**(5)**	(15)
Other temporary differences	**2**	(3)
Total deferred tax charged to income statement	**(3)**	(18)

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

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

	2020 £m	2019 £m
Current tax		
In respect of pensions and other post retirement obligations	**35**	35
Deferred tax:		
In respect of pensions and other post retirement obligations	**(66)**	92
Total tax (charged)/credited to equity	**(31)**	127

Notes to the financial statements continued

7. Tax continued

(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:

	2020 £m	2019 £m
Profit for the year before tax	**173**	226
Tax calculated at standard UK corporation tax rate of 19% *(2019: 19%)*	**(33)**	(43)
Adjustments in respect of prior years	**(2)**	-
Disallowable expenses	**(8)**	(8)
Share schemes	**7**	9
Impact of change in rate of tax	**(1)**	-
Total tax charge for the period	**(37)**	(42)

During 2020, the reduction in the UK corporation tax rate that was due to take effect from 1 April 2020 was cancelled and as a result, the rate has remained at 19%. This revised rate has been used in the calculation of the Company's deferred tax assets and liabilities as at 31 December 2020 and increased the Company's deferred tax liabilities by £45 million.

In the Budget of 3 March 2021 the UK Government announced that the UK corporation tax rate will increase to 25% from 1 April 2023. As of 31 December 2020, this measure had not been substantively enacted and therefore no impact is reflected in the calculation of the Company's deferred tax assets and liabilities as at 31 December 2020. This measure would increase the Company's deferred tax liabilities by approximately £139 million.

8. Dividends

No interim or final ordinary dividends on the Company's ordinary shares were declared or paid during 2020 *(2019: £nil)*.

9. Receivables and other financial assets

	Note	2020 £m	2019 £m
Amounts due from parent	18(a)(i)	**107**	92
Amounts due from fellow Group companies	18(a)(i)	**108**	97
Group relief asset	18(a)(iv)	**4**	6
Other receivables		**-**	1
Total at 31 December		**219**	196
Expected to be recovered in less than one year		**219**	196
Total at 31 December		**219**	196

The fair value of receivables is approximate to their carrying amounts. All receivables are held at amortised cost.

10. Ordinary share capital

	2020 £	2019 £
Allotted, called up and fully paid		
2 *(2019: 2)* ordinary shares of £1 each	**2**	2

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.

Notes to the financial statements continued

11. Retained earnings

	2020 £m	2019 £m
At 1 January	**2,458**	2,899
Profit for the year	**136**	184
Other comprehensive losses for the year	**(140)**	(625)
At 31 December	**2,454**	2,458

12. Tax assets and liabilities

(a) Current tax

	2020 £m	2019 £m
Expected to be recoverable in more than one year	**3**	8
Net tax asset recognised in the statement of financial position	**3**	8

Assets for prior years' tax to be settled by group relief of £4 million (2019: £6 million) are included within receivables and other financial assets (note 9) and are receivable in less than one year.

(b) Deferred taxes

(i) The balance at 31 December comprises:

	2020 £m	2019 £m
Deferred tax asset	**9**	13
Deferred tax liability	**(675)**	(610)
Net deferred tax liability	**(666)**	(597)

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

	2020 £m	2019 £m
Pensions and other post retirement obligations	**(675)**	(604)
Other temporary differences	**9**	7
Net deferred tax liability	**(666)**	(597)

(iii) The movement in the net deferred tax liability comprises:

	Note	2020 £m	2019 £m
As at 1 January		**(597)**	(671)
Amounts (charged)/credited to income statement (note 7 (a)(ii))	7(a)(ii)	**(3)**	(18)
Amounts (charged)/credited to equity (note 7(b))	7(b)	**(66)**	92
As at 31 December		**(666)**	(597)

The Company has unrecognised capital losses of £27 million *(2019: £27 million)* to carry forward indefinitely against future taxable gains.

Notes to the financial statements continued

13. Retirement benefit surplus

(a) Introduction

The Company operates a number of defined benefit and defined contribution pension schemes. The material defined benefit schemes are the Aviva Staff Pension Scheme (ASPS), the RAC (2003) Pension Scheme which was retained after the sale of RAC Limited in September 2011, and the Friends Provident Pension Scheme (FPPS), which was transferred to the Company in 2016 from Friends Life Management Services Limited (FLMS), a management service company within the Aviva Group.

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 the material defined benefit schemes as at 31 December are shown below:

				2020				2019
	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)	**15,011**	**2,257**	**2,313**	**19,581**	14,160	2,076	2,081	18,317
Present value of defined benefit obligation	**(12,651)**	**(1,837)**	**(2,086)**	**(16,574)**	(11,818)	(1,673)	(1,878)	(15,369)
Net surplus in the schemes	**2,360**	**420**	**227**	**3,007**	2,342	403	203	2,948

Under the IAS 19 valuation basis, the Company applies the principles of *IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'*, whereby a surplus is only recognised to the extent that the Company is able to access the surplus either through an unconditional right of refund to the surplus or through reduced future contributions relating to ongoing service, which have been substantively enacted or contractually agreed. The Company has determined that it can derive economic benefit from the surplus in the ASPS via a reduction to future employer contributions for DC members, which could theoretically be paid from the surplus funds in the ASPS. In the RAC and FPPS, the Company has determined that the rules set out in the schemes' governing documentation provide for an unconditional right to a refund from any future surplus funds in the schemes.

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 funding 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

13. Retirement benefit surplus 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 schemes surpluses

Movements in the pension schemes' surpluses comprise:

2020	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		**18,317**	**(15,369)**	**2,948**
Past service costs - amendments[1]		-	(18)	(18)
Administrative expenses[2]		-	(15)	(15)
Total pension cost charged to cost of sales	2	-	(33)	(33)
Net interest credited to investment income	3	344	(287)	57
Total recognised in income statement		**344**	**(320)**	**24**
Remeasurements:				
Actual return on these assets		1,701	-	1,701
Less: Interest income on scheme assets		(344)	-	(344)
Return on scheme assets excluding amounts in interest income		1,357	-	1,357
Losses from change in financial assumptions		-	(1,676)	(1,676)
Gains from change in demographic assumptions		-	43	43
Experience gain		-	169	169
Total remeasurements recognised in other comprehensive income		**1,357**	**(1,464)**	**(107)**
Employer contributions		142	-	142
Plan participants' contributions		2	(2)	-
Benefits paid		(566)	566	-
Administrative expenses paid from scheme assets[2]		(15)	15	-
Net surplus in the schemes at 31 December		**19,581**	**(16,574)**	**3,007**

1 Past service costs include a charge of £18 million relating to the estimated liability arising in the defined benefit schemes as a result of the requirement to equalise the cash equivalent transfer values paid to former scheme members for the effects of Guaranteed Minimum Pension (GMP). This additional liability has arisen following the High Court judgement in November 2020 in the case involving Lloyds Banking Group.

2 Administrative expenses are expensed as incurred.

During the period the ASPS completed a bulk annuity buy-in transaction with Aviva Life & Pensions UK Limited, a Group Company. Due to different measurement bases applying for accounting purposes, the premium paid by the scheme exceeded the valuation of the plan asset recognised. This has been recognised as an actuarial loss in the actual return on assets within other comprehensive income.

The remeasurements recognised are also a result of falling interest rates over the period; as well as an update to the corporate bond portfolio used to derive the discount rate, which reduces the liabilities under IAS 19. The impact of the change in corporate bond portfolio used to derive the discount rate is recognised as a gain from change in financial assumptions within other comprehensive income.

Notes to the financial statements continued

13. Retirement benefit surplus continued

(b) IAS 19 disclosures continued

(i) Movements in the schemes surpluses continued

2019	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		17,679	(14,201)	3,478
Administrative expenses[1]		-	(17)	(17)
Total pension cost charged to cost of sales	2	-	(17)	(17)
Net interest credited to investment income	3	472	(376)	96
Total recognised in income statement		472	(393)	79
Remeasurements:				
Actual return on these assets		1,059	-	1,059
Less: Interest income on scheme assets		(472)	-	(472)
Return on scheme assets excluding amounts in interest income		587	-	587
Losses from change in financial assumptions		-	(1,650)	(1,650)
Gain from change in demographic assumptions		-	191	191
Experience gain		-	120	120
Total remeasurements recognised in other comprehensive income		587	(1,339)	(752)
Employer contributions		143	-	143
Plan participants' contributions		4	(4)	-
Benefits paid		(551)	551	-
Administrative expenses paid from scheme assets[1]		(17)	17	-
Net surplus in the schemes at 31 December		18,317	(15,369)	2,948

1 Administrative expenses are expensed as incurred.

(ii) Scheme assets

Scheme assets are stated at their fair values at 31 December 2020.

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

	2020			2019		
	Quoted in an active market £m	**Other £m**	**Total £m**	Quoted in an active market £m	Other £m	Total £m
Bonds	**15,848**	**3,853**	**19,701**	13,676	3,667	17,343
Property	**-**	**352**	**352**	-	392	392
Pooled investment vehicles	**-**	**4,182**	**4,182**	-	4,497	4,497
Derivatives	**-**	**-**	**-**	5	55	60
Insurance policies	**-**	**2,714**	**2,714**	-	1,977	1,977
Cash and other[1]	**(2,030)**	**(5,338)**	**(7,368)**	(2,618)	(3,334)	(5,952)
Total fair value of assets	**13,818**	**5,763**	**19,581**	11,063	7,254	18,317

1 Cash and other assets comprise cash at bank, receivables, payables and repurchase agreements. At 31 December 2020, cash and other assets primarily consist of repurchase agreements of £4,866 million *(2019: £2,894 million)*.

Notes to the financial statements continued

13. Retirement benefit surplus continued

(b) IAS 19 disclosures continued

(ii) Scheme assets continued

Plan assets include investments in Aviva Group-managed funds of £2,232 million *(2019: £2,262 million)* and transferrable insurance policies with other Group companies of £2,047 million *(2019: £1,330 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'. There are no significant judgements involved in the valuation of scheme assets. Insurance policies are valued on the same basis as the pension scheme liabilities, as required by IAS19.

(iii) Assumptions on scheme liabilities

The valuations used for accounting under IAS 19 have been based on the most recent funding actuarial valuations, updated to take account of the standard's requirements in order to assess the liabilities of the material schemes at 31 December 2020.

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:

	2020	2019
Inflation rate[1]	**3.0%/2.4%**	3.0% / 2.2%
General salary increases[2]	**4.75%**	4.8%
Pension increases[3]	**3.0%/2.4%**	3.0% / 2.2%
Deferred pension increases[3]	**3.0%/2.4%**	3.0% / 2.2%
Discount rate[4]	**1.31%/1.37% (non-insured members)**	1.9% (non-insured members)
	1.34%/1.22% (insured members)	1.9%/1.8% (insured members)
Basis of discount rate		AA-rated corporate bonds

1 Assumptions provided for RPI/CPI. Relevant RPI/CPI swap curves are used, which are equivalent to the single rates shown for ASPS. In 2020, CPI is derived as RPI less 80 bps pre 2030 and RPI less 0 bps post 2030 *(2019: RPI less 100 bps pre 2030 and RPI less 60 bps post 2030).*

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. Relevant RPI/CPI swap curves are used, which are equivalent to the single rates shown for ASPS. The assumptions are also adjusted to reflect the relevant caps/floors and the inflation volatility.

4 To calculate scheme liabilities, a discount rate of 1.31% is used for ASPS and RAC members and 1.37% for FPPS members not included in annuity policies held by the scheme. A discount rate of 1.34% is used for ASPS members and 1.22% for FPPS members included in annuity policies held by the scheme. The different rates reflect the differences in the duration of the liabilities between the schemes.

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.

Notes to the financial statements continued

13. Retirement benefit surplus continued

(b) IAS 19 disclosures continued

(iii) Assumptions on scheme liabilities continued

Mortality assumptions

Mortality assumptions are significant in measuring the obligations under the Company's 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 2020 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 - SAPS tables as a proxy for Club Vita pooled experience, including an allowance for future improvements	60	88.0 (28.0)	89.4 (29.4)	89.8 (29.8)	92.0 (32.0)
RAC schemes - SAPS, including allowances for future improvement	65	86.8 (21.8)	88.4 (23.4)	89.6 (24.6)	91.5 (26.5)
FPPS schemes - SAPS, including allowances for future improvement	60	87.4 (27.4)	89.4 (29.4)	90.2 (30.2)	92.3 (32.3)

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. For the ASPS, which is the most material scheme to the Company, the allowance for mortality improvement is per the actuarial profession's 'CMI_2019 (S=7.25) Advanced with adjustments' model *(2019: 'CMI_2018 (S=7.25) Advanced with adjustments')*, with a long-term improvement rate of 1.5% per annum *(2019: 1.75% per annum)* for males and 1.5% per annum *(2019: 1.5% per annum)* for females. The CMI_2019 tables have been adjusted by adding 0.25% per annum *(2019: 0.25% per annum)* and 0.35% per annum *(2019: 0.35% per annum)* to the initial rate of mortality improvements for males and females respectively (to allow for greater mortality improvements in the pension scheme membership relative to the general population on which CMI_2019 is based), and uses the advanced parameters to taper the long-term improvement rates to zero between ages 90 and 115 *(2019: long-term improvement rates taper to zero between ages 90 and 115)* (the 'core' parameters taper the long-term improvement rates to zero between ages 85 and 110).

Sensitivity analysis

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, inflation rate and mortality. The sensitivity analysis below has been determined by changing the respective assumptions whilst holding all other assumptions constant. The following table summarises how the defined benefit obligation of £16,574 million *(2019: £15,369 million)* would have increased/(decreased) as a result of the change in the respective assumptions:

	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 2020	**(2,734)**	**3,624**	**2,504**	**(1,964)**	**663**
Impact on present value of defined benefit obligation at 31 December 2019	(2,560)	3,410	2,458	(1,933)	566

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

It is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, the present value of the defined benefit obligation has been calculated using the projected unit credit method, which is the same as that applied in calculating the defined benefit obligation recognised within the consolidated statement of financial position. In addition, the sensitivities shown are for liabilities only and ignore the impact on assets, which would significantly mitigate the net interest rate and inflation sensitivity impact on the net surplus.

Notes to the financial statements continued

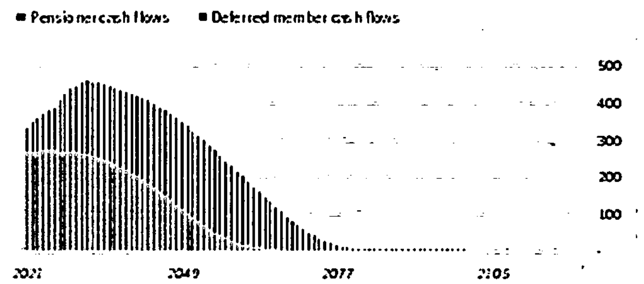
13. Retirement benefit surplus continued

(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 19 years in ASPS, 19 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 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 reduced 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 ASPS entering into a longevity swap in 2014 covering approximately £5 billion of pensioner in payment scheme liabilities.

In October 2019 the ASPS completed a bulk annuity buy-in transaction with Aviva Life & Pensions UK Limited, a Group Company. This covered approximately £1.1 billion of liabilities related to deferred pensioners and current pensioners, removing the investment and longevity risk for these members from the scheme. A further buy-in transaction with Aviva Life & Pensions UK Limited took place in October 2020, and covered approximately £0.6 billion of liabilities relating to deferred pensioners and current pensioners.

Other schemes

The RAC scheme and FPPS are considerably less material but their risks are managed in a similar way to those in ASPS.

(v) Funding

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

For the ASPS, following the latest formal actuarial valuation (with an effective date of 31 March 2018) a schedule of contributions was agreed with the trustee, even though the ASPS was fully funded on its technical provisions basis consistent with the requirements of the UK pension regulations.

Total employer contributions for all schemes in 2021 are currently expected to be £0.2 billion.

(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 remained 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.

Notes to the financial statements continued

13. Retirement benefit surplus continued

(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	2020 £m	2019 £m
Other pension costs	2	**(2)**	(4)
Defined benefit sections	2	**(33)**	(17)
Defined contribution sections	2	**(135)**	(131)
Total pension costs		**(170)**	(152)
Less: Amounts recharged to operating businesses		**286**	282
Net credit to the Income Statement		**116**	130

The Company has deferred £95 million *(2019: £92 million)* of contributions to the ASPS which will be paid in 2021, as part of an agreement with the trustee that allows contributions to be paid (with interest) up to 12 months after they would otherwise be due.

14. Payables and other financial liabilities

	Note	2020 £m	2019 £m
Due to fellow Group companies	18(a)(ii)	**108**	94
Other payables including other taxes and social security		**23**	26
Total at 31 December		**131**	120
Expected to be settled within one year		**131**	120
Total at 31 December		**131**	120

All payables and other financial liabilities are carried at cost, which approximates to fair value.

15. Provisions

(a) Carrying amounts

	2020 £m	2019 £m
Provision for holiday pay	**3**	3
Total at 31 December	**3**	3

(b) Movement in provisions

	2020 £m	2019 £m
As at 1 January	**3**	3
As at 31 December	**3**	3

Notes to the financial statements continued

16. Statement of cash flows

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

	Note	2020 £m	2019 restated[1] £m
Profit for the year before tax		**173**	226
Adjustments for:			
Pension cost charged to income statement	13(b)(i)	**33**	17
Net investment income on pension scheme	13(b)(i)	**(57)**	(96)
Net gain on pension schemes		**(24)**	(79)
Changes in working capital:			
Increase in receivables and other financial assets	9	**(19)**	(28)
Increase/(decrease) in payables and other financial liabilities[2]	14	**11**	(43)
		(8)	(71)
Pension contributions paid	13(b)(i)	**(142)**	(143)
Total cash used in operating activities		**(1)**	(67)

1 Following a review of the classification of cash flows the comparative amounts for group relief settlement and decrease in payables and other financial liabilities have been amended from those previously reported.

2 Increase in payables are stated after inclusion of group relief settlement settled via intercompany of £nil *(2019: £17 million).*

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

	2020 £m	2019 £m
Cash at bank and in hand	**25**	26
Total at 31 December	**25**	26

17. Risk management

(a) Risk management framework

The Company operates a risk management framework that forms an integral part of the management and Board processes and decision-making framework, aligned to the Group's risk management framework.

The Company's risk management approach is proportionate to its activities as the employing company for staff of the Group in the UK. 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 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.

For the purposes of risk identification and measurement, and aligned to the Company's risk policies, risks are usually grouped by risk type: credit, market, liquidity and operational risk. Risks falling within these types may affect a number of metrics including those relating to statement of financial position strength, liquidity and profit.

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 Company framework provides an adequate means of managing risk in the Company.

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

Notes to the financial statements continued

17. Risk management continued

(b) 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 expectations 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 credit risks arise principally through exposures to internal counterparties.

The Company's management of credit risk includes implementation of credit risk management processes (including limits frameworks), the operation of specific risk management committees, and detailed reporting and monitoring of exposures against pre-established risk criteria.

(i) Financial exposures to Group companies

The Company's financial assets are largely amounts due from fellow Group companies. The credit risk arising from Group counterparties failing to meet all or part of their obligations is considered remote. Due to the nature of the intra-group receivables, and the fact that these are settled, and not traded, the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the creditworthiness of such counterparties.

The Company entered into a longevity swap with Aviva plc in 2014, covering approximately £5 billion of pension payment scheme liabilities.

ASPS completed a bulk annuity buy-in transaction with Aviva Life & Pensions UK Limited during the year as discussed in note 13.

(ii) Financial exposures by credit ratings

The Company's maximum exposure to credit risk of financial assets is represented by the carrying amount of assets included in the statement of financial position.

Receivables include amounts due from other group companies of £108 million *(2019: £97 million)* and as such the Company gains some reassurance as to the recoverability of these amounts due from the credit worthiness of the Group's ultimate parent, Aviva plc, which has an external S&P issuer credit rating of A. Refer to note 18.

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.

(iii) Calculation of expected credit losses

Expected credit losses in relation to intercompany loans are calculated with reference to an assessment of the counterparty's ability to repay contractual amounts over the lifetime of the financial asset, and, where relevant, the credit rating of the ultimate parent company. All intercompany loans have been assessed on a 12 month expected credit losses basis.

The Company has no financial assets which are categorised such that lifetime expected credit losses are calculated or which are deemed to be credit impaired at the reporting date. The Company has not purchased or originated any credit-impaired financial assets as at the reporting date.

The Company makes use of the simplified approach when calculating expected credit losses on trade receivables which don't include a significant financing component, and therefore calculates expected credit losses over the lifetime of the instrument in question. As at the reporting date, no lifetime expected credit losses have been recognised in relation to trade receivables.

There are no financial assets past due or impaired in either 2020 or 2019.

(iv) Modification of contractual cash flows that have not resulted in derecognition

There have been no significant modifications of contractual cash flows on any of the Company's financial assets during the period.

Notes to the financial statements continued

17. Risk management continued

(c) Market risk

Market risk is the risk of adverse financial impact resulting directly or indirectly from fluctuations in interest rates, inflation, and foreign currency exchange rates. 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 Group level. Businesses manage market risks locally using the Group market risk framework and within local regulatory constraints. Group Capital 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.

The most material types of market risk that the Company is exposed to are described below.

(i) 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.

(ii) 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 13.

(d) Liquidity risk

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

The Company seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due.

The Company's cash resources are held in a pooled banking arrangement with fellow group companies, AES and Aviva Insurance Limited (AIL), whereby the group participating companies are able to draw down on the cash resources in the pool for short term investment or to fund payments. In extreme circumstances, the Company would approach the Group for additional short-term borrowing whilst the Company liquidated other assets. The Group maintains significant undrawn committed borrowing facilities of £1,700 million *(2019: £1,650 million)* from a range of leading international banks to mitigate this risk further.

Notes to the financial statements continued

17. Risk management continued

(d) Liquidity risk continued

Maturity analyses

The following tables show the maturities of the Company's liabilities, and of the financial assets held to meet them.

(i) Analysis of maturity of liabilities

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

	Note	On demand or within 1 year £m	2020 Total £m
Payables and other financial liabilities	14	**131**	**131**
Provisions	15	**3**	**3**
		134	**134**

	Note	On demand or within 1 year £m	2019 Total £m
Payables and other financial liabilities	14	120	120
Provisions	15	3	3
		123	123

(ii) Analysis of maturity of financial assets

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.

	Note	On demand or within 1 year £m	2020 Total £m
Receivables and other financial assets	9	**219**	**219**
Cash and cash equivalents	16	**25**	**25**
		244	**244**

	Note	On demand or within 1 year £m	2019 Total £m
Receivables and other financial assets	9	196	196
Cash and cash equivalents	16	26	26
		222	222

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

Notes to the financial statements continued

17. Risk management continued

(e) 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 13.

(f) 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 manages its operational risks using the Group-wide operational risk framework. Management use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

(g) Risk and 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 requirements of stakeholders. The sources of capital used by the Company are equity shareholders' funds. At 31 December 2020 the Company had £2,454 million *(2019: £2,458 million)* of total capital employed.

(h) UK-EU Future Relationship risks

The EU-UK Trade and Cooperation Agreement of 24 December 2020 provides for a dynamic future UK-EU relationship with scope for managed policy divergence or maintaining alignment, if the UK chooses. The agreement will have evolving consequences in 2021 and beyond on future financial services regulation, EU market access and the UK economy which will require careful monitoring.

(i) COVID-19

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The prolonged spread of COVID-19 has resulted in an economic downturn in jurisdictions in which the Company operates and the global economy more widely, as well as causing increased volatility and declines in financial markets. COVID-19 has resulted in an increased level of inherent operational risk through new practices including enforced remote working, staff absences for sickness and childcare, market volatility and through our outsourcing arrangements. Additional risks relating to extensive working from home; include cyber, data loss and occupational health. We have adapted and strengthened our processes and controls to ensure operational risks remain at an acceptable level. Since the onset of the pandemic the Group has remained operationally resilient, with key activities such as cash payments and transaction processing being maintained, IT systems remaining operational, and employees including frontline customer facing staff being supported to ensure that that we are there to support our customers when they need us most.

The Company continues to maintain a positive net asset value and since the onset of the pandemic the Company has remained operational. The Company's balance sheet exposure has been reviewed and actions are being taken to further reduce the sensitivity to economic shocks.

Notes to the financial statements continued

18. Related party transactions

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

(a) The Company had the following related party transactions

(i) Services provided and expenses recharged to related parties

		2020		2019
	Income earned in the year	**Receivable at year end**	Income earned in the year	Receivable at year end
	£m	**£m**	£m	£m
Parent	**1,061**	**107**	1,120	92
Fellow Group companies	**191**	**108**	205	97
	1,252	**215**	1,325	189

Income earned in the year relates to the provision of staff and associated services.

(ii) Services provided and expenses recharged by related parties

		2020		2019
	Expenses incurred in the year	**Payable at year end**	Expenses incurred in the year	Payable at year end
	£m	**£m**	£m	£m
Fellow Group companies	**2**	**(2)**	4	2
Group employee pension schemes	**168**	**110**	148	92
	170	**108**	152	94

Expenses incurred in the year relates to pension costs (see note 13(d)). Other pension costs relate to Expected Group Life Policy costs purchased through Aviva Life & Pensions UK Limited (AVLAP).

(iii) Audit fees

There were no non-audit fees paid to the Company's auditors during the year *(2019: £nil)*. Audit fees as described in note 6 are borne by the Company's ultimate parent, Aviva plc.

(iv) Group relief

Transactions with Group Companies for settlement of corporation tax assets and liabilities by way of group relief are described in note 12(a).

(v) Pension buy-in

During the period, the ASPS completed a further bulk annuity buy-in transaction with AVLAP, a Group company. A premium of £873 million *(2019: £1,665 million)* was paid by the scheme to AVLAP. The ASPS recognised a plan asset of £579 million *(2019: £1,126 million*), with the difference between the plan asset recognised and the premium paid being recognised as an actuarial loss through Other Comprehensive Income.

(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 Group. The majority of such costs are borne by Aviva plc and are not recharged to the Company. Refer note 5 for details of directors' remuneration.

(c) Parent entity

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

(d) Ultimate parent entity

The ultimate parent entity and controlling party is Aviva plc, a public limited Group incorporated and domiciled in the United Kingdom. This is the parent undertakings 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.

Notes to the financial statements continued

19. Subsequent events

There are no subsequent events to report.