Aviva UKLAP De-risking Limited
(formerly Aviva Director Services Limited)

Directors and Officers

Directors

P A Biscay
A Dafria

Officer - Company Secretary

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

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
29 Wellington Street
Leeds
LS1 4DL

Registered Office

Aviva
St Helen's
1 Undershaft
London
EC3P 3DQ

Company Number

Registered in England and Wales: No. 3491273

Other Information

Aviva UKLAP De-risking Limited ("the Company") is a member of the Aviva plc group of companies ("the Group")

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The directors present their strategic report for Aviva UKLAP De-risking Limited (the Company) for the year ended 31 December 2017.

Principal activities

The principal strategy and objective for the Company is the investment in tax transparent managed funds.

Financial position and performance

Profit for the year is £35,000 *(2016: £nil)*.

Total equity increased by £5,035,000 *(2016: £nil)*, reflecting the issue of share capital during the year, coupled with the profit for the year.

Future outlook

The directors consider that the Company will continue to operate in a manner consistent with 2017 into the foreseeable future.

Principal risks and uncertainties

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

The Company uses a number of metrics to measure, monitor and manage risks and a fuller explanation of these risks, other than operational risk, may be found in note 12 to the financial statements.

Key performance indicators (KPIs)

Income for the year is £42,000 *(2016: £nil)*. The upward movement is due to unrealised gains on financial investments during the year.

Profit for the year is £35,000 *(2016: £nil)*. Total equity has increased by £5,035,000 *(2016: £nil)*, reflecting the profit for the year plus the increase in share capital.

By order of the Board

Aviva Company Secretarial Services Limited
Company Secretary

10 September 2018

The directors present their annual report and audited financial statements for Aviva UKLAP De-risking Limited (the Company) for the year ended 31 December 2017.

Directors

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

K A Cooper and M Risam resigned as directors of the Company on 5 April 2017.

D Rose was appointed as a director of the Company on 6 April 2017.

J C Baddeley resigned as a director of the company on 18 April 2017.

P A Biscay and A Dafria were appointed as directors of the Company on 23 August 2017.

R Hostler and D Rose resigned as directors of the Company on 29 August 2017.

C L Marshall resigned as a director of the Company on 29 September 2017.

Dividend

The Company did not pay a dividend for 2017 *(2016: £nil).*

Major events

On 5 April 2017, K A Cooper resigned as Company Secretary. On 23 August 2017, Aviva Company Secretarial Services Limited was appointed as Company Secretary.

On 24 August 2017, the name of the Company was changed from Aviva Director Services Limited to Aviva UKLAP De-risking Limited.

On 25 August 2017, the entire share capital of the Company was transferred from Undershaft Limited, a fellow group undertaking, to Aviva Life & Pensions UK Limited (UKLAP) for a consideration of £1.

Changes in share capital

On 25 August 2017, the Company allotted 4,999,999 ordinary shares of £1 each to UKLAP, the parent entity, for a consideration of £4,999,999.

Financial risk management

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

Employees

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

Disclosure of information to the auditors

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

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

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

Independent auditors

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

Qualifying indemnity provisions

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

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

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; 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 responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

Aviva Company Secretarial Services Limited
Company Secretary *10 September 2018*

Report on the audit of the financial statements

Opinion

In our opinion, Aviva UKLAP De-risking Limited's financial statements:

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

We have audited the financial statements, included within the annual report and audited financial statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the income statement, the statement of changes in equity, the 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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of Directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

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

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

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

We have no exceptions to report arising from this responsibility.

Other matter
The financial statements for the year ended 31 December 2016, forming the corresponding figures of the financial statements for the year ended 31 December 2017, are unaudited.

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

The Company, a limited company incorporated and domiciled in the United Kingdom (UK), is engaged in investment in managed funds.

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 presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The financial statements have been prepared under the historical cost convention, except for financial investments which are measured at fair value where there is an active market.

The financial statements are prepared on the going concern basis.

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

The financial statements for the year ended 31 December 2016, forming the corresponding figures for the year ended 31 December 2017, are unaudited.

Minor clarifications to existing guidance on a number of standards became effective for the reporting period beginning on 1 January 2017. The principle clarifications are to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses relating to recognition of deferred tax when an asset's fair value is below it tax base, IAS 7, Statement of Cash Flows, relating to additional disclosure of the movements in liabilities arising from financing activities, and IFRS 12, Disclosure of Interest In Other Entities, clarifying existing guidance. The amendments do not have any impact on the Company's financial statements. The additional disclosure required by the changes to IAS 7 have previously already been disclosed in the Company's financial statements.

The IASB has issued four new standards which are not yet effective and have not been adopted early by the Company.

(i) IFRS 9, Financial Instruments

In July 2014, the IASB published IFRS 9, Financial Instruments, which will replace IAS 39, Financial Instruments: Recognition and Measurement. The standard incorporates new classification and measurement requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit and loss whereby fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The Company has adopted IFRS 9 from 1 January 2018. The standard is not expected to have a significant impact on the Company's statement of financial position.

(ii) IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. This standard applies to annual reporting periods beginning on or after 1 January 2018 and has been endorsed by the EU. The standard is not expected to have a significant impact on the Company's financial statements.

(iii) IFRS 16, Leases

In January 2016, the IASB published IFRS 16, Leases, which will replace IAS 17, Leases. The standard removes the distinction between finance leases and operating leases for lessees, and proposes a new model whereby lessees include all lease contracts on the balance sheet. Lessor accounting remains similar to current practice. The impact of the adoption of IFRS 16 has yet to be fully assessed by the Company. This standard applies to accounting periods beginning on or after 1 January 2019 and has been endorsed by the EU.

(iv)IFRS 17, Insurance Contracts

In May 2017 the IASB published IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 which was issued in 2005 and applies to all types of insurance contracts as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 provides a comprehensive and consistent approach to insurance contracts. The core of IFRS 17 is the general model, supplemented by a specific adaption for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short duration contracts. The impact of the adoption of IFRS 17 has yet to be fully assessed by the Company. This standard applies to annual reporting periods beginning on or after 1 January 2021 and has not yet been endorsed by the EU.

The IASB has issued a number of amendments to standards which are not yet effective and have not been adopted early by the Company.

- IAS 28 Investments in Associates
- IAS 40, Investment Property
- IFRS 2, Classification and Measurement of Share-Based Payment Transactions
- IFRS 12, Disclosure of Interest in Other Entities

The amendments to IAS 28 and IFRS 12 have been endorsed by the EU. The amendments to IAS 40 and IFRS 2 have not been endorsed by the EU. The amendments are not expected to have a material impact on the financial statements.

(B) Critical accounting estimates and judgements

The preparation of the Company's financial statements in accordance with IFRS, requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. There are no major areas of judgement on policy application for the Company.

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 list below sets out those items we consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy:

(i) Financial investments (set out in policy D)

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

(D) Financial investments

The Company classifies its financial investments at fair value through profit or loss. The fair value category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as fair value (referred to in this accounting policy as 'other than trading') upon initial recognition.

Changes in the fair value of held for trading and other than trading instruments are included in the income statement in the period in which they arise.

Investments carried at fair value are measured using a fair value hierarchy, described in note 4.

(E) Receivables

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

(F) Statement of cash flows

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

(G) 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 tax and amounts charged or credited to reserves as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material 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 balance sheet date are used to determine the deferred tax.

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

(H) Share capital

Equity instruments

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

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

(ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

Aviva UKLAP De-risking Limited
Income statement
For the year ended 31 December 2017

	Note	2017 £'000	(unaudited) 2016 £'000
Income			
Unrealised gains on investments	D	**42**	-
		42	-
Expenses			
Operating expenses	1	**-**	-
Profit before tax		**42**	-
Tax charge	G & 3	**(7)**	-
Profit for the year		**35**	-

The Company has no other comprehensive income.

The accounting policies (identified alphabetically) on pages 9 to 11 and the notes (identified numerically) on pages 16 to 23 are an integral part of these financial statements.

Aviva UKLAP De-risking Limited
Statement of financial position
As at 31 December 2017

	Note	2017 £'000	(unaudited) 2016 £'000
Assets			
Financial investments	D & 5	**3,618**	-
Receivables	E & 9	**1,424**	-
Total assets		**5,042**	-
Equity			
Ordinary share capital	H & 6	**5,000**	-
Retained earnings	7	**35**	-
Total equity		**5,035**	-
Liabilities			
Deferred tax liabilities	G & 8(b)	**7**	-
Total liabilities		**7**	-
Total equity and liabilities		**5,042**	-

The financial statements were approved by the Board of directors on 10 September 2018 and were signed on its behalf by

Ashish Dafria *Director*

The accounting policies (identified alphabetically) on pages 9 to 11 and the notes (identified numerically) on pages 16 to 23 are an integral part of these financial statements.

Aviva UKLAP De-risking Limited
Statement of changes in equity
For the year ended 31 December 2017

	Note	Ordinary share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016 (unaudited)		-	-	-
Result for the year	7	-	-	-
Balance at 31 December 2016 (unaudited)		**-**	**-**	**-**
Addition to share capital	6	5,000	-	5,000
Profit for the year	7	-	35	35
Balance at 31 December 2017		**5,000**	**35**	**5,035**

The accounting policies (identified alphabetically) on pages 9 to 11 and the notes (identified numerically) on pages 16 to 23 are an integral part of these financial statements.

Aviva UKLAP De-risking Limited
Statement of cash flows
For the year ended 31 December 2017

	Note	2017 £'000	(unaudited) 2016 £'000
Cash flows from operating activities			
Cash used in operations	10	(5,000)	-
Net cash used in operating activities		**(5,000)**	-
Net cash from financing activities			
Proceeds from the issue of ordinary shares	6	5,000	-
Net cash generated from financing activities		**5,000**	-
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December	10	-	-

The accounting policies (identified alphabetically) on pages 9 to 11 and the notes (identified numerically) on pages 16 to 23 are an integral part of these financial statements.

1. Operating expenses

Under a management agreement Aviva Life Services UK Limited (UKLS), a fellow group undertaking, supplies and makes charges for the provision of operational assets and staff to the Company. Operating expenses have been borne by a fellow group undertaking.

Director's emoluments

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

2. Auditors' remuneration

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

	2017	(unaudited) 2016
	£'000	£'000
Fees payable for the audit of the Company's financial statements	**4**	-

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.

Audit fees have been borne by a fellow group undertaking.

3. Tax charge

(a) Tax charged to the income statement

The total tax charge comprises:

	2017	(unaudited) 2016
Current tax	**£'000**	£'000
For the year	**-**	-
Total tax charged to the income statement	**-**	-
Deferred tax		
Origination and reversal of temporary differences	**8**	-
Changes in tax rates or tax laws	**(1)**	-
Total deferred tax	**7**	-
Total tax charged to the income statement (note 3(b))	**7**	-

(b) Tax reconciliation

The tax on the Company's profit before tax differs from *(2016: same as)* the theoretical amount that would arise using the tax rate in the UK as follows:

	2017	(unaudited) 2016
	£'000	£'000
Profit before tax	**42**	-
Tax calculated at standard UK corporation tax rate of 19.25% *(2016: 20%)*	**8**	-
Impact of change in rate of tax	**(1)**	-
Total tax charged for the year (note 3(a))	**7**	-

The rate of corporation tax changed to 19% with effect from 1 April 2017. The Finance Act 2016, which received Royal Assent on 15 September 2016, will reduce the corporation tax rate further to 17% from 1 April 2020. The reduction in rate has been used in the calculation of the Company's deferred tax liability as at 31 December 2017, resulting in a decrease in the current year tax charge of £1,000 *(2016: £nil).*

4. Fair value methodology

(a) Basis for determining fair value hierarchy of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the 'fair value hierarchy' described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Quoted market prices in active markets – ("Level 1")

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities.

Modelled with significant observable market inputs – ("Level 2")

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include the following:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly;
- Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads);
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs).

Modelled with significant unobservable market inputs – ("Level 3")

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset or liability.

Examples are certain borrowings backing lifetime mortgage loans.

Changes to valuation techniques:

There were no changes in the valuation techniques during the year compared to those described in the 2016 financial statements.

Comparison of the carrying amount and fair values of financial instruments

Fair value of the following assets and liabilities approximate to their carrying amounts:

- Receivables

(b) Fair value hierarchy analysis

An analysis of financial assets and liabilities according to fair value hierarchy is given below:

	2017 Fair value hierarchy	
	Level 1 £'000	**Total fair value £'000**
Financial assets		
Investments	**3,618**	**3,618**

No financial assets or liabilities were held at the end of 2016.

Transfers between levels of the fair value hierarchy

For recurring fair value measurements, the Company determines whether transfers have occurred between the levels of the fair value hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting year. There were no transfers between levels during the year.

5. Financial investments

Carrying amounts	**Total £'000**
Balance at 1 January and 31 December 2016 (unaudited)	-
Additions	**3,589**
Sold/Matured	**(13)**
Fair value movements	**42**
Balance at 31 December 2017	**3,618**

6. Ordinary share capital

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

	2017 £	(unaudited) 2016 £
The allotted, called up and fully paid share capital of the Company was:		
5,000,000 *(2016: 1)* ordinary shares of £1 each	**5,000,000**	1

On 25 August 2017, the Company allotted 4,999,999 ordinary shares of £1 each to UKLAP, the parent entity, for a consideration of £4,999,999.

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.

7. Retained earnings

	2017 £'000	(unaudited) 2016 £'000
Balance at 1 January	-	-
Profit for the year	35	-
Balance at 31 December	**35**	-

8. Tax assets and liabilities

(a) General

There are no current year tax assets/liabilities expected to be receivable/payable in more than one year *(2016: £nil).*

(b) Deferred tax liabilities

(i) The balance at 31 December comprises:

	2017 £'000	(unaudited) 2016 £'000
Unrealised gains on investments	7	-
Net deferred tax liability	7	-

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

	2017 £'000	(unaudited) 2016 £'000
Net liability at 1 January	-	-
Amounts charged to income statement (note 3(a))	7	-
Net liability at 31 December	7	-

9. Receivables

	2017 £'000	(unaudited) 2016 £'000
Amounts owed by group undertakings	**1,424**	-

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

10. Statement of cash flows

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

	2017 £'000	(unaudited) 2016 £'000
Profit before tax	**42**	-
Adjustments for:		
Fair Value movement	**(42)**	
Changes in working capital:		
Increase in receivables	**(1,424)**	-
Investments purchased	**(3,589)**	
Investments sold/matured	**13**	-
Cash used in operations	**(5,000)**	-

There were no cash and cash equivalents held at 31 December 2017 *(2016: £nil).*

11. Capital

In managing its capital, the Company seeks to:

- Match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- Maintain sufficient, but not excessive, financial strength to satisfy the requirements of its customers;
- Retain financial flexibility by maintaining liquidity; and
- Allocate capital efficiently and to repatriate excess capital where appropriate.

The Company manages total equity of £5,035,000 *(2016: £1)* as capital.

The Company is not subject to any externally imposed capital requirements.

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

12. Risk management

(a) Risk management framework

The ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates (collectively known as "the Group") operate a risk management framework ("RMF"), which forms an integral part of the management and board processes and decision-making framework across the Group. The key elements of our risk management framework comprise risk strategy and risk appetite, risk policy categorisation, enterprise-wide approach to managing risks, including how to identify, measure, manage, monitor and report risks, and risk governance and oversight (including boards and board committees, risk policies and business standards, delegated authorities and management committees, and roles and responsibilities). The Group's approach to risk management ensures that significant existing or emerging risks are actively identified, measured, managed, monitored and reported on a continuous basis. The RMF has been adopted by the boards of the legal entities within the businesses collectively referred to as "UK Life" (including this Company).

For the purposes of risk identification and measurement, in UK Life risks are usually grouped by risk type: market, credit, life insurance, liquidity and operational risk. Risks falling within these types may affect a number of key metrics, including those relating to balance sheet strength, liquidity and profit. They may also affect the performance of the products that the Company delivers to customers and the service to customers and distributors, which can be categorised as risks to our brand and reputation or as conduct risk.

Risk models are an important tool in the Company's measurement of risk and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. The Company carries out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged. Board oversight of risk and risk management across the Group is maintained on a regular basis through its Risk Committee. The Board has overall responsibility for determining risk appetite, which is an expression of the risk it is willing to take. The Group's position against risk appetite is monitored and reported to the Board on a regular basis. A similar arrangement prevails at the UK Life business level.

UK Life sets limits to manage material risks to ensure the risks stay within risk tolerance and appetite (the desired or upper bound on the level of risk that UK Life will take in pursuit of its purpose and strategy). UK Life assesses the size and scale of a risk by considering how likely it is that the risk will materialise and the potential impact the risk could have on its business and its stakeholders. Where risks are outside of tolerance, actions are agreed to bring the risks within tolerance. Impact assessments are considered against financial, operational and reputational criteria and take into account underlying factors such as economic conditions, for example, UK economic growth and inflation.

UK Life has an established governance framework, which has the following key elements:

- defined terms of reference for the legal entity boards and the associated board committees within the UK Life business, including the Risk Committee, Conduct Committee, Audit Committee, Investment Committee, With Profit Committee and Independent Governance Committee.
- a clear organisational structure with documented delegated authorities and responsibilities from the legal entity boards to CEOs and senior management. Often the senior management are assisted in discharging their delegated authority through the discussions at management committees (for example, the Executive Committee, Operational Risk and Conduct Committee and Asset Liability Committee).
- adoption of the Group policy framework that defines risk appetite measures and sets out risk management and control standards for the Group's worldwide operations. The risk policies and associated business standards also set out the roles and responsibilities of Group, Businesses, Policy and Standard Owners, and Board and Management Committees.

UK Life operates within a three lines of defence risk management model that encourages close working relationships between line management and the risk function whilst facilitating independent assurance by internal audit, and the roles of the three lines of defence each contribute to embedded risk management:

- First line of defence (Management): Primary responsibility for risk identification, measurement, management, monitoring and reporting lies with business management. The first-line management is responsible for the implementation and practice of risk management.
- Second line of defence (Risk function): Responsibility for reviewing and challenging the completeness and accuracy of risk identification, measurement, management, monitoring and reporting, and the adequacy of, and progress against, mitigation plans lies with the Risk function. This necessitates the early involvement by management of the risk function in key business decisions or projects, both in relation to customer and shareholder risks. The Risk function is responsible for overseeing the effective operation of the Risk Management Framework, particularly in relation to setting Risk Appetite and compliance with Solvency II requirements.
- Third line of defence (Internal Audit function): Responsibility for assessing and reporting (to group and business unit audit, risk and governance committees, as appropriate) of the effectiveness on the design and operation of the framework of controls which enable risk to be assessed and managed lies with Internal Audit.

The Regulators also require UK Life to assess its economic capital requirements to ensure that it adequately reflects the risks facing the business. UK Life has accordingly developed economic capital models that support the measurement, comparison and further understanding of its risks. The results of the modelling are incorporated into key strategic planning and decision-making processes. These models show the relative impact to economic capital from the risks faced. In turn this supports the assessment of appropriate and effective mitigating strategies where risks are outside of appetite.

(b) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, foreign exchange rates, equity prices and property prices. Market risk arises within the Company due to fluctuations in the relationship between the values of the liabilities and the value of investments held, as a result of movements in market prices.

(c) Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations, or changes to the market value of assets caused by changed perceptions of the credit worthiness of such counterparties.

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

Our 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, rating transition and credit spread movements. Credit risk categories include spread risk, default risk and rating migration risk:

- Spread risk arises from changes in level of volatility of third party credit spreads over risk-free interest rates, that can be caused by credit concerns (improving or worsening) on the issuer, or from market factors, such as risk appetite and liquidity within the market;
- Default risk is the risk that a counterparty is unable or unwilling to meet its financial obligations when they fall due, and includes delays in repayments, restructuring or repayments/interest schedule and bankruptcy;
- Rating migration risk is the risk that a change in external credit rating of a counterparty adversely impacts Aviva.

Financial assets are graded according to current credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. For the purposes of the table below financial assets which fall outside this range are classified as speculative grade. Credit limits for individual counterparties are set based on default probabilities and likely recoveries on default that are in turn based on the rating of the counterparty concerned.

Ratings published by companies such as Standard & Poor's are used where available. Whilst not externally rated, the risk characteristics of the assets are carefully assessed before acquisition and are monitored regularly thereafter.

The following table provides information regarding the aggregated credit risk exposure, for financial investments with external credit ratings, of the Company at 31 December 2017 (no financial investments were held at 31 December 2016):

	Not rated £'000	2017 Total £'000
Unit trusts	3,618	**3,618**

The carrying amount of assets included in the statement of financial position represents the maximum credit exposure.

(d) Liquidity risk

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

The Company has no liabilities with a contractual maturity date and as such no analysis of liabilities based on the remaining period at the statement of financial position date to their contractual maturity is supplied.

(e) Sensitivity analysis and capital management

No profit sensitivity analysis has been provided as there is a negligible impact on profit and shareholders' equity of reasonably possible changes in market risk variables.

13. Related party transactions

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

(b) Amounts receivable from related parties

	2017 **£'000**	(unaudited) 2016 £'000
Fellow subsidiaries	**1,424**	-
	1,424	-

The related party receivables are not secured and no guarantees were received in respect thereof. No provision or expense has been recognised during the year in respect of bad and doubtful debts *(2016: £nil).*

(c) Key management compensation

No charge is disclosed by the Company for key management personnel as they are key management of a number of fellow subsidiary undertakings and it is not possible to make an accurate apportionment of their compensation in respect or each of the individual subsidiary undertakings.

(d) Ultimate parent undertaking and controlling party

The immediate parent undertaking is Aviva Life & Pensions UK Limited, a company incorporated in England.

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

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