

AVIVA INVESTMENT SOLUTIONS UK LIMITED

**(formerly FRIENDS LIFE
INVESTMENT SOLUTIONS
LIMITED)**

**COMPANY INCORPORATED IN ENGLAND AND WALES
REGISTRATION NUMBER 06389025**

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2017

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AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

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AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

COMPANY INFORMATION

BOARD OF DIRECTORS

M L F Golunska
M R McGill
T R Orton
S E Robinson
P C P Tiernan
C A Williams

COMPANY SECRETARY

Aviva Company Secretarial Services Limited

REGISTERED OFFICE

Pixham End
Dorking
Surrey
RH4 1QA

INDEPENDENT AUDITORS

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

OTHER INFORMATION

Aviva Investment Solutions UK Limited ("the Company") is authorised by the Financial Conduct Authority (FCA) as an IFPRU Limited License Firm with permission to hold client money or securities.

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

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their Strategic Report on the Company for the year ended 31 December 2017. The Company changed its name from Friends Life Investment Solutions Limited to Aviva Investment Solutions UK Limited on 29 September 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is to support the Aviva Group Corporate Platform which went live on 31 January 2012. The Corporate Platform enables the Aviva Group to provide a solution for workplace benefits and it enables trustees of pension schemes to increase their choice of funds and fund managers. It uses a single administrative platform to access a comprehensive range of investment managers, funds and fund ranges.

The platform supports the following products:

- A corporate self invested pension plan (Flexible Retirement Account)
- A general investment account (Investment Account)
- A corporate cash individual savings account (Cash ISA)
- A corporate stocks & shares savings account (Stocks & Shares ISA)

The Company's immediate parent company is Aviva Life Holdings UK Limited.

RESULTS AND BUSINESS REVIEW

Operational structure

The Company is part of the UK Life business of the Group, which largely operates in the UK protection market, UK group pensions and UK retirement benefits markets.

Business Performance

	2017 £'000	2016 £'000
Fee income	46	32
Interest income	21	26
Operating and administrative expenses	(73)	(87)
Loss for the financial year	(5)	(23)

Fee income

Fee income is made up of management charges and set up fees relating to platform activity. The increase in the year reflects the growing volumes of business on the platform.

Interest income

Interest of £21,000 (2016: £26,000) was received from the deposit accounts throughout the year. The decrease is a result of the lower balance held on deposit during the year.

Operating and administrative expenses

Expenses consist of a £30,000 management charge from Aviva Management Services UK Limited (formerly Friends Life Management Services Limited), £27,000 of bank charges, £21,000 of interest paid and an £12,000 bad debt write off. In addition, there has been a provision release of £17,000 in relation to possible bad debts which have since been received.

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

Loss for the financial year

The loss after tax for the financial year is £5,000 (2016: £23,000). The loss made during the year is primarily as a result of the operative and administrative expenses being in excess of the fee and interest income earned.

Shareholders' funds

Shareholders' funds at 31 December 2017 were £11,446,000 (2016: £11,451,000). The decrease in the year reflects the £5,000 loss arising for the year.

FUTURE OUTLOOK

The Company is expected to continue with its existing activities for the foreseeable future.

PRINCIPAL RISKS AND UNCERTAINTIES

The major risk facing the business is operational risk, which is in line with FCA expectations for investment businesses which hold assets in a fiduciary capacity and off balance sheet. Credit risk is assessed on a regular basis, but given the nature of the Company's business is not considered significant.

Operational risk of loss would arise as a result of inadequate or failed internal processes, people or systems, or from external events, including regulatory risk. This definition is intended to include all risk exposures to which the Company is exposed, other than the financial risks. Hence, operational risks include IT, information security, projects, outsourcing, legal and fraud and compliance risks. Operational risks are assessed according to the potential impact and probability of the event concerned. These impact assessments are made against financial, operational and reputational criteria.

Management are responsible for the identification, measurement, management and monitoring of operational risks and for reporting these in accordance with the Group's escalation criteria in terms of their probability and impact in accordance with Group policy. A description of the risks and uncertainties facing the Company and its risk management policies are set out in note 11 to the financial statements.

Approved by the Board on 18 April 2018 and signed on its behalf by



Aviva Company Secretarial Services Limited
Company Secretary

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017

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

DIRECTORS

The directors in office at the date of the signing of these financial statements are listed on page 2. Appointments and resignations of directors during the year and up to the date of the signing of these financial statements are as follows:

P F Whitwell-Lumsden resigned as a director of the Company on 11 September 2017.

M L F Golunska was appointed as a director of the Company on 30 October 2017.

B A Curran resigned as a Director of the Company on 12 December 2017.

P C P Tienan was appointed as a director of the Company on 7 March 2018.

S E Robinson was appointed as a director of the Company on 8 March 2018.

COMPANY SECRETARY

Aviva Company Secretarial Services Limited acted as Company Secretary throughout the year.

FUTURE OUTLOOK

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

DIVIDEND

No interim dividends were paid during 2017 (2016: £nil) and the directors do not recommend the payment of a dividend for the year ended 31 December 2017 (year ended 31 December 2016: £nil).

STATEMENT OF GOING CONCERN

The financial statements have been prepared on a going concern basis. In assessing whether the going concern basis is appropriate, the directors have considered the information contained in the financial statements. The directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and at least 12 months from the approval of the financial statements.

FINANCIAL RISK MANAGEMENT

Details of financial risk management are set out in the principal risks and uncertainties section of the Strategic Report on page 4.

EMPLOYEES

Companies within the Group receive services and administration from Aviva Employment Services Limited ("AES"). This entity either employs staff engaged in these activities or outsource the provision of these services to external outsourced service providers. Accordingly, the Company has no direct employees. The average number of employees of AES is disclosed in the financial statements of that company.

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

DISCLOSURE OF INFORMATION TO THE AUDITORS

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

- so far as the director is aware, there is no relevant audit information, being information needed by the 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.

DIRECTORS AND OFFICERS – INDEMNITY AND INSURANCE

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.

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE REPORT OF THE DIRECTORS AND THE FINANCIAL STATEMENTS

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, 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 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.

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.

Approved by the Board on 18 April 2018 and signed on its behalf by:



Aviva Company Secretarial Services Limited
Company Secretary

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVIVA INVESTMENT SOLUTIONS UK LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the report and the audited financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the profit and loss account, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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 Report of the Directors, 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.

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVIVA INVESTMENT SOLUTIONS UK LIMITED (CONTINUED)

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors 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 Report of the Directors.

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

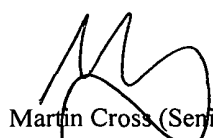
OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Martin Cross (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

18 April 2018

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £'000	2016. £'000
Fee income		46	32
Interest income		21	26
Operating and administrative expenses	3	(73)	(87)
Loss on ordinary activities before taxation		(6)	(29)
Tax on loss on ordinary activities	9	1	6
Loss for the financial year		(5)	(23)

There is no other comprehensive income for the periods presented.

The notes on pages 13 to 19 are an integral part of these financial statements.

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

BALANCE SHEET AS AT 31 DECEMBER 2017

	Note	2017 £'000	2016 £'000
Current Assets			
Tax Asset		7	-
Amounts owed by group undertakings	5	2,222	1,774
Prepayments and accrued income		12	3
Other debtors	6	245	380
Cash at bank and in hand	7	9,036	9,350
Total Assets		11,522	11,507
Liabilities			
Creditors, amounts falling due within one year		(2)	(18)
Amounts owed to group undertakings		(74)	(38)
Net Assets		11,446	11,451
Capital and Reserves			
Called up share capital	10	11,500	11,500
Accumulated losses		(54)	(49)
Total Equity		11,446	11,451

The notes on pages 13 to 19 are an integral part of these financial statements.

The financial statements on pages 10 to 19 were approved by the Board of Directors on 18 April 2018 and signed on its behalf by



T R Orton
Director

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up Share Capital	Accumulated Losses	Total Equity
	£'000	£'000	£'000
At 1 January 2017	11,500	(49)	11,451
Loss for the financial year	-	(5)	(5)
At 31 December 2017	11,500	(54)	11,446

	Called up Share Capital	Accumulated Losses	Total Equity
	£'000	£'000	£'000
At 1 January 2016	6,500	(26)	6,474
Issue of ordinary shares	5,000	-	5,000
Loss for the financial year	-	(23)	(23)
At 31 December 2016	11,500	(49)	11,451

The notes on pages 13 to 19 are an integral part of these financial statements.

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with the historic cost convention.

The financial statements have been prepared on a going concern basis. In assessing whether the going concern basis is appropriate, the directors have considered the information contained in the financial statements of the Company. The directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and at least 12 months from the approval of the financial statements.

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 accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017. These policies have been consistently applied to all years presented, unless otherwise stated.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of paragraphs 10(d) and 111 of IAS 1 Presentation of Financial Statements to include a statement of cash flows and the requirements of IAS 7 Statement of Cash Flows;
- (b) the requirements of paragraph 16 of IAS 1 to make a statement of compliance with the international accounting standards;
- (c) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose when an entity has not applied a new accounting standard that has been issued but is not yet effective;
- (d) the requirements of paragraph 17 of IAS 24 Related Party Disclosure to disclose key management personnel compensation; and
- (e) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

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 *Income Taxes* which clarifies the accounting for deferred tax assets on unrealised losses, IAS 7 *Statement of Cash Flows* which requires disclosure of movements in liabilities arising from financing activities with cash and non-cash changes presented separately, and IFRS 12 *Disclosure of Interests in Other Entities* which clarifies existing guidance. The amendments do not have any impact on the Company's financial statements.

(b) Fee Income

The revenue represents management charges and set up fees relating to platform activity. All revenues are accounted for in the period in which they accrue.

(c) Interest Income

Interest receivable is accounted for on an accruals basis.

(d) Administration & Operating Expenses

Administration expenses are accounted for in the year which they accrue.

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(e) Current Tax

Taxation is based on the profits and income for the period as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior periods. Tax payable is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Current taxation is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss recognised outside the profit and loss account, in which case the current taxation is recognised in the statement of comprehensive income, or equity, as applicable.

2. USE OF JUDGEMENTS, ESTIMATE AND ASSUMPTIONS

The preparation of the Company's financial statements, in accordance with FRS 101, requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. 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 only item which is considered particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy is the provision for the corporate debts where there are concerns over the recoverability of those debts.

3. ADMINISTRATIVE EXPENSES

The expenses within the profit and loss account represent interest and charges payable to employee benefits consultants relating to platform activity and banks charges as a result of platform funding.

Administrative expenses for 2017 also include an £12,000 bad debt write off and a provision release of £17,000 in relation to possible bad debts which have since been received.

The Company receives services and administration from AAL, AMSUKL and AES. The Company has no direct employees. The recharge for employees is made by AES and the average number of employees of AES are disclosed in the financial statements of that company.

In 2017 the Company incurred a management service charge from Aviva Management Services UK Limited of £30,000 (2016: £30,000).

4. AUDITORS' REMUNERATION

The auditors' remuneration for audit services for 2017 of £13,000 (2016: £13,000) has been borne by Aviva Management Services UK Limited. The following table provides analysis of the total fees, excluding VAT, in respect of services provided to the company during the year ended 31 December 2017. Fees paid to the Company's auditors, PricewaterhouseCoopers LLP (PwC) and its associates for services other than the statutory audit of the Company and other Group undertakings are disclosed in the consolidated financial statements of Aviva plc.

	2017	2016
	£'000	£'000
Audit fees – financial statements	13	13
Total Auditors' Remuneration	13	13

5. AMOUNTS OWED BY GROUP UNDERTAKINGS

The amounts owed by group undertakings balance is £2,222,000 (2016: £1,774,000). This balance has increased as a result of timing differences on prefunding to Aviva Life and Pensions UK Limited (UKLAP).

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. OTHER DEBTORS

The Other Debtors balance is a client trade debt of £245,000 (2016: £380,000) as a result of timing differences on the My Money platform that are prefunded by the Company.

7. CASH AT BANK AND IN HAND

Cash at bank and in hand comprises cash at bank, and unit holdings in a short term money market collective investment undertaking.

	2017	2016
	£'000	£'000
Cash held in money market funds	7,007	6,622
Cash at bank	2,029	2,728
Total Cash	9,036	9,350

8. DIRECTORS' EMOLUMENTS

The directors of the Company are also directors of other group subsidiaries. Where directors have multiple directorships, it is not possible to accurately apportion their emoluments to individual companies. The emoluments of directors reported in the below table are in respect of qualifying services performed for the Aviva Group, which may also be disclosed within the financial statements of other Aviva Group companies. Amounts for annual bonus payments to the directors for the year ended 31 December 2017 have already been agreed and are therefore also included in the 2017 emoluments below. Amounts for annual bonus payments to the directors for the year ended 31 December 2016 were included in the 2016 emoluments below.

Aggregate Emoluments	2017	2016
	£'000	£'000
Aggregate Remuneration	1,912	1,579
Awards under long-term incentive schemes (excluding share options and shares)	13	616
Company contributions to pension schemes	173	168
Number of directors accruing benefits under money purchase pension schemes	Two	Three
Number of directors who exercised share options	Two	Three
Number of directors in respect of whom shares were received or receivable under long-term incentive schemes	Six	Four
 Highest paid director	 2017	 2016
	£'000	£'000
Aggregate remuneration and benefits under long-term incentive schemes (excluding gains on exercise of share options and value of shares received)	742	1,107
Company contributions to pension schemes	70	60
Share options exercised	No	No
Shares received or receivable under long-term incentive schemes	Yes	Yes

The total aggregate remuneration payable to directors includes £812,000 in respect of the highest paid director, of which £nil relates to long-term incentive schemes. This is the total of the costs incurred by the Group in respect of the highest paid director due to it being impractical to isolate the element of total remuneration relating to the Company.

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. TAX ON LOSS ON ORDINARY ACTIVITIES

a) Current year tax credit

	2017	2016
	£'000	£'000
UK corporation tax credit at 19.25% (2016: 20%)	1	6
Tax on loss on ordinary activities	1	6

b) Factors affecting the tax charge

	2017	2016
	£'000	£'000
Loss on ordinary activities before taxation	(6)	(29)
Current taxation		
UK corporation tax credit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20%)	1	6
Tax on loss on ordinary activities	1	6

Factors affecting the tax charge

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

10. CALLED UP SHARE CAPITAL

	2017	2016
	£'000	£'000
Allotted, called up and fully paid		
11,500,001 (2016: 11,500,001) ordinary shares of £1 each	11,500	11,500

On 10 June 2016, following a reassessment of the operational risk capital requirement in respect of the Company, a capital injection of £5 million was made into the Company to ensure it remained adequately capitalised under the Internal Capital Adequacy Assessment Process (ICAAP).

11. RISK AND CAPITAL MANAGEMENT

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, 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.

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. RISK AND CAPITAL MANAGEMENT (continued)

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 (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 Profits Committees 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.
- Third line of defence (Internal Audit function): Responsibility for assessing and reporting (to group and business unit audit, risk and governance committees, as appropriate) on the effectiveness of 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.

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. RISK AND CAPITAL MANAGEMENT (continued)

(a) Market risk

Market risk is the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates, foreign exchange rates, equity, property and commodity prices. The nature of the business means that market risks in terms of market value movements are borne by the customers. Market risk arises only indirectly as a result of the impact on the value of assets under administration (AUA), which will affect revenue received from fee income. The Company is not exposed to significant interest rate risk.

(b) Credit risk

Credit risk is the risk of adverse financial impact resulting from fluctuations in credit quality of third parties, including default, rating transition and credit spread movements. The Company's management of credit risk under the oversight of ALCO, includes the articulation of risk appetite, exposure limit frameworks and investment and lending criteria within credit risk policies and management agreements.

The nature of the Company's business means that it is not exposed to significant credit risk. This is because its receivables are mainly inter-company balances. A significant amount of business relates to the Aviva Group of companies and exposure is managed through regular and timely payments. At the balance sheet date all financial assets subject to credit risk were neither past due nor impaired.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be in a position to meet its liabilities as they fall due. In relation to the Company, this largely relates to ensuring that there are sufficient liquid assets available to meet funding demands from customer transactions. Liquidity risk is mitigated through holding a liquidity buffer and a £50 million contingent funding plan with UKLAP.

(d) Regulatory 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 support new business growth and satisfy the requirements of its customers and its regulator, the Financial Conduct Authority (FCA);
- Retain financial flexibility by maintaining liquidity; and
- Allocate capital efficiently to support growth and repatriate excess capital where appropriate.

The Company is authorised and regulated by the Financial Conduct Authority (FCA). The firm is an IFPRU (Prudential Sourcebook for Investment Firms) limited license firm and is required to comply with the Capital Requirements Directive (CRD) as set out in GENPRU and IFPRU. It is a regulatory requirement for the excess of assets over liabilities for IFPRU firms to exceed capital requirements both on a Pillar 1 (simple formula) basis and a Pillar 2 (Internal Capital Adequacy Assessment Process) basis. The Company has fully complied with the relevant regulatory capital requirements during the year.

Pillar 1

IFPRU specifies a minimum ratio for the available capital as a percentage of 'risk weighted exposure'. For the Company available capital is equal to the shareholders' funds of £11,446,000 presented in these financial statements. Three tests are applied to different components of available capital:

- The ratio of common equity tier 1 capital to risk weighted exposure must be at least 4.5%
- The ratio of tier 1 capital to risk weighted exposure must be at least 6%
- The ratio of total available capital to risk weighted exposure must be at least 8%

AVIVA INVESTMENT SOLUTIONS UK LIMITED (formerly FRIENDS LIFE INVESTMENT SOLUTIONS LIMITED)**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

11. RISK AND CAPITAL MANAGEMENT (continued)

The Company's available capital is all common equity tier 1 capital, and therefore the three ratios are the same, hence 8% is the most onerous requirement. As at 31 December 2017 the Company's ratio of total available capital to risk weighted exposure was 267%, significantly in excess of the 8% requirement.

Pillar 2

The ICAAP capital is that required for the business in force at the valuation date, to cover the risks over the following 12 months. The principal risk in the Company is operational risk. As at 31 December 2017 the Company's available capital is in excess of its Pillar 2 capital requirement.

12. RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary undertaking of Aviva plc. The results of the Company are consolidated in the results of Aviva plc, the Company's ultimate parent and controlling company, whose financial statements are publicly available. Under FRS 101 the Company is exempt from the requirements of IAS 24 Related Party Disclosures, concerning the disclosure of transactions entered into between two or more members of a group provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

13. ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent undertaking is Aviva plc, who are also the parent company of the smallest and largest group of companies, of which the Company is a wholly owned subsidiary, for which group financial statements are drawn up. Copies of the Group Report and Financial Statements of Aviva plc can be viewed via its web site at www.aviva.com.