

Aviva Insurance Limited

Registered in Scotland No. SC002116

Annual Report and Financial Statements 2017

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Directors and officer

Directors

A D Briggs
S P Burns
K A Cooper
V F Gooding
J B O'Roarke
H R Patel
N D Rochez
C W M Scott
K B Sorenson
R I L Townend
J M Windsor

Officer – Company Secretary

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

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered office

Pitheavlis
Perth
Scotland
PH2 0NH

Company number

Registered in Scotland no. SC002116

Other information

Aviva Insurance Limited ("the Company") is a member of the Association of British Insurers and is authorised by the Prudential Regulation Authority ("PRA") and regulated by the PRA and the Financial Conduct Authority ("FCA"). Its activities are covered by the Financial Ombudsman Service.

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

Strategic report

The directors present their strategic report for the Company for the year ended 31 December 2017.

Review of the Company's business

The Company primarily transacts general and health insurance business in the United Kingdom (UK) and Ireland. The major classes of business underwritten are personal lines (motor, home, creditor and other), health and commercial lines (property, liability, motor and other).

The Company's strategy positions the Company for future profitable growth by meeting our customers' changing needs. The Company is building an increasingly digital General Insurance business, through the Company's strong direct brand and our partnerships with brokers and banks.

The Company's strategy is supported by the aim to continue to improve cash generation and deliver profitable growth.

On 27 February 2017, the Lord Chancellor announced a reduction in the discount rate used in the Ogden tables, which are used in the settlement of lump sum payments in bodily injury claims, from 2.5% set in 2001 to minus 0.75%. As at 31 December 2016, the Company's claims reserves (net of all reinsurance) were increased by £238m to allow for the impact of the reduction in the Ogden discount rate. On 7 September 2017, the Lord Chancellor set out a proposal for legislation to change the way the discount rate is set and on 30 November 2017, the Justice Select Committee published its report into the inquiry into the draft discount rate legislation. As at 31 December 2017, the Company's claims reserves have been maintained using the current discount rate of minus 0.75%.

The Civil Liability Bill was published on 20 March 2018 with the Ministry of Justice accepting the majority of the recommendations proposed by the Justice Select Committee. The Bill is not expected to be enacted until later in 2018.

Financial position and performance

The financial position of the Company at 31 December 2017 is shown in the statement of financial position on page 29, with the trading results shown in the income statement on page 26 and the statement of cash flows on page 30.

The profit after tax for the year was £191 million (2016: loss of £260 million). The 2016 loss was primarily driven by a £309 million loss arising on the execution of the 50% quota share reinsurance transaction with Aviva International Insurance Limited ("AII"), and the adverse impact of the Ogden discount rate announcement applied to personal injury awards of £238 million (after reinsurance).

Gross written premiums were £5,296 million (2016: £5,100 million). In the UK, gross written premiums increased by 4% as a result of broad based organic growth in the Company's chosen channels and products. Personal Lines premiums increased, benefiting from growth in direct home and motor. Commercial Lines premiums increased reflecting growth in Commercial Non-Motor, partly offset by remediation in underperforming segments of commercial motor. Ireland saw a 15% increase in gross written premiums, driven by foreign exchange movements and increases across all business lines.

Net written premiums were £2,507 million (2016: net expense of £620 million). The £3,127 million increase was mainly driven by a £2,701 million decrease in premium ceded under the AII quota share reinsurance arrangement following the retrospective increase of the quota share from 5% to 50% impacting 2016 (2017: £2,507 million premium ceded; 2016: £5,218 million premium ceded).

The combined operating ratio ("COR") increased to 94.3% (2016: 93.6% excluding the impact of the change in Ogden discount rate). Drivers for these movements are described in the key performance indicators section below.

Net investment income decreased to £252 million (2016: £314 million) mainly due to unrealised losses on investments of £42 million (2016: gains of £166 million) as a result of underlying financial market performance and decreased dividend income from subsidiaries of £122 million (2016: £168 million).

The Company's loan to its immediate parent company, Aviva Group Holdings Limited ("AGH"), has reduced from £1,513 million at 31 December 2016 to £1,369 million at 31 December 2017.

Future outlook

The strategic direction of the Company is set by the directors of the Company. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

The Company is well positioned to compete in its key markets by leveraging the power of Aviva's breadth of offering within the UK to deliver compelling propositions to meet our customer needs, alongside driving digitisation through customer services, propositions and ensuring we are easy for customers to do business with, however they chose.

In light of the possibility that the UK may lose passporting rights to the European Economic Area as a consequence of the UK leaving the European Union the Company is taking appropriate action to address any impact for its Freedom of Establishment and Freedom of Services business, whilst minimising disruption for customers and operations.

Strategic report (continued)

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 30 to the financial statements.

Risk factors beyond the Company's control that could cause actual results to differ materially from those estimated include, but are not limited to:

- frequency and severity of significant natural hazards; and
- UK domestic and international economic business conditions, including where the Company's underlying subsidiaries transact business and also the Company's indirect exposure to international economic business conditions via the performance of its loan to AGH, which holds interests in a number of the Group's non-UK operations.

Key performance indicators ("KPIs")

The directors consider that the Company's KPIs that communicate the financial performance are as follows:

- increase/(decrease) in gross written premiums and net written premiums;
- combined operating ratio ("COR") – which comprises the sum of the following ratios:
 - net incurred claims to net earned premiums ratio;
 - net earned commissions to net earned premiums ratio; and
 - net earned expenses to net earned premiums ratio.

The definition of COR has been changed to an earned basis. COR was previously calculated on a hybrid basis: the claims ratio was on an earned basis with the incurred claims expressed as a percentage of net earned premiums; while the commission and expense ratio was on a written basis with written commissions and written expenses expressed as a percentage of net written premiums. This did not consider the impact of deferred commissions and expenses. The new method is calculated as claims incurred, earned commission and earned expenses as a percentage of net earned premiums. Comparatives have been realigned for 2016 on an earned basis.

The Company's principal non-financial KPI is the 'relational net promoter score' for the UK general insurance business. This measures the likelihood of a customer recommending Aviva, relative to the market. The score is determined through third party collation of customer feedback and a scoring system that gives greater weighting to lower scores ('detractors') than higher scores ('promoters'). The results are benchmarked against a representative sample of competitors' customers in order to determine a quartile score against the market.

A summary of the KPIs is set out below:

	2017	2016
Financial KPIs:		
Increase in gross written premiums	3.8%	7.0%
Increase/(decrease) in net written premiums	504.4%	(117.6%)
Combined operating ratio, excluding Ogden ^{(1) (2)}	94.3%	93.6%
Combined operating ratio ⁽¹⁾	94.3%	104.7%
Net incurred claims ratio	62.2%	73.6%
Net earned commissions ratio	22.3%	20.9%
Net earned expenses ratio	9.8%	10.2%

1 The combined operating ratio is now reported on an earned basis. Comparatives have been realigned to reflect this change.

2 Excludes the impact of the change in the Ogden discount rate on 2016

Non-financial KPI:

	At or above market average	In upper quartile
Relational net promoter score		

Strategic report (continued)

Key performance indicators ("KPIs") (continued)

In 2017, excluding the impact of the change in the Ogden discount rate which had an adverse impact of 11.1pp on 2016, the COR increased by 0.7pp, reflecting changes in business mix following new partnerships in the UK, offset by improvements in underlying underwriting performance, and with absolute weather costs remaining flat.

The immediate impact on execution of the AIL quota share arrangement from 5% to 50%, representing the premium and the reinsurance of retrospective losses (see note 33(a)(i) for details), has been excluded from the 2016 COR in order to provide a more comparable indication of underlying operating performance year-on-year.

The claims, commissions and expenses included in the COR excludes £65 million (2016: £66 million) of corporate costs, £5 million (2016: £10 million) relating to the Company's restructuring costs, £55 million (2016: £20 million) of impairment in subsidiaries, £9 million (2016: £115 million) of changes in economic assumptions of claims provisions and £45 million (2016: £47 million) relating to other non-underwriting costs.

By order of the Board on 27 March 2018



For and on behalf of Aviva Company Secretarial Services Limited
Company Secretary
St Helen's
Undershaft
London
EC3P 3DQ

Directors' report

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

Directors

The names of the present directors of the Company are set out on page 3.

The following directors were appointed and resigned throughout the year and to the date of approval of this report:

M E Tulloch resigned as a director of the Company on 20 June 2017
A D Briggs was appointed as a director of the Company on 20 June 2017
G R C Munnoch resigned as a director of the Company on 30 June 2017
A E Hutchinson was appointed and resigned as a director of the Company on 1 July 2017 and 31 October 2017 respectively
J M Windsor was appointed as a director of the Company on 28 September 2017
J S Whewey resigned as a director of the Company on 30 September 2017
M A Pain resigned as a director of the Company on 30 September 2017
H R Patel was appointed as a director of the Company on 30 October 2017
C W M Scott was appointed as a director of the Company on 31 October 2017
J R F Walls was appointed and resigned as a director of the Company on 31 October 2017 and 28 February 2018 respectively
S P Burns was appointed as a director of the Company on 1 January 2018
C J Holmes resigned as a director of the Company on 28 February 2018
V F Gooding was appointed as a director of the Company on 28 February 2018
R I L Townend was appointed as a director of the Company on 28 February 2018
J B O'Roarke was appointed as a director of the Company on 8 March 2018

Dividends

Interim ordinary dividends totalling £214 million on the Company's ordinary shares were declared and settled during 2017 (2016: £1,264 million), of which £145 million was settled in cash and £69 million was set-off against accrued interest due on the Company's loan to AGH. The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2017 (2016: £nil).

In February 2018, the directors declared interim dividends of £392 million, of which £334 million was settled in cash and £58 million was set-off against accrued interest due on the Company's loan to AGH.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the strategic report. In addition, the financial statements include notes on: the Company's contingent liabilities and other risk factors (note 26); its capital structure (note 29); management of its major risks including market, credit and liquidity risk (note 30); and derivative financial instruments (note 31).

The Company and its ultimate holding company, Aviva plc, have considerable financial resources together with a diversified business model, with a spread of businesses and geographical reach. As a consequence, the directors believe that the Company is well placed to successfully manage its business risks. After making enquiries, the directors have continued to adopt the going concern basis in preparing the financial statements and have not identified any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

Events since the statement of financial position

As described in the strategic report on page 4, the Civil Liability Bill was published on 20 March 2018 with the Ministry of Justice accepting the majority of the recommendations on the approach to the Ogden discount rates proposed by the Justice Select Committee in November 2017. The Bill is not expected to be enacted until later in 2018.

Future outlook

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

Overseas branches

During the year, the Company had branch offices outside the UK in Belgium, France and Ireland. The assets and liabilities of the Belgium branch were transferred to the UK and the branch was closed on 30 December 2017.

Financial instruments and financial risk management

The business of the Company includes the use of financial instruments. Details of the Company's risk management objectives and policies and exposures to risk relating to financial instruments are set out in note 30 to the financial statements.

Employees

The Company has no employees. The majority of employees engaged in the activities of the Company are employed by subsidiary undertakings of Aviva plc, Aviva Employment Services Limited and Aviva Group Services Ireland Limited. Disclosures relating to employees may be found in the annual report and financial statements of these companies respectively. The Company receives a recharge from these companies.

Directors' report (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:

- (a) so far as the director is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware; and
- (b) each director has taken all the steps that he ought to have taken as a director in order to make himself 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 s418 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 s487 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 s309A to s309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the directors' report by virtue of paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

The directors also have the benefit of the indemnity provision contained in the Company's articles of association, subject to the conditions set out in the Companies Act 2006. This is a "qualifying third party indemnity" provision as defined by s234 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;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are 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 on 27 March 2018



For and on behalf of Aviva Company Secretarial Services Limited
Company Secretary
St Helen's
Undershaft
London
EC3P 3DQ

Independent auditors' report to the members of Aviva Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Aviva Insurance 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 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, which comprise: the statement of financial position as at 31 December 2017; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

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

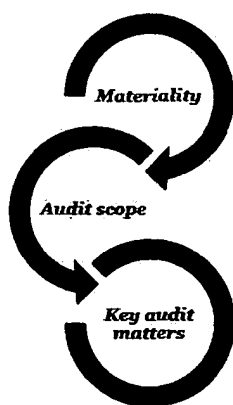
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

Other than those disclosed in Note 5 to the financial statements, we have provided no non-audit services to the Company in the period from 1 January 2017 to 27 March 2018.

Our audit approach

Overview



- Overall materiality: £51.4 million, based on the amount that would change the Combined Operating Ratio ('COR') by more than 1%, excluding the effect of the internal quota share contract.
- We performed full scope procedures over two financially significant components, being the UK General Insurance operations, and the Company's quota share reinsurance arrangement with AILL, a fellow Aviva group company.
- We identified a further two components where certain account balances were considered to be significant in size or audit risk at the financial statement line item level and scoped the audit of these by performing specified procedures. These two components were the Company's Ireland general insurance, and UK health insurance operations.
- Valuation of insurance claims liabilities.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Independent auditors' report to the members of Aviva Insurance Limited (continued)

We focused on laws and regulations that could give rise to a material misstatement in the Company's financial statements, including but not limited to, the Companies Act 2006, the Prudential Regulation Authority's regulations, UK tax legislation and equivalent local laws and regulations applicable to significant component teams.

Our tests included, but were not limited to, the review of the financial statement disclosures to underlying supporting documentation, the review of correspondence with the regulators, discussions with legal counsel, enquiries of management, the review of significant components auditors' work and the review of internal audit reports in so far as they related to the financial statements.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of insurance claims liabilities</i></p> <p>Insurance claims liabilities are based on an estimated ultimate cost of all claims incurred but not settled at 31 December 2017, whether reported or not, together with the related claims handling costs. The valuation of these insurance claims liabilities is a significant accounting estimate in the financial statements and involves a significant degree of judgement.</p> <p>Key areas of focus this year were:</p> <ul style="list-style-type: none"> The underlying volatility attached to estimates for the larger classes of business, such as motor, where small changes in assumptions can lead to large changes in the level of the estimate held and the reported COR. The risk of inappropriate assumptions used in determining current year estimates for the Company. Given that limited data is available, especially for "long-tailed" classes of business, there is greater reliance on expert judgement in their estimation. The risk of inappropriate methodologies and assumptions used to determine estimates for UK bodily injury claims, in particular following the reduction in the Ogden discount rate and the ongoing consultation by the UK Government. The risk that estimates in respect of natural catastrophes and other large claims losses are inappropriate. There is significant judgment involved in the estimation of such losses, particularly as they are often estimated based on limited data. <p>Refer to page 19 accounting policies B (page 17) and K (page 19), and Notes 21 and 26 (page 49 and 57) for disclosure of the related accounting policies, judgements and estimates.</p>	<p>In performing our audit over insurance claims liabilities we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included:</p> <ul style="list-style-type: none"> Developing independent point estimates for classes considered to be higher risk, particularly focusing on the largest and most uncertain estimates, as at 30 September 2017 and performing roll-forward testing to 31 December 2017. For these classes, we compared our re-projected estimates to those booked by the directors to form part of our determination as to whether the overall estimated insurance claims liabilities represent a reasonable estimate. For the other classes of business, we tested the methodology and assumptions used by the directors to derive their estimates and whether these produced reasonable estimates based on the Company's facts and circumstances. For classes of business affected by the Ogden discount rate change, we evaluated the directors' estimate in the context of the facts and circumstances known as at 31 December 2017 and the uncertainty of future rate changes. Testing large loss claims estimates arising from known events by evaluating the underlying information; including examining claims loss adjuster reports. <p>In performing the above, we have also considered and tested the following:</p> <ul style="list-style-type: none"> The internal control environment in place over insurance claims liabilities including: <ul style="list-style-type: none"> Governance control activities; and Control activities supporting key data used in the estimation process. The underlying relevant data (including but not limited to claims case estimates and paid claims) to relevant evidence.

Independent auditors' report to the members of Aviva Insurance Limited (continued)

Key audit matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> • Examined prior year run-off of previous estimates. • The directors' assessment of estimation uncertainty (disclosed in note 26). • Considered whether any of our audit procedures gave rise to an indication of management bias. <p>Based on the work performed and evidence obtained, we were satisfied with the insurance claims liabilities booked.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

The Company is a UK domiciled insurer and the directors' financial reporting uses seven business operating segments which we treat as components. In determining the scope of the audit, we performed risk assessment procedures which included understanding each of the components' business operations, internal control environment and process for the preparation of financial information. We applied our materiality benchmark across each component to identify which components were financially significant to the audit of the Company.

Based on the outputs of our risk assessment, we identified two financially significant components being the Company's UK General Insurance operations and its internal reinsurance arrangement with another Aviva plc group company. These two components contribute individually to more than 15% of the amount that would change the Company's COR by 1%. We performed a full scope audit of these two components.

We identified a further two components where certain account balances were considered to be significant in size or audit risk at the financial statement line item level in relation to the Company, and scoped the audit of these by performing specified procedures. These two components were the Company's Ireland general insurance and UK health insurance operations.

The Company has also established certain operational shared service centres in the UK and overseas. This includes an outsourced operation in Sri Lanka, which primarily is a back-office finance function that processes transactions and performs certain financial control activities to support the production of the Company's financial information. Specified procedures were performed by PwC UK and PwC Sri Lanka audit teams over these UK and overseas shared service centres respectively.

Where the work was performed by auditors of components, or shared service centres, we determined the level of involvement we needed as the Company audit team to have in the audit work of those auditors to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. We maintained regular and timely communication with component and shared service centre audit teams, including performing on-site visits, phone calls, discussions and written instructions, where appropriate.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£51.4 million
How we determined it	The amount that would change the Combined Operating Ratio ('COR') by more than 1%. In determining our materiality, we excluded the effect of Company's internal quota share reinsurance arrangement with another Aviva plc group company to ensure materiality is calculated on a basis consistent with how the shareholder views the performance of the business.
Rationale for benchmark applied	We believe COR is a key profit related benchmark used by the directors and is central to Aviva's communications to the public on the performance of this business.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.6 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report to the members of Aviva Insurance Limited (continued)

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 8, 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

Independent auditors' report to the members of Aviva Insurance Limited (continued)

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.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 3 May 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 December 2012 to 31 December 2017.



Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 March 2018

Accounting policies

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

(A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRSs) 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, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value. The financial statements have been prepared on the going concern basis as explained in the Directors' report on page 7.

The Company is exempt from preparing group financial statements by virtue of section 400 of the Companies Act 2006, as it is a subsidiary of an EEA parent and is included in the consolidated financial statements for the Aviva Group, i.e. the ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates, at the same date. These financial statements therefore present information about the Company as an individual entity.

In accordance with IFRS 4 Insurance Contracts, the Company has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in accounting policy G.

Items included in the financial statements of each of the Company's branches are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The Company's financial statements are stated in pounds sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds sterling (£m).

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

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

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

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

(ii) Amendments to IAS 7 – Disclosure Initiative

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

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

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

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

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

(i) IFRS 9, Financial Instruments (including amendments to IFRS 4, Insurance Contracts)

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

Accounting policies (continued)

(A) Basis of preparation (continued)

(i) IFRS 9, Financial Instruments (including amendments to IFRS 4, Insurance Contracts) (continued)

In September 2016, the IASB published amendments to IFRS 4 *Insurance Contracts* that address the accounting consequences of the application of IFRS 9 to insurers prior to implementing the accounting standard for insurance contracts, IFRS 17, which replaces IFRS 4. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9 until 1 January 2021 at the latest. The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied.

The Company is eligible to apply the deferral approach as its activities are predominantly connected with insurance, as defined by the amendments to IFRS 4. The Company has opted to apply this deferral from 2018. The impact of the adoption of IFRS 9 on the Company's financial statements will, to a large extent, have to take into account the interaction with the new insurance contracts standard IFRS 17. As such, it is not possible to fully assess the effect of the adoption of IFRS 9. IFRS 9 has been endorsed by the EU.

(ii) 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 that was issued in 2005. IFRS 17 applies to all types of insurance contracts as well as to certain guarantees and financial instruments with discretionary participation features. In contrast to the requirements in IFRS 4, which are largely based on grandfathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to insurance contracts. The 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 main features of the new accounting model for insurance contracts are, as follows: the measurement of the present value of future cash flows incorporating an explicit risk adjustment and remeasured every reporting period (the fulfilment cash flows); a Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (coverage period); the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period; and extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

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

(iii) IFRS 16 Leases

In January 2016, the IASB published IFRS 16 *Leases* which will replace IAS 17 *Leases*. IFRS 16 introduces a definition of a lease with a single lessee accounting model eliminating the classification of either operating or finance leases. Lessees will be required to account for all leases in a similar manner to the current finance lease accounting recognising lease assets and liabilities on the statement of financial position. 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 annual reporting periods beginning on or after 1 January 2019 and has been endorsed by the EU.

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

(i) 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.

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

In June 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*. The amendments are effective from 1 January 2018 and have not yet been endorsed by the EU.

(iii) Annual Improvements to IFRSs 2014-2016

These improvements consist of amendments to three IFRSs including IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates*. The amendments to IFRS 1 and IAS 28 are effective for annual reporting periods beginning on or after 1 January 2018; the amendment to IFRS 12 for annual reporting periods beginning on or after 1 January 2017. These amendments have not yet been endorsed by the EU.

(iv) Amendments to IAS 40 – Transfers of Investment Property

In December 2016, the IASB published amendments to IAS 40 *Investment Property*. The amendments are effective from 1 January 2018 and have not yet been endorsed by the EU.

Accounting policies (continued)

(A) Basis of preparation (continued)

(v) IFRIC 22, Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB published IFRIC 22 Foreign Currency Transactions and Advance Consideration. The standard is effective for annual reporting beginning on or after 1 January 2018 and has not yet been endorsed by the EU.

(vi) IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB published IFRIC 23 Uncertainty over Income Tax Treatments. The standard is effective for annual reporting beginning on or after 1 January 2019 and has not yet been endorsed by the EU.

(B) Critical accounting policies and the use of estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the income statement, statement of financial position, other primary statements and notes to the financial statements.

Critical accounting policies

The major areas of judgement on policy application are considered to be on insurance liabilities (set out in policy K) and financial investments (set out in policy R).

Accounting policies (continued)

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

Use of estimates

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly.

The table below sets out those items the Company considers particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy and notes disclosures.

Item	Critical accounting assumptions	Accounting policy	Notes
Insurance liabilities	The principal assumption underlying the techniques used to estimate insurance liabilities is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs.	K	21
Fair value of investments in subsidiaries	Fair value modelling techniques are used incorporating market-observable inputs.	C	9
Fair value of financial investments, derivative financial instruments and investment property	Where quoted market prices are not available, valuation techniques are used to value financial investments and derivatives and will include broker quotes and models using market observable inputs. Investment property valuations are based on techniques where significant estimates are applied in determining the rental uplift and discount rate.	F & R & V	13 & 14 & 31
Impairment of financial investments	Factors considered when assessing whether there is objective evidence of impairment include industry risk factors, financial condition, credit rating and whether there has been a significant or prolonged decline in fair value.	R	12 & 14
Goodwill and intangible assets	Goodwill and intangible assets are tested for impairment using an income approach method. Significant estimates include forecast cash flows and discount rates.	M	8
Deferred acquisition costs	Management use estimation techniques to determine the amortisation profile and impairment test by reference to the present value of estimated future profits.	Y	16
Provisions and contingent liabilities	When evaluating whether a provision or a contingent liability should be recognised the Company assesses the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Company's estimation of the expenditure required to settle the obligation at the statement of financial position date.	BB	23 & 26
Deferred income taxes	Calculation and recognition of temporary differences giving rise to deferred tax balances includes estimates of the extent to which future taxable profits are available against which the temporary differences can be utilised.	CC	17

Accounting policies (continued)

(C) Subsidiaries

Subsidiaries are those entities over which the Company has control. The Company controls an investee if, and only if, the Company has all of the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Company considers all relevant facts and circumstances in assessing whether it has power over an investee including: the purpose and design of an investee, relevant activities, substantive and protective rights, and voting rights and potential voting rights. The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Investments in subsidiaries are classified as available for sale (see accounting policy R) and are stated at their fair values, estimated using applicable valuation models underpinned by the quoted market valuations of comparable listed entities, and with regard to the Aviva Group's market capitalisation.

Where the cumulative changes recognised in the statement of other comprehensive income represent an unrealised loss, the investments are reviewed annually to test whether an impairment exists. Where there is objective evidence that such an asset is impaired, such as the financial difficulty of the entity or a significant or prolonged decline in its fair value below cost, the unrealised loss recorded in the statement of other comprehensive income is reclassified and charged to the income statement.

(D) Associates

Associates are entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control. Generally, it is presumed that the Company has significant influence if it has between 20% and 50% of voting rights.

Investments in associates are classified as available for sale (see accounting policy R) and are stated at their fair values, estimated using applicable valuation models underpinned by the quoted market valuations of comparable listed entities, and with regard to the Aviva Group's market capitalisation.

Where the cumulative changes recognised in the statement of other comprehensive income represent an unrealised loss, the investments are reviewed annually to test whether an impairment exists. Where there is objective evidence that such an asset is impaired, such as the financial difficulty of the entity or a significant or prolonged decline in its fair value below cost, the unrealised loss recorded in the statement of other comprehensive income is reclassified and charged to the income statement.

(E) Foreign currency transactions

Income statements and cash flows of overseas branches are translated into the Company's presentational currency at average exchange rates for the year while their statements of financial position are translated at the year-end exchange rates. Exchange differences arising from the translation of the net investment in overseas branches are recognised in other comprehensive income and taken to the currency translation reserve within equity.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value and designated as held at fair value through profit and loss ("FVTPL") (see policy R) are included in foreign exchange gains and losses in the income statement. Translation differences on non-monetary items, such as equities which are designated as FVTPL, are reported as part of the fair value gain or loss, whereas such differences on available for sale equities are included in the investment valuation reserve.

(F) Fair value measurement

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

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

Accounting policies (continued)

(F) Fair value measurement (continued)

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

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

(G) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts.

As noted in policy A, insurance contracts in general continue to be measured and accounted for under existing accounting practices at the later of the date of transition to IFRS ('grandfathered') or the date of the acquisition of the entity, in accordance with IFRS 4. IFRS accounting for insurance contracts in UK companies was grandfathered at the date of transition to IFRS and determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers (subsequently withdrawn by the ABI in 2015). The accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements. When accounting policies or accounting estimates have been changed and adjustments to the measurement basis have occurred then the financial statements of that year will have disclosed the impacts accordingly.

(H) Premiums earned

Premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties or levies. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the statement of financial position date. Premiums are earned over the life of the contract in line with the incidence of risk. Unearned premiums are calculated on either a daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

(I) Fee and commission income

Fee and commission income includes reinsurance commissions receivable, which are deferred in the same way as acquisition costs as described in policy Y. All other fee and commission income is recognised as the services are provided.

(J) Net investment income

Investment income consists of dividends and interest receivable for the year, movements in amortised cost on debt securities, realised and unrealised gains and losses on fair value through profit or loss investments (as defined in policy R). Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest income is recognised as it accrues, taking into account the effective yield on the investment. It includes the interest rate differential on forward foreign exchange contracts. Rental income is recognised on an accruals basis and is recognised on a straight line basis unless there is compelling evidence that benefits do not accrue evenly over the period of the lease.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost, as appropriate. Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

(K) Insurance liabilities

Claims

General insurance and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Accounting policies (continued)

(K) Insurance liabilities (continued)

Insurance provisions

(i) Outstanding claims provisions

Insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the statement of financial position date. As such, booked claim provisions for general insurance and health insurance are based on the best estimate of the cost of future claim payments plus an explicit allowance for risk and uncertainty. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques and assumptions are given in note 21.

Provisions for latent claims and claims that are settled on an annuity type basis (such as structured settlements) are discounted, in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims and the nature of the liabilities. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected as a change in insurance liabilities. The range of discount rates used is described in note 21.

Where material, anticipated recoveries are disclosed under receivables and not deducted from outstanding claims provisions. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

(ii) Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement in order that revenue is recognised over the period of risk.

(iii) Liability adequacy

At each reporting date, the Company reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts, after taking account of the investment return expected to arise on assets relating to the relevant provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the Company recognises the deficiency in the income statement by setting up a provision in the statement of financial position.

Other assessments and levies

The Company is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included within insurance liabilities but are included under "other liabilities" in the statement of financial position.

(L) Reinsurance

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies.

Where general insurance liabilities are discounted, any corresponding reinsurance assets are also discounted using consistent assumptions.

Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the income statement and statement of financial position as appropriate.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying contract liabilities, outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Reinsurance contracts that principally transfer financial risk are accounted for directly through the statement of financial position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has an impact that can be reliably measured on the amounts that the Company will receive from the reinsurer.

Accounting policies (continued)

(M) Goodwill and intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the net assets of the acquired entity at the date of acquisition. The carrying amount of goodwill is reviewed at least annually or when circumstances or events indicate that there may be uncertainty over this value. Goodwill is written down for impairment where the recoverable amount is insufficient to support its carrying value.

Intangible assets consist primarily of internally developed systems. These intangibles are amortised over their useful lives, which range up to 10 years. A provision for impairment is recognised where the recoverable amount is insufficient to support its carrying value.

(N) Property and equipment

Owner-occupied properties are carried at their revalued amounts, which are supported by market evidence, and movements are taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. These properties are depreciated down to their estimated residual values over their useful lives. All other items classed as property and equipment within the statement of financial position are carried at historical cost less accumulated depreciation.

Depreciation is calculated on the straight-line method to write down the cost of other assets to their residual values over their estimated useful lives of three to five years. The assets' residual values, useful lives and method of depreciation are reviewed regularly and at least at each financial year end, and adjusted if appropriate.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount.

All repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of existing asset will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset.

(O) Investment property

Investment property is held for long-term rental yields and is not occupied by the Company. Completed investment property is stated at its fair value, which is supported by market evidence, as assessed by qualified external valuers. Changes in fair values are recorded in the Income Statement within net investment income.

(P) Impairment of non-financial assets

Property and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Non-financial assets except goodwill which have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

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

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

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

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

(R) Financial investments

The Company classifies its investments as either financial assets at fair value through profit or loss ("FVTPL") or financial assets available for sale ("AFS"). The classification depends on the purpose for which the investments were acquired, and is determined at initial recognition. The FVTPL category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as "other than trading" upon initial recognition.

Accounting policies (continued)

(R) Financial investments (continued)

With the exception of investments in subsidiaries and associates, the FVTPL category is used as the Company's investment or risk management strategy is to manage its financial investments on a fair value basis. All securities in the FVTPL category are classified as other than trading.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values. Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as other than trading are subsequently carried at fair value. Changes in the fair value of other than trading investments are included in the income statement in the period in which they arise.

Equity securities, for which fair values cannot be measured reliably, are recognised at cost less impairment.

Impairment

The Company reviews the carrying value of its loans and receivables and AFS investments on a regular basis. If the carrying value of a loan, receivable or AFS investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. The following policy is used to determine the level of any impairment, which may involve considerable judgement:

AFS equity securities

An AFS equity security is considered impaired if there is objective evidence that the cost may not be recovered. In addition to qualitative impairment criteria, such evidence includes a significant or prolonged decline in fair value below cost. Unless there is evidence to the contrary, an equity security is considered impaired if the decline in fair value relative to cost has been either at least 20% for a continuous six-month period or more than 40% at the end of the reporting period, or being in an unrealised loss position for a continuous period of more than 12 months at the end of the reporting period.

For securities identified as being impaired, the cumulative unrealised net loss previously recognised within the investment valuation reserve is transferred to realised losses for the year with a corresponding movement through other comprehensive income. Any subsequent increase in fair value of these impaired securities is recognised in other comprehensive income and recorded in the investment valuation reserve.

Reversals of impairments on any of these assets are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write-down (such as an improvement in the debtor's credit rating), and are not recognised in respect of equity instruments.

(S) Receivables

Receivables, including inter-company loans, are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest rate method.

(T) Payables and other financial liabilities

Payables, including inter-company amounts payable, are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest rate method.

(U) Financial guarantees

Financial guarantees are recognised initially at their fair value and are subsequently amortised over the duration of the contract. A liability is recognised for amounts payable under the guarantee if it is more likely than not that the guarantee will be called upon.

Accounting policies (continued)

(V) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, interest rate and inflation rate swaps and currency and equity options that derive their value mainly from underlying interest rates, inflation rates, foreign exchange rates, credit or equity instruments or indices. All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently re-measured at their fair value, with the method of recognising movements in this value depending on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. The Company has not designated any derivatives as hedging instruments and they are therefore treated as derivatives held for trading. Their fair value gains and losses are recognised immediately in net investment income.

Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the statement of financial position at the date of purchase, representing their fair value at that date.

Derivative contracts may be traded on an exchange or over-the-counter ("OTC"). Exchange-traded derivatives are standardised and include certain futures and option contracts and foreign exchange contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, swaps, caps and floors. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Many OTC transactions are contracted and documented under ISDA (International Swaps and Derivatives Association) master agreements or their equivalents, which are designed to provide legally enforceable set-off in the event of default, reducing the Company's exposure to credit risk.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions. These amounts are disclosed in note 31. The Company has collateral agreements in place between the Company and relevant counterparties. Accounting policy X covers collateral, both received and pledged, in respect of these derivatives.

Interest rate, inflation rate and currency swaps

Interest rate and inflation rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate amounts by means of periodic payments computed on a specified notional amount and the defined interest or inflation rates. Most interest and inflation rate swap payments are netted against each other, with the difference between the fixed and floating rate amounts paid by one party.

Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Both types of swap contracts may include the net exchange of principal. Exposure to gain or loss on both types of swap contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

Foreign exchange contracts

Foreign exchange contracts, which include spot, forward and futures contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Foreign exchange option contracts are similar to interest rate option contracts, except that they are based on currencies, rather than interest rates.

(W) Loans

Loans with fixed maturities, including mortgage loans on investment property and collateral loans, are recognised when cash is advanced to borrowers. The majority of these loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method.

Impairment is measured based on the present value of expected future cash flows discounted at the effective rate of interest of the loan, subject to the fair value of the underlying collateral. The fair value of underlying collateral is estimated by reference to the most recent third party surveyor valuations available. When a loan is considered to be impaired, the income statement is charged with the difference between the carrying value and the estimated recoverable amount. Interest income on impaired loans is recognised based on the estimated recoverable amount.

(X) Collateral

The Company receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, certain derivative contracts and loans, in order to reduce the credit risk of these transactions. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Accounting policies (continued)

(X) Collateral (continued)

Collateral received in the form of cash, which is not legally segregated from the Company, is recognised as an asset in the statement of financial position with a corresponding liability for the repayment in financial liabilities. However, where the Company has a currently enforceable legal right of set-off and the ability and intent to net settle, the collateral liability and associated derivative balances are shown net. Non-cash collateral received is not recognised in the statement of financial position unless the transfer of the collateral meets the derecognition criteria from the perspective of the transferor. Such collateral is typically recognised when the Company either (a) sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability; or (b) the counterparty to the arrangement defaults, at which point the collateral is seized and recognised as an asset.

Collateral pledged in the form of cash, which is legally segregated from the Company, is derecognised from the statement of financial position with a corresponding receivable recognised for its return. Non-cash collateral pledged is not derecognised from the statement of financial position unless the Company defaults on its obligations under the relevant agreement, and therefore continues to be recognised in the statement of financial position within the appropriate asset classification.

(Y) Deferred acquisition costs and other assets

The costs relating to the acquisition of new business for insurance contracts are deferred to the extent that they are expected to be recoverable out of future margins in revenues on those contracts. Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and is treated as a separate liability.

Deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset. Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

Other receivables and payables are initially recognised at cost, being fair value. Subsequent to initial measurement they are measured at amortised cost.

(Z) Statement of cash flows

Cash and cash equivalents

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

For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the statement of financial position.

Operating cash flows

Purchases and sales of loans and financial investments, and related investment income, are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of payments of related claims.

(AA) Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Where the Company is the lessee, payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the term of the relevant leases. Where the Company is the lessor, lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term. With the exception of investment properties, the Company has not entered into any material finance lease arrangements either as lessor or lessee.

(BB) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Restructuring provisions include lease termination penalties and employee termination payments. They comprise only the direct expenditures arising from the restructuring, which are those that are necessarily entailed by the restructuring, and not associated with the ongoing activities of the entity. The amount recorded as a provision is the best estimate of the expenditure required to settle the present obligation at the statement of financial position date. Where the effect of the time value of money is material, the provision is the present value of the expected expenditure. Provisions are not recognised for future operating losses. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Accounting policies (continued)

(BB) Provisions and contingent liabilities (continued)

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

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

(CC) Income taxes

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

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The rates enacted or substantively enacted at the statement of financial position date are used to value the deferred tax assets and liabilities.

Current and deferred tax, relating to items recognised in other comprehensive income and directly in equity, is similarly recognised in other comprehensive income and directly in equity respectively. Deferred tax related to fair value re-measurement of available for sale investments, owner-occupied properties and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability.

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

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

Deferred tax is not provided on revaluations of investments in subsidiaries and associates as, under current tax legislation, no tax is expected to arise on their disposal.

(DD) 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 is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

Dividends

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

(EE) Pensions

The Company has no employees. However, it is one of a number of companies in the Group being charged for staff participating in pension schemes in the UK and Ireland, and its contributions are affected by the financial position of these schemes. In the absence of any contractual arrangements to allocate the net defined benefit cost for these schemes, measured in accordance with IAS 19, to individual businesses, it is the Aviva Group policy to allocate this cost fully to the main trading companies. The Company therefore recognises a pension expense equal to its contributions payable in the year. Full disclosure of the Group's pension schemes is given in the Annual Report and Accounts of Aviva plc.

Income statement

For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Income	1		
Gross written premiums		5,296	5,100
Premiums ceded to reinsurers		(2,789)	(5,720)
Premiums written net of reinsurance		2,507	(620)
Net change in provision for unearned premiums		(36)	884
Net earned premiums	H & L	2,471	264
Fee and commission income, net of reinsurance	I	19	24
Net investment income	J	252	314
		2,742	602
Expenses	2		
Claims paid, net of recoveries from reinsurers	K	(1,572)	(1,508)
Change in insurance liabilities, net of reinsurance	K	27	1,636
Fee and commission expense, net of reinsurance		(679)	(834)
Other expenses, net of reinsurance		(302)	(235)
Finance costs		-	(1)
		(2,526)	(942)
Profit/(loss) for the year before tax		216	(340)
Tax (charge)/credit	CC & 6	(25)	80
Profit/(loss) for the year after tax		191	(260)

The accounting policies (identified alphabetically) on pages 14 to 25 and notes (identified numerically) on pages 31 to 77 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Profit/(loss) for the year after tax		191	(260)
Other comprehensive income			
<i>Items that may be reclassified subsequently to the income statement:</i>			
Fair value (losses)/gains on investments in subsidiaries	C, 9 & 19	(279)	403
Impairment losses on investments in subsidiaries previously revalued through other comprehensive income, now taken to income statement	C, 2 & 19	55	20
Foreign exchange rate movements	E	3	17
Other comprehensive income, net of tax		(221)	440
Total comprehensive income for the year		(30)	180

The accounting policies (identified alphabetically) on pages 14 to 25 and notes (identified numerically) on pages 31 to 77 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2017

	Note	Ordinary share capital £m	Owner- occupied properties reserve £m	Investment valuation reserve £m	Special reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2016		204	3	927	111	4,133	5,378
Loss for the year		-	-	-	-	(260)	(260)
Other comprehensive income		-	-	423	-	17	440
Total comprehensive income for the year		-	-	423	-	(243)	180
Dividends paid	7	-	-	-	-	(1,264)	(1,264)
Owner-occupied properties fair value gains transferred to retained earnings on disposals	11	-	(2)	-	-	2	-
Balance at 31 December 2016		204	1	1,350	111	2,628	4,294
Profit for the year		-	-	-	-	191	191
Other comprehensive income		-	-	(224)	-	3	(221)
Total comprehensive income for the year		-	-	(224)	-	194	(30)
Dividends paid	7	-	-	-	-	(214)	(214)
Owner-occupied properties fair value gains transferred to retained earnings on disposals	11	-	(1)	-	-	1	-
Balance at 31 December 2017		204	-	1,126	111	2,609	4,050

Included in retained earnings are cumulative exchange rate gains on the retranslation of the Company's overseas operations of £9 million (2016: £6 million gain).

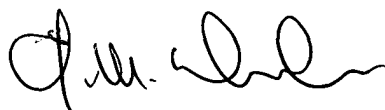
The accounting policies (identified alphabetically) on pages 14 to 25 and notes (identified numerically) on pages 31 to 77 are an integral part of these financial statements.

Statement of financial position

As at 31 December 2017

	Note	2017 £m	2016 £m
Assets			
Goodwill and intangible assets	M & 8	249	253
Investments in subsidiaries	C & 9	2,441	2,720
Investments in associates	D & 9	28	-
Property and equipment	N & 10	24	22
Investment property	O & 11	324	208
Loans	W & 12	5	5
Financial investments	R & 14	4,479	4,264
Reinsurance assets	L & 22	5,151	5,125
Receivables	S & 15	3,685	3,704
Deferred acquisition costs, prepayments and accrued income	Y & 16	684	689
Deferred tax assets	CC & 17	118	129
Current tax assets	CC & 17	-	96
Group relief assets	17	295	198
Cash and cash equivalents	Z & 28	485	637
Total assets		17,968	18,050
Equity			
Ordinary share capital	DD & 18	204	204
Other reserves	19	1,237	1,462
Retained earnings	20	2,609	2,628
Total equity		4,050	4,294
Liabilities			
Gross insurance liabilities	K & 21	8,648	8,595
Provisions	BB & 23	17	28
Current tax liabilities	CC & 17	11	-
Payables and other financial liabilities	T & 24	4,411	4,334
Other liabilities	25	831	799
Total liabilities		13,918	13,756
Total equity and liabilities		17,968	18,050

The financial statements on pages 14 to 77 were approved by the Board of Directors on 27 March 2018 and signed on its behalf by J M Windsor:



The accounting policies (identified alphabetically) on pages 14 to 25 and notes (identified numerically) on pages 31 to 77 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from operating activities	28(a)	114	321
Net cash generated from operating activities		114	321
Cash flows from investing activities			
Acquisition of associate undertakings	9(b)(i)	(28)	-
Net cash used in investing activities		(28)	-
Cash flows from financing activities			
Dividends paid to ordinary shareholders		(145)	(364)
Net cash used in financing activities		(145)	(364)
Net decrease in cash and cash equivalents		(59)	(43)
Cash and cash equivalents at 1 January		227	270
Cash and cash equivalents at 31 December	28(b)	168	227

The accounting policies (identified alphabetically) on pages 14 to 25 and notes (identified numerically) on pages 31 to 77 are an integral part of these financial statements.

Notes to the financial statements

1. Details of income

	Note	2017 £m	2016 £m
Gross written premiums	21(d)	5,296	5,100
Less: premiums ceded to reinsurers	22(c)(ii)	(2,789)	(5,720)
Gross change in provision for unearned premiums	21(d)	(86)	(155)
Reinsurers' share of change in provision for unearned premiums	22(c)(ii)	50	1,039
Net change in provision for unearned premiums		(36)	884
Net earned premiums		2,471	264
Reinsurance commissions receivable		3	6
Other fee income, net of reinsurance		16	18
Fee and commission income, net of reinsurance		19	24
Total revenue		2,490	288
Interest and similar income			
From investments designated as trading and other than trading		66	108
Dividend income from equity securities		12	4
		78	112
Income from Group undertakings			
Dividend income		122	168
Net interest income/(expense)		50	(54)
		172	114
Other income from investments designated as trading			
Realised losses		(23)	(5)
Unrealised gains/(losses)		36	(45)
		13	(50)
Other income from investments designated as other than trading			
Realised gains/(losses)		52	(73)
Unrealised (losses)/gains		(78)	211
		(26)	138
Net income from investment properties			
Net rental income		12	9
Fair value gains/(losses) on investment properties	11	12	(2)
		24	7
Revaluation loss on owner-occupied properties		-	(1)
Other investment expenses		(9)	(6)
Net investment income		252	314
Total income		2,742	602

Net earned premiums includes £2,470 million (2016: £4,235 million) premiums ceded in respect of a quota share reinsurance arrangement with AIL (see note 33(a)(i)).

Notes to the financial statements (continued)

2. Details of expenses

	Note	2017 £m	2016 £m
Claims and benefits paid, net of recoveries from reinsurers			
Claims and benefits paid	21(b)(iv)	3,296	3,167
Less: Claims recoveries from reinsurers	22(c)(i)	(1,724)	(1,659)
		1,572	1,508
Change in insurance liabilities, net of reinsurance			
Change in insurance liabilities	21(b)(iv)	(74)	768
Change in reinsurance asset for insurance provisions	22(c)(i)	47	(2,404)
		(27)	(1,636)
Fee and commission expense, net of reinsurance			
Acquisition costs			
Commission expenses		1,125	1,112
Change in deferred acquisition costs	16	(12)	(96)
Other acquisition costs		245	260
Less: fee and commission expense ceded to reinsurers		(679)	(442)
		679	834
Other expenses, net of reinsurance			
Impairment of investments in subsidiaries	9 & 19	55	20
Amortisation of intangible assets	8	31	24
Net foreign exchange losses		28	9
Corporate costs		131	66
Restructuring costs		10	18
Operating lease costs		20	22
Other expenses		252	219
Less: other expenses ceded to reinsurers		(225)	(143)
		302	235
Finance costs			
Unwind of discount on claims provisions, net of reinsurance	21(b)(iv) & 22(c)(i)	-	1
		-	1
Total expenses		2,526	942

Claims and benefits paid and change in insurance liabilities, net of insurance include £1,549 million (2016: £3,640 million) claims recoveries in respect of a quota share reinsurance arrangement with AIL (see note 33(a)(i)).

3. Employees

The Company has no employees (2016: none). Aviva Employment Services Limited and Aviva Group Services Ireland Limited, fellow Group companies, are the employing companies for the majority of the staff engaged in the activities of the Company. Disclosures relating to employees may be found in the annual report and financial statements of these companies respectively. The Company receives a recharge from these companies.

Notes to the financial statements (continued)

4. Directors' remuneration

The emoluments in respect of Messrs Briggs, Holmes, Hutchinson, Munnoch, Pain, Patel, Rochez, Scott, Sorenson, Tulloch, Walls, Wheway and Windsor are shown in the table below.

	2017	2016
	£'000	£'000
Aggregate emoluments	3,791	3,420

K A Cooper was remunerated for her role as an employee across the Aviva Group. She was not remunerated directly for her services as a director for the Company and the amount of time spent performing her duties was incidental to her role across the Aviva Group.

Where directors had multiple directorships and their services as a director for the Company were not incidental to their roles across the Aviva Group, it is not possible to accurately apportion their emoluments to individual companies. The emoluments of these directors reported in the above 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.

During the year, two directors (2016: two) accrued retirement benefits under money purchase pension schemes in respect of qualifying services.

During the year, three of the directors exercised share options (2016: three) and three of the directors received shares under long-term incentive schemes (2016: three).

The details of the highest paid director are as follows:

	2017	2016
	£'000	£'000
Aggregate emoluments	1,084	1,825
Company pension contributions to a money purchase scheme	-	61
	<u>1,084</u>	<u>1,886</u>

During the year and prior year, the highest paid director in the relevant year exercised share options and received shares under long-term incentive schemes.

5. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors, PricewaterhouseCoopers LLP, is shown below.

	2017	2016
	£'000	£'000
Fees payable for the audit of the Company's financial statements	2,023	2,125
Fees payable for audit-related assurance services	203	199
	<u>2,226</u>	<u>2,324</u>

Fees payable for audit-related assurance services are in relation to the audit of the Solvency II, Employers Liability Register and Motor Insurers Bureau of Ireland regulatory returns.

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

Notes to the financial statements (continued)

6. Tax charge

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

(i) The total tax charge comprises:

	2017 £m	2016 £m
Current tax		
For this year	(15)	81
Prior year adjustments	1	(4)
Total current tax	(14)	77
Deferred tax		
Origination and reversal of temporary differences	(11)	7
Changes in tax rates or tax laws	-	(4)
Total deferred tax	(11)	3
Total tax (charged)/credited to the income statement	(25)	80

(ii) Unrecognised tax losses and temporary differences of previous years were used to reduce current tax expense and deferred tax expense by £6 million and £nil, respectively (2016: £nil and £nil, respectively).

(iii) Deferred tax (charged)/credited to the income statement represents movements on the following items:

	2017 £m	2016 £m
Insurance items	5	6
Provisions and other temporary differences	3	(3)
Unused losses and tax credits	(20)	1
Accelerated capital allowances	1	(1)
Total deferred tax (charged)/credited to the income statement	(11)	3

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

There was no tax credited or charged to other comprehensive income in either 2017 or 2016.

Notes to the financial statements (continued)

6. Tax charge (continued)

(c) Tax reconciliation

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

	Note	2017 £m	2016 £m
Profit/(loss) for the year before tax		216	(340)
Tax calculated at standard UK corporation tax rate of 19.25% (2016: 20%)		(42)	68
Adjustment to tax charges in respect of prior years		2	(5)
Non-taxable dividends		27	35
Disallowable expenses		(13)	(5)
Impact of change in tax rate		-	(4)
Different local basis of tax on overseas profits		1	(9)
Tax (charge)/credit for the year	6(a)(i)	(25)	80

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

The future tax rates are used to value the Company's deferred tax assets and liabilities. The change in future tax rate to 17% has had no material impact on the tax charge for the year (2016: £4m reduction in tax credit for the year).

7. Dividends

	Note	2017 £m	2016 £m
<i>Ordinary dividends declared and charged to equity in the current year and prior year:</i>			
Interim dividend - £62,070 per share declared in February 2016		-	1,264
Interim dividend - £10,509 per share declared in February 2017		214	-
Total dividends for the year	33(a)(vii)	214	1,264

The interim dividends were settled either in cash or by reducing the loan due from the Company's immediate parent, AGH (see note 33(a)).

Notes to the financial statements (continued)

8. Goodwill and intangible assets

	Note	Goodwill £m	Intangible assets £m	Total £m
Gross amount				
At 1 January 2017		95	200	295
Additions		-	24	24
Foreign exchange rate movements		3	-	3
At 31 December 2017		98	224	322
Accumulated amortisation				
At 1 January 2017		-	(42)	(42)
Charge for the year	2	-	(31)	(31)
At 31 December 2017		-	(73)	(73)
Carrying value at 31 December 2017		98	151	249

	Note	Goodwill £m	Intangible assets £m	Total £m
Gross amount				
At 1 January 2016		82	156	238
Additions		-	44	44
Foreign exchange rate movements		13	-	13
At 31 December 2016		95	200	295
Accumulated amortisation				
At 1 January 2016		-	(18)	(18)
Charge for the year	2	-	(24)	(24)
At 31 December 2016		-	(42)	(42)
Carrying value at 31 December 2016		95	158	253

Goodwill historically arose on acquisitions of insurance businesses. As explained in accounting policy M, the carrying amount of goodwill is reviewed at least annually or when circumstances or events indicate that there may be uncertainty over this value. The review compares the carrying value of the cash generating unit to which the goodwill relates to the recoverable value of that cash generating unit. The recoverable amount is the value in use of the cash generating unit.

Value in use is calculated as the discounted value of expected future profits of the business. The calculation uses cash flow projections based on business plans approved by management covering a three-year period. These plans reflect management's best estimate of future profits based on both historical experience and expected growth rates. Cash flows beyond that three-year period are extrapolated using a steady growth rate. Growth rates and expected future profits are set with regards to past experience and relevant available market statistics. Future profits are discounted using a risk-adjusted discount rate.

The carrying value of goodwill was reviewed at 31 December 2017. Key assumptions include a growth rate of 0% (2016: 0%) and a risk-adjusted pre-tax discount rate of 6.1% (2016: 6.1%). No impairment is required as the recoverable amount exceeds the carrying value. Furthermore, a reasonably possible change in assumptions would not cause the carrying amount to exceed its recoverable amount.

Intangible assets consist primarily of costs relating to Guidewire, a policy administration and claims handling system, which are being amortised over 10 years.

Notes to the financial statements (continued)

9. Investments in subsidiaries and associates

(a) Movements in the Company's investments in its subsidiaries and associates are as follows:

	Note	2017		2016
		Subsidiaries	Associates	Subsidiaries
		£m	£m	£m
Fair value at 1 January		2,720	-	2,317
Additions	9(b)(i)	-	28	-
Movement in fair value	9(b)(ii)&19	(279)	-	403
Fair value at 31 December		2,441	28	2,720

All investments in subsidiaries and associates are recorded as Level 3 investments in the fair value hierarchy (see note 13).

(b) Material movements

(i) Additions

The £28 million of additions in the year includes the acquisition of 9.5% of the share capital of Aviva UK Digital Limited for cash consideration of £20 million.

(ii) Movement in fair value

The decrease in fair value in the year arises from net fair value losses of £224 million (2016: £423 million), primarily driven by a decrease in the fair value of Aviva Canada Inc, and net impairments of £55 million (2016: £20 million), resulting from dividends received from subsidiaries.

(c) Subsidiaries and associates

The Company's interests in subsidiaries and associates, including both direct and indirect holdings, as at 31 December 2017 are as follows:

Registered address	Share class	% held
Barbados		
c/o USA Risk Group (Barbados) Ltd., 6th Floor, CGI Tower, Warrens, St. Michael, Bb22026		
Victoria Reinsurance Company Ltd.	Common Shares	100
Canada		
10 Aviva Way, Suite 100, Markham, On L6G 0G1		
9543864 Canada Inc.	Common Shares	100
Aviva Canada Inc.	Class A, Class B, Common, & New Common Shares	100
Aviva General Insurance Company	Common Shares	100
Aviva Insurance Company of Canada	Common Shares	100
Aviva Warranty Services Inc.	Common Shares	100
Elite Insurance Company	Common Shares	100
Insurance Agent Service Inc.	Common Shares	100
National Home Warranty Group Inc.	Common Shares	100
OIS Ontario Insurance Service Limited	Common Shares	100
Pilot Insurance Company	Common Shares	100
S&Y Insurance Company	Common Shares	100

Registered address	Share class	% held
Scottish & York Insurance Co. Limited	Common Shares	100
Traders General Insurance Company	Common Shares	100
Wayfarer Insurance Brokers Limited	Common Shares	100
100, 10325 Bonaventure Drive S.E., Calgary T2J 7E4		
A-Win Insurance Ltd.	Ordinary Shares	100
328 Mill Street, Unit 11, Beaverton L0K 1A0		
Bay-Mill Specialty Insurance Adjusters Inc.	Common Shares	100
555 Chabanel Ouest, Bureau 900, Montreal QC H2N 2H8		
Aviva Agency Services Inc.	Common A Shares	100
600 Cochrane Drive, Suite 205, Markham On L3R 5K3		
Westmount Guarantee Services Inc.	Common A Shares	33
480 University Avenue, Suite 800, Toronto On M5G 1V2		
LMS Prolink Limited	Common A Shares	34

Notes to the financial statements (continued)

9. Investments in subsidiaries and associates (continued)

(c) Subsidiaries and associates (continued)

Registered address	Share Class	% held
Ireland		
One Park Place, Hatch Street, Dublin 2		
Aviva Direct Ireland Limited	Ordinary Shares	100
Aviva Driving School Ireland Limited	Ordinary Shares	100
Aviva Undershaft Five Limited	Ordinary Shares	70
Aviva Undershaft Three SE	Ordinary Shares	100
Aviva OPP One Designated Activity Company	Ordinary Shares	100
Luxembourg		
2 rue du Fort Bourbon, L-1249, Luxembourg		
Aviva Investors Continental European Long Lease Strategy Fund	SCSp	48
United Kingdom		
St Helen's, 1 Undershaft, London, EC3P 3DQ		
Aviva Credit Services UK Limited	Ordinary Shares	100
Aviva Insurance Services UK Limited	Ordinary Shares	100
LUC Holdings Limited	Ordinary Shares	20
The Ocean Marine Insurance Company Limited	Ordinary Shares	100
The Welsh Insurance Corporation Limited	Ordinary Shares	100
Aviva UK Digital Limited	Ordinary Shares	10
8 Surrey Street, Norwich, Norfolk, NR1 3NG		
Aviva Consumer Products UK Limited	Ordinary Shares	100
Aviva Health UK Limited	Ordinary Shares	100
Aviva Insurance UK Limited	Ordinary Shares	100
Aviva UKGI Investments Limited	Ordinary Shares	100

Registered address	Share Class	% held
Gresham Insurance Company Limited	Ordinary Shares	100
Solus (London) Limited	Ordinary Shares	100
Synergy Sunrise (Broadlands) Limited	Ordinary Shares	100
Healthcare Purchasing Alliance Limited	Ordinary Shares	50
London and Edinburgh Insurance Company Limited	Ordinary Shares	100
East Farmhouse, Cams Hall Estate, Fareham, Po16 8Ut, United Kingdom		
IQUO Limited	Ordinary A Shares	67
4th Floor, New London House, 6 London Street, London, EC3R 7LP		
Polaris U.K. Limited	Ordinary Shares	39
Melrose House, 42 Dingwall Road, Croydon, England, CR0 2NE		
Health & Case Management Limited	Ordinary Shares, Preference Shares	25
42 Dingwall Road, Croydon, Surrey, CR0 2NE		
Ballard Investment Company Limited	Ordinary Shares	25
Swan Court Waterman's Business Park, Kingsbury Crescent, Staines, Surrey, TW18 3BA		
Healthcode Limited	Ordinary Shares	20

Notes to the financial statements (continued)

10. Property and equipment

		Owner-occupied properties	Other assets	2017
		£m	£m	Total £m
Gross amount				
At 1 January		21	2	23
Reversal of impairment		2	-	2
At 31 December		23	2	25
Accumulated depreciation				
At 1 January		-	(1)	(1)
Charge for the year		-	-	-
At 31 December		-	(1)	(1)
Carrying value at 31 December		23	1	24

	Note			2016
		Owner-occupied properties	Other assets	Total
		£m	£m	£m
Gross amount				
At 1 January		8	2	10
Revaluation loss		(1)	-	(1)
Reclassification to investment properties	11	14	-	14
At 31 December		21	2	23
Accumulated depreciation				
At 1 January		-	(1)	(1)
Charge for the year		-	-	-
At 31 December		-	(1)	(1)
Carrying value at 31 December		21	1	22

Owner-occupied properties are stated at their most recent revalued amounts, as assessed by qualified external valuers at least every three years. These valuations are assessed in accordance with the relevant parts of the current RICS Appraisal and Valuation Standards in the UK, and with current local valuation practices in other countries. This assessment is in accordance with UK Valuations Standards ("Red book"), and is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, on the basis of the highest and best use of the asset that is physically possible, legally permissible and financially feasible. The valuation assessment adopts market-based evidence and is in line with guidance from the International Valuation Standards Committee and the requirements of IAS 16, *Property, Plant and Equipment*.

If owner-occupied properties were stated on a historical cost basis, the carrying amount would be £26 million (2016: £22 million).

Notes to the financial statements (continued)

11. Investment property

	Note	2017 £m	2016 £m
Fair value at 1 January		208	212
Additions		13	22
Disposals		(3)	(10)
Transfers from fellow Group undertakings		94	-
Reclassification to owner-occupied properties	10	-	(14)
Movement in fair value	1	12	(2)
Fair value at 31 December		324	208

Investment properties comprise freehold and long leasehold commercial properties of £291 million and £33 million respectively (2016: £176 million and £32 million respectively). Investment properties are stated at their market values as assessed by qualified external valuers. Values are calculated using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, lease expiry, or break option taking into consideration lease incentives and assuming no growth in the estimated rental value of the property. This uplift and the discount rate are derived from rates implied by recent market transactions on similar properties.

In November 2017, freehold investment properties with a market value of £94 million were transferred from AGH to the Company.

Cumulative gains of £1 million (2016: £2 million) were transferred from the owner-occupied properties reserve to retained earnings on disposal of investment properties which had been historically held as owner-occupied property.

12. Loans

(a) Carrying amounts of loans at amortised cost

The carrying amounts of loans at 31 December are as follows:

	2017 £m	2016 £m
Other loans	5	5
As at 31 December	5	5
Expected to be recovered in less than one year	5	-
Expected to be recovered in greater than one year	-	5
	5	5

The fair value of the loans is estimated to be £5 million (2016: £5 million).

(b) Analysis of loans carried at amortised cost

	Amortised cost £m	Impairment provisions £m	2017 Carrying value £m
Other loans	5	-	5
Total	5	-	5

	Amortised cost £m	Impairment provisions £m	2016 Carrying value £m
Other loans	5	-	5
Total	5	-	5

Notes to the financial statements (continued)

13. Fair value methodology

This note explains the methodology for valuing the Company's assets and liabilities measured at fair value, and for fair value disclosures. It also provides an analysis of these according to a 'fair value hierarchy', determined by the market observability of valuation inputs.

(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:

Level 1

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company can access at the measurement date.

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 market;
- 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); and
- market-corroborated inputs.

Where broker quotes are used and no information as to the observability of inputs is provided by the broker, the investments are classified as follows:

- where the broker price is validated by using internal models with market observable inputs and the values are similar, the investment is classified as Level 2; and
- in circumstances where internal models are not used to validate broker prices, or the observability of inputs used by brokers is unavailable, the investment is classified as Level 3.

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. Unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability. Examples are certain private equity investments and private placements.

The majority of the Company's assets and liabilities measured at fair value, excluding investments in subsidiaries and associates, are based on quoted market information or observable market data. Third party valuations using significant unobservable inputs validated against Level 2 internally modelled valuations are classified as Level 3, where there is a significant difference between the third party price and the internally modelled value. Where the difference is insignificant, the instrument would be classified as Level 2.

Investments in subsidiaries and associates recorded at fair value are based on estimates and recorded as Level 3 investments. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible.

Notes to the financial statements (continued)

13. Fair value methodology (continued)

(b) Fair value hierarchy

An analysis of assets and liabilities measured at fair value categorised by fair value hierarchy is given below:

	Note	Fair value hierarchy			2017
		Level 1	Level 2	Level 3	Total
		£m	£m	£m	£m
Financial investments and loans					
Debt securities	14	1,326	1,884	-	3,210
Equity securities	14	487	-	5	492
Investment property	11	-	-	324	324
Derivative assets	31	10	91	-	101
Other investments	14	523	-	153	676
Total		2,346	1,975	482	4,803
Investments in subsidiaries and associates					
Investments in subsidiaries	9	-	-	2,441	2,441
Investments in associates	9	-	-	28	28
Total		-	-	2,469	2,469
Financial liabilities					
Derivative liabilities	31	(4)	(181)	-	(185)
Total		(4)	(181)	-	(185)

	Note	Fair value hierarchy			2016
		Level 1	Level 2	Level 3	Total
		£m	£m	£m	£m
Financial investments and loans					
Debt securities	14	1,520	2,493	-	4,013
Equity securities	14	-	-	7	7
Investment property	11	-	-	208	208
Derivative assets	31	6	108	3	117
Other investments	14	-	-	127	127
Total		1,526	2,601	345	4,472
Investments in subsidiaries					
Investments in subsidiaries	9	-	-	2,720	2,720
Total		-	-	2,720	2,720
Financial liabilities					
Derivative liabilities	31	(2)	(179)	(69)	(250)
Total		(2)	(179)	(69)	(250)

The fair value of loans carried at amortised cost (see note 12) is categorised as Level 3 in the fair value hierarchy.

The fair value of cash and cash equivalents, receivables, payables and other financial liabilities approximates to their carrying amount.

Notes to the financial statements (continued)

13. Fair value methodology (continued)

(c) Further information on Level 3 financial instruments

The table below shows movements in the Level 3 assets and liabilities measured at fair value:

	Investment in subsidiaries and associates (note 9) £m	Equity securities (note 14) £m	Investment property (note 11) £m	Other investments £m	Derivative assets £m	Derivative liabilities £m
Balance at 31 December 2015	2,317	7	212	97	7	(56)
Purchases	-	-	22	26	-	-
Disposals	-	-	(10)	-	-	-
Reclassifications	-	-	(14)	-	-	-
Movement in fair value	403	-	(2)	4	(4)	(13)
Balance at 31 December 2016	2,720	7	208	127	3	(69)
Transfers from fellow Group undertakings	-	-	94	-	-	-
Purchases	28	-	13	42	-	-
Disposals	-	-	(3)	(20)	-	40
Net transfers out of Level 3	-	-	-	-	(1)	66
Movement in fair value	(279)	(2)	12	4	(2)	(37)
Balance at 31 December 2017	2,469	5	324	153	-	-

Transfers between levels of the fair value hierarchy

£66 million (2016: £nil) of derivative liabilities transferred out of Level 3 relate principally to retail price index ("RPI") swaps which were transferred to Level 2 as observable inputs became available.

No material transfers occurred between Level 1 and Level 2 and Level 1 and Level 3.

Sensitivity to changes in unobservable inputs

The unobservable inputs to the fair value of investments in subsidiaries relate to assumptions made to individual subsidiaries' net assets or embedded values, all of which are underpinned by quoted market valuations of comparable listed entities. For these level 3 investments, a change in the external financial market inputs within the valuation model to a reasonable alternative of +/-5% would result in a change in the fair value of investment in subsidiaries in the range of a £104 million positive impact (2016: £115 million) and a £104 million adverse impact (2016: £115 million) respectively.

The valuation of investment properties and other investments involves using underlying assumptions relating to expected rental yields. A change in the rental yield to reasonable alternatives (range of +/-5.0% across property sectors) (2016: range of +/-3.6% to +/-9.3% across property sectors) would result in a change in the fair value of investment in properties in the range of a £16 million positive impact (2016: £11 million) and a £16 million adverse impact (2016: £11 million) and a change in the fair value of other investments in the range of a £3 million positive impact (2016: £9 million) and a £2 million adverse impact (2016: £9 million).

Notes to the financial statements (continued)

14. Financial investments

(a) Carrying amount

Financial investments comprise:

			2017
At fair value through profit or loss	Trading £m	Other than trading £m	Total £m
(i) Fixed maturity securities			
Debt securities			
UK Government	-	1,430	1,430
Non-UK Government	-	324	324
Corporate	-	1,456	1,456
	-	3,210	3,210
(ii) Equity securities			
Ordinary shares			
Industrial miscellaneous and all other	-	492	492
(iii) Derivative assets			
Derivative financial instruments	101	-	101
(iv) Other investments			
Unit trusts and specialised investment vehicles	-	676	676
Total financial investments	101	4,378	4,479

			2016
At fair value through profit or loss	Trading £m	Other than trading £m	Total £m
(i) Fixed maturity securities			
Debt securities			
UK Government	-	1,624	1,624
Non-UK Government	-	449	449
Corporate	-	1,940	1,940
	-	4,013	4,013
(ii) Equity securities			
Ordinary shares			
Industrial miscellaneous and all other	-	7	7
(iii) Derivative assets			
Derivative financial instruments	117	-	117
(iv) Other investments			
Unit trusts and specialised investment vehicles	-	127	127
Total financial investments	117	4,147	4,264

Of the above total, £3,572 million (2016: £3,798 million) is expected to be recovered more than one year after the statement of financial position date.

Notes to the financial statements (continued)

14. Financial investments (continued)

(b) Cost, unrealised gains and losses, and fair value

The following is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments:

	Cost/ amortised cost	Unrealised gains	Unrealised losses and impairments	2017 Fair value
	£m	£m	£m	£m
Debt securities	2,979	268	(37)	3,210
Equity securities	478	17	(3)	492
Derivative assets	18	91	(8)	101
Other investments	709	16	(49)	676
	4,184	392	(97)	4,479

	Cost/ amortised cost	Unrealised gains	Unrealised losses and impairments	2016 Fair value
	£m	£m	£m	£m
Debt securities	3,714	335	(36)	4,013
Equity securities	8	-	(1)	7
Derivative assets	6	111	-	117
Other investments	154	14	(41)	127
	3,882	460	(78)	4,264

All unrealised gains and losses and impairments on financial investments classified as fair value through profit or loss have been recognised in the income statement.

Unrealised gains and losses on financial investments and derivative liabilities classified as at fair value through profit or loss recognised in the income statement in the year were a net loss of £42 million (2016: £166 million net gain).

The movement in the unrealised gain/loss position reported in the statement of financial position during the year, shown in the table above, includes transfers due to the realisation of gains and losses on disposal and the recognition of impairment losses.

(c) Stock lending

The Company has entered into stock lending arrangements during the year in accordance with established market conventions. The majority of the Company's stock lending transactions occurs in the UK, where investments are lent to EEA-regulated, locally-domiciled counterparties and governed by agreements written under English law.

Non-cash collateral received under stock lending arrangements

The Company receives collateral in order to reduce the credit risk of these arrangements. Collateral must be in a readily realisable form such as listed securities and is held in segregated accounts. Transfer of title always occurs for the collateral received, although no market risk or economic benefit is taken. The level of collateral held is monitored regularly, with further collateral obtained where this is considered necessary to manage the Company's risk exposure. The carrying amount of financial assets pledged for stock lending at 31 December 2017 was £930 million (2016: £1,073 million). The carrying amount of financial assets collateral received in this manner at 31 December 2017 was £987 million (2016: £1,155 million). No collateral was actually sold in the absence of default in either 2017 or 2016.

Notes to the financial statements (continued)

15. Receivables

	Note	2017 £m	2016 £m
Amounts due from contract holders		886	758
Amounts due from intermediaries		466	459
Amounts due from reinsurers		34	26
Amounts due from holding companies	33(a)(vii)	72	71
Amounts due from subsidiaries	33(a)(vii)	159	204
Amounts due from other Aviva Group companies	33(a)(vii)	78	5
Loans due from holding companies	33(a)(v)	1,369	1,513
Loans due from subsidiaries	33(a)(v)	490	501
Other receivables		131	167
Total at 31 December		3,685	3,704
Expected to be recovered in less than one year		1,878	1,890
Expected to be recovered in greater than one year		1,807	1,814
		3,685	3,704

Concentrations of external credit risk with respect to receivables are limited due to the size and spread of the Company's trading base. No further credit risk provision is therefore required in excess of the normal provision for doubtful receivables.

Other receivables includes £104 million (2016: £143 million) for collateral pledged to the derivative counterparties against derivatives liabilities held at year-end.

The fair value of receivables approximates to their carrying amount.

16. Deferred acquisition costs, prepayments and accrued income

(a) The carrying amount comprises:

	2017 £m	2016 £m
Deferred acquisition costs in respect of insurance contracts	548	532
Prepayments and accrued income	136	157
Total at 31 December	684	689

(b) The movements in deferred acquisition costs during the year are:

	2017 £m	2016 £m
Carrying amount at 1 January	532	433
Acquisition costs deferred during the year	1,198	1,244
Amortisation	(1,183)	(1,148)
Foreign exchange rate movements	1	3
Carrying amount at 31 December	548	532

Deferred acquisition costs are generally recoverable within one year of the statement of financial position date.

(c) Prepayments and accrued income

Prepayments and accrued income are expected to be recovered within one year of the statement of financial position date.

Notes to the financial statements (continued)

17. Tax assets and liabilities

(a) Current tax

	2017 £m	2016 £m
<i>Tax asset</i>		
Expected to be recoverable in more than one year	-	96
Tax asset recognised in statement of financial position	-	96
<i>Tax liability</i>		
Expected to be payable in more than one year	(11)	-
Tax liability recognised in statement of financial position	(11)	-

(b) Group relief

Of the total group relief asset of £295m (2016: £198m), £97m is expected to be recovered within one year (2016: £198m) and £198m is expected to be recovered in more than one year (2016: £nil). Further details are included within related party transactions (note 33(a)(vii)).

(c) Deferred tax

(i) The balance at the year end comprises:

	2017 £m	2016 £m
Temporary differences arising on insurance items	(16)	(21)
Unused losses and tax credits	139	159
Accelerated capital allowances	4	3
Provisions and other temporary differences	(9)	(12)
Net deferred tax asset at 31 December	118	129

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

	Note	2017 £m	2016 £m
Net deferred tax asset at 1 January		129	126
Amounts (charged)/credited to profit	6(a)(i)	(11)	3
Net deferred tax asset at 31 December		118	129

The Company has unrecognised temporary differences of £228 million (2016: £258 million) to carry forward indefinitely against future taxable income. This comprises £221 million of capital losses (2016: £251 million) and £7 million of accelerated capital allowances (2016: £7 million).

Notes to the financial statements (continued)

18. Ordinary share capital

	2017 £m	2016 £m
Allotted, called up and fully paid		
20,364 (2016: 20,364) ordinary shares of £10,000 each	204	204

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.

19. Other reserves

	Note	Owner-occupied properties reserve (see accounting policy N) £m	Investment valuation reserve (see accounting policy R) £m	Special reserve £m	Total other reserves £m
Balance at 1 January 2016		3	927	111	1,041
Fair value gains on investments in subsidiaries	9	-	403	-	403
Impairment losses on investments in subsidiaries previously revalued through other comprehensive income, now taken to income statement	2	-	20	-	20
Transfer to retained earnings	20	(2)	-	-	(2)
Balance at 31 December 2016		1	1,350	111	1,462
Fair value losses on investments in subsidiaries and associates	9	-	(279)	-	(279)
Impairment losses on investments in subsidiaries previously revalued through other comprehensive income, now taken to income statement	2	-	55	-	55
Transfer to retained earnings	20	(1)	-	-	(1)
Balance at 31 December 2017		-	1,126	111	1,237

Impairments

Impairment charges recognised in the income statement in the year amount to £55 million (2016: £20 million). These relate to £55 million (2016: £20 million) of net impairments following receipt of dividends from certain of the Company's subsidiaries.

Special reserve

On 31 December 2007, the Company's parent at the time, AIL, transferred its entire shareholding in Aviva Insurance UK Limited at its fair value of £1,348 million to the Company. The consideration was satisfied by the issue of new shares in the Company with the nominal value of £1,237 million to AIL, and the establishment of a special reserve of £111 million under the group reconstruction relief provisions of section 611 of the Companies Act 2006. Following the transfer of the assets and liabilities of Aviva Insurance UK Limited to the Company in November 2011, this reserve is distributable.

Notes to the financial statements (continued)

20. Retained earnings

	Note	2017 £m	2016 £m
At 1 January		2,628	4,133
Profit/(loss) for the year		191	(260)
Dividends paid	7	(214)	(1,264)
Transfer from owner-occupied property reserve	19	1	2
Foreign exchange rate movements		3	17
At 31 December		2,609	2,628
Distributable		2,039	2,000
Non-distributable		570	628
At 31 December		2,609	2,628

21. Insurance liabilities

(a) Carrying amount

Insurance liabilities (gross of reinsurance) at 31 December comprise:

	2017 £m	2016 £m
Outstanding claims provisions	4,710	4,382
Provision for claims incurred but not reported	1,463	1,834
Provision arising from liability adequacy tests	13	13
Insurance claims liabilities	6,186	6,229
Provision for unearned premiums	2,462	2,366
Total at 31 December	8,648	8,595

Notes to the financial statements (continued)

21. Insurance liabilities (continued)

(b) General insurance liabilities

(i) Outstanding claims provisions

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date. The reserves for general insurance and health business are based on information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses ("LAE") in respect of all claims that have already occurred. The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported and associated LAE.

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims requires booked claims provisions to be calculated as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty.

(ii) Discounting

Outstanding claims provisions are based on undiscounted estimates of future claim payments, except for the following classes of business for which discounted provisions are held:

Class	Discount rate		Mean term of liabilities	
	2017	2016	2017	2016
Latent claims	0.7% to 1.5%	0.6% to 1.5%	12 years	13 years
Structured settlements	1.0% to 3.0%	1.0% to 3.0%	38 years	39 years
Reinsured London Market business	0.7% to 2.6%	0.6% to 2.7%	9 years	10 years

The gross outstanding claims provision before discounting was £6,884 million (2016: £6,981 million). The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims.

The discount rate that has been applied to latent claims, reinsured London Market business and structured settlement reserves is based on the relevant swap curve having regard to the expected settlement dates of the claims. The range of discount rates used depends on the duration of the claims and is given in the section above.

Lump sum payments in settlement of bodily injury claims decided by the UK courts are calculated in accordance with the Ogden Tables and discount rate. The Ogden discount rate is set by the Lord Chancellor in accordance with the Damages Act 1996 and is applied when calculating the present value of future care costs and loss of earnings for claims settlement purposes.

Due to the uncertainty around the Ogden discount rate, the claim reserves in the UK have been calculated using the current Ogden discount rate of -0.75%, as this is the enacted legislative rate that was announced by the Lord Chancellor last year.

The Civil Liability Bill was published on 20 March 2018 with the Ministry of Justice accepting the majority of the recommendations proposed by the Justice Select Committee. The Bill is not expected to be enacted until later in 2018. By way of illustration, should the Ogden discount rate increase in the future by 1%, then this would be expected to reduce reserves by approximately £125m (net of reinsurance) with an equivalent positive impact on profit before tax.

(iii) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set by skilled claims technicians and established case setting procedures. Claims technicians apply their experience and knowledge to the circumstances of individual claims. They take into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections. Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim. Claims above certain limits are referred to senior claims handlers for estimate authorisation.

The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate.

Notes to the financial statements (continued)

21. Insurance liabilities (continued)

(b) General insurance liabilities (continued)

(iii) Assumptions (continued)

Claims development is separately analysed for each line of business. Certain lines of business are also further analysed by claim type or type of coverage. In addition, large claims are usually separately assessed, either by being reserved at the face value of loss adjuster estimates, or separately projected in order to reflect their future development.

The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at the estimated ultimate cost of claims that represents the most likely outcome, from the range of possible outcomes, taking account of all the uncertainties involved. The range of possible outcomes does not, however, result in the quantification of a reserve range.

(iv) Movements

The following movements have occurred in the claims provisions during the year:

	Note	2017 £m	2016 £m
Carrying amount at 1 January		6,229	5,356
Impact of changes in economic assumptions		17	324
Claims losses and expenses incurred in the current year		3,254	3,325
(Decrease)/increase in estimated claims losses and expenses incurred in prior years		(49)	286
Incurred claims losses and expenses		3,222	3,935
Less:			
Payments made on claims incurred in the current year		(1,746)	(1,683)
Payments made on claims incurred in prior years		(1,550)	(1,484)
Claims payments made in the year	2	(3,296)	(3,167)
Unwind of discount		7	9
Changes in claims reserve recognised as (income)/expense		(67)	777
Foreign exchange rate movements		24	96
Carrying amount at 31 December		6,186	6,229

The discount rate that has been applied to latent claims reserves and periodic payment orders is based on the relevant swap rate, in the relevant currency, having regard to the expected settlement dates of the claims. The range of discount rates used depends on the duration of the claims and is given in the table in section (b)(ii) above. Any change in discount rates between the start and the end of the accounting year is reflected as an economic assumption change. The increase in claims provisions due to changes in economic assumptions of £17 million (2016: £324 million) includes these changes in discount rates and other changes in economic assumptions, being primarily inflation assumptions.

During the year, gross prior years' claims provisions of £49 million (£61 million net of reinsurance) were released to the income statement (2016: charge of £286 million, £1,756 million net of reinsurance, including £1,758 million benefit on inception from the increased reinsurance arrangement with AIL).

Notes to the financial statements (continued)

21. Insurance liabilities (continued)

(c) Loss development tables

(i) Description of tables

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the accident years 2008 to 2017. The upper half of the tables shows the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2008, by the end of 2017, £4,083 million had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £4,282 million was re-estimated to be £4,232 million at 31 December 2017. The original estimates increase or decrease, as more information becomes known about the individual claims and overall claim frequency and severity.

The Company aims to maintain reserves in respect of its general insurance business that protect against adverse future claims experience and development. The Company establishes reserves in respect of the current accident year (2017), where the development of claims is less mature, that allow for the greater uncertainty attaching to the ultimate cost of current accident claims. As claims develop and the ultimate cost of claims becomes more certain, the absence of adverse claims experience will result in a release of reserves from earlier accident years.

The loss development tables in respect of the insurance liabilities of the Company are shown below.

(ii) Gross of reinsurance

Before the effect of reinsurance, the loss development table is:

£m Accident year	All prior years	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Gross cumulative claim payments												
At end of accident year		(2,188) ¹	(1,889)	(1,593)	(1,572)	(1,636)	(1,637)	(1,648)	(1,617)	(1,683)	(1,746)	
One year later		(3,178)	(2,741)	(2,471)	(2,303)	(2,315)	(2,258)	(2,243)	(2,353)	(2,357)		
Two years later		(3,447)	(2,980)	(2,715)	(2,548)	(2,591)	(2,473)	(2,459)	(2,632)			
Three years later		(3,664)	(3,150)	(2,885)	(2,704)	(2,749)	(2,623)	(2,629)				
Four years later		(3,848)	(3,291)	(3,002)	(2,846)	(2,897)	(2,773)					
Five years later		(3,951)	(3,381)	(3,077)	(2,920)	(3,009)						
Six years later		(4,015)	(3,433)	(3,117)	(2,976)							
Seven years later		(4,062)	(3,453)	(3,124)								
Eight years later		(4,074)	(3,466)									
Nine years later		(4,083)										
Estimate of gross ultimate claims												
At end of accident year		4,282	3,654	3,164	3,121	3,290	3,145	3,051	3,198	3,325	3,254	
One year later		4,196	3,563	3,221	3,104	3,200	3,068	2,990	3,318	3,335		
Two years later		4,202	3,538	3,211	3,108	3,206	3,069	3,118	3,315			
Three years later		4,221	3,526	3,236	3,116	3,212	3,146	3,118				
Four years later		4,198	3,562	3,230	3,136	3,236	3,117					
Five years later		4,211	3,563	3,255	3,119	3,217						
Six years later		4,203	3,592	3,274	3,134							
Seven years later		4,207	3,658	3,267								
Eight years later		4,242	3,627									
Nine years later		4,233										
Estimate of gross ultimate claims		4,233	3,627	3,267	3,134	3,217	3,117	3,118	3,315	3,335	3,254	
Cumulative payments		(4,083)	(3,466)	(3,124)	(2,976)	(3,009)	(2,773)	(2,629)	(2,632)	(2,357)	(1,746)	
Gross outstanding claims provisions	2,062	150	161	143	158	208	344	489	683	978	1,508	6,884
Effect of discounting	(520)	(38)	(71)	(35)	(19)	(9)	(19)	-	-	-	-	(711)
Present value in the statement of financial position	1,542	112	90	108	139	199	325	489	683	978	1,508	6,173

Notes to the financial statements (continued)

21. Insurance liabilities (continued)

(c) Loss development tables (continued)

(iii) Net of reinsurance

After the effect of reinsurance, the loss development table is:

£m Accident year	All prior years	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Net cumulative claim payments												
At end of accident year		(2,130)	(1,838)	(1,555)	(1,567)	(1,633)	(1,614)	(1,556)	(1,517)	(830)	(871)	
One year later		(3,093)	(2,650)	(2,408)	(2,293)	(2,285)	(2,201)	(2,083)	(1,866)	(1,146)		
Two years later		(3,353)	(2,882)	(2,645)	(2,530)	(2,547)	(2,396)	(2,182)	(1,993)			
Three years later		(3,568)	(3,051)	(2,810)	(2,681)	(2,691)	(2,470)	(2,266)				
Four years later		(3,743)	(3,192)	(2,914)	(2,816)	(2,764)	(2,545)					
Five years later		(3,846)	(3,278)	(2,982)	(2,854)	(2,820)						
Six years later		(3,899)	(3,326)	(3,001)	(2,882)							
Seven years later		(3,951)	(3,336)	(3,011)								
Eight years later		(3,956)	(3,342)									
Nine years later		(3,960)										
Estimate of net ultimate claims												
At end of accident year		4,183	3,534	3,105	3,107	3,260	3,091	2,829	2,946	1,624	1,597	
One year later		4,091	3,465	3,151	3,084	3,157	2,952	2,781	2,328	1,629		
Two years later		4,089	3,436	3,141	3,093	3,119	2,944	2,507	2,320			
Three years later		4,095	3,427	3,144	3,069	3,113	2,697	2,502				
Four years later		4,065	3,431	3,120	3,060	2,919	2,676					
Five years later		4,043	3,421	3,126	2,924	2,903						
Six years later		4,034	3,433	3,061	2,932							
Seven years later		4,029	3,389	3,058								
Eight years later		4,005	3,382									
Nine years later		4,000										
Estimate of net ultimate claims		4,000	3,382	3,058	2,932	2,903	2,676	2,502	2,320	1,629	1,597	
Cumulative payments		(3,960)	(3,342)	(3,011)	(2,082)	(2,820)	(2,545)	(2,266)	(1,993)	(1,146)	(871)	
Net outstanding claims provisions	279	40	40	47	50	83	131	236	327	483	726	2,442
Effect of discounting	(67)	(5)	(6)	(11)	2	-	3	-	-	-	-	(84)
Present value in the statement of financial position												
	212	35	34	36	52	83	134	236	327	483	726	2,358

In the loss development tables shown, the cumulative claim payments and estimates of cumulative claims for each accident year are translated into pounds sterling at the exchange rates that applied at the end of that accident year. Disposals are dealt with by treating all outstanding and incurred but not reported claims of the disposed entity as "paid" at the date of disposal.

The loss development tables include information on asbestos and environmental pollution claims provisions from business written before 2008. The undiscounted insurance provisions, net of reinsurance, in respect of this business were £53 million at 31 December 2017 (2016: £113 million).

Notes to the financial statements (continued)

21. Insurance liabilities (continued)

(d) Provision for unearned premiums

The following movements have occurred in the provision for unearned premiums during the year:

	Note	2017 £m	2016 £m
Carrying amount at 1 January		2,366	2,183
Premiums written during the year	1	5,296	5,100
Less: Premiums earned during the year		(5,210)	(4,945)
Changes in provisions for unearned premiums recognised in income	1	86	155
Foreign exchange rate movements		10	28
Carrying amount at 31 December		2,462	2,366

22. Reinsurance assets

(a) Carrying amounts

The following is a summary of the reinsurance assets as at 31 December:

	2017 £m	2016 £m
Outstanding claims provisions	2,752	2,640
Provision for claims incurred but not reported	1,063	1,205
Provisions for liability adequacy	7	6
	3,822	3,851
Provisions for unearned premiums	1,329	1,274
Total at 31 December	5,151	5,125
Expected to be recovered in less than one year	1,848	1,797
Expected to be recovered in greater than one year	3,303	3,328
	5,151	5,125

The reinsurers' share of outstanding claims provisions and provisions for claims incurred but not reported is reduced by £627 million (2016: £647 million) as a result of the discounting of latent claims and structured settlements.

(b) Assumptions

The assumptions, including discount rates, used for reinsurance contracts follow those used for insurance contracts (see note 21(b)). Reinsurance assets are valued net of an allowance for their recoverability.

Notes to the financial statements (continued)

22. Reinsurance assets (continued)

(c) Movements

The following movements have occurred in the reinsurance assets during the year:

(i) Reinsurers' share of claims provisions

	Note	2017 £m	2016 £m
Carrying amount at 1 January		3,851	1,422
Impact of changes in economic assumptions		8	320
Reinsurers' share of claim losses and expenses incurred in current year		1,657	1,701
Reinsurers' share of claim losses and expenses incurred in prior years		12	2,042
Reinsurers' share of incurred claim losses and expenses		1,677	4,063
Less:			
Reinsurance recoveries received on claims incurred in current year		(875)	(853)
Reinsurance recoveries received on claims incurred in prior years		(849)	(806)
Reinsurance recoveries received in the year	2	(1,724)	(1,659)
Unwind of discount		7	8
Change in reinsurance asset recognised as (expense)/income		(40)	2,412
Foreign exchange rate movements		11	17
Carrying amount at 31 December		3,822	3,851

(ii) Reinsurers' share of the provision for unearned premiums

	Note	2017 £m	2016 £m
Carrying amount as at 1 January		1,274	231
Premiums ceded to reinsurers in the year	1	2,789	5,720
Less: Reinsurers' share of premiums earned during the year		(2,739)	(4,681)
Changes in reinsurers' share of provisions for unearned premiums recognised in income	1	50	1,039
Foreign exchange rate movements		5	4
Carrying amount at 31 December		1,329	1,274

Notes to the financial statements (continued)

23. Provisions

(a) Carrying amount

	2017 £m	2016 £m
Restructuring provision	9	7
Other provisions	8	21
Total at 31 December	17	28
Expected to be settled in less than one year	9	10
Expected to be settled in greater than one year	8	18
	17	28

(b) Movements during the year

	Restructuring provision £m	Other provisions £m	Total provisions £m
At 1 January 2017	7	21	28
Additional provisions	5	-	5
Unused amounts reversed	-	(7)	(7)
Utilised during the year	(3)	(7)	(10)
Foreign exchange rate movements	-	1	1
At 31 December 2017	9	8	17

Restructuring provisions relate to ongoing programmes in the UK and Ireland. Other provisions largely comprise onerous contract provisions.

24. Payables and other financial liabilities

	Note	2017 £m	2016 £m
Payables arising out of direct insurance and reinsurance		148	116
Amounts due to subsidiaries	33(a)(vii)	181	219
Amounts due to other Aviva Group companies	33(a)(vii)	3,247	2,992
Loans due to holding companies	33(a)(vi)	283	290
Collateral repayment obligation		33	33
Derivative liabilities	31	185	250
Bank overdrafts	28(b)	317	410
Other payables		17	24
Total at 31 December		4,411	4,334
Expected to be settled in less than one year		1,931	2,007
Expected to be settled in greater than one year		2,480	2,327
		4,411	4,334

Notes to the financial statements (continued)

25. Other liabilities

	2017	2016
	£m	£m
Reinsurers' share of deferred acquisition costs	279	270
Accruals and deferred income	325	305
Other liabilities	227	224
Total at 31 December	831	799
Expected to be settled in less than one year	831	799
	831	799

26. Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 21 gives details of the estimation techniques used in determining the general insurance business outstanding claims provisions, which are designed to allow for prudence. These are estimated to give a result within the normal range of outcomes. However, the actual cost of settling these liabilities may differ, for example because experience may be worse than that assumed, or future general insurance business claims inflation may differ from that expected, and hence there is uncertainty in respect of these liabilities.

In the course of conducting insurance business, the Company receives general insurance liability claims, and becomes involved in actual or threatened litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling in the United Kingdom. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty.

(b) Regulatory

The PRA regulates the Company's UK business and the FCA monitors the financial resources and organisation of the Company. The PRA and FCA have broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation; to investigate marketing and sales practices; and to require the maintenance of adequate financial resources. The Company's regulators outside the UK typically have similar powers, but in some cases they also operate a system of 'prior product approval'.

The directors believe that the Company dedicates appropriate resources to its compliance programme, endeavours to respond to regulatory enquiries in a constructive way, and takes corrective action when warranted. However, all regulated financial services companies face the risk that the regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required.

The impact of any such finding could have a negative impact on the Company's reported results or on its relations with current or potential customers. Regulatory action against the Company could result in adverse publicity for, or negative perceptions regarding, the Company, or could have a material adverse effect on the business of the Company, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

(c) Other

In the course of conducting insurance and investment business, the Company receives liability claims, and becomes involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect.

In addition, in line with standard business practice, the Company has given guarantees, indemnities and warranties in connection with disposals in recent years of subsidiaries and associates. In the opinion of the directors, no material loss will arise in respect of these guarantees, indemnities and warranties. There are a number of charges registered over the assets of the Company in favour of other Aviva Group companies or third parties.

The Company has guaranteed the property-related obligations of certain other Group companies. In the opinion of the directors, no material loss will arise in respect of these guarantees.

The Company pays contributions to levy schemes in several countries in which it operates. Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties. The directors continue to monitor the situation but are not aware of any need to increase provisions at the statement of financial position date.

Notes to the financial statements (continued)

27. Commitments

(a) Capital commitments

Contractual commitments for acquisitions or capital of expenditures of investment property, which have not been recognised in the financial statements, are as follows:

	2017	2016
	£m	£m
Investment property	19	-
Other investment vehicles	59	-
Total at 31 December	78	-

Other investment vehicles includes an unfunded capital commitment of £36 million (2016: £nil) to a fund managed by Aviva Investors Global Services Limited, a fellow Group company.

(b) Operating lease commitments

(i) Future contractual aggregate minimum lease rentals receivable for investment properties leased to third parties under non-cancellable operating leases are as follows:

	2017	2016
	£m	(Restated) £m
Within one year	25	20
Later than one year and not later than five years	81	60
Later than five years	145	58
Total at 31 December	251	138

(ii) Future contractual aggregate minimum lease payments for properties under non-cancellable operating leases are as follows:

	2017	2016
	£m	£m
Within one year	26	27
Later than one year and not later than five years	91	98
Later than five years	23	40
Total at 31 December	140	165

Notes to the financial statements (continued)

28. Statement of cash flows

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

	Note	2017 £m	2016 £m
Profit/(loss) for the year before tax		216	(340)
Adjustments for:			
Realised (gains)/losses on disposal of financial investments	1	(29)	78
Amortisation of premium or discount on debt securities		28	29
Amortisation of intangible assets	2	31	24
Impairment of investments in subsidiaries	2	55	20
Unrealised fair value losses/(gains) on financial investments	1	42	(166)
Fair value (gains)/losses on investment property	1	(12)	2
Foreign exchange losses		(3)	(17)
Change in economic assumptions on net claims reserves		9	4
Unwind of discount	2	-	1
		121	(25)
Changes in working capital:			
Increase in reinsurance assets		-	(3,123)
Increase in deferred acquisition costs and prepayments		(20)	(49)
(Decrease)/increase in insurance liabilities		(5)	598
Increase in other assets and liabilities		47	2,703
		22	129
Net purchase of operating assets:			
Purchases of investment property		(10)	(12)
(Purchases)/disposals of financial investments		(231)	574
		(241)	562
Taxation		(4)	(5)
Cash generated from operating activities		114	321

Purchases and sales of loans and financial investments are included in operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of payments of related claims.

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

	Note	2017 £m	2016 £m
Cash at bank and in hand		110	342
Cash equivalents		375	295
		485	637
Bank overdraft	24	(317)	(410)
Total at 31 December		168	227

Notes to the financial statements (continued)

29 Capital structure

The Company maintains an efficient capital structure from equity shareholders' funds, consistent with the Company's overall risk profile and the regulatory and market requirements of the business. This note describes the way the Company manages capital and shows how this is structured.

(a) General

IFRS underpins the Company's capital structure and accordingly, the capital structure is analysed on this basis. The Company measures its capital requirements under the Solvency II regime.

(b) Capital management

In managing its capital, the Company seeks to:

- (i) match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- (ii) maintain financial strength to support new business growth and satisfy the requirements of its policyholders and regulators;
- (iii) retain financial flexibility by maintaining strong liquidity; and
- (iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate.

The Company considers not only traditional sources of capital funding but alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital.

(c) Different measures of capital

The Company measures its capital on a number of different bases. These include measures which comply with the regulatory regime within which the Company operates and those which the directors consider appropriate for the management of the business. The measures which the Company uses are:

(i) Accounting basis

The Company is required to report its results on an IFRS basis.

(ii) Regulatory basis

Relevant capital and solvency regulations are used to measure and report the Company's financial strength. These measures are based on the regulatory requirements under Solvency II. The regulatory capital tests verify that the Company retains an excess of solvency capital above the required minimum level calculated using a risk-based capital model. The risk management note (note 30) gives further details.

Solvency II "own funds" represents the amount of regulatory capital resources that are available to meet regulatory capital requirements under the Solvency II regime, and is a closely monitored metric. At 31 December 2017, the Company's estimated Solvency II own funds amounts to £2.5 billion (2016: £2.6 billion). The Company's own funds are sufficient to meet its capital requirements under Solvency II. The Company fully complied with the relevant regulatory requirements during the year.

(d) Company capital structure

	2017	2016
	£m	£m
Total capital employed	4,050	4,294
Financed by:		
Equity shareholders' funds	4,050	4,294

Notes to the financial statements (continued)

30. Risk management

The Company operates a risk management framework that forms an integral part of the management and Board processes and decision-making framework, aligned to the Aviva Group's risk management framework. The key elements of the risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes the Company uses to identify, measure, manage, monitor and report ("IMMMR") risks, including the use of risk models and stress and scenario testing.

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

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

A regular top-down key risk identification and assessment process is carried out by the Risk function. This includes the consideration of emerging risks and is supported by deeper thematic reviews. The Company also operates a risk and control self-assessment process. The risk assessment processes are used to generate risk reports which are shared with relevant committees.

Under the Solvency II regime, the Company has defined its Own Risk and Solvency Assessment ("ORSA") as the entirety of the IMMMR risk processes, and determines its "own funds" under Solvency II to ensure that the Company's overall solvency needs are met at all times. ORSA underpins the consideration of risk and capital implications in key decisions and, in particular, in strategy setting and business planning.

Risk models are an important tool in the measurement of risks and are used in conjunction with other assessment processes 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. For those risk types managed through the holding of capital, being the Company's principal risk types except for liquidity risk, the Company measures and monitors its risk profile on the basis of the Solvency II solvency capital requirement (SCR).

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

The Board operates an Audit Committee, a Risk Committee and a Conduct Committee. Board oversight of risk and risk management across the Company 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 the business is willing to take. The Company's position against risk appetite is monitored and reported to the Board on a regular basis. The oversight of risk and risk management is supported by the Asset & Liability Committee ("ALCO"), which focuses on insurance and financial risks, and the Operational Risk Committee ("ORC"), which focuses on operational and reputational risks.

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

(a) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to the Company, or variations in market values as a result of changes in expectations related to these risks. Credit risk arises as a consequence of asset investments made to achieve the returns required to satisfy policyholder liabilities and to provide enhanced long-term risk-adjusted returns to shareholders. The Company is also exposed to third party credit quality changes through a range of activities including reinsurance.

The Company's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. Credit risks arise through exposures to debt security investments, loans, insurance debtors, reinsurance counterparties and other assets such as bank deposits and derivative and securities financing counterparties.

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

Notes to the financial statements (continued)

30. Risk management (continued)

(a) Credit risk (continued)

Risk mitigation techniques are used where and when deemed appropriate. These are utilised where possible to remove residual unwanted risks, as well as to bring or keep exposure limits within appetite, and include methods such as collateralisation.

(i) Financial exposures to Aviva Group companies

The Company has significant financial exposure to amounts due from fellow Aviva Group companies. The credit risk arising from Aviva Group counterparties failing to meet all or part of their obligations is considered remote. Due to the nature of the intra-group loans, the level of collateral provided and the fact that these loans are not traded, the Company does not provide for fluctuations in market value caused by changing perceptions of the credit worthiness of such counterparties.

(ii) Financial exposures by credit ratings

Financial assets are graded according to current credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as sub-investment grade.

The following table provides information regarding the aggregated credit risk exposure of the Company, excluding intra-group transactions (other than reinsurance assets) and other receivables and cash and cash equivalents. Cash and cash equivalents are held with highly-rated banking institutions. "Non-rated" assets capture assets not rated by external ratings agencies.

	Credit rating						2017
	AAA	AA	A	BBB	BB	Non-rated	Carrying value in the financial statements
	£m	£m	£m	£m	£m	£m	£m
Debt securities	408	1,629	697	476	-	-	3,210
Reinsurance assets	-	1,310	2,386	1	-	125	3,822
Loans	-	-	-	-	-	5	5
Derivative assets	-	-	-	-	-	101	101
Other investments	-	-	-	-	-	676	676

	Credit rating						2016
	AAA	AA	A	BBB	BB	Non-rated	Carrying value in the financial statements
	£m	£m	£m	£m	£m	£m	£m
Debt securities	613	1,919	832	639	10	-	4,013
Reinsurance assets	-	39	3,755	-	-	57	3,851
Loans	-	-	-	-	-	5	5
Derivative assets	-	-	-	-	-	117	117
Other investments	-	-	-	-	-	127	127

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

Notes to the financial statements (continued)

30. Risk management (continued)

(a) Credit risk (continued)

(iii) Impact of collateral held on net credit exposure

The impact of collateral held on the net credit exposure is shown below.

	Carrying value in the financial statements £m	Collateral held £m	Net credit exposure £m
			2017
Debt securities	3,210	-	3,210
Derivative assets	101	(41)	60
Reinsurance assets	3,822	(3,017)	805
			2016
	Carrying value in the financial statements £m	Collateral held £m	Net credit exposure £m
Debt securities	4,013	-	4,013
Derivative assets	117	(33)	84
Reinsurance assets	3,851	(3,043)	808

Additional information in respect to collateral is provided in note 14(c) (financial investments – non-cash collateral received).

To the extent that collateral held is greater than the amount receivable that it is securing, the table above shows only an amount equal to the latter. In the event of default, any surplus collateral would be returned to the relevant counterparty.

(iv) Reinsurance credit exposures

The Company is exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The Company manages its reinsurance counterparty exposures, by limiting the reinsurers that may be used and applying limits to each reinsurer. Reinsurance exposures are aggregated with other exposures to ensure that the overall risk is within appetite. Exposures are actively monitored with escalation to the Chief Financial Officer, Chief Risk Officer, ALCO and the Risk Committee as appropriate.

The Company's largest intra-group reinsurance counterparty is AILL. At 31 December 2017, the reinsurance asset recoverable from AILL (excluding the unearned premium provision) is £2,346 million (2016: £2,355 million). The credit exposure has been partially mitigated by agreeing to withhold a significant portion of the balance due to AILL (see note 33(a)(i)). The Company's largest external reinsurance counterparty is Swiss Re (including its affiliated companies). At 31 December 2017, the reinsurance asset recoverable (excluding the unearned premium provision) is £764 million (2016: £815 million). This exposure is partially collateralised by a portfolio of highly rated assets held by Swiss Re amounting to £206 million (2016: £206 million). These reinsurance exposures have been agreed in line with the credit limit framework and are monitored on a regular basis.

(v) Maximum exposure to credit risk

The Company's maximum exposure to credit risk is equal to the carrying value of assets in the statement of financial position plus financial guarantees given to other Group companies, outlined in note 26(c).

(vi) Impairment of financial assets

The credit quality of receivables and financial assets carried at amortised cost is monitored by the Company, and provisions for impairment are made for irrecoverable amounts. In assessing whether assets are impaired, due consideration is given to the factors outlined in accounting policy R. The table below provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired.

Notes to the financial statements (continued)

30. Risk management (continued)

(a) Credit risk (continued)

(vi) Impairment of financial assets (continued)

	Financial assets that are past due but not impaired					2017	
	Neither past due nor impaired	0 – 3 months	3 – 6 months	6 months – 1 year	Greater than 1 year	Financial assets that have been impaired	Carrying value in the financial statements
	£m	£m	£m	£m	£m	£m	£m
Loans	5	-	-	-	-	-	5
Reinsurance assets	3,822	-	-	-	-	-	3,822
Receivables	3,636	8	12	-	-	29	3,685

	Financial assets that are past due but not impaired					2016	
	Neither past due nor impaired	0 – 3 months	3 – 6 months	6 months – 1 year	Greater than 1 year	Financial assets that have been impaired	Carrying value in the financial statements
	£m	£m	£m	£m	£m	£m	£m
Loans	5	-	-	-	-	-	5
Reinsurance assets	3,851	-	-	-	-	-	3,851
Receivables	3,658	8	11	-	-	27	3,704

Receivables include loans and amounts due from other Group companies of £2,168 million (2016: £2,294 million).

(b) Market risk

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

The Company manages market risk locally within its market risk framework, within local regulatory constraints and in line with established Group policy, including minimum principles for matching liabilities with appropriate assets. Derivatives are used within policy guidelines agreed by ALCO. Derivatives are only used for efficient investment management, asset and liability management or risk hedging purposes.

The Company has exposure to currency risk primarily through its investments in Aviva Canada Inc, the business of its Irish branch and Global Corporate & Specialty (GCS) business lines. The Company has a low appetite for currency risk and actively manages the position using derivatives where appropriate.

The Company's total equity deployment by currency (after impact of hedging) is set out below. Where currencies have been hedged using cap or collar derivatives, only the remaining unhedged exposure has been presented. The parameters of caps and collars are managed such that adverse exposure to currency fluctuations on hedged positions is not significant.

	GBP	EUR	CAD	USD	Other	Total
	£m	£m	£m	£m	£m	£m
31 December 2017						
Total equity	2,534	89	1,455	4	(32)	4,050

	GBP	EUR	CAD	USD	Other	Total
	£m	£m	£m	£m	£m	£m
31 December 2016						
Total equity	2,410	137	1,753	22	(28)	4,294

Notes to the financial statements (continued)

30. Risk management (continued)

(b) Market risk (continued)

A +/-10% change in GBP to CAD period-end foreign exchange rates would result in a change in total equity in the range of £175 million positive impact (2016: £195 million) and a £143 million adverse impact (2016: £159 million) respectively. There were no material sensitivities in the Company's total equity to other foreign exchange rates in 2017 and 2016.

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

Interest rate risk	Interest rate risk arises primarily from the Company's fixed income securities and liabilities, which are exposed to fluctuations in interest rates. The Company seeks to match assets to liabilities and uses interest rate derivatives to meet its interest rate appetite.
Property price risk	Property price risk arises from the Company's investments in investment property and property investment vehicles. Property price risk is accepted by the Company, within appetite, to drive investment return as part of the Company's investment strategy.
Equity risk	Equity risk arises from the level or volatility of market prices for equities. Equity risk is accepted by the Company to drive investment return as part of the Company's investment strategy, including the use of equity derivatives to mitigate risk where considered appropriate. The Company is also exposed to global market risks through its holdings in a unitised target return fund (Aviva Investors Multi Strategy Funds).
Inflation risk	The Company is exposed to inflation risk where there is a mismatch between assets and liabilities that are sensitive to inflation. RPI elements of inflation risk are monitored and managed through asset-liability matching and hedging where appropriate in accordance with the agreed risk appetite.

(c) Liquidity risk

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

The Company has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due, and includes consideration of a range of short and longer term stress events. In extreme circumstances, the Company could also approach the Aviva Group for additional short-term borrowing whilst the Company liquidated other assets.

(i) Analysis of maturity of financial assets

The table below provides an analysis, by maturity date of the principal, of the carrying value of financial assets and reinsurance assets (excluding reinsurers' share of provision for unearned premiums) which are available to fund the repayment of liabilities as they crystallise.

					2017
	On demand or within 1 year £m	1-5 years £m	Over 5 years £m	No fixed term £m	Total £m
Loans	5	-	-	-	5
Debt securities	193	841	2,176	-	3,210
Equity securities	-	-	-	492	492
Derivative assets	38	1	62	-	101
Other investments	676	-	-	-	676
Reinsurance assets	1,054	1,406	1,362	-	3,822
Receivables	1,878	200	1,607	-	3,685
Cash and cash equivalents	485	-	-	-	485
	4,329	2,448	5,207	492	12,476

Notes to the financial statements (continued)

30. Risk management (continued)

(c) Liquidity risk (continued)

	On demand or within 1 year	1-5 years	Over 5 years	No fixed term	2016 Total
	£m	£m	£m	£m	£m
Loans	-	5	-	-	5
Debt securities	321	1,251	2,441	-	4,013
Equity securities	-	-	-	7	7
Derivative assets	11	1	105	-	117
Other investments	127	-	-	-	127
Reinsurance assets	1,038	1,410	1,403	-	3,851
Receivables	1,890	800	1,014	-	3,704
Cash and cash equivalents	637	-	-	-	637
	4,024	3,467	4,963	7	12,461

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company. Where an instrument is puttable back to the issuer on demand, such as a unit trust or similar type of investment vehicle, it is included in the "On demand or within 1 year" column. Most of the Company's investments in debt securities are market traded and therefore, if required, can be liquidated for cash at short notice in unstressed circumstances.

(i) Analysis of maturity of financial liabilities and general insurance liabilities

For insurance contracts, the analysis of liabilities below is based on the estimated timing of future cash flows. The table below shows the Company's financial liabilities and general insurance liabilities (excluding provision for unearned premiums) analysed by duration.

	Within 1 year	1-5 years	5-15 years	Over 15 years	2017 Total
	£m	£m	£m	£m	£m
General insurance liabilities	1,963	2,535	910	778	6,186
Payables and other financial liabilities, excluding derivatives	1,926	1,457	278	565	4,226
Derivative liabilities	5	12	58	110	185
Accruals	296	-	-	-	296
	4,190	4,004	1,246	1,453	10,893

	Within 1 year	1-5 years	5-15 years	Over 15 years	2016 Total
	£m	£m	£m	£m	£m
General insurance liabilities	1,947	2,547	914	821	6,229
Payables and other financial liabilities, excluding derivatives	1,978	1,304	264	538	4,084
Derivative liabilities	29	-	105	116	250
Accruals	302	-	-	-	302
	4,256	3,851	1,283	1,475	10,865

Notes to the financial statements (continued)

30. Risk management (continued)

(c) Liquidity risk (continued)

The table below shows the undiscounted contractual cash flows relating to the Company's financial liabilities analysed by duration. Contractual undiscounted interest payments are calculated based on underlying fixed interest rates or prevailing market floating rates as applicable.

	Within 1 year £m	1-5 years £m	5-15 years £m	Over 15 years £m	2017 Total £m
Payables and other financial liabilities, excluding derivatives	1,961	1,992	734	869	5,556
Derivative liabilities	16	54	75	73	218
Accruals	296	-	-	-	296
	2,273	2,046	809	942	6,070

	Within 1 year £m	1-5 years £m	5-15 years £m	Over 15 years £m	2016 Total £m
Payables and other financial liabilities, excluding derivatives	2,093	1,551	578	1,139	5,361
Derivative liabilities	47	73	71	97	288
Accruals	302	-	-	-	302
	2,442	1,624	649	1,236	5,951

(d) General insurance risk

The Company considers insurance risk within its general insurance activity to comprise the following:

- inadequate claims reserving assumptions;
- unforeseen fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- unexpected claims arising from a single source;
- inaccurate pricing of risks or inappropriate underwriting of risks when underwritten; and
- inadequate reinsurance protection or other risk transfer techniques.

The Company has a preference for general insurance risk in measured amounts for explicit reward, in line with our core skills in underwriting and pricing. The majority of the general insurance business underwritten by the Company is of a short-tail nature such as motor, household and commercial property insurances.

The Group's underwriting strategy and appetite is communicated via specific policy statements and guidelines. The Company sets its own underwriting strategy, consistent with the Group strategy. Underwriting strategy is communicated to underwriters, with underwriting licences granted to individual underwriters according to competence and experience. The vast majority of the Company's general insurance business is managed and priced in the same country as the domicile of the customer, predominantly in the UK and Ireland.

The Company has developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of risk appetite. Various methodologies are in place to manage effectively exposures arising from specific perils and the Company analyses accumulations of insurance risk under various headings, including type of business, location, profile of customers and type of claim and uses these analyses to inform underwriting and reserving.

Reinsurance purchases are reviewed to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the Company. The basis of these purchases is underpinned by extensive financial and capital modelling and actuarial analyses which consider the cost and capital efficiency benefits. This may involve utilising externally sourced probabilistic models to verify the accumulations and loss probabilities based on specific portfolios of business. In addition to external models, scenarios are developed and tested using Company data to determine potential losses and appropriate levels of reinsurance protection. Reinsurance covers single large exposures and concentrations of exposures. The Company has processes in place to manage catastrophe risk and purchases catastrophe reinsurance to protect against significant natural and man-made hazard events.

The Company's largest reinsurance arrangements include a retrospective (both new and existing business) 50% quota share reinsurance arrangement with AIL, with effect from 1 January 2016, and the reinsurance of most of the Company's UK latent reserves (including mesothelioma, industrial deafness and other long-tail risks), with effect from 1 January 2015.

Notes to the financial statements (continued)

30. Risk management (continued)

(d) General insurance risk (continued)

The adequacy of the Company's general insurance claims provisions is overseen by the Reserve Committee. Actuarial claims reserving is conducted by the Company's actuaries, with periodic independent external reviews by consulting actuaries.

The management of insurance risk is overseen by specific senior management committees, namely the ALCO, the Insurance Committee and the Reserve Committee.

(e) Operational risk

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

Management is responsible for identifying and managing operational risks of the business, within the Aviva Group-wide operational risk framework including the risk and control self-assessment process. Management must be satisfied that all material risks falling outside risk tolerance are being mitigated, monitored and reported to an appropriate level. Management use key indicator data to help monitor the status of the risk and control environment, and identifies and captures loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

The management of operational risk is overseen by the ORC.

(f) Risk and capital management

The Company uses a number of risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently.

Risk-based capital models are used to support the quantification of risk under the Solvency II framework. Management undertakes a quarterly review of risks, the output from which is a key input into the risk-based capital assessments.

Stress and Scenario Testing and sensitivities are regularly produced on financial performance measurements to inform decision making and planning processes, and to quantify the risks to which the Company is exposed.

General insurance claims liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. As such, in the analysis below, the sensitivities of general insurance claims liabilities are primarily based on the financial impact of changes to the reported loss ratio.

Some results of IFRS sensitivity testing for the Company's business are set out below. For each sensitivity test, the impact of a change in a single factor is shown, with other assumptions left unchanged.

Sensitivity factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in market interest rates by +/- 1% (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% and 6%). The test allows consistently for similar changes to investment returns and movements in the market value of fixed interest securities.
Credit spreads	The impact of a 0.5% increase in credit spreads over risk-free interest rates on corporate bonds and other non-sovereign credit assets. The test allows for any consequential impact on liability valuations.
Equity/property market values	The impact of a change in equity/property market values by +/- 10%.
Expenses	The impact of an increase in expenses by 10%.
Gross loss ratios	The impact of an increase in gross loss ratios for general insurance business by 5%.

The above sensitivity factors are applied using actuarial and statistical models. The impacts are shown in the tables below.

Notes to the financial statements (continued)

30. Risk management (continued)

(f) Risk and capital management (continued)

Pre-tax impacts on profit and shareholders' equity:

(i) Impact on profit before tax (£m)

							2017
	Interest rates	Interest rates	Credit spreads	Equity & Property	Equity & Property	Expenses	Gross loss ratios
	+1%	-1%	+0.5%	+10%	-10%	+10%	+5%
Gross of reinsurance	45	(117)	(35)	96	(96)	(77)	(161)
Net of reinsurance	(81)	85	(18)	48	(48)	(42)	(77)

							2016
	Interest rates	Interest rates	Credit spreads	Equity & Property	Equity & Property	Expenses	Gross loss ratios
	+1%	-1%	+0.5%	+10%	-10%	+10%	+5%
Gross of reinsurance	24	(108)	(47)	33	(33)	(64)	(197)
Net of reinsurance	(97)	98	(24)	17	(17)	(37)	(88)

The sensitivities in the above tables are based on balances included in the 2017 income statement and statement of financial position as at 31 December 2017.

(ii) Impact before tax on shareholders' equity (£m)

							2017
	Interest rates	Interest rates	Credit spreads	Equity & Property	Equity & Property	Expenses	Gross loss ratios
	+1%	-1%	+0.5%	+10%	-10%	+10%	+5%
Gross of reinsurance	45	(117)	(35)	99	(99)	(77)	(161)
Net of reinsurance	(81)	85	(18)	51	(51)	(42)	(77)

							2016
	Interest rates	Interest rates	Credit spreads	Equity & Property	Equity & Property	Expenses	Gross loss ratios
	+1%	-1%	+0.5%	+10%	-10%	+10%	+5%
Gross of reinsurance	24	(108)	(47)	36	(36)	(64)	(197)
Net of reinsurance	(97)	98	(24)	19	(19)	(37)	(88)

The sensitivities in the above tables are based on figures included in the 2017 income statement and statement of financial position as at 31 December 2017.

Due to the importance of reinsurance, the impact of sensitivities on profit and equity is shown gross and net of reinsurance. For general insurance, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses, in addition to the increase in the claims handling expense provision.

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there may be a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action.

Notes to the financial statements (continued)

30. Risk management (continued)

(f) Risk and capital management (continued)

(ii) *Impact before tax on shareholders' equity (£m) (continued)*

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risks that only represent the Aviva Group's view of possible near-term market changes that cannot be predicted with any certainty, and the assumption that all interest rates, equity prices and property values move in an identical fashion.

Assets are held at fair value in accordance with the relevant accounting policy. The majority of such assets are valued based on quoted market information or observable market data and the remaining assets recorded at fair value are based on estimates. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not significantly change the fair value.

31. Derivative financial instruments

The Company uses a variety of derivative financial instruments, including both exchange traded and over-the-counter instruments, in line with our overall risk management strategy. The objectives include managing exposure to price, foreign currency, equities, interest rate and inflation risk on existing assets or liabilities, as well as planned or anticipated investment purchases.

In the tables below, figures are given for both the notional amounts and fair values of these instruments. The notional amounts reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect current market values of the open positions. The fair values represent the gross carrying values at the year-end for each class of derivative contract held (or issued) by the Company.

The fair values do not provide an indication of credit risk, as many over-the-counter transactions are contracted and documented under ISDA (International Swaps and Derivatives Association Inc) master agreements or their equivalent. Such agreements are designed to provide a legally enforceable set-off in the event of default, which reduces credit exposure. In addition, the Company has in place collateral agreements between the Company and relevant counterparties.

The Company has not adopted hedge accounting for its derivative instruments at 31 December 2016 or 2017.

Notes to the financial statements (continued)

31. Derivative financial instruments (continued)

The Company's derivatives held as at 31 December 2017 were as follows:

	2017		
	Contract/ notional amount	Fair value asset	Fair value liability
	£m	£m	£m
Equity/Index contracts			
Options	377	10	(2)
Foreign exchange contracts			
Forwards	1,441	28	-
Interest rate contracts			
Futures	437	-	(3)
Swaps	2,529	62	(114)
Other			
Inflation-linked swaps	573	1	(66)
Total at 31 December	5,357	101	(185)
	2016		
	Contract/ notional amount	Fair value asset	Fair value liability
	£m	£m	£m
Foreign exchange contracts			
Forwards	1,960	11	(6)
Options, caps and floors	150	-	(23)
	2,110	11	(29)
Interest rate contracts			
Swaps	1,903	103	(153)
Other			
Inflation-linked swaps	1,023	3	(68)
Total at 31 December	5,036	117	(250)

Derivative fair value assets are recognised as 'Derivative financial instruments' in note 14. Derivative fair value liabilities are recognised as 'Derivative liabilities' in note 24.

Notes to the financial statements (continued)

32. Pension obligations

(a) Background

The Aviva Group operates a number of defined benefit and defined contribution pension schemes. Staff whose costs are recharged to the Company are either members of the Aviva Staff Pension Scheme in the United Kingdom, or the Aviva Ireland Staff Defined Contribution Plan in the Republic of Ireland. They receive benefits on either a defined benefit or a defined contribution basis. New entrants join the defined contribution section of the schemes, as the defined benefit sections for both schemes are now closed.

Full details of the Group's pension arrangements are given in Note 48 of the Aviva plc Annual report and financial statements 2017.

(b) Charges to the income statement

The total costs of pension schemes recharged to the Company gross of reinsurance were:

	2017	2016
	£m	£m
Defined benefit scheme	131	68
Defined contribution scheme	44	23
Total pension costs	175	91

There were no significant contributions outstanding or prepaid as at either 31 December 2016 or 2017.

33. Related party transactions

(a) The Company had the following related party transactions

The Company has the following transactions with related parties which include parent companies, subsidiaries, associates and fellow subsidiaries in the normal course of business.

(i) Quota share arrangement – Aviva International Insurance Limited

With effect from 1 January 2016, the Company increased its retrospective (both new and existing business) outwards quota share reinsurance arrangement with AILL from 5% to 50%, covering general insurance business underwritten by the Company.

On 1 January 2016, the execution of the reinsurance arrangement from 5% to 50% had the following immediate impact on the income statement:

	2016
	£m
Premiums ceded to reinsurers	(2,919)
Change in reinsurer's share of net unearned premium provision	933
Change in reinsurer's share of insurance liabilities	1,869
Change in deferred acquisition costs	(192)
Net upfront cost of reinsurance	(309)

Under the terms of the reinsurance arrangement, the Company withheld the majority of the payment due to AILL. The balance outstanding at 31 December 2017 was £3,237 million (2016: £2,960 million) and is included within Amounts due to other Aviva Group companies. The amount due accrues interest, included within net investment income, set at a rate linked to the Company's net investment returns.

Notes to the financial statements (continued)

33. Related party transactions (continued)

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

(i) Quota share arrangement – Aviva International Insurance Limited (continued)

The premiums, claims and expenses which have been reinsured out of the Company under the arrangement during the year are:

	2017	2016
	£m	£m
Premiums ceded to reinsurers	(2,507)	(5,218)
Net earned premiums	(2,470)	(4,235)
Fee and commission income ceded	(26)	(24)
Net investment income ceded	(22)	(132)
Reinsurance claims paid	1,572	1,508
Change in reinsurance assets	(23)	2,132
Ceded fee and commission expenses	679	442
Other expenses ceded	225	143
Net result ceded	(65)	(166)

As at 31 December 2017, the balances in the statement of financial position relating to this arrangement are:

	2017	2016
	£m	£m
Reinsurance asset	3,477	3,446
Amounts due to other Aviva Group companies	(3,237)	(2,960)

(ii) Quota share arrangement – Gresham Insurance Company Limited

The Company has an inwards quota share reinsurance arrangement with its subsidiary undertaking, Gresham Insurance Company Limited ("Gresham"), with effect from 1 January 2006. The key terms are:

- a 100% cession rate on premiums, claims and expense costs applied in respect of the underwriting year; and
- a requirement for Gresham to retain a percentage in relation to the Financial Services Compensation Scheme and Flood Re levies.

The premiums, claims and expenses which have been reinsured into the Company under the arrangement are:

	2017	2016
	£m	£m
Premiums earned	140	153
Claims incurred	(59)	(62)
Fee and commission expenses and operating expenses	(73)	(71)
Net result ceded	8	20

Notes to the financial statements (continued)

33. Related party transactions (continued)

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

(ii) Quota share arrangement – Gresham Insurance Company Limited (continued)

As at 31 December 2017, the balances in the statement of financial position relating to this arrangement are:

	2017	2016
	£m	£m
Insurance liabilities	(103)	(115)
Receivables arising out of reinsurance accepted	80	86
Deferred acquisition costs relating to reinsurance	22	23

(iii) Adverse reserve deterioration agreement

The Company has an inwards adverse reserve deterioration agreement with its subsidiary undertaking, The Ocean Marine Insurance Company Limited ("Ocean"). This agreement provides Ocean with an extra £1 billion of reinsurance cover to protect against circumstances in which its reinsurance arrangement with National Indemnity Company ("NIC") is exhausted or otherwise fails to satisfy claims. Ocean's reinsurance arrangement with NIC provides substantial protection in excess of its current gross insurance liabilities.

(iv) Structured settlements arrangement

Until 31 December 2016, the Company had an arrangement with Aviva Annuity UK Limited ("UKA"), a fellow Group company, for the outwards reinsurance of its obligations in respect of structured settlements. Effective 1 January 2017, the whole of the long-term insurance business of UKA, including the outwards reinsurance of the Company's obligations in respect of structured settlements, was transferred to Aviva Life and Pensions UK Limited ("UKLAP"), a fellow Group company, through an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000. The premiums and claims which have been reinsured to UKLAP (UKA in 2016) under the arrangement are:

	2017	2016
	£m	£m
Premiums ceded to reinsurers	-	(107)
Net earned premiums	-	(65)
Reinsurance claims incurred	154	238
Net result ceded	154	173

As at 31 December 2017, the balances in the statement of financial position relating to this arrangement are:

	2017	2016
	£m	£m
Reinsurance asset (including unearned premium provision)	556	575

(v) Loans receivable

Aviva Group Holdings Limited ("AGH") loan

As part of the restructuring in 2013, the Company entered into a loan of £5.8 billion to AGH, the Company's immediate parent. The loan is secured on the UK Life business and certain non-UK operations of the Group, and has a final maturity date of December 2042. Interest accrued at 308 basis points above 12 month LIBOR until 31 December 2017, after which interest accrues at 240 basis points above 12 month LIBOR until the next reset date on 31 December 2022.

Effective in 2017, minimum annual repayments were amended to £50 million until December 2026, with no rights of deferral.

During the year, the loan balance has been reduced by £144 million to £1,369 million at 31 December 2017 (£1,513 million at 31 December 2016). The reduction was settled via set-off of investment properties transferred to AIL from AGH of £94 million and an annual repayment in cash of £50 million.

Notes to the financial statements (continued)

33. Related party transactions (continued)

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

(v) Loans receivable (continued)

Aviva Canada Inc. ("ACI") loans

In April 2015, following the partial return of capital on the Company's equity investment in ACI, the Company returned the proceeds back to ACI in the form of a subordinated unsecured loan of CAD 350 million. The loan, with a carrying balance of £207 million (2016: £211 million), accrues interest at 330 basis points above the Canadian Dealer Offered Rate and has a final maturity date of March 2045. In the event that ACI's minimum regulatory capital requirement falls below certain local trigger levels, ACI may redeem the loan in exchange for issuing equity whose aggregate value is equal to the principal amount outstanding on the loan.

In June 2016, the Company issued ACI a new subordinated unsecured loan of CAD 480 million. The loan, with a carrying balance of £283 million (2016: £290 million), accrues interest at 529 basis points above the Canadian Dealer Offered Rate and matures in 2046.

(vi) Loans payable

Loans due to other Aviva Group companies

In June 2016, the Company entered into a subordinated unsecured loan from AGH of CAD 480 million. The loan, with a carrying balance of £283 million (2016: £290 million), accrues interest at 474 basis points above the Canadian Dealer Offered Rate and matures in 2046.

The maturity analysis of the related party loans payable is as follows:

	2017	2016
	£m	£m
> 15 years	283	290
	283	290
Effective interest rate	5.9%	5.8%

(vii) Other transactions

Dividend income and net interest payments from transactions with related parties

	2017		2016	
	Income/ (expenses) earned £m	Receivable at year end £m	Income/ (expenses) earned £m	Receivable at year end £m
Holding companies	44	72	64	71
Subsidiaries	150	159	184	204
Fellow Group undertakings	(22)	78	(134)	5
	172	309	114	280

Income earned from holding companies of £44 million (2016: £64 million) relates to interest on the loan receivable described in note 33(a)(v).

Income earned from subsidiaries of £150 million (2016: £184 million) relates to dividends received of £122 million (2016: £168 million) and interest on the ACI loan receivables described in note 33(a)(v). The net interest charged by fellow Group undertakings of £22 million (2016: £134 million) relates to interest on the balance due under the quota share reinsurance arrangement with AIL described in note 33(a)(i).

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms.

Notes to the financial statements (continued)

33. Related party transactions (continued)

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

(vii) Other transactions (continued)

Services provided and net expenses recharged by related parties

	Expenses incurred £m	2017 Payable at year end £m	Expenses incurred £m	2016 Payable at year end £m
Subsidiaries and associates	100	181	70	219
Fellow Group undertakings	766	3,247	743	2,992
	866	3,428	813	3,211

Services provided include £8 million (2016: £6 million) intercompany management fees payable to fellow subsidiaries of the Aviva Group.

Expenses incurred include £392 million (2016: £338 million) relating to staff and pension costs from Aviva Employment Services Limited and Aviva Group Services Ireland Limited, including the pension costs detailed in note 32, £272 million (2016: £282 million) relating to facilities and other service charges from Aviva Central Services UK Limited, and £59 million (2016: £nil) relating to commission charges from Aviva UK Digital Limited. Other expenses of £135 million (2016: £187 million) largely relate to claims and other operating costs recharged from subsidiaries, associates and fellow Group undertakings, offset by expenses recharged to subsidiaries.

The related parties' payables are not secured. The payables will be settled in accordance with normal credit terms.

Key management personnel of the Company may from time to time purchase insurance, savings, asset management or annuity products marketed by Group companies on equivalent terms to those available to all employees of the Group. In 2017 and 2016, other transactions with key management personnel were not deemed to be significant either by size or in the context of their individual positions.

Group relief

The net balance with Group companies for settlement of corporation tax assets and liabilities by group relief is disclosed in note 17. The movement relates to payments received and updated group taxation positions.

Dividends paid

Interim ordinary dividends totalling £214 million on the Company's ordinary shares were declared and settled during 2017 (2016: £1,264 million). A total of £69 million of interim dividends were settled by way of set-off against accrued interest on the Company's loan to AGH; the remainder was settled in cash.

Investment property transfers

In November 2017, freehold investment properties with a market value of £94 million were transferred from AGH to the Company.

(b) Key management compensation

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

	2017 £m	2016 £m
Short-term employee benefits	10	8
Post-employment benefits	1	1
	11	9

(c) Parent entity

The immediate parent undertaking is Aviva Group Holdings Limited, registered in England.

Notes to the financial statements (continued)

33. Related party transactions (continued)

(d) Ultimate controlling entity

The ultimate controlling entity, and parent of the largest and smallest groups which consolidate the results of the Company, is Aviva plc. Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.

34. Events after the statement of financial position date

In February 2018, the directors declared interim dividends of £392 million, of which £334 million was settled in cash and £58 million was set-off against accrued interest due on the Company's loan to AGH.

The Civil Liability Bill was published on 20 March 2018 with the Ministry of Justice accepting the majority of the recommendations on the approach to the Ogden discount rates proposed by the Justice Select Committee in November 2017. The Bill is not expected to be enacted until later in 2018.