Aviva Insurance Limited

Registered in Scotland No. SC002116

Annual Report and Financial Statements 2018

Contents

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
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 covered by the Financial Ombudsman Service and is authorised and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA").

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

Strategic report

The directors present their strategic report for the Company for the year ended 31 December 2018.

Review of the Company's business

Principal activities

The principal activity of the Company is the transaction of 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 its partnerships with brokers and banks.

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

Significant events

In December 2018, the Civil Liability Bill became an Act of Parliament, which includes a change in the way the discount rate used to calculate lump sum compensation in personal injury cases (the 'Ogden rate') is set. Although the rate remains uncertain, it is anticipated that the Government will set a discount rate which is higher than the current -0.75% rate. At this stage, following a review of a range of outcomes, the Company has adopted a rate of 0.0% within its 2018 claims reserves. As a result, the Company's claims reserves, as at 31 December 2018, have reduced by £95 million (net of reinsurance).

On 1 February 2019, an insurance portfolio transfer of a subset of the Company's business, under Part VII of the Financial Services and Markets Act 2000, was made to the Company's subsidiary Aviva Insurance Ireland Designated Activity Company (AIIDAC), which is incorporated in Ireland. Gross insurance liabilities of £1,028 million underpinned by £1,028 million of assets, comprising premium under a quota share arrangement and other investments, were transferred to AIIDAC under this arrangement.

On 1 February 2019, following the Part VII transfer, the Company entered into a quota share reinsurance agreement with AIIDAC as follows:

- 85% quota share arrangement in respect of the transferred Ireland branch risks that are situated in the European Economic Area (excluding the UK) and European mobile device insurance business; and
- 100% quota share arrangement covering all other transferred business.

On 1 February 2019 the Company made a capital contribution of £38 million to AIIDAC, in part consideration for which it received ordinary shares with a nominal value of £13 million issued by AIIDAC to the Company.

Financial position and performance

The financial position of the Company at 31 December 2018 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 Company's net assets have decreased by £146 million *(2017 restated: decreased by £20 million)* due to interim ordinary dividends settled in February 2018 of £392 million *(2017: £214 milllion)* less the profit for the year after tax of £245 million *(2017: £191 million)* and other comprehensive income, net of tax, of £1 million *(2017: £3 million)*.

The profit for the year after tax increased to £245 million *(2017: £191 million)* primarily driven by higher net earned premiums which increased by £46 million and reductions in net incurred claims and net other expenses, of £37 million and £52 million respectively. These improvements were partly offset by lower net investment income which decreased by £87 million.

The Company's net written premiums were £2,550 million *(2017: £2,507 million)*. Net written premiums increased as a result of continued focus on its preferred products and channels. Growth has been strongest in UK commercial lines, driven by an increase in non-motor, with solid growth in Small and Medium Enterprise and Global Corporate Specialty businesses, while commercial motor also increased. Stable UK personal lines premiums reflect lower average motor premiums in a softer market, offset by growth in home.

The combined operating ratio ("COR") increased to 94.7% *(2017: 94.3%)*. Drivers of these movements are described in the key performance indicators section below.

Net investment income decreased to £165 million *(2017: £252 million)*, driven by unrealised losses on debt securities, equity investments and unit trusts.

The Company's loan to its immediate parent company, Aviva Group Holdings Limited ("AGH") has reduced from £1,369 million at December 2017 to £1,319 million at 31 December 2018. The reduction was settled via an annual repayment in cash of £50 million.

Future outlook

Strategies for the Group as a whole are determined by the Board of Aviva plc and these are shown in the Aviva plc Annual Report and Accounts 2018. The Company will work with the Group to support the implementation of these strategies.

Strategic report (continued)

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 choose.

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 33 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:

- General Insurance risk: fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations when pricing and reserving.
- Market risk: the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates, foreign exchange rates, equity, property and commodity prices.
- Credit risk: the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements.
- Brexit risk: although the directors do not believe that Brexit has a significant operational impact on the business, in part due to the insurance portfolio transfer referred to within significant events on page 4, the influence that it will continue to have on the UK economy will require careful monitoring. During the year the Group Board reviewed the impact of potential exit scenarios and the operational response plans.

Key performance indicators

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

	2018	2017
Capital Metrics		
Capital surplus £m	**731**	1,259
Capital surplus ratio	**158%**	198%
Financial Performance Metrics		
Gross written premium £m	**5,421**	5,296
Net written premium £m	**2,550**	2,507
Profit for the year after tax £m	**245**	191
Decrease in shareholder's equity £m[1]	**(146)**	(20)
Alternative Performance Metrics		
Combined operating ratio[2]	**94.7%**	94.3%
Net incurred claims ratio	**63.6%**	62.2%
Net earned commissions ratio	**21.2%**	22.3%
Net earned expenses ratio	**9.9%**	9.8%
Non-Financial Metrics		
Relational net promoter score	**In upper quartile**	At or above market average

[1]The decrease in shareholder's equity for 2017 has been restated for the change in accounting policy referred to in note 1.
[2]The combined operating ratio excludes the impact of the change in adopted Odgen discount rate on 2018.

The Company's Solvency II capital surplus of £731 million *(2017: £1,259 million)* decreased by £528 million during the year, with an equivalent reduction in the capital surplus ratio. The reduction was driven by dividends paid of £392 million, and foreseeable dividends of £359 million, partly offset by capital generated from the Company's operations.

Strategic report (continued)

COR is calculated as claims incurred, earned commisson and earned expenses as a percentage of net earned premiums.

In 2018 the COR increased by 0.4pp. Less favourable weather experience compared to 2017 (although weather experience was marginally favourable compared to the long-term average) was offset by improved underlying performance and higher prior year reserve releases, primarily from favourable experience in attritional and large injury claims.

The claims, commissions and expenses included in the COR excludes a credit of £95 million *(2017: £nil)* related to the impact of the change in the adopted Ogden discount rate, £35 million *(2017: £65 million)* of corporate costs, £46 million *(2017: £55 million)* of impairments of subsidiaries, £3 million *(2017: £9 million)* of losses due to changes in economic assumptions of claims provisions and £25 million *(2017: £50 million)* relating to other non-underwriting costs.

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.

By order of the Board on 16 April 2019

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

Directors' report

The directors present their annual report and the audited financial statements for the Company for the year ended 31 December 2018.

Directors

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

Details of Board appointments and resignations during the year and since the year end are shown below:

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
J R F Walls 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
K B Sorenson resigned as a director of the Company on 31 March 2018

Company Secretary

The name of the company secretary of the Company is shown on page 3.

Dividends

Interim ordinary dividends totalling £751 million on the Company's ordinary shares were declared during 2018 *(2017: £214 million)*. Interim ordinary dividends of £392 million were settled in February 2018, 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. Further interim ordinary dividends of £359 million were settled in February 2019, of which £317 million was settled in cash and £42 million set-off against accrued interest due on the Company's loan to AGH. In accordance with accounting policy DD the interim ordinary dividends settled in February 2019 are recognised in the 2019 accounting period.

The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2018.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the strategic report, which includes a section describing the principal risks and uncertainties. In addition, the financial statements include notes on: the Company's payables and other financial liabilities (note 27); its contingent liabilities and other risk factors (note 29); its capital structure (note 32); management of its major risks including market, credit and liquidity risk (note 33); and derivative financial instruments (note 34).

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. The directors believe that the Company is well placed to manage its business risks successfully.

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

Important events since the financial year end

Details of significant post financial year end events that have occurred subsequent to 31 December 2018 are disclosed in the strategic report on page 4 and note 38.

Future outlook

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

Overseas branches

The Company maintained a branch office in Ireland throughout 2018. The Company's branch office in France closed on 31 May 2018.

Financial instruments

The Company uses financial instruments to manage certain types of risks, including to those relating to foreign currency exchange and interest rates. Details of the objectives and management of these instruments are contained in note 33 on risk management.

Directors' report (continued)

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. The Company is recharged with the costs of the staff provided by these companies.

Disclosure of information to the auditors

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

Independent auditors

It is the intention of the directors to reappoint the auditors, PricewaterhouseCoopers LLP, under the deemed appointment rules of 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 section 234 of the Companies Act 2006.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

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

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

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

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board on 16 April 2019

For and on behalf of Aviva Company Secretarial Services Limited

Company Secretary

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 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the statement of financial position as at 31 December 2018; 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

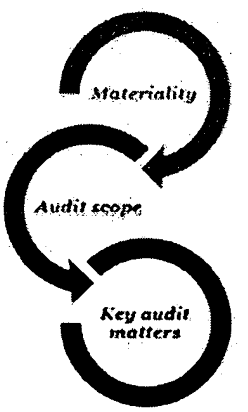
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance 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 7 to the financial statements, we have provided no non-audit services to the Company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



- Overall materiality: £52.8 million (2017: £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 Aviva International Insurance Limited, 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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent

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

manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of insurance claims liabilities. The engagement team shared this risk assessment with the other auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the engagement team and/or other auditors included:

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance functions and the Legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Making enquiries of the Group Investigations team who are responsible for independently reviewing fraudulent activity across the group, utilising activities including, but not limited to, whistle blowing hotlines and data analytics;
- Testing the operating effectiveness and reviewing the results of management's internal controls designed to prevent and detect irregularities;
- Assessment of matters reported on the Company's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Risk Committee, GI Reserve and Capital Committee and Audit Committee;
- Reviewing data regarding policyholder complaints, the Company's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of insurance claims liabilities described in the related key audit matter below;
- Identifying and testing journal entries, in particular any journals that appear to be posted outside of normal patterns or parameters; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of net investment income, intangible asset additions and employee remuneration processes.

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. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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***
Valuation of insurance claims liabilities Insurance claims liabilities are based on an estimated ultimate cost of all claims incurred but not settled at 31 December 2018, 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. Key areas of focus this year were: • 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.	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: • Developing independent point estimates for classes considered to be higher risk, particularly focusing on the largest and most uncertain estimates, as at 30 September 2018 and performing roll-forward testing to 31 December 2018. 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.

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

Key audit matter	*How our audit addressed the key audit matter*
• 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 Company's increase in the Ogden discount rate used and the recent Civil Liability Bill becoming an Act of Parliament guaranteeing a new rate to be set by the Lord Chancellor in 2019. Refer to accounting policies B (page 17) and K (page 19), and Notes 22 and 29 (page 49 and 58) for disclosure of the related accounting policies, judgements and estimates.	• 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 2018 and the uncertainty of future rate changes. • Testing large loss claims estimates arising from known events by evaluating the underlying information. In performing the above, we have also considered and tested the following: • The internal control environment in place over insurance claims liabilities including: o Governance control activities; and o 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. • Examined prior year run-off of previous estimates. • The directors' assessment of estimation uncertainty (disclosed in note 29). • Considered whether any of our audit procedures gave rise to an indication of management bias. Based on the work performed and evidence obtained, we were satisfied with the insurance claims liabilities booked.

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 component 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 this component by performing specified procedures. This component was the Company's Ireland general 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.

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

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	£52.8 million (2017: £51.4 million)
How we determined it	The amount that would change the Combined Operating Ratio ('COR') by more than 1%, excluding the effect of the internal quota share contract.
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 (2017: £2.6 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

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 2018 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.

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

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 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 7 years, covering the years ended 31 December 2012 to 31 December 2018.

Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 April 2019

Accounting policies

The Company is a private limited company incorporated and domiciled in the United Kingdom (UK). It transacts general insurance and health business in the UK and Ireland. 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 through profit or loss.

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 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 2018:

(i) Amendments to IFRS 4, Insurance Contracts

In September 2016, the IASB published amendments to IFRS 4 *Insurance Contracts*, which have been endorsed by the EU, that address the accounting consequences of the application of IFRS 9 to insurers prior to implementing the new 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. 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. In November 2018 the IASB recommended an amendment to IFRS 17 to defer the effective date to 1 January 2022. At the same time, they recommended an extension to the fixed expiry date for the temporary exemption for insurers from applying IFRS 9 until 1 January 2022. These amendments are subject to IASB's due process and will be included in an exposure draft expected to be published later in 2019.

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.

(ii) IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. This standard applies to annual reporting periods beginning on or after 1 January 2018 and has been endorsed by the EU. This standard replaces IAS 18 *Revenue*.

The scope of IFRS 15 includes all contracts where the Company has agreed to provide goods or services to a customer, except for the following:

- Insurance contracts (IFRS 4 / IFRS 17)
- Financial instruments (IAS 39 / IFRS 9)
- Leases (IAS 17 / IFRS 16)

The adoption of this standard has resulted in the following minor amendments to the Company's accounting policies:

- Other fee and commission income - updated to clarify that all other fee and commission income is recognised over time as the services are provided.

The adoption of IFRS 15 does not have a significant impact on the Company's financial statements.

(iii) 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 were endorsed by the EU in February 2018 and are effective from 1 January 2018.

Accounting policies (continued)

The adoption of this amendment does not have an impact on the Company's financial statements as the clarifications are consistent with our existing interpretation.

(iv) 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 and have been endorsed by the EU.

The adoption of these amendments do not have an impact on the Company's financial statements as the clarifications are consistent with our existing interpretation.

(v) 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 been endorsed by the EU.

The adoption of this amendment does not have an impact on the Company's financial statements as the clarifications are consistent with our existing interpretation.

(vi) 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 periods beginning on or after 1 January 2018 and has been endorsed by the EU.

The adoption of this amendment 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 and 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

The carrying amount of the Company's liabilities connected with insurance exceed 90% of the carrying amount of the Company's total liabilities and, as such, the Company is eligible to apply the deferral approach, as defined by the amendments to IFRS 4. The Company has opted to apply this deferral from 2018. Liabilities connected with insurance in the statement of financial position primarily include liabilities arising from contracts within the scope of IFRS 4 and tax liabilities and payables arising in the course of writing insurance business.

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 measurement 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 is expected to apply to annual reporting periods beginning on or after 1 January 2022 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.

Accounting policies (continued)

The impact of the adoption of IFRS 16 on the Company has been fully assessed. The Company has chosen to adopt the modified retrospective approach on transition as permitted by IFRS 16. It is expected that the adoption of the standard will result in an increase in assets of £55 million, an increase in liabilities of £101 million and a reduction of retained earnings of £46 million at 1 January 2019. These impacts arise from the value of lease assets brought onto the balance sheet being lower than the value of lease liabilities due to the different rates of run-off. Adoption of this standard is expected to have no material impact on the profit before tax for the year ended 31 December 2019. This standard is applied to annual reporting periods beginning on or after 1 January 2019 and has been endorsed by the EU.

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) 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 been endorsed by the EU.

(ii) Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

In February 2018, the IASB published *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19). The amendments are effective for annual reporting beginning on or after 1 January 2019 and have not yet been endorsed by the EU.

(iii) Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

In October 2017, the IASB published Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28). The amendments are effective for annual reporting beginning on or after 1 January 2019 and have been endorsed by the EU.

(iv) Annual Improvements to IFRS Standards 2015-2017 Cycle

These improvements consist of amendments to three IFRSs including IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income taxes* and IAS 23 *Borrowing Costs*. The amendments are effective for annual reporting beginning on or after 1 January 2019 and have not yet been endorsed by the EU.

(v) Amendments to References to the Conceptual Framework in IFRS Standards

Published by the IASB in March 2018. The amendments are effective for annual reporting beginning on or after 1 January 2020 and have not yet been endorsed by the EU.

(vi) Amendment to IFRS 3 Business Combinations, IAS 1 and IAS 8: Definition of material

Published by the IASB in October 2018. The amendments are effective for annual reporting beginning on or after 1 January 2020 and have not yet been endorsed by the EU.

Accounting policies (continued)

(B) Critical accounting policies and the use of estimates

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

Critical accounting policies

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

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

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

Item	Critical accounting estimates	Accounting policy	Notes
Measurement of insurance contract liabilities	Principal assumptions used in the calculation of general insurance and health liabilities include the discount rates used in determining latent claim and structured settlement liabilities, and the assumption that past claims experience can be used as a basis to project future claims (estimated using a range of standard actuarial claims projection techniques).	K	22
Goodwill and intangible assets	Goodwill and other intangible assets are recognised and tested for impairment using an income approach method. Significant estimates include forecast cash flows, discount rates and determination of useful lives.	M	10
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 instruments and investment property. These include broker quotes and models using both observable and unobservable market inputs. The valuation techniques involve judgement with regard to the valuation models used and the inputs to these models can lead to a range of plausible valuations for financial investments.	F, R, V & O	13, 14,16 & 34
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	18
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	24

During the year management reassessed the critical estimates previously provided and, based on their assessment of qualitative and quantitative risk factors, resolved to remove fair value of investments in subsidiaries, impairment of financial investments and provisions and contingent liabilities.

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 recognised at cost less impairment. Investments are reviewed annually to test whether any indicators of impairment exist. 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 investment is impaired to its recoverable value and any unrealised loss is recorded in 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 recognised at cost less impairment. Investments are reviewed annually to test whether any indicators of impairment exist. 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 investment is impaired to its recoverable value and any unrealised loss is recorded in the income statement.

(E) Foreign currency transactions

Income statements and cash flows of foreign branches are translated into the Company's presentational currency at monthly 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 foreign branches are recognised in other comprehensive income and taken to retained earnings. On disposal of a foreign branch, such exchange differences are transferred out of this reserve and are recognised in the income statement as part of the gain or loss on sale.

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 through other comprehensive income. Translation differences on assets held at amortised cost are included in foreign exchange gains and losses in the income statement.

(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.

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

Accounting policies (continued)

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

General insurance and health 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 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

Other fee and commission income consists primarily of commissions on reinsurance ceded. Reinsurance commissions receivable are deferred in the same way as acquisition costs, as described in policy Y. All other fee and commission income are recognised over time as the services are provided.

(J) Net investment income

Investment income consists of dividends, interest and rents 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 accounting policy R). Dividends on equity securities are recorded as revenue on the ex-dividend date. Dividends from investments in subsidiaries are recorded as revenue on the date the dividends are declared. 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 contract 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)

Outstanding claims provisions

General insurance and health 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 are given in note 22.

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 22.

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

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 as recognition of revenue over the period of risk.

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

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.

Intangible assets

Intangible assets consist primarily of internally developed systems. The economic lives of these are determined by considering relevant factors such as usage of the asset, typical product life cycles, potential obsolescence, maintenance costs, the stability of the industry, competitive position and the period of control over the assets. These intangibles are amortised over their useful lives, which range up to 10 years, using the straight-line method. The amortisation charge for the period is included in the income statement under other expenses.

Impairment

The carrying amount of goodwill and intangible assets is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying value. Further details on goodwill and intangible asset impairment testing are given in note 10. Any impairments are charged as expenses in the income statement.

(N) Property and equipment

Owner-occupied properties are carried at their revalued amounts and movements are recognised in other comprehensive income and 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.

Borrowing costs directly attributable to the acquisition of property and equipment are capitalised. 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.

Accounting policies (continued)

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.

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. In most cases, the Company's investment or risk management strategy is to manage its financial investments on a fair value basis and therefore the other than trading category is used.

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.

Changes in the fair value of securities classified as AFS are recognised in other comprehensive income and recorded in a separate investment valuation reserve within equity. When securities classified as AFS are sold or impaired, the accumulated fair value adjustments are transferred out of the investment valuation reserve to the income statement with a corresponding movement through other comprehensive income.

Impairment

The Company reviews the carrying value of its investments on a regular basis. If the carrying value of an 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:

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 AFS equity 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 and other financial assets

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

Loans due from Group operations

Loans with fixed maturities are recognised when cash is advanced to borrowers. 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. Loans with indefinite future lives are carried at unpaid principal balances.

To the extent that a loan is considered to be uncollectable, it is written down as impaired through the income statement. Any subsequent recoveries are credited to the income statement.

(T) Payables and other financial liabilities

Payables and other financial liabilities, excluding derivatives, are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest rate method. Derivative liabilities are carried at fair value (refer to accounting policy V).

(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 International Swaps and Derivatives Association master agreements or their equivalent, 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 34.

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 these 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. Exposure to gain or loss on these contracts will increase or decrease over their respective lives as currency exchange and interest rates fluctuate.

(W) Loans

Loans with fixed maturities, including mortgage loans on investment property and collateral loans, are recognised when cash is advanced to borrowers. Certain 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. Loans with indefinite future lives are carried at unpaid principal balances.

At each reporting date, loans carried at amortised cost are reviewed for objective evidence that they are impaired and uncollectable, either at the level of an individual security or collectively within a group of loans with similar credit risk characteristics. To the extent that a loan is uncollectible, it is written down as impaired to its recoverable amount, measured as the present value of expected future cash flows discounted at the original effective interest rate of the loan, considering the fair value of the underlying collateral through an impairment provision account. Subsequent recoveries in excess of the loan's written down carrying value are credited to the income statement.

(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.

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

Accounting policies (continued)

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

Costs relating to the acquisition of new business for insurance contracts are deferred in line with existing local accounting practices, to the extent that they are expected to be recoverable out of future margins in revenues on these contracts. Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and 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.

(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.

(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 more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recorded as a provision is the best estimate of the expenditure required to settle the present obligation at the 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.

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.

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

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

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

Accounting policies (continued)

(CC) Income taxes

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

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

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

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

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

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

Current and deferred tax, relating to items recognised in other comprehensive income and directly in equity, 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, pensions and other post-retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability.

(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 Group's 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 Aviva plc Annual Report and Accounts 2018.

Income statement
For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Income	3		
Gross written premiums		**5,421**	5,296
Premiums ceded to reinsurers		**(2,871)**	(2,789)
Premiums written net of reinsurance		**2,550**	2,507
Net change in provision for unearned premiums		**(33)**	(36)
Net earned premiums	H & L	**2,517**	2,471
Fee and commission income, net of reinsurance	I	**20**	19
Net investment income	J	**165**	252
		2,702	2,742
Expenses	4		
Claims paid, net of recoveries from reinsurers	K	**(1,670)**	(1,572)
Change in insurance liabilities, net of reinsurance	K	**162**	27
Fee and commission expense, net of reinsurance		**(657)**	(679)
Other expenses, net of reinsurance		**(250)**	(302)
		(2,415)	(2,526)
Profit for the year before tax		**287**	216
Tax charge	CC & 8	**(42)**	(25)
Profit for the year after tax		**245**	191

The accounting policies (identified alphabetically) on pages 14 to 25 and notes (identified numerically) on pages 31 to 78 are an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December 2018

	Note	2018 £m	2017 restated[1] £m
Profit for the year after tax		**245**	191
Other comprehensive income			
Items that may be reclassified subsequently to the income statement:			
Foreign exchange rate movements	E	1	3
Other comprehensive income, net of tax		1	3
Total comprehensive income for the year		**246**	194

[1]Prior year comparatives have been restated. Refer to note 1 for further details.

The accounting policies (identified alphabetically) on pages 14 to 25 and notes (identified numerically) on pages 31 to 78 are an integral part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2018

2018

	Note	Ordinary share capital £m	Owner-occupied properties reserve £m	Investment revaluation reserve £m	Special reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2018 restated		**204**	**-**	**-**	**111**	**2,609**	**2,924**
Profit for the year		-	-	-	-	**245**	**245**
Other comprehensive income		-	-	-	-	**1**	**1**
Total comprehensive income for the year		-	-	-	-	**246**	**246**
Dividends paid	9	-	-	-	-	**(392)**	**(392)**
Balance at 31 December 2018		**204**	**-**	**-**	**111**	**2,463**	**2,778**

2017
Restated

	Note	Ordinary share capital £m	Owner-occupied properties reserve £m	Investment revaluation reserve £m	Special reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2017 as previously reported		204	1	1,350	111	2,628	4,294
Change of accounting policy	1	-	-	(1,350)	-	-	(1,350)
Restated total equity at the beginning of the financial year		204	1	-	111	2,628	2,944
Profit for the year		-	-	-	-	191	191
Other comprehensive income		-	-	-	-	3	3
Total comprehensive income for the year		-	-	-	-	194	194
Dividends paid	9	-	-	-	-	(214)	(214)
Owner-occupied properties fair value gains transferred to retained earnings on disposals	13	-	(1)	-	-	1	-
Balance at 31 December 2017 restated		204	-	-	111	2,609	2,924

Included in retained earnings are cumulative exchange rate gains on the retranslation of the Company's overseas operations of £10 million (*2017: £9 million gain*).

The accounting policies (identified alphabetically) on pages 14 to 25 and notes (identified numerically) on pages 31 to 78 are an integral part of these financial statements.

Statement of financial position
As at 31 December 2018

	Note	2018	31 December 2017 restated[1]	1 January 2017 restated[1]
		£m	£m	£m
Assets				
Goodwill and intangible assets	M & 10	**251**	249	253
Investments in subsidiaries	C & 11	**1,274**	1,315	1,370
Investments in associates	D & 11	**155**	28	-
Property and equipment	N & 12	**24**	24	22
Investment property	O & 13	**380**	324	208
Loans	W & 15	**-**	5	5
Financial investments	R & 16	**3,906**	4,479	4,264
Reinsurance assets	L & 23	**4,924**	5,151	5,125
Receivables	S & 17	**3,880**	3,980	3,902
Deferred acquisition costs	Y & 18	**546**	548	532
Prepayments and accrued income	18	**149**	136	157
Deferred tax assets	CC & 24	**99**	118	129
Current tax assets	CC & 24	**-**	-	96
Cash and cash equivalents	Z & 31	**571**	485	637
Total assets		**16,159**	16,842	16,700
Equity				
Ordinary share capital	DD & 19	**204**	204	204
Other reserves	20	**111**	111	112
Retained earnings	21	**2,463**	2,609	2,628
Total equity		**2,778**	2,924	2,944
Liabilities				
Gross insurance liabilities	K & 22	**8,298**	8,648	8,595
Provisions	BB & 25	**15**	17	28
Current tax liabilities	CC & 24	**18**	11	-
Payables and other financial liabilities	T & 27	**4,285**	4,411	4,334
Other liabilities	28	**765**	831	799
Total liabilities		**13,381**	13,918	13,756
Total equity and liabilities		**16,159**	16,842	16,700

[1]Prior year comparatives have been restated. Refer to note 1 for further details.

The financial statements on pages 14 to 78 were approved by the Board of Directors on 16 April 2019 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 78 are an integral part of these financial statements.

Statement of cash flows
For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from operating activities	31(a)	**586**	118
Tax paid		**(16)**	(4)
Net cash generated from operating activities		**570**	114
Cash flows from investing activities			
Acquisition of subsidiary undertaking	11(a)	**(5)**	-
Acquisition of associate undertakings	11(a)	**(127)**	(28)
Net cash used in investing activities		**(132)**	(28)
Cash flows from financing activities			
Dividends paid to ordinary shareholders		**(334)**	(145)
Net cash used in financing activities		**(334)**	(145)
Net increase/(decrease) in cash and cash equivalents		**104**	(59)
Cash and cash equivalents at 1 January		**168**	227
Cash and cash equivalents at 31 December	31(b)	**272**	168

The accounting policies (identified alphabetically) on pages 14 to 25 and notes (identified numerically) on pages 31 to 78 are an integral part of these financial statements.

Notes to the financial statements

1. Prior period adjustments

The Company has changed its accounting policy relating to the recognition of investments in subsidiaries and associates. In prior periods subsidiaries were stated at fair value and classified as available for sale financial assets under IAS 39, with changes in their fair value recorded in a separate investment revaluation reserve within equity. Investments in subsidiaries and associates are now stated at cost less impairment under IAS 27 (see accounting policies C and D). The revised policy provides more relevant and reliable information as reserves are better aligned with distributable profits and cost is a factual measure which is complete, neutral and requires less judgement. The impact of the accounting policy changes on the line items in the financial statements is set out below:

(a) Impact of amendments to accounting policies on the income statement

The prior period adjustments had no material impact on the Company's income statement in 2017 or 2018.

(b) Impact of amendments to accounting policies on the statement of comprehensive income

	Year ended 31 December 2017			Year ended 31 December 2018		
	As reported	Effect of change	Restated	Excluding change	Effect of change	As reported
	£m	£m	£m	£m	£m	£m
Profit for the year after tax	**191**	**-**	**191**	**245**	**-**	**245**
Fair value losses on investments in subsidiaries	(279)	279	-	(388)	388	-
Impairment losses on investments in subsidiaries previously revalued through other comprehensive income, now taken to income statement	55	(55)	-	46	(46)	-
Foreign exchange rate movements	3	-	3	1	-	1
Other comprehensive income	(221)	224	3	(341)	342	1
Total comprehensive income for the year	**(30)**	**224**	**194**	**(96)**	**342**	**246**

(c) Impact of amendments to accounting policies on the statement of changes in equity

	1 January 2017			31 December 2017			31 December 2018		
	As reported	Effect of change	Restated	As reported	Effect of change	Restated	Excluding change	Effect of change	As reported
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total equity	**4,294**	**(1,350)**	**2,944**	**4,050**	**(1,126)**	**2,924**	**3,562**	**(784)**	**2,778**
Effect analysed as:									
Investment revaluation reserve	1,350	(1,350)	-	1,126	(1,126)	-	784	(784)	-

Notes to the financial statements (continued)

(d) Impact of amendments to accounting policies on the statement of financial position

	1 January 2017			31 December 2017			31 December 2018		
	As reported	Effect of change	Restated	As reported	Effect of change	Restated	Excluding change	Effect of change	As reported
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total assets	**18,050**	**(1,350)**	**16,700**	**17,968**	**(1,126)**	**16,842**	**16,943**	**(784)**	**16,159**
Effect analysed as:									
Investments in subsidiaries	2,720	(1,350)	1,370	2,441	(1,126)	1,315	2,057	(783)	1,274
Investments in associates	-	-	-	28	-	28	156	(1)	155
Total equity	**4,294**	**(1,350)**	**2,944**	**4,050**	**(1,126)**	**2,924**	**3,562**	**(784)**	**2,778**
Effect analysed as:									
Other reserves	1,462	(1,350)	112	1,237	(1,126)	111	895	(784)	111
Total equity and liabilities	**18,050**	**(1,350)**	**16,700**	**17,968**	**(1,126)**	**16,842**	**16,943**	**(784)**	**16,159**

2. Exchange rates

Assets and liabilities have been translated at the following year end rates:

	2018	2017
Euro	**1.1141**	1.1266
US Dollar	**1.2736**	1.3528
Canadian Dollar	**1.7395**	1.6949

Notes to the financial statements (continued)

3. Details of income

	Note	2018 £m	2017 £m
Gross written premiums	22(d)	**5,421**	5,296
Less: premiums ceded to reinsurers	23(c)(ii)	**(2,871)**	(2,789)
Gross change in provision for unearned premiums	22(d)	**(81)**	(86)
Reinsurers' share of change in provision for unearned premiums	23(c)(ii)	**48**	50
Net change in provision for unearned premiums		**(33)**	(36)
Net earned premiums		**2,517**	2,471
Reinsurance commissions receivable		**2**	3
Other fee income		**18**	16
Fee and commission income		**20**	19
Total revenue		**2,537**	2,490
Interest and similar income			
From investments designated as trading and other than trading		**73**	66
Dividend income from equity securities		**30**	12
		103	78
Income from Group undertakings			
Dividend income		**107**	122
Net interest income		**88**	50
		195	172
Other income from investments designated as trading			
Realised losses		**(25)**	(23)
Unrealised gains		**14**	36
		(11)	13
Other income from investments designated as other than trading			
Realised gains		**71**	52
Unrealised losses		**(214)**	(78)
		(143)	(26)
Net income from investment properties			
Rent		**15**	12
Fair value gains on investment properties	13	**8**	12
		23	24
Impairment reversal on loans	15(a)	**1**	-
Other investment expenses		**(3)**	(9)
Net investment income		**165**	252
Total income		**2,702**	2,742

Net earned premiums includes £2,517 million *(2017: £2,470 million)* premiums ceded in respect of a quota share reinsurance arrangement with Aviva International Insurance Limited ("AIIL") (see note 36(a)(iii)).

Notes to the financial statements (continued)

4. Details of expenses

	Note	2018 £m	2017 £m
Claims and benefits paid			
Claims and benefits paid to policyholders	22(b)(iv)	**3,502**	3,296
Less: Claims recoveries from reinsurers	23(c)(i)	**(1,832)**	(1,724)
Claims and benefits paid, net of recoveries from reinsurers		**1,670**	1,572
Change in insurance liabilities			
Change in insurance liabilities	22(b)(iv)	**(449)**	(74)
Change in reinsurance asset for insurance provisions	23(c)(i)	**287**	47
Change in insurance liabilities, net of reinsurance		**(162)**	(27)
Fee and commission expense, net of reinsurance			
Acquisition costs			
Commission expenses		**1,063**	1,125
Change in deferred acquisition costs	18	**2**	(12)
Other acquisition costs		**249**	245
Less: fee and commission expense ceded to reinsurers		**(657)**	(679)
		657	679
Other expenses			
Impairment of investments in subsidiaries	11	**46**	55
Amortisation of intangible assets	10	**32**	31
Pension deficit funding		**70**	131
Restructuring costs		**-**	10
Operating lease costs		**21**	20
Net foreign exchange losses		**12**	28
Other expenses		**269**	252
Less: other expenses ceded to reinsurers		**(200)**	(225)
		250	302
Total expenses		**2,415**	2,526

Change in insurance liabilities net of reinsurance includes a gain of £95 million relating to the movement in the discount used for estimating lump sum payments in settlement of bodily injury claims (see note 22(b)(iii)). Claims and benefits paid and change in insurance liabilities, net of reinsurance include £1,595 million *(2017: £1,549 million)* claims recoveries in respect of a quota share reinsurance arrangement with AIIL (see note 36(a)(iii)).

5. Employee information

The Company has no employees (*2017: 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 for the staff provided by these companies.

Notes to the financial statements (continued)

6. Directors' remuneration

Mr Briggs, Ms Cooper, Mr Townend and Mr Windsor were all remunerated by Aviva Employment Services Limited, a fellow subsidiary of Aviva plc. Ms Cooper was remunerated for her services to the Group as a whole. She was not remunerated for her service as director of the Company and the amount of time spent performing her duties is incidental to her role across the Group. This is consistent with prior years.

Mr Briggs was a director of Aviva plc during the year and his emoluments are disclosed in that company's annual report and financial statements.

Messrs Briggs', Holmes', Townend's and Windsor's remuneration is disclosed within the aggregate of key management compensation in note 36(b).

The fees for Mr Burns, Ms Gooding, Mr O'Roarke, Mr Patel, Mr Rochez, Mr Scott, Ms Sorenson and Mr Walls were paid for and borne by the Company. In addition, Messrs Patel, O'Roarke and Walls received fees in respect of their services as non-executive directors of Aviva Life & Pensions UK Limited, which is also a subsidiary of Aviva plc, and these are disclosed in the financial statements of that company.

The emoluments in respect of Mr Briggs, Mr Burns, Ms Gooding, Mr Holmes, Mr O'Roarke, Mr Patel, Mr Rochez, Mr Scott, Ms Sorenson, Mr Townend, Mr Walls and Mr Windsor are shown in the table below:

	2018	2017
	£'000	£'000
Aggregate emoluments	**4,006**	3,673
Company pension contributions to a money purchase scheme	**2**	118
	4,008	3,791

Where directors had multiple directorships and their services as a director for the Company were not incidental to their roles across the 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 Group, which may also be disclosed within the financial statements of other Group companies.

Pension contributions consist of employer contributions into the money purchase section of the Aviva Staff Pension Scheme, excluding salary exchange contributions made by the employees, plus payments in lieu of pension above the lifetime or annual allowance caps.

During the year, one of the directors *(2017: two)* accrued retirement benefits under money purchase pension schemes in respect of qualifying services.

During the year, none of the directors exercised share options *(2017: three)* and five of the directors were granted shares under long term incentive schemes *(2017: five)* in relation to shares of the Company's ultimate parent company, Aviva plc.

Details of the highest paid director are as follows:

	2018	2017
	£'000	£'000
Aggregate emoluments	**1,631**	1,084

During the year and the prior year the highest paid director in the relevant year exercised share options and received shares under long-term incentive schemes in relation to shares of the Company's ultimate parent company, Aviva plc.

Notes to the financial statements (continued)

7. Auditors' remuneration

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

	2018 £'000	2017 £'000
Fees payable for the audit of the Company's financial statements	**1,989**	2,023
Fees payable for audit-related assurance services	**244**	203
	2,233	2,226

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 for 2018 and 2017.

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

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.

8. Tax expense

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	2018 £m	2017 £m
Current tax		
For this year	**(24)**	(15)
Prior year adjustments	**1**	1
Total current tax	**(23)**	(14)
Deferred tax		
Origination and reversal of temporary differences	**(19)**	(11)
Total deferred tax	**(19)**	(11)
Total tax charged to the income statement	**(42)**	(25)
United Kingdom tax	**(37)**	(20)
Overseas tax	**(5)**	(5)
	(42)	(25)

(ii) Unrecognised tax losses and temporary differences of previous years were used to reduce current tax expense and deferred tax expense by £nil million and £nil million, respectively (*2017: £6 million and £nil, respectively*).

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

	2018 £m	2017 £m
Insurance items	**4**	5
Unused losses and tax credits	**(19)**	(20)
Provisions and other temporary differences	**1**	3
Accelerated capital allowances	**(1)**	1
Pensions and other post retirement obligations	**(4)**	-
Total deferred tax charged to the income statement	**(19)**	(11)

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

There was no tax credited or charged to other comprehensive income in either 2018 or 2017.

Notes to the financial statements (continued)

(c) Tax reconciliation

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

	Note	2018 £m	2017 £m
Profit for the year before tax		**287**	216
Tax calculated at standard UK corporation tax rate of 19.00% *(2017: 19.25%)*		**(55)**	(42)
Adjustment to tax charges in respect of prior years		**(2)**	2
Non-assessable dividends		**22**	27
Disallowable expenses		**(10)**	(13)
Different local basis of tax on overseas profits		**3**	1
Tax charge for the year	8(a)(i)	**(42)**	(25)

The Finance Act 2016, which received Royal Assent on 15 September 2016, will reduce the corporation tax rate to 17% from 1 April 2020. Future tax rates are used in the calculation of the Company's deferred tax assets and liabilities at 31 December 2018. The change in future tax rate to 17% has had no material impact on the tax charge for the year *(2017: £nil)*.

9. Dividends

	Note	2018 £m	2017 £m
Ordinary dividends declared and charged to equity in the current year and prior year:			
Interim dividend - £10,509 per share declared in February 2017		**-**	214
Interim dividend - £19,250 per share declared in February 2018		**392**	-
Total dividends for the year	36(a)(vii)	**392**	214

Interim ordinary dividends of £392 million were settled in February 2018, 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 (refer note 36(a)(vii)).

Further interim ordinary dividends of £359 million were declared in December 2018 and settled in February 2019, of which £317 million was settled in cash and £42 million set-off against accrued interest due on the Company's loan to AGH. In accordance with accounting policy DD the interim ordinary dividends settled in February 2019 are recognised in the 2019 accounting period.

Notes to the financial statements (continued)

10. 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
Additions		-	**33**	**33**
Foreign exchange rate movements		1	-	1
At 31 December 2018		**99**	**257**	**356**
Accumulated amortisation				
At 1 January 2017		-	(42)	(42)
Charge for the year	4	-	(31)	(31)
At 31 December 2017		-	(73)	(73)
Charge for the year	4	-	**(32)**	**(32)**
At 31 December 2018		-	**(105)**	**(105)**
Carrying amount				
At 1 January 2017		95	158	253
At 31 December 2017		98	151	249
As at 31 December 2018		**99**	**152**	**251**

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 2018. Key assumptions include a growth rate of 0% *(2017: 0%)* and a risk-adjusted pre-tax discount rate of 6.9% *(2017: 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 is being amortised over 10 years.

Notes to the financial statements (continued)

11. Investments in subsidiaries and associates

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

		2018			2017
		Subsidiaries	**Associates**	Subsidiaries[1]	Associates
	Note	**£m**	**£m**	£m	£m
Cost at 1 January		**1,315**	**28**	1,370	-
Additions	11(b)(i)	**5**	**127**	-	28
Impairments	11(b)(ii)	**(46)**	**-**	(55)	-
Cost at 31 December		**1,274**	**155**	1,315	28

[1]Prior year comparatives have been restated. Refer to note 1 for further details.

(b) Material movements

(i) Additions

The £132 million *(2017: £28 million)* of additions in the year comprise:

- Further acquisition in the share capital of Aviva UK Digital Limited for cash consideration of £90 million *(2017: £20 million)* which increased the Company's holding to 28.2% *(2017: 9.5%)*;
- Further investment in Aviva Investors Continental European Long Lease Strategy Fund for cash consideration of £37 million. At 31 December 2018 the Company held 44% of the fund units *(31 December 2017: 48%)*;
- Investment of £5 million cash in AIIDAC in consideration for share capital issued. At 31 December 2018 the Company held 100% of the share capital of AIIDAC *(2017: 100%)*.

(ii) Impairments

Net impairments of £46 million (*2017: £55 million*) resulted from the full impairment of the cost of investments in two subsidiaries following the receipt by the Company of dividends of £46m from them during 2018.

Refer to note 37 for details of all related undertakings.

Notes to the financial statements (continued)

12. Property and equipment

	Owner-occupied properties £m	Other assets £m	Total £m
Cost or valuation			
At 1 January 2017	21	2	23
Reversal of impairment	2	-	2
At 31 December 2017	23	2	25
At 31 December 2018	**23**	**2**	**25**
Depreciation and impairment			
At 1 January 2017	-	(1)	(1)
Charge for year	-	-	-
At 31 December 2017	-	(1)	(1)
Charge for year	-	-	-
At 31 December 2018	**-**	**(1)**	**(1)**
Carrying amount			
At 1 January 2017	21	1	22
At 31 December 2017	23	1	24
At 31 December 2018	**23**	**1**	**24**

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 *(2017: £26 million)*.

13. Investment property

	Note	2018 £m	2017 £m
Carrying value			
At 1 January		**324**	208
Additions		**52**	13
Fair value gains	3	**8**	12
Disposals		**(4)**	(3)
Transfers from fellow Group undertakings		**-**	94
At 31 December		**380**	324

Refer to accounting policy F 'Fair value measurement' for further information on the fair value measurement and valuation techniques of investment property.

The fair value of investment properties leased to third parties under operating leases at 31 December 2018 was £380 million *(2017: £310 million)*. Further contractual aggregate minimum lease rentals receivable under the non-cancellable portion of these leases are given in note 30(b).

In November 2017, freehold investment properties with a market value of £94 million were transferred from AGH to the Company. In 2017, cumulative gains of £1 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.

Notes to the financial statements (continued)

14. Fair value methodology

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

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

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.

(b) Changes to valuation techniques

No changes were made to the valuation techniques during the year compared to those described in the Company's 2017 annual report and financial statements.

Notes to the financial statements (continued)

(c) Comparison of the carrying amount and fair value of financial instruments

The fair value of all the Company's financial investments, investment properties, deposits received from insurers and derivative liabilities is equal to their carrying amounts. The fair value of the following assets and liabilities approximate to their carrying amounts:

- Loans
- Receivables
- Prepayments and accrued income
- Cash and cash equivalents
- Payables and other financial liabilities
- Other liabilities

As set out in accounting policy A, the Company has chosen to defer application of IFRS 9 due to its activities being predominantly connected with insurance. To facilitate comparison with entities applying IFRS 9 in full, the table below analyses the Company's financial instruments as at the reporting date between those which are considered to have contractual terms which are solely payments of principal and interest ("SPPI") on the principal amount outstanding (excluding instruments held for trading or managed and evaluated on a fair value basis), and all other instruments not falling into this category. Instruments that do not meet the SPPI criteria include financial assets that meet the definition of held for trading, financial assets that are managed and evaluated on a fair value basis, and instruments with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

	Note	SPPI fair value	Non-SPPI fair value	2018 Total
		£m	£m	£m
Financial assets				
Debt securities	16	-	2,488	**2,488**
Equity security investments	16	-	634	**634**
Derivative assets	16 & 34	-	82	**82**
Other investments	16	-	702	**702**
Receivables	17	3,322	558	**3,880**
Accrued interest	18	-	58	**58**
Cash and cash equivalents	31	90	481	**571**
Total		**3,412**	**5,003**	**8,415**

There has been a £130 million decrease in the fair value of SPPI instruments, and a £464 million decrease in the fair value of non-SPPI instruments during 2018.

Notes to the financial statements (continued)

(d) Fair value hierarchy

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

	Note				2018
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
		£m	£m	£m	£m
Recurring fair value measurements					
Financial investments		**2,094**	**1,615**	**197**	**3,906**
Debt securities	16	**923**	**1,565**	**-**	**2,488**
Equity security investments	16	**629**	**-**	**5**	**634**
Derivative assets	16 & 34	**32**	**50**	**-**	**82**
Other investments	16	**510**	**-**	**192**	**702**
Investment property	13	**-**	**-**	**380**	**380**
Total		**2,094**	**1,615**	**577**	**4,286**
Financial liabilities					
Deposits received from reinsurers	36(a)(iii)	**(3,165)**	**-**	**-**	**(3,165)**
Derivative liabilities	34	**(8)**	**(143)**	**-**	**(151)**
Total		**(3,173)**	**(143)**	**-**	**(3,316)**

	Note				2017 Restated[1]
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
		£m	£m	£m	£m
Recurring fair value measurements					
Financial investments		2,346	1,975	158	4,479
Debt securities	16	1,326	1,884	-	3,210
Equity securities	16	487	-	5	492
Derivative assets	16 & 34	10	91	-	101
Other investments	16	523	-	153	676
Investment property	13	-	-	324	324
Total		2,346	1,975	482	4,803
Financial liabilities					
Deposits received from reinsurers	36(a)(iii)	(3,237)	-	-	(3,237)
Derivative liabilities	34	(4)	(181)	-	(185)
Total		(3,241)	(181)	-	(3,422)

[1] Prior year comparatives have been restated. Refer to note 1 for further details.

(e) Transfers between levels of the fair value hierarchy

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting year.

There were no material transfers between levels of the fair value hierarchy during 2018. In 2017, £66 million of derivative liabilities transferred from Level 3 to Level 2 relating principally to retail price index ("RPI") swaps which were transferred as observable inputs became available. No material transfers occurred between Level 1 and Level 2 and Level 1 and Level 3 in 2017.

Notes to the financial statements (continued)

(f) Valuation approach for fair value assets and liabilities classified as Level 2

Refer to note 14(a) for a description of typical Level 2 inputs.

Debt securities, in line with market practice, are generally valued using an independent pricing service. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis. Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing services providers are used, a single valuation is obtained and applied. When prices are not available from pricing services, quotes are sourced from brokers. Over-the-counter derivatives are valued using broker quotes or models such as option pricing models, simulation models or a combination of models. The inputs for these models include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of the underlying instruments.

Unit Trusts and other investment funds included under the other investments category are valued using net asset values which are not subject to a significant adjustment for restrictions on redemption or for limited trading activity.

(g) Further information on Level 3 financial instruments

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

	Assets				Liabilities
	Equity securities	Investment property	Other investments	Derivative assets	Derivative liabilities
	£m	£m	£m	£m	£m
Balance at 31 December 2017	**5**	**324**	**153**	**-**	**-**
Purchases	-	52	27	-	-
Disposals	-	(4)	-	-	-
Transfers (to) / from fellow subsidiaries	-	8	12	-	-
Balance at 31 December 2018	**5**	**380**	**192**	**-**	**-**

	Assets				Liabilities
	Equity securities	Investment property	Other investments	Derivative assets	Derivative liabilities
	£m	£m	£m	£m	£m
Balance at 1 January 2017	7	208	127	3	(69)
Total net gains / (losses) recognised in the income statement	-	94	-	-	-
Purchases	-	13	42	-	-
Disposals	-	(3)	(20)	-	40
Transfers out of Level 3	-	-	-	(1)	66
Transfers (to) / from fellow subsidiaries	(2)	12	4	(2)	(37)
Balance at 31 December 2017	5	324	153	-	-

Notes to the financial statements (continued)

The table below shows the sensitivity of the fair value of Level 3 investments to changes in unobservable inputs to a reasonable alternative:

	Fair value £m	Most significant unobservable inputs	Reasonable change	Positive impact £m	2018 Negative impact £m
Investment property	380	Estimated rental yield	+5%/-5%	**+20**	**-20**
Other investments	192	Estimated rental yield	+5%/-5%	**+1**	**-3**

	Fair value £m	Most significant unobservable inputs	Reasonable change	Positive impact £m	2017 Negative impact £m
Investment property	324	Estimated rental yield	+5%/-5%	+16	-16
Other investments	153	Estimated rental yield	+5%/-5%	+3	-2

The principal investments classified as Level 3, and the valuation techniques applied to them are:

Investment in property

In the UK, investment property is valued at least annually by external chartered surveyors in accordance with guidance issued by The Royal Institution of Chartered Surveyors, and using estimates during the intervening period. Fair values are determined using an income method, by which own lease agreement cash flows are adjusted for anticipated uplifts, and discounted by rates implied by recent market transactions for similar properties where available.

Other investments

Unit Trusts and other investment funds including property funds are valued based on external valuation reports received from fund managers.

15. Loans

a) Carrying amounts

The carrying amounts of loans at 31 December 2018 and 2017 were as follows:

	2018 At amortised cost £m	2017 At amortised cost £m
Other loans	-	5
As at 31 December	-	5

	2018 £m	2017 £m
Expected to be recovered in less than one year	-	5

Analysis of loans carried at amortised cost:

	Amortised cost £m	Impairment £m	2018 Carrying value £m	Amortised cost £m	Impairment £m	2017 Carrying value £m
Other loans	-	-	-	5	-	5

A recovery of £1m was received during the year relating to a fully impaired loan which had expired before 2017.

Notes to the financial statements (continued)

16. Financial investments

(a) Carrying amount

Financial investments comprise:

	2018			2017		
	At fair value through profit or loss			At fair value through profit or loss		
	Trading	Other than trading	Total	Trading	Other than trading	Total
	£m	£m	£m	£m	£m	£m
Fixed maturity securities						
Debt securities						
UK Government	-	1,024	1,024	-	1,430	1,430
Non-UK Government	-	431	431	-	324	324
Corporate	-	1,033	1,033	-	1,456	1,456
	-	2,488	2,488	-	3,210	3,210
Equity securities						
Ordinary shares						
Industrial miscellaneous and all other	-	634	634	-	492	492
	-	634	634	-	492	492
Other investments						
Unit trusts and specialised investment vehicles	-	702	702	-	676	676
Derivative financial instruments	82	-	82	101	-	101
	82	702	784	101	676	777
Total financial investments	82	3,824	3,906	101	4,378	4,479

	2018	2017
	£m	£m
Expected to be recovered in less than one year	927	907
Expected to be recovered in greater than one year	2,979	3,572
	3,906	4,479

(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:

	2018				2017			
	Cost/ amortised cost	Unrealised gains	Unrealised losses and impairments	Fair value	Cost/ amortised cost	Unrealised gains	Unrealised losses and impairments	Fair value
	£m	£m	£m	£m	£m	£m	£m	£m
Fixed maturity securities	2,393	139	(44)	2,488	2,979	268	(37)	3,210
Equity securities	700	-	(66)	634	478	17	(3)	492
Unit trusts and other investment vehicles	761	28	(87)	702	709	16	(49)	676
Derivative financial instruments	19	63	-	82	18	91	(8)	101
	3,873	230	(197)	3,906	4,184	392	(97)	4,479

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.

Notes to the financial statements (continued)

Unrealised gains and losses on financial investments classified as at fair value through profit or loss, recognised in the income statement in the year, were a net gain of £33 million *(2017: £295 million)*. Of this net gain, £30 million net loss *(2017: £212 million net gain)* related to investments designated as other than trading and £63 million net gain *(2017: £83 million net gain)* related to financial investments designated as trading.

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) Impairment of financial investments

There were no impairments in 2018 *(2017: £nil)*.

17. Receivables

	Note	2018 £m	2017 £m
Amounts due from contract holders		**901**	886
Amounts due from intermediaries		**559**	466
Amounts due from reinsurers		**50**	34
Group relief receivable		**189**	295
Amounts due from parent	36(a)(vii)	**60**	72
Amounts due from subsidiaries and associates	36(a)(vii)	**136**	159
Amounts due from other Group companies	36(a)(vii)	**68**	78
Loans due from parent	36(a)(i)	**1,319**	1,369
Loans due from subsidiaries	36(a)(i)	**477**	490
Amounts receivable for cash collateral pledged		**81**	104
Other receivables		**40**	27
Total at 31 December		**3,880**	3,980
Expected to be recovered in less than one year		**1,945**	1,975
Expected to be recovered in greater than one year		**1,935**	2,005
		3,880	3,980

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.

18. Deferred acquisition costs, prepayments and accrued income

(a) The carrying amount comprises:

	2018 £m	2017 £m
Deferred acquisition costs	**546**	548
Prepayments and accrued income	**149**	136
Total at 31 December	**695**	684

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

	2018 £m	2017 £m
Carrying amount at 1 January	**548**	532
Acquisition costs deferred during the year	**1,150**	1,198
Amortisation	**(1,152)**	(1,183)
Foreign exchange rate movements	**-**	1
Total at 31 December	**546**	548

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

Notes to the financial statements (continued)

(c) Prepayments and accrued income

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

19. Ordinary share capital

	2018 £m	2017 £m
Allotted, called up and fully paid		
20,364 (2017: 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.

20. Other reserves

	Note	Owner-occupied properties reserve (see accounting policy N) £m	Special reserve £m	Total other reserves £m
Balance at 1 January 2017[1]		1	111	112
Transfer to retained earnings	21	(1)	-	(1)
Balance at 31 December 2017[1]		-	**111**	**111**
Transfer to retained earnings	21	-	-	-
Balance at 31 December 2018		-	**111**	**111**

[1]Prior year comparatives have been restated. Refer to note 1 for further details.

Special reserve
On 31 December 2007, the Company's parent at the time, AIIL 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 AIIL, 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.

21. Retained earnings

	Note	2018 £m	2017 £m
At 1 January		**2,609**	2,628
Profit for the year		**245**	191
Dividends paid	9	**(392)**	(214)
Transfer from owner-occupied property reserve	20	-	1
Foreign exchange rate movements		**1**	3
At 31 December		**2,463**	2,609
Distributable		**2,053**	2,039
Non-distributable		**410**	570
At 31 December		**2,463**	2,609

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to insurance companies imposed by the PRA. Its ability to transfer retained earnings to its parent company is therefore restricted to the extent these earnings form part of regulatory capital requirements.

Notes to the financial statements (continued)

22. Insurance liabilities

(a) Carrying amount

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

	2018 £m	2017 £m
Outstanding claims provisions	**4,650**	4,710
Provision for claims incurred but not reported	**1,088**	1,463
Provision arising from liability adequacy tests	**16**	13
Insurance claims liabilities	**5,754**	6,186
Provision for unearned premiums	**2,544**	2,462
Total at 31 December	**8,298**	8,648

(b) General insurance liabilities

(i) Provisions for outstanding claims

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 2018	Discount rate 2017	Mean term of liabilities 2018	Mean term of liabilities 2017
Latent claims	1.1% to 1.6%	0.7% to 1.5%	13 years	12 years
Structured settlements	1.5% to 3.0%	1.0% to 3.0%	37 years	38 years
Reinsured London Market business	1.1% to 1.6%	0.7% to 2.6%	10 years	9 years

The gross outstanding claims provision before discounting was £6,441 million *(2017: £6,884 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 table above.

Notes to the financial statements (continued)

(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.

Claims development is separately analysed for each geographic area, as well as 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. The following explicit assumptions are made which could materially impact the level of booked net reserves:

Discount rates applied to latent claim liabilities and structured settlements

The discount rates used in determining latent claim liabilities and structured settlements are based on the relevant swap curve in the relevant currency at the reporting date, having regard to the duration of the expected settlement of claims. The range of discount rates used is shown in section (ii) above and depends on the duration of the claim and the reporting date. At 31 December 2018, it is estimated that a 1% fall in the discount rates used would increase net claim reserves by approximately £44 million *(2017: £49 million)* excluding the offsetting effect on asset values as assets are not hypothecated across classes of business.

Allowance for risk and uncertainty

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. Booked claim provisions are calculated as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty. The allowance for risk and uncertainty is calculated in accordance with the requirements of the Company reserving policy, taking into account the risks and uncertainties specific to each line of business and type of claim in that territory. The requirements of the Company reserving policy also seek to ensure that the allowance for risk and uncertainty is set consistently across reporting periods.

Changes to claims development patterns can materially impact the results of actuarial projection techniques. However, allowance for the inherent uncertainty in the assumptions underlying reserving projections is automatically allowed for in the explicit allowance for risk and uncertainty included when setting booked reserves.

Lump sum payments in settlement of bodily injury claims that are 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 and is applied when calculating the present value of future care costs and loss of earnings for claims settlement purposes. Following the announcement by the Ministry of Justice on 27 February 2017 to decrease the Ogden rate from 2.75% to -0.75%, balance sheet reserves have been calculated using a rate of -0.75%. On 20 March 2018, the Government announced that it will introduce the Civil Liability Bill (the Bill), which includes provisions to amend the discount rate. In December 2018 the Bill became an Act of Parliament, meaning that a new Ogden discount rate will be set by the Lord Chancellor in 2019.

Based upon this, there is certainty that there will be a change in the Ogden rate in 2019, but uncertainty remains around the amount and timing of the final rate. At December 2018, the claim reserves in the UK have been calculated using a discount rate of 0.00% *(2017: -0.75%)* even though the rate to be announced by the Lord Chancellor later this year may result in a different discount rate. By way of illustration, should the Ogden discount rate announced in the future be 0.50% then this would be expected to reduce reserves by approximately £80 million with an equivalent positive impact on profit before tax. Alternatively, should the Ogden discount rate announced in the future be -0.50% then this would be expected to increase reserves by approximately £110 million with an equivalent negative impact on profit before tax.

Notes to the financial statements (continued)

(iv) Movements

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

	Note	2018 £m	2017 £m
Carrying amount at 1 January		**6,186**	6,229
Impact of changes in assumptions		**(49)**	17
Claims losses and expenses incurred in the current year		**3,434**	3,254
Decrease in estimated claims losses and expenses incurred in prior periods		**(332)**	(49)
Incurred claims losses and expenses		**3,053**	3,222
Less:			
Payments made on claims incurred in the current year		**(1,903)**	(1,746)
Payments made on claims incurred in prior years		**(1,599)**	(1,550)
Claims payments made in the year	4	**(3,502)**	(3,296)
Unwind of discount		**8**	7
Changes in claims reserve recognised as income		**(441)**	(67)
Foreign exchange rate movements		**9**	24
Carrying amount at 31 December		**5,754**	6,186

(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 2009 to 2018. 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 2009, by the end of 2018, £3,477 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 £3,654 million was re-estimated to be £3,639 million at 31 December 2018.

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 (2018), 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, as shown in the loss development tables and movements table in note 22(c)(ii) and 22(c)(iii) below. Releases from prior accident year reserves are also due to an improvement in the estimated cost of claims.

Key elements of the release from prior accident year general insurance and health net provisions during 2018 were:

- Impact of change in the Ogden discount rate assumption use for estimating lump sum settlements of bodily injury claims from -0.75% to 0% of £95m net of reinsurance, refer to note 22(b)(iii) above.
- Favourable development of large personal injury claims for personal motor and commercial motor.

Key elements of the release from prior accident year general insurance and health net provisions during 2017 were:

- Favourable claims experience in personal motor offset by the less favourable experience in 2017 of commercial liability claims and large claims in personal and commercial property.

Notes to the financial statements (continued)

(ii) Gross of reinsurance

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

£m Accident year	All prior years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Gross cumulative claim payments												
At end of accident year		(1,889)	(1,593)	(1,572)	(1,636)	(1,637)	(1,648)	(1,617)	(1,683)	(1,746)	(1,903)	
One year later		(2,741)	(2,471)	(2,303)	(2,315)	(2,258)	(2,243)	(2,353)	(2,357)	(2,395)		
Two years later		(2,980)	(2,715)	(2,548)	(2,591)	(2,473)	(2,459)	(2,632)	(2,595)			
Three years later		(3,150)	(2,885)	(2,704)	(2,749)	(2,623)	(2,629)	(2,815)				
Four years later		(3,291)	(3,002)	(2,846)	(2,897)	(2,773)	(2,804)					
Five years later		(3,381)	(3,077)	(2,920)	(3,009)	(2,896)						
Six years later		(3,433)	(3,117)	(2,976)	(3,056)							
Seven years later		(3,453)	(3,124)	(3,010)								
Eight years later		(3,466)	(3,132)									
Nine years later		(3,477)										
Estimate of gross ultimate claims												
At end of accident year		3,654	3,164	3,121	3,290	3,145	3,051	3,198	3,325	3,254	3,434	
One year later		3,563	3,221	3,104	3,200	3,068	2,990	3,318	3,335	3,231		
Two years later		3,538	3,211	3,108	3,206	3,069	3,118	3,315	3,291			
Three years later		3,526	3,236	3,116	3,212	3,146	3,118	3,241				
Four years later		3,562	3,230	3,136	3,236	3,117	3,049					
Five years later		3,563	3,255	3,119	3,217	3,082						
Six years later		3,592	3,274	3,134	3,179							
Seven years later		3,658	3,267	3,107								
Eight years later		3,627	3,242									
Nine years later		3,639										
Estimate of gross ultimate claims		3,639	3,242	3,107	3,179	3,082	3,049	3,241	3,291	3,231	3,434	
Cumulative payments		(3,477)	(3,132)	(3,010)	(3,056)	(2,896)	(2,804)	(2,815)	(2,595)	(2,395)	(1,903)	
Gross outstanding claims provisions	2,029	162	110	97	123	186	245	426	696	836	1,531	6,441
Effect of discounting	(554)	(70)	(35)	(18)	(8)	(18)	-	-	-	-	-	(703)
Present value in the statement of financial position	**1,475**	**92**	**75**	**79**	**115**	**168**	**245**	**426**	**696**	**836**	**1,531**	**5,738**

Notes to the financial statements (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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Net cumulative claim payments												
At end of accident year		(1,838)	(1,555)	(1,567)	(1,633)	(1,614)	(1,556)	(1,517)	(830)	(871)	(947)	
One year later		(2,650)	(2,408)	(2,293)	(2,285)	(2,201)	(2,083)	(1,866)	(1,146)	(1,182)		
Two years later		(2,882)	(2,645)	(2,530)	(2,547)	(2,396)	(2,182)	(1,993)	(1,257)			
Three years later		(3,051)	(2,810)	(2,681)	(2,691)	(2,470)	(2,266)	(2,079)				
Four years later		(3,192)	(2,914)	(2,816)	(2,764)	(2,545)	(2,346)					
Five years later		(3,278)	(2,982)	(2,854)	(2,820)	(2,598)						
Six years later		(3,326)	(3,001)	(2,882)	(2,842)							
Seven years later		(3,336)	(3,011)	(2,899)								
Eight years later		(3,342)	(3,015)									
Nine years later		(3,347)										
Estimate of net ultimate claims												
At end of accident year		3,534	3,105	3,107	3,260	3,091	2,829	2,946	1,624	1,597	1,693	
One year later		3,465	3,151	3,084	3,157	2,952	2,781	2,328	1,629	1,574		
Two years later		3,436	3,141	3,093	3,119	2,944	2,507	2,320	1,597			
Three years later		3,427	3,144	3,069	3,113	2,697	2,502	2,286				
Four years later		3,431	3,120	3,060	2,919	2,676	2,467					
Five years later		3,421	3,126	2,924	2,903	2,658						
Six years later		3,433	3,061	2,932	2,891							
Seven years later		3,389	3,058	2,924								
Eight years later		3,382	3,055									
Nine years later		3,382										
Estimate of net ultimate claims		3,382	3,055	2,924	2,891	2,658	2,467	2,286	1,597	1,574	1,693	
Cumulative payments		(3,347)	(3,015)	(2,899)	(2,842)	(2,598)	(2,346)	(2,079)	(1,257)	(1,182)	(947)	
Net outstanding claims provisions	266	35	40	25	49	60	121	207	340	392	746	2,281
Effect of discounting	(69)	(6)	(11)	2	-	2	-	-	-	-	-	(82)
Present value in the statement of financial position	**197**	**29**	**29**	**27**	**49**	**62**	**121**	**207**	**340**	**392**	**746**	**2,199**

In the loss development tables shown above, the cumulative claim payments and estimates of cumulative claims for each accident year are translated into sterling at the exchange rates that applied at the end of that accident year. The impact of using varying exchange rates is shown at the bottom of each table. Disposals are dealt with by treating all outstanding and IBNR ("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 £62 million at 31 December 2018 *(2017: £53 million)*.

Notes to the financial statements (continued)

(d) Provision for unearned premiums

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

	Note	2018 £m	2017 £m
Carrying amount at 1 January		**2,462**	2,366
Premiums written during the year	3	**5,421**	5,296
Less: Premiums earned during the year		**(5,340)**	(5,210)
Changes in provisions for unearned premiums recognised in income	3	**81**	86
Foreign exchange rate movements		**1**	10
Carrying amount at 31 December		**2,544**	2,462

23. Reinsurance assets

(a) Carrying amounts

The reinsurance assets at 31 December comprised:

	2018 £m	2017 £m
Outstanding claims provisions	**2,687**	2,752
Provision for claims incurred but not reported	**852**	1,063
Provisions for liability adequacy	**8**	7
	3,547	3,822
Provisions for unearned premiums	**1,377**	1,329
Total at 31 December	**4,924**	5,151
Expected to be recovered in less than one year	**1,783**	1,848
Expected to be recovered in greater than one year	**3,141**	3,303
	4,924	5,151

The reinsurers' share of outstanding claims provisions and provisions for claims incurred but not reported is reduced by £621 million *(2017: £627 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 22 (b)). Reinsurance assets are valued net of an allowance for their recoverability.

Notes to the financial statements (continued)

(c) Movements

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

(i) Reinsurers' share of claims provisions

	Note	2018 £m	2017 £m
Carrying amount at 1 January		**3,822**	3,851
Impact of changes in economic assumptions		**(52)**	8
Reinsurers' share of claim losses and expenses incurred in current year		**1,741**	1,657
Reinsurers' share of claim losses and expenses incurred in prior years		**(144)**	12
Reinsurers' share of incurred claim losses and expenses		**1,545**	1,677
Less:			
Reinsurance recoveries received on claims incurred in current year		**(956)**	(875)
Reinsurance recoveries received on claims incurred in prior years		**(876)**	(849)
Reinsurance recoveries received in the year	4	**(1,832)**	(1,724)
Unwind of discount		**8**	7
Change in reinsurance asset recognised as expense		**(279)**	(40)
Foreign exchange rate movements		**4**	11
Carrying amount at 31 December		**3,547**	3,822

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

	Note	2018 £m	2017 £m
Carrying amount as at 1 January		**1,329**	1,274
Premiums ceded to reinsurers in the year	3	**2,871**	2,789
Less: Reinsurers' share of premiums earned during the year		**(2,823)**	(2,739)
Changes in reinsurers' share of provisions for unearned premiums recognised in income	3	**48**	50
Foreign exchange rate movements		**-**	5
Carrying amount at 31 December		**1,377**	1,329

Notes to the financial statements (continued)

24. Tax assets and liabilities

(a) Current tax

	2018 £m	2017 £m
Tax liability		
Expected to be payable in less than one year	**(18)**	-
Expected to be payable in more than one year	**-**	(11)
Tax liability recognised in statement of financial position	**(18)**	(11)

(b) Group relief

The Group relief asset of £189 million *(2017: £295 million)* comprises £7 million expected to be payable in less than one year *(2017: £97 million recoverable)* and £196 million expected to be recoverable in more than one year *(2017: £198 million)*. Further details are included within related party transactions (note 36(a)(vii)).

(c) Deferred tax

(i) The balance at the year end comprises:

	2018 £m	2017 £m
Unused losses and tax credits	**120**	139
Accelerated capital allowances	**3**	4
Temporary differences arising on insurance items	**(12)**	(16)
Provisions and other temporary differences	**(8)**	(9)
Pension and other post retirement obligations	**(4)**	-
Net deferred tax asset at 31 December	**99**	118

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

	Note	2018 £m	2017 £m
Net deferred tax asset at 1 January		**118**	129
Amounts (charged) to income statement	8(a)(i)	**(19)**	(11)
Net deferred tax asset at 31 December		**99**	118

The Company has unrecognised capital losses of £223 million *(2017: £221 million)* and temporary differences in respect of capital allowances of £nil (*2017: £7 million*) to carry forward indefinitely against future taxable income.

Notes to the financial statements (continued)

25. Provisions

(a) Carrying amount

	2018 £m	2017 £m
Restructuring provision	7	9
Other provisions	8	8
Total Provisions	15	17

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

(b) Movements during the year

	2018			2017		
	Restructuring provision £m	Other provisions £m	Total provisions £m	Restructuring provision £m	Other provisions £m	Total provisions £m
At 1 January	9	8	17	7	21	28
Additional provisions	-	-	-	5	-	5
Unused amounts reversed	-	-	-	-	(7)	(7)
Utilised during the year	(2)	-	(2)	(3)	(7)	(10)
Foreign exchange rate movements	-	-	-	-	1	1
Total at 31 December	7	8	15	9	8	17

	2018 £m	2017 £m
Expected to be settled in less than one year	6	9
Expected to be settled in greater than one year	9	8
	15	17

26. Pension obligations

(a) Introduction

The 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 UK, 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 51 of the Aviva plc Annual Report and Accounts 2018.

(b) Charges to the income statement

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

	2018 £m	2017 £m
Defined benefit scheme	70	131
Defined contribution scheme	36	44
Total pension costs	106	175

There were no significant contributions outstanding or prepaid as at either 31 December 2017 or 2018.

Notes to the financial statements (continued)

27. Payables and other financial liabilities

	Note	2018 £m	2017 £m
Payables arising out of direct insurance		**94**	74
Payables arising out of reinsurance		**72**	74
Bank overdrafts	31(b)	**299**	317
Derivative liabilities	34	**151**	185
Obligations for repayment of collateral received		**8**	33
Amounts due to subsidiaries	36(a)(vii)	**126**	181
Amounts due to other Group companies	36(a)(vii)	**3,247**	3,247
Loans due to parent	36(a)(ii)	**276**	283
Other payables		**12**	17
Total at 31 December		**4,285**	4,411
Expected to be settled in less than one year		**1,965**	1,931
Expected to be settled in greater than one year		**2,320**	2,480
		4,285	4,411

28. Other liabilities

	2018 £m	2017 £m
Deferred income	**35**	37
Reinsurers' share of deferred acquisition costs	**278**	279
Accruals	**238**	288
Other liabilities	**214**	227
Total at 31 December	**765**	831
Expected to be settled in less than one year	**765**	831
	765	831

29. Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 22 gives details of the estimation techniques used in determining the general insurance business outstanding claims provisions. These approaches are designed to allow for a degree of prudence, 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.

(b) Asbestos, pollution and social environmental hazards

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 UK. 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. However, on the basis of current information having regard to the level of provisions made for general insurance claims and substantial reinsurance cover now in place, the directors consider that any additional costs arising are not likely to have a material impact on the financial position of the Company.

(c) Regulatory

The FCA and the PRA regulate and authorise the Company's UK business and in addition monitor the financial resources and organisation of the Company as a whole. 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

Notes to the financial statements (continued)

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.

(d) 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 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.

30. 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:

	2018	2017
	£m	£m
Investment property	**-**	19
Other investment vehicles	**40**	59
Total at 31 December	**40**	78

Other investment vehicles include unfunded capital commitments of £40 million to property unit trusts *(2017: £36 million 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 under non-cancellable operating leases are as follows:

	2018	2017
	£m	£m
Within one year	**25**	25
Later than one year and not later than five years	**93**	81
Later than five years	**197**	145
	315	251

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

	2018	2017
	£m	£m
Within one year	**27**	26
Later than one year and not later than five years	**85**	91
Later than five years	**7**	23
	119	140

Notes to the financial statements (continued)

31. Statement of cash flows

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

	Note	2018 £m	2017 £m
Profit for the year before tax		**287**	216
Adjustments for:			
Profit on the sale of Investments	3	**(46)**	(29)
Fair value (gains)/losses on:			
Investment property	3	**(8)**	(12)
Investments	3	**200**	42
Impairment of subsidiaries	4	**46**	55
Amortisation of:			
Premium or discount on debt securities		**21**	28
Intangibles	4	**32**	31
Foreign currency exchange losses		**(1)**	(3)
Change in economic assumptions on net claims reserves		**3**	9
Impairment reversal on loans	3	**(1)**	-
		246	121
Changes in working capital:			
Decrease in reinsurance assets		**187**	-
Increase in deferred acquisition costs and prepayments		**(44)**	(20)
Decrease in insurance liabilities		**(319)**	(5)
(Decrease)/increase in other assets and liabilities		**(145)**	47
		(321)	22
Net purchase of operating assets:			
Purchases of investment property	13	**(48)**	(10)
Disposals/(purchases) of financial investments		**416**	(231)
Disposals of loans		**6**	-
		374	(241)
Cash generated from operating activities		**586**	118

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	2018 £m	2017 £m
Cash at bank and in hand		**70**	110
Cash equivalents		**501**	375
		571	485
Bank overdraft	27	**(299)**	(317)
Total at 31 December		**272**	168

Notes to the financial statements (continued)

32. 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 33) 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 2018, the Company's estimated Solvency II own funds were £2.0 billion *(2017: £2.5 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

	2018	Restated[1] 2017
	£m	£m
Equity shareholders' funds	**2,778**	2,924
Subordinated debt	**276**	283
Total capital	**3,054**	3,207

[1]Prior year comparatives have been restated. Refer to note 1 for further details.

Notes to the financial statements (continued)

33. Risk management

(a) Risk management framework

The Company operates a risk management framework that forms an integral part of the management and Board processes and decision-making framework, aligned to the Group's risk management framework. The 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, and aligned to the Company's risk policies, risks are usually grouped by risk type: credit, market, liquidity, general insurance (including short-term health) and operational risk. Risks falling within these types may affect a number of metrics including those relating to statement of financial position strength, liquidity and profit. They may also affect the performance of the products the Company delivers to its customers and the service to its customers and distributors, which can be categorised as risks to brand and reputation or as conduct risk.

To promote a consistent and rigorous approach to risk management across the business, the Company has a set of 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 makes an annual declaration that the system of governance and internal controls were effective and fit for purpose for the business throughout the year; this declaration is supported by an opinion from the Chief Risk Officer.

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.

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.

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. Risk appetites are set relative to capital and liquidity.

The Company's position against risk appetite is monitored and reported to the Board on a regular basis. Long-term sustainability depends upon the protection of franchise value and good customer relationships. As such, the Company has a risk preference that it will not accept risks that materially impair the reputation of the Company and requires that customers are always treated with integrity. 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 (b) to (g) below.

(b) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to the Company, or variations in market values as a result of changes in expectations related to these risks. Credit risk is taken so that the Company can provide the returns required to satisfy policyholder liabilities and to generate returns to the Company's shareholders. The Company is also exposed to third party credit quality changes through a range of activities including reinsurance and derivatives.

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. The Company's credit risks arise principally through exposures to debt securities, structured asset investments, bank deposits, derivative and securities financing counterparties, insurance and reinsurance counterparties, and Group counterparties to inter-company loans and receivables, and indirectly by guaranteeing the obligations of certain other Group companies.

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.

Notes to the financial statements (continued)

(i) Financial exposures to Group companies

The Company has significant financial exposure to amounts due from fellow Group companies. The credit risk arising from Group counterparties failing to meet all or part of their obligations is considered remote. Due to the nature of the intra-group 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 other than equities 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 for financial assets with external credit ratings. "Not rated" assets capture assets not rated by external ratings agencies. The credit quality of receivables and other financial assets 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 P.

	AAA	AA	A	BBB	BB	Non-rated	Carrying value
As at 31 December 2018	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities	**446**	**1,274**	**455**	**313**	**-**	**-**	**2,488**
Reinsurance assets	**-**	**3,384**	**60**	**-**	**-**	**103**	**3,547**
Derivative assets	**-**	**-**	**-**	**-**	**-**	**82**	**82**
Other investments	**-**	**-**	**-**	**-**	**-**	**702**	**702**

	AAA	AA	A	BBB	BB	Non-rated	Carrying value
As at 31 December 2017	£m	£m	£m	£m	£m	£m	£m
Debt securities	408	1,629	697	476	-	-	3,210
Reinsurance assets[1]	-	3,656	40	1	-	125	3,822
Derivative assets	-	-	-	-	-	101	101
Other investments	-	-	-	-	-	676	676
Loans	-	-	-	-	-	5	5

[1] To provide appropriate comparison, 2017 has been revised to be consistent with the credit rating agency used in 2018.

To facilitate comparison with entities applying IFRS 9 in full (refer to accounting policy A and note 14(c)), the table below analyses the Company's financial instruments, which are considered to have contractual terms that are solely payments of principal and interest ("SPPI") on the principal amount outstanding, by credit rating as at the reporting date :

	AAA	AA	A	BBB	BB	Non-rated	Carrying value
As at 31 December 2018	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Receivables	**-**	**-**	**1,737**	**38**	**5**	**1,542**	**3,322**
Cash and cash equivalents	**-**	**-**	**-**	**-**	**-**	**90**	**90**
Total	**-**	**-**	**1,737**	**38**	**5**	**1,632**	**3,412**

The Company's maximum exposure to credit risk of financial assets, without taking collateral into account, is represented by the carrying value of the financial instruments in the statement of financial position plus financial guarantees given to other Group companies (note 29(d)). These comprise debt securities, reinsurance assets, derivative assets, other investments, receivables and cash and cash equivalents. The carrying values of these assets are disclosed in the relevant notes: financial investments (note 16), reinsurance assets (note 23), receivables (note 17) cash and cash equivalents (note 31(b)). The collateral in place for these credit exposures is disclosed in note 35.

Notes to the financial statements (continued)

(iii) Credit concentration risk

The Company is generally not exposed to significant concentrations of credit risk due to compliance with applicable regulations and the Group credit policy and limits framework, which limit investments in individual assets and asset classes.

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 operates a policy to manage its reinsurance counterparty exposures, by limiting the reinsurers that may be used and applying strict 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.

(iv) Reinsurance credit exposures

The Company's largest intra-group reinsurance counterparty is AIIL as a result of the quota share reinsurance ceded to AIIL. At 31 December 2018, the reinsurance asset recoverable from AIIL, excluding the unearned premium, was £2,181 million *(2017: £2,346 million)*. The credit exposure has been partially mitigated by agreeing to withhold a significant portion of the balance due to AIIL (see note 36(a)(iii)).

The Company's largest external reinsurance counterparty is to the Swiss Reinsurance Company Limited (including its subsidiaries and affiliated companies). At 31 December 2018 the reinsurance asset recoverable (excluding the unearned premium provision) is £719 million *(2017: £764 million)*. This exposure is partially collateralised by a portfolio of highly rated assets held by Swiss Re amounting to £206 million *(2017: £206 million)*.

(v) Securities finance

The Company has significant securities financing operations. The risks within this activity are mitigated by collateralisation (refer note 35) and minimum counterparty credit quality requirements.

(vi) Derivative credit exposures

The Company is exposed to counterparty credit risk through derivative trades. This risk is mitigated through holding collateral for most trades. Residual exposures are captured within the Company's credit management framework.

(vii) Impairment of financial assets

In assessing whether financial assets carried at amortised cost or classified as available for sale are impaired, due consideration is given to the factors outlined in accounting policy (R). The following table provides information regarding the carrying value of financial assets subject to impairment testing that have been impaired and the ageing of those assets that are past due but not impaired.

		Financial assets that are past due but not impaired					
As at 31 December 2018	**Neither past due nor impaired £m**	**0 – 3 months £m**	**3 – 6 months £m**	**6 months – 1 year £m**	**Greater than 1 year £m**	**Financial assets that have been impaired £m**	**Carrying value in the financial statements £m**
Debt securities	**2,488**	-	-	-	-	-	**2,488**
Reinsurance assets	**3,547**	-	-	-	-	-	**3,547**
Derivative assets	**82**	-	-	-	-	-	**82**
Other Investments	**702**	-	-	-	-	-	**702**
Receivables	**3,808**	**7**	**10**	-	-	**55**	**3,880**

		Financial assets that are past due but not impaired					
As at 31 December 2017	Neither past due nor impaired £m	0 – 3 months £m	3 – 6 months £m	6 months – 1 year £m	Greater than 1 year £m	Financial assets that have been impaired £m	Carrying value in the financial statements £m
Debt securities	3,210	-	-	-	-	-	3,210
Reinsurance assets	3,822	-	-	-	-	-	3,822
Derivative assets	101	-	-	-	-	-	101
Other Investments	676	-	-	-	-	-	676
Loans	5	-	-	-	-	-	5
Receivables	3,931	8	12	-	-	29	3,980

Notes to the financial statements (continued)

Receivables and other financial assets include a loan due from the parent of £1,319 million *(2017: £1,369 million)*, loans due from subsidiaries of £477 million *(2017: £490 million)* and group relief of £189 million *(2017: £295 million)*.

(c) Market risk

Market risk is the risk of adverse financial impact resulting directly or indirectly from fluctuations in interest rates, inflation, foreign currency exchange rates and equity and property prices. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held. The Company seeks some market risk as part of its investment strategy. However, it has limited appetite for interest rate risk because it does not believe interest rate risk is adequately rewarded.

The Company manages market risk using its market risk framework and within regulatory constraints. Market risk is managed in line with established Group policy, including established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

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

(i) Equity price risk

The Company is subject to direct equity price risk arising from changes in the market values of its equity securities portfolio.

The Company continues to limit its direct equity exposure in line with its risk preferences. The Company's investment limits and investment regulations require that it holds diversified portfolios of assets thereby reducing exposure to individual equities. The Company does not have material holdings of unquoted equity securities. Equity risk is also managed using a variety of derivative instruments, including futures and options.

Sensitivity of profit before tax and shareholders' equity to changes in equity prices is given in section (g)(ii) 'risk and capital management' below.

(ii) Property price risk

The Company is subject to property price risk directly due to holdings of investment properties in a variety of locations and indirectly through investments in property investment vehicles. Investment in property managed by the Company is subject to regulations on investments, liquidity requirements and the expectations of policyholders.

As at 31 December 2018, no material derivative contracts had been entered into to mitigate the effects of changes in property prices.

Sensitivity of profit before tax and shareholders' equity to changes in property prices is given in section g(ii) 'risk and capital management' below.

(iii) Interest rate risk

Interest rate risk arises primarily from the Company's investments in long term debt and fixed interest securities and their movement relative to the value placed on the insurance liabilities. The Company seeks to match assets to liabilities and uses interest rate derivatives to meet its interest rate appetite.

Sensitivity of profit before tax and shareholders' equity to changes in interest rates is given in section g(ii) 'Risk and capital management' below.

(iv) Inflation risk

Inflation risk arises primarily from the Company's exposure to general insurance claims inflation and expense inflation. Increases in long-term inflation expectations are closely linked to long-term interest rates and so are frequently considered with interest rate risk. Exposure to inflation risk is monitored through capital modelling, sensitivity testing and stress and scenario testing. The Company typically manages inflation risk through asset-liability matching and hedging where appropriate in accordance with approved risk appetite.

(v) Currency risk

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	**EURO**	**CAD$**	**USD**	**Other**	**Total**
As at 31 December 2018	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Total equity	**2,319**	**114**	**389**	**-**	**(44)**	**2,778**

	GBP	EURO	CAD$	USD	Other	Total
As at 31 December 2017[1]	£m	£m	£m	£m	£m	£m
Total equity	2,495	85	372	4	(32)	2,924

[1]Prior year comparatives have been restated. Refer to note 1 for further details.

Notes to the financial statements (continued)

(vi) Derivatives risk

Derivatives are used for efficient investment management, and risk hedging purposes. Derivatives are used within policy guidelines agreed by the Board and activity is overseen by Group Capital and Group Risk, which monitor exposure levels and approve large or complex transactions.

The Company applies strict requirements to the administration and valuation processes it uses, and has a control framework that is consistent with market and industry practice for the activity that is undertaken.

(d) Liquidity risk

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

The Company seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due through the application of a liquidity risk policy and business standard. The Company monitors its position relative to its agreed liquidity risk appetite.

Maturity analyses

The following tables show the maturities of the Company's insurance liabilities, payables and other financial liabilities derivative liabilities, and accruals. Contractual obligations under operating capital commitments are given in note 30.

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

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

	Total	**On demand or within 1 year**	**1-5 years**	**5-15 years**	**Over 15 years**
As at 31 December 2018	**£m**	**£m**	**£m**	**£m**	**£m**
Insurance liabilities	**5,754**	**1,851**	**2,471**	**769**	**663**
Payables and other financial liabilities, excluding derivatives	**4,134**	**1,951**	**1,454**	**209**	**520**
Derivative liabilities	**151**	**14**	**13**	**33**	**91**
Accruals	**238**	**238**	**-**	**-**	**-**
Total insurance and contract liabilities	**10,277**	**4,054**	**3,938**	**1,011**	**1,274**

	Total	On demand or within 1 year	1-5 years	5-15 years	Over 15 years
As at 31 December 2017	£m	£m	£m	£m	£m
Insurance liabilities	6,186	1,963	2,535	910	778
Payables and other financial liabilities, excluding derivatives	4,226	1,926	1,457	278	565
Derivative liabilities	185	5	12	58	110
Accruals	288	288	-	-	-
Total insurance and contract liabilities	10,885	4,182	4,004	1,246	1,453

Notes to the financial statements (continued)

(ii) Analysis of maturity of financial assets and reinsurance assets

The table below provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise. The table also includes the maturity of deposits received from reinsurers that represent the reinsurers' interest in the Company's financial assets / reinsurance assets (excluding reinsurers' share of provision for unearned premium). The Company also has non-financial assets, such as investment property of £380 million *(2017: £324 million)*, for which a maturity analysis has not been provided.

	Total	**On demand or within 1 year**	**1-5 years**	**Over 5 years**	**No fixed term**
As at 31 December 2018	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities	**2,488**	**181**	**609**	**1,698**	**-**
Equity securities	**634**	**-**	**-**	**-**	**634**
Other investments	**702**	**702**	**-**	**-**	**-**
Derivative assets	**82**	**44**	**3**	**35**	**-**
Reinsurance assets	**3,547**	**977**	**1,378**	**1,192**	**-**
Receivables	**3,880**	**1,945**	**389**	**1,546**	**-**
Cash and cash equivalents	**571**	**571**	**-**	**-**	**-**
Total financial assets	**11,904**	**4,420**	**2,379**	**4,471**	**634**

	Total	On demand or within 1 year	1-5 years	Over 5 years	No fixed term
As at 31 December 2017	£m	£m	£m	£m	£m
Debt securities	3,210	193	841	2,176	-
Equity securities	492	-	-	-	492
Other investments	676	676	-	-	-
Derivative assets	101	38	1	62	-
Loans	5	5	-	-	-
Reinsurance assets	3,822	1,054	1,406	1,362	-
Receivables	3,980	1,975	398	1,607	-
Cash and cash equivalents	485	485	-	-	-
Total financial assets	12,771	4,426	2,646	5,207	492

The reinsurance assets above are analysed using the estimated timing of expected cash flows. The other assets are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company.

Notes to the financial statements (continued)

(e) General insurance risk

(i) Types of risk

General insurance risk in the Company arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source or cause;
- Inadequate claims reserving assumptions;
- 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 the Company's 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, related business standards and guidelines. The Company sets its own underwriting strategy, consistent with the Group strategy including agreed risk appetites and tolerances and underwriting authorities. Underwriting strategy is communicated to underwriters, with underwriting licences granted to individual underwriters according to competence and experience.

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

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.

Reserving processes are further detailed in note 22 "Insurance liabilities".

(ii) Management of general insurance risks

The capital model is used to assess the risks that the Company is exposed to, quantifying their impact and calculating appropriate capital requirements.

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.

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

(iii) Reinsurance strategy

Significant reinsurance purchases are reviewed annually 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 analysis of capital, earnings and capital volatility, cash flow and liquidity. Detailed actuarial analysis is used to calculate the Company's extreme risk profile and then design cost and capital efficient reinsurance programmes to mitigate these risks to within agreed appetites. The Company analyses natural catastrophe exposure using its own internal probabilistic catastrophe model which is benchmarked against external catastrophe models widely used by the rest of the insurance and reinsurance industry.

The Company's largest reinsurance arrangements include a retrospective (both new and existing business) 50% quota share reinsurance arrangement with AIIL, 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.

(f) Operational risk

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

The Company's Operational Risk and Control Management Framework integrates the results of the risk identification and assurance activities carried out across the Company's three lines of defence. Operational risks are initially identified and assessed against implemented controls. Residual risks outside tolerance are given prioritised management action to reduce them within tolerance.

Operational risk is quantitatively assessed on the basis of financial loss and misstatement. Potential reputational and conduct impacts are qualitatively assessed. Management use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

(g) Risk and capital management

The Company uses a number of sensitivity-based 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. Primarily, a risk-based capital model and scenario tests are used. Sensitivities to economic and operating experience are regularly produced on financial performance measurements to inform the Company's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which the Company is exposed.

Notes to the financial statements (continued)

(i) General insurance claims liabilities

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.

(ii) Sensitivity results

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%.
Expenses	The impact of an increase in expenses by 10%.
Equity/property market values	The impact of a change in equity/property market values by ± 10%.
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.
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.

Impact on profit before tax	**Interest rates**	**Interest rates**	**Credit spreads**	**Equity & Property**	**Equity & Property**	**Expenses**	**Gross loss ratios**
	+1%	**-1%**	**+0.5%**	**+10%**	**-10%**	**+10%**	**+5%**
As at 31 December 2018	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross of reinsurance	**68**	**(146)**	**(24)**	**113**	**(113)**	**(70)**	**(153)**
Net of reinsurance	**(57)**	**52**	**(12)**	**57**	**(57)**	**(37)**	**(75)**

Impact on shareholders' equity	**Interest rates**	**Interest rates**	**Credit spreads**	**Equity & Property**	**Equity & Property**	**Expenses**	**Gross loss ratios**
	+1%	**-1%**	**+0.5%**	**+10%**	**-10%**	**+10%**	**+5%**
As at 31 December 2018	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross of reinsurance	**68**	**(146)**	**(24)**	**115**	**(115)**	**(70)**	**(153)**
Net of reinsurance	**(57)**	**52**	**(12)**	**59**	**(59)**	**(37)**	**(75)**

Impact on profit before tax	Interest rates	Interest rates	Credit spreads	Equity & Property	Equity & Property	Expenses	Gross loss ratios
	+1%	-1%	+0.5%	+10%	-10%	+10%	+5%
As at 31 December 2017	£m	£m	£m	£m	£m	£m	£m
Gross of reinsurance	45	(117)	(35)	96	(96)	(77)	(161)
Net of reinsurance	(81)	85	(18)	48	(48)	(42)	(77)

Impact on shareholders' equity	Interest rates	Interest rates	Credit spreads	Equity & Property	Equity & Property	Expenses	Gross loss ratios
	+1%	-1%	+0.5%	+10%	-10%	+10%	+5%
As at 31 December 2017	£m	£m	£m	£m	£m	£m	£m
Gross of reinsurance	45	(117)	(35)	99	(99)	(77)	(161)
Net of reinsurance	(81)	85	(18)	51	(51)	(42)	(77)

The sensitivities in the above tables are based on balances included in the 2018 income statement and statement of financial position as at 31 December 2018.

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.

Notes to the financial statements (continued)

Sensitivity to foreign exchange rates

A +/-10% change in Sterling to Canadian Dollar period-end foreign exchange rates would result in a change in total equity in the range of £43 million positive impact (*2017: £41 million restated*) and a £35 million adverse impact (*2017: £34 million restated*) respectively. There were no material sensitivities in the Company's total equity to other foreign exchange rates in 2018 and 2017.

Limitations of sensitivity analysis

The sensitivity analyses do not take into account that the assets and liabilities are actively managed and 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.

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.

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

Other than investments in subsidiaries and associates, 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, changing one or more of the assumptions to reasonably possible alternative assumptions would not significantly change their fair value.

34. 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 market, foreign currency, and/or interest rate risk on existing assets or liabilities, as well as planned or anticipated investment purchases.

In the narrative and 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 International Swaps and Derivatives Association (ISDA) 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 collateral agreements in place with the relevant counterparties. Refer to note 35 "Collateral" for further information on collateral and net credit risk of derivative instruments.

The Company has not adopted hedge accounting for its derivative instruments at 31 December 2018 or 2017.

Notes to the financial statements (continued)

(i) The Company's derivatives at 31 December 2018 and 31 December 2018 were as follows:

	2018 Contract/ notional amount £m	**2018** Fair value asset £m	**2018** Fair value liability £m	2017 Contract/ notional amount £m	2017 Fair value asset £m	2017 Fair value liability £m
Foreign exchange contracts						
OTC						
Forwards	**1,761**	**12**	**(8)**	1,441	28	-
Interest rate contracts						
OTC						
Swaps	**3,192**	**37**	**(78)**	2,529	62	(114)
Exchange traded						
Futures	**208**	**-**	**-**	437	-	(3)
Equity/Index contracts						
OTC						
Options	**507**	**32**	**(8)**	377	10	(2)
Inflation linked contracts						
OTC						
Swaps	**486**	**1**	**(57)**	573	1	(66)
Total at 31 December	**6,154**	**82**	**(151)**	5,357	101	(185)

Fair value assets of £82 million *(2017: £101 million)* are recognised as 'Derivative financial instruments' in note 16 "Financial investments", while fair value liabilities of £151 million *(2017: £185 million)* are recognised as 'Derivative liabilities' in note 27 "Payables and other financial liabilities".

The Company's derivative risk management policies are outlined in note 33 "Risk management".

(ii) The contractual undiscounted cash flows in relation to non-hedge derivative liabilities have the following maturities:

	2018 £m	2017 £m
Within 1 year	**20**	16
1-5 years	**45**	54
5-15 years	**58**	75
Over 15 years	**56**	73
Total	**179**	218

Collateral

Certain derivative contracts, primarily interest rate and currency swaps, involve the receipt or pledging of cash and non-cash collateral. The amounts of cash collateral receivable or repayable are included in notes 17 "Receivables" and note 27 "Payables and other financial liabilities" respectively.

Notes to the financial statements (continued)

35. Collateral

The Company mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements to facilitate the Company's right to offset credit risk exposure. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by the Company or its counterparty.

Derivative transactions requiring the Company or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. These transactions are conducted under terms that are usual and customary to standard long-term borrowing, derivative, securities lending and securities borrowing activities.

The Company participates in a number of stock lending and repurchase arrangements. In instances where the collateral is recognised on the statement of financial position, the obligation for its return is included within note 27 "Payables and other financial liabilities".

In other arrangements, securities are exchanged for other securities. The collateral received 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. In many instances, however, no market risk or economic benefit is exchanged and these transactions are not recognised on the statement of financial position in accordance with our accounting policies. If risks and benefits are exchanged then the transactions are recognised on the statement of financial position.

The carrying amount of financial assets pledged for stock lending at 31 December 2018 was £768 million *(2017: £930 million)*. The carrying amount of financial assets collateral received in this manner at 31 December 2018 was £821 million *(2017: £987 million)*.

The total amount of collateral received which the Company is permitted to sell or re-pledge in the absence of default was £712 million *(2017: £886 million)*. Collateral of £8 million *(2017: £33 million)* has been received related to balances recognised within "Payables and other financial liabilities" in note 27.

The level of collateral held is monitored regularly, with further collateral obtained where this is considered necessary to manage the Company's risk exposure.

36. 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) Loans receivable

Aviva Group Holdings Limited ("AGH") loan

As part of the restructuring in 2013, a loan facility of £5.8 billion was put in place with 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.

The loan accrues interest at 12-month LIBOR plus a credit margin. The credit margin is reset every 5 years and was reset on 31 December 2017. From 1 January 2018 the credit margin was 240 basis points. This follows a fair value assessment of the credit risk of Aviva Group Holdings Limited and the terms and conditions of the loan agreement. The next reset of the credit margin is due 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 £50 million to £1,319 million at 31 December 2018 *(£1,369 million at 31 December 2017)*. The reduction was settled via an annual repayment in cash of £50 million.

Notes to the financial statements (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 £201 million *(2017: £207 million)*, accrues interest at 330 basis points above the six-month 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 £276 million *(2017: £283 million)*, accrues interest at 529 basis points above the six month Canadian Dealer Offered Rate and matures in 2046.

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

	2018	2017
	£m	£m
Within 1 year	**50**	50
1-5 years	**200**	200
5-15 years	**500**	500
Over 15 years	**1,046**	1,109
Total	**1,796**	1,859
Effective interest rate	**4.2%**	4.6%

(ii) Loans payable

Loan due to parent

In June 2016, the Company entered into a subordinated unsecured loan from AGH of CAD 480 million. The loan, with a carrying balance of £276 million *(2017: £283 million)*, accrues interest at 474 basis points above the Canadian Dealer Offered Rate and matures in 2046.

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

	2018	2017
	£m	£m
Over 15 years	**276**	283
Total	**276**	283
Effective interest rate	**6.6%**	5.9%

(iii) Quota share arrangement - Aviva International Insurance Limited

The Company has a retrospective (both new and existing business) outwards 50% quota share reinsurance arrangement with AIIL covering the insurance business underwritten by the Company.

Under the terms of the reinsurance arrangement, the Company withheld the majority of the payment due to AIIL. The balance outstanding at 31 December 2018 was £3,165 million *(2017: £3,237 million)* and is included within "Amounts due to other Aviva Group companies" in note 27. 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)

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

	2018 £m	2017 £m
Premiums ceded to reinsurers	**(2,550)**	(2,507)
Net earned premiums	**(2,517)**	(2,470)
Fee and commission income ceded	**(28)**	(26)
Net investment income ceded	**30**	(22)
Reinsurance claims paid	**1,670**	1,572
Change in reinsurance assets	**(75)**	(23)
Ceded fee and commission expenses	**657**	679
Other expenses ceded	**107**	225
Net result ceded	**(156)**	(65)

As at 31 December 2018, the balances in the statement of financial position relating to this arrangement are:

	2018 £m	2017 £m
Reinsurance asset	**3,347**	3,477
Amounts due to other Group companies	**(3,165)**	(3,237)

(iv) 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:

	2018 £m	2017 £m
Premiums earned	**125**	140
Claims incurred	**(66)**	(59)
Fee and commission expenses and operating expenses	**(56)**	(73)
Net result ceded	**3**	8

As at 31 December 2018, the balances in the statement of financial position relating to this arrangement are:

	2018 £m	2017 £m
Insurance liabilities	**(98)**	(103)
Receivables arising out of reinsurance accepted	**75**	80
Deferred acquisition costs relating to reinsurance	**22**	22

(v) Adverse reserve deterioration agreement - The Ocean Marine Insurance Company Limited

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.

Notes to the financial statements (continued)

(vi) Retrocession reinsurance arrangement – Aviva Life & Pensions Limited

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 & 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 under the arrangement are:

	2018 £m	2017 £m
Reinsurance share of claims incurred	**(66)**	154
Net result ceded	**(66)**	154

As at 31 December 2018, the balances in the statement of financial position relating to this arrangement are:

	2018 £m	2017 £m
Reinsurance asset (including unearned premium provision)	**490**	556

(vii) Other transactions

Dividend income and net interest payments from transactions with related parties and services provided to and by related parties

	2018				2017			
	Income earned in the year £m	**Expenses incurred £m**	**Payable at year end £m**	**Receivable at year end £m**	Income earned in the year £m	Expenses incurred £m	Payable at year end £m	Receivable at year end £m
Parent	**28**	**-**	**-**	**60**	44	-	-	72
Subsidiaries	**137**	**65**	**126**	**133**	150	100	181	159
Associates	**-**	**21**	**-**	**3**	-	59	-	-
Fellow subsidiaries	**34**	**758**	**3,247**	**68**	(22)	710	3,247	78
	199	**844**	**3,373**	**264**	172	869	3,428	309

Income earned from the Company's immediate parent of £28 million *(2017: £44 million)* relates to net interest on the loan receivable and the loan payable described in note 36(a)(i).

Income earned from subsidiaries of £137 million *(2017: £150 million)* relates to dividends received of £107 million *(2017: £122 million)* and interest on the ACI loans receivable described in note 36(a)(i). Income earned in the year from fellow subsidiaries includes net interest received of £30 million *(2017: net interest charged by fellow subsidiaries of £22 million)* relating to interest on the balance due under the quota share reinsurance arrangement with AIIL described in note 33(a)(iii).

Services provided to the Company include £6 million *(2017: £8 million)* intercompany management fees payable to fellow subsidiaries of the Group.

Expenses incurred include £360 million *(2017: £392 million)* relating to staff and pension costs incurred by Aviva Employment Services Limited and Aviva Group Services Ireland Limited, including the pension costs detailed in note 26. The staff and pensions costs incurred by Aviva Employment Services Limited were recharged to the Company via Aviva Central Services UK Limited. The staff and pensions costs incurred by Aviva Group Services Ireland Limited were recharged directly to the Company.

Expenses incurred also include £248 million *(2017: £272 million)* relating to facilities and other service charges from Aviva Central Services UK Limited and £21 million *(2017: £59 million)* of commission payments that were made to Aviva UK Digital Limited, an insurance intermediary and associate of the Company, for the distribution of the Company's direct-to-customer service offering.

Aviva UK Digital Limited is a centralised hub for digital expertise and incurred £99 million *(2017: £48 million)* of net expenses associated with the development of the digital business on behalf of the Company that were retained by the Digital business.

Expenses incurred also include other expenses of £209 million *(2017: £135 million)* which largely relate to claims and other operating costs recharged from subsidiaries, associates and fellow subsidiaries, offset by expenses recharged to subsidiaries.

Directors and 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 2018 and 2017, other transactions with directors and key management personnel were not deemed to be significant either by size or in the context of their individual positions.

The net balance with Group companies for settlement of corporation tax assets and liabilities by group relief is disclosed in note 24. The movement relates to payments received and updated group taxation positions.

Notes to the financial statements (continued)

Interim ordinary dividends totalling £392 million on the Company's ordinary shares were declared and settled in February 2018 *(2017: £214 million)* of which £334 million was settled in cash and £58 million was set-off against accrued interest on the Company's loan to AGH.

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

(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:

	2018	2017
	£m	£m
Short-term employee benefits	**10**	10
Post-employment benefits	**-**	1
	10	11

(c) Parent entity

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

(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.

37. Related undertakings

The Company's Act 2006 requires disclosure of certain information about the Company's related undertakings which is set out in this note. Related undertakings comprise subsidiaries and associates.

The Company's related undertakings along with the country of incorporation, the registered address, the class of shares held and the effective percentage of equity owned at 31 December 2018 are listed below.

The direct related undertakings of the Company as at 31 December 2018 are listed below:

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

Notes to the financial statements (continued)

Scottish & York Insurance Co. Limited	Canada	10 Aviva Way, Suit 100, Markham, On L6G 0G1	Common Shares	100%
Traders General Insurance Company	Canada	10 Aviva Way, Suit 100, Markham, On L6G 0G1	Common Shares	100%
Wayfarer Insurance Brokers Limited	Canada	10 Aviva Way, Suit 100, Markham, On L6G 0G1	Common Shares	100%
A-Win Insurance Ltd.	Canada	100, 10325 Bonaventure Drive S.E., Calgary T2J 7E4	Ordinary Shares	100%
Bay-Mill Specialty Insurance Adjusters Inc.	Canada	328 Mill Street, Unit 11, Beaverton L0K 1A0	Common Shares	100%
Aviva Agency Services Inc.	Canada	555 Chabanel Ouest, Bureau 900, Montreal QC H2N 2H8	Common A Shares	100%
Westmount Guarantee Services Inc.	Canada	600 Cochrane Drive, Suite 205, Markham On L3R 5K3	Common A Shares	5%
Prolink Insurance Inc	Canada	480 University Avenue, Suite 800, Toronto On M5G 1V2	Common A Shares	34%
Aviva Direct Ireland Limited	Ireland	One Park Place, Hatch Street, Dublin 2	Ordinary Shares	100%
Aviva Driving School Ireland Limited	Ireland	One Park Place, Hatch Street, Dublin 2	Ordinary Shares	100%
Aviva Insurance Ireland Designated Activity Company	Ireland	One Park Place, Hatch Street, Dublin 2	Ordinary Shares	100%
Aviva Investors Continental European Long Lease Strategy Fund	Luxembourg	2 rue du Fort Bourbon, L-1249, Luxembourg	SCSp	44%
Aviva Credit Services UK Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	100%
Aviva Insurance Services UK Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	100%
Aviva UK Digital Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	28%
LUC Holdings Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	20%
The Ocean Marine Insurance Company Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	100%
The Welsh Insurance Corporation Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary Shares	100%
Aviva Consumer Products UK Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Aviva Health UK Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Aviva Insurance UK Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Aviva UKGI Investments Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Gresham Insurance Company Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
London and Edinburgh Insurance Company Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Solus (London) Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Synergy Sunrise (Broadlands) Limited	United Kingdom	8 Surrey Street, Norwich, Norfolk, NR1 3NG	Ordinary Shares	100%
Polaris U.K. Limited	United Kingdom	4th Floor, New London House, 6 London Street, London, EC3R 7LP	Ordinary Shares	39%

Notes to the financial statements (continued)

The indirect related undertakings of the Company as at 31 December 2018 are listed below:

Company name	Share class	% held
Ballard Investment Company Limited	Ordinary Shares	25%
Health & Case Management Limited	Ordinary Shares, Preference Shares	25%
Healthcare Purchasing Alliance Limited	Ordinary Shares	50%
Healthcode Limited	Ordinary Shares	20%
IQUO Limited	Ordinary A Shares	67%

38. Subsequent events

In December 2018, the directors declared interim dividends of £359 million which were paid in February 2019. Of these interim dividends, £317 million was settled in cash and £42 million was set-off against accrued interest due on the Company's loan to AGH.

On 1 February 2019, an insurance portfolio transfer of a subset of the Company's business, under Part VII of the Financial Services and Markets Act 2000, was made to the Company's subsidiary AIIDAC, which is incorporated in Ireland. Gross insurance liabilities of £1,028 million underpinned by £1,028 million of assets, comprising premium under a quota share arrangement and other investments, were transferred to AIIDAC under this arrangement.

On 1 February 2019, following the Part VII transfer, the Company entered into a quota share reinsurance agreement with AIIDAC as follows:

- 85% quota share arrangement in respect of the transferred Ireland branch risks that are situated in the European Economic Area (excluding the UK) and European mobile device insurance business; and
- 100% quota share arrangement covering all other transferred business.

On 1 February 2019 the Company made a capital contribution of £38 million to AIIDAC, in part consideration for which it received ordinary shares with a nominal value of £13 million issued by AIIDAC to the Company.

In February 2019, the Company made a further investment of £25 million in Aviva UK Digital Limited increasing the Company's cost of investment from £110 million to £135 million.

In April 2019, The Ocean Marine Insurance Company Limited, a subsidiary company, declared interim dividends of £25 million payable to the Company in cash.