Aviva Wrap UK Limited

Registered in England and Wales No. 4470008

Annual Report and Financial Statements 2019

Contents

Directors and officer

Directors

C J Esson (non-executive director)
M J Hogg
S R Marsden
M R McGill
L C Rix
S E Robinson
S P Trickett (non-executive director)

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

Aviva
Wellington Row
York
YO90 1WR

Company number

Registered in England and Wales no. 4470008

Other information

Aviva Wrap UK Limited ("the Company") is covered by the Financial Ombudsman Service and is authorised and regulated by the Financial Conduct Authority ("FCA")

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

Strategic report

The directors present their strategic report for the Company for the year ended 31 December 2019.

Review of the Company's business

Principal activities

The principal activity of the Company is the sale of units in authorised unit trusts, shares in open ended investment company (OEICs) sub-funds, and the administration of Individual Savings Accounts in the United Kingdom.

The Company is regulated by the Financial Conduct Authority (FCA) to carry on activities as an Investment Management Firm.

The Company offers both ISA's and investment accounts, distributed through two platforms, the Advisor Platform, which provides platform technology to Independent Financial Advisers (IFA's) and the Aviva Online Investment Service, which is a direct to consumer platform. The technology for both the advised platform and Aviva Online Investment Service is provided by FNZ (UK) Limited (FNZ).

Products on the Aviva Online Investment Service platform, which includes products written by the Company, are distributed through Aviva UK Digital Limited (UKD). In addition, 'Aviva Financial Advice' (AFA) which launched in November 2016, provides both pension accumulation and decumulation advice to existing customers. This service supports business growth across a number of Aviva products, including those written by the Company.

Financial position and performance

The financial position of the Company at 31 December 2019 is shown in the statement of financial position on page 17, with the results shown in the income statement on page 15 and the statement of cash flows on page 18.

Revenue for the year has increased to £18.4 million *(2018: £16.5 million)*. This is principally due to the large increase in assets under administration (AUA), which increased from £6,993 million to £8,786 million during the year. Total equity has increased by £66.9 million *(2018: £2.1 million)*, reflecting the share capital injections of £65.0 million plus profit for the year.

New business sales in 2019 for Wrap business are 6% higher than the previous year at £1,200 million *(2018: £1,600 million)* of PVNBP (present value of new business premiums). Transfer out rates remained stable throughout the year. Overall the markets increased by 12% in 2019 (as measured by the movement in the FTSE100), which has had a positive impact on AMC (annual management charge) income.

Profit after tax for the year is £1.9 million *(2018: £22.9 million loss)*, the movement being due to higher revenue driven by higher AUA and decreased expenses following increased costs in the prior year as a result of the Adviser Platform migration from Genpact to FNZ. Acquisition costs have been deferred for the first time in the year.

Major events

During 2019, the company became a significant IFPRU firm as a result of Assets Under Administration reaching the required threshold, and the subsequent establishment of an independent risk committee with a membership made up solely of non-executive directors.

Section s.172 statement

The Directors report here how they have discharged their duties under Section 172 (1) of the Companies Act 2006 and during 2019.

The Board is responsible for monitoring and upholding the culture, values, standards, ethics, and reputation of the Company to ensure that its obligations to its shareholder and to its stakeholders are met. The Board monitors adherence to the Aviva Group business standards and compliance with the Aviva Governance Framework. The Company, as a wholly owned subsidiary of Aviva plc Group, is managed as part of it's UK Life business.

For each matter which comes before the Board, stakeholders who may be affected are identified and their interests are carefully considered as part of the Board's decision-making process.

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

The Company's culture

As the provider of vital financial services to many customers, the Company seeks to earn customers' trust by acting with integrity and responsibility at all times. The Company looks to build relationships with all stakeholders based on openness and continuing dialogue.

The Company's culture is shaped by clearly defined values to help ensure it operates appropriately and does the right thing. The Company values diversity and inclusivity in our workforce and beyond. The commitment we make to each customer extends to all our stakeholders; that we are 'with you today, for a better tomorrow.' Throughout the Company's business, the Board is proud of the Company's people who live by Aviva's core value of 'Care More' for our customers, for each other and for the communities they serve.

Key strategic decisions in 2019

Following the split of the UKI business into separate UK Life and Pensions and General Insurance businesses, and the appointment of Angela Darlington as the UK Life CEO, and the appointment of Lindsey Rix as the UK Savings and Retirement CEO, the Board has aligned its strategic focus with that of Aviva Group, to develop Savings and Retirement as a core growth opportunity for the Life business, supporting customers to save for the future, navigate their retirement and to protect what's most important to them.

Strategic report (continued)

Stakeholder Engagement

(i) Employees

The Company has no employees. The majority of staff engaged in the activities of the Company are employed by fellow subsidiary undertakings of Aviva plc. As part of the Aviva Group, these staff enjoy the benefit of the Aviva Group policies and benefits made available to them.

Aviva Group engagement mechanisms include employee forums, internal communication channels, and informal meetings with Directors and employee engagement surveys.

A comprehensive global employee engagement survey is carried out each year, and the results are considered by the Board in the context of culture, values and behaviours and actions to continually improve the scores are discussed and agreed.

Aviva employees share in the business' success as shareholders through membership of the Group's global share plans.

(ii) Customers

During 2019, the Board, in conjunction with Aviva plc, has renewed its focus on Aviva as a trusted long-term partner for our customers helping them to save for the future, navigate retirement and protect where it matters most.

The Board closely monitors customer metrics and engages with the leadership team to understand the issues if business performance does not meet customers' expectations.

The Board continues to monitor and review developments concerning changes to our IT platforms which will allow us to simplify and support service delivery to our customers.

The Board receives reporting on strategic initiatives throughout the year, undertaking deep dives into areas that impact the customer in order to re-align strategy where applicable.

The Board regularly receives input to enable it to closely monitor customer metrics, and subsequently engage with the senior leaders to address any issues that may arise from customer complaints, feedback and our approach to Treating the Customer Fairly.

The Board works to ensure that we deliver fair value to our customers, and is currently reviewing a number of product governance issues and making redress to affected customer where appropriate.

(iii) Suppliers

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

The Board reviews the actions the Company has taken to prevent modern slavery and associated practices in any part of our supply chain and approves Aviva's Modern Slavery Act statement each year.

In the UK, the ultimate parent Aviva plc is a signatory of the Prompt Payment Code which sets standards for high payment practices. Aviva is a Living Wage employer in the UK, and supplier contracts include a commitment to paying eligible employees not less than the Living Wage in respect of work provided to Aviva at our premises in the UK.

The Company's directors are closely involved in the management of the most critical or important suppliers and the Board regularly reviews reports on their performance. During the year, Aviva successfully progressed a UK migration to a new data centre infrastructure provider, including partial migration to the Cloud.

(iv) Communities

Aviva runs a health and wellbeing proposition for UK employees, Wellbeing@Aviva, providing products, improved policies and better support to enhance employees mental, physical, community & financial welling. This has led to Aviva's people creating of a number of internal communities to enable colleagues connect over activities they are passionate about.

The UK Life business supports a number of local issues, including the charity 'York Cares' which pursues any charitable purpose for the benefit of the people for the City of York. Aviva received an award recently from York Cares at the annual recognition event for the social connection work by Aviva staff with the dementia ward at York hospital.

Aviva Group actively encourages and supports colleagues to volunteer in their communities to make a positive impact and help build stronger communities.

(v) Shareholders

The Company's ultimate shareholder is Aviva plc and it's immediate shareholder is Aviva Life Holdings UK Limited (UKLH). Any matters requiring escalation are escalated by the Board through the Chairman to its parent. Additionally, members of the Aviva plc board can attend board meetings by invitation.

(vi) Regulators

During early 2019, a review of the UK operating model concluded that the most effective structure was to split the UK Insurance business to a UK Life and Pensions business, and a General Insurance business. The Financial Conduct Authority (FCA) was engaged throughout the decision making process and as the organisation design was implemented.

Strategic report (continued)

Future outlook

Strategies for the Group as a whole are determined by the Board of Aviva plc and these are shown in the Group 2019 Annual Report and Accounts. The Company will work with the Group to support the implementation of these strategies.

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 directors continue to believe that the Aviva Platform business has a viable future, driven by significant growth in AUA, and the executive management team of the Aviva UK Life sub-group are investing significantly to back this success.

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. The spread of COVID-19 has resulted in an economic downturn in the UK as well as causing increased volatility and declines in financial markets. If the pandemic is prolonged, or further diseases emerge that give rise to similar effects, the adverse impact on the UK economy could be deepened and result in further declines in financial markets.

Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained, IT systems remaining operational, and employees including frontline customer facing staff being supported to ensure that that we were there to support our customers when they need us most. As the situation is rapidly evolving it is not practicable to quantify the potential impact of volatile financial markets on expected earnings or the Company at this stage. The company continues to maintain strong solvency levels and expects to continue to meet its capital requirements.

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 19 to the financial statements.

The major risk facing the business is operational risk, which is in line with FCA expectations for investment businesses which hold assets in a fiduciary capacity and off balance sheet.

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

Management are responsible for the identification, measurement, management and monitoring of operational risks and for reporting these in accordance with the Group's escalation criteria in terms of their probability and impact in accordance with Group policy.

A description of the risks and uncertainties facing the Company and its risk management policies are set out in note 19 to the financial statements.

Key performance indicators

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

Measure	2019 £'000	2018 £'000
Financial Performance Metrics		
Revenue	**18,370**	16,473
Profit/(loss) before tax	**1,948**	(22,876)
Operating expenses	**(16,204)**	(44,582)
Return on Assets	**2.2%**	(41.6)%
Average assets under administration	**£7,890 million**	£6,792 million

By order of the Board on 24 April 2020

Aviva Company Secretarial Services Limited
Company Secretary

Directors' report

The directors submit their annual report and the audited financial statements for the Company for the year ended 31 December 2019.

Directors

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

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

T R Orton	Resigned 7 January 2019
W E Burnside	Resigned 15 March 2019
L C Rix	Appointed 11 June 2019
M J Hogg	Appointed 19 July 2019
C J Esson (non-executive director)	Appointed 25 November 2019
P C P Tiernan	Resigned 20 January 2020
S P Trickett (non-executive director)	Appointed 20 January 2020
L C Rix	Resigned 30 March 2020
S R Marsden	Appointed 31 March 2020
L C Rix	Appointed 1 April 2020

Company Secretary

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

Dividends

The directors do not recommend a dividend on the Company's ordinary shares for the year ended 31 December 2019 *(2018: £nil)*.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report, which includes a section describing the principal risks and uncertainties. In addition, the financial statements include notes on: the Company's borrowings (note 15) management of its risks including market, credit and liquidity risk (note 19).

As a result of the former loss making position of the Company, it has been dependent on continuing finance being made available by its parent entity, Aviva Life Holdings UK Limited (UKLH), to enable it to meet its regulatory solvency requirements. This support has been further extended for a period of 12 months from the board date. At 31 December 2019, the Company has sufficient cash available to cover its current liabilities.

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.

Future outlook

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

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 (AES). Disclosures relating to employees may be found in the annual report and financial statements of this company. The Company is recharged with the costs of the staff provided by AES.

Disclosure of information to the auditors

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

Independent auditors

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

Directors' report (continued)

Qualifying indemnity provisions

In 2004, Aviva plc, the Company's ultimate parent, granted 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 section 309A to section 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the directors' report by virtue of paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

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

Statement of directors' responsibilities

The directors are responsible for preparing the 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 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 24 April 2020

Aviva Company Secretarial Services Limited
Company Secretary

Independent auditors' report to the members of Aviva Wrap UK Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements 2019 (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the income statement, the statement of changes in equity, the statement of cash flows for the year then ended; the Accounting policies; and the notes to the financial statements.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

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

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.

Sean Forster (Senior Statutory Auditor)
for and on behalf of Pricewaterhousecoopers LLP
Chartered Accountants and Statutory Auditors
London
24 April 2020

Accounting policies

The Company, a limited company incorporated and domiciled in the United Kingdom (UK), carries on the business of sale of units in authorised unit trusts, shares in open ended investment company (OEICs) sub-funds, and the management of Individual Savings Accounts in the UK. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with International 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.

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

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

As permitted under IAS 27 and under Section 400 of the Companies Act 2006, the Company has elected not to present consolidated financial statements. These financial statements present information about the Company as an individual undertaking and not about its group. Information on the ultimate controlling parent and immediate parent can be found in note 20.

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 2019:

(i) IFRS 16 Leases

In January 2016, the IASB published IFRS 16 Leases. This standard replaces IAS 17 Leases and applies to annual reporting periods beginning on or after 1 January 2019. The standard has been endorsed by the EU. IFRS 16 has introduced a definition of a lease with a single lessee accounting model, eliminating the previous classification of either operating or finance leases. Lessees are required to recognise lease assets and liabilities on the statement of financial position for all leases, with the exception of short-term and low-value leases. Lessor accounting remains similar to the previous approach set out in IAS 17. The adoption of IFRS 16 is not expected to have a significant impact on the Company. The adoption of IFRS 16 is not expected to have a significant impact on the Company.

The following amendments to existing standards and IFRIC interpretations have been issued and endorsed by the EU, are effective from 1 January 2019 or earlier, and do not have a significant impact on the Company's financial statements.

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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.

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 are not expected to have a significant impact on the Company's financial statements:

(i) IFRS 17, Insurance Contracts

In May 2017, the IASB published IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 that was issued in 2005. IFRS 17 applies to all types of insurance contracts as well as to certain guarantees and financial instruments with discretionary participation features. In contrast to the requirements in IFRS 4, which are largely based on grandfathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to insurance contracts. The core of IFRS 17 is the general model, supplemented by a specific adaption for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts.

Accounting policies (continued)

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 at each reporting period (the fulfilment cash flows); a contractual service margin 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 adoption of IFRS 17 is not expected to have a significant impact on the Company's financial statements. It is expected that the standard will apply to annual reporting periods beginning on or after 1 January 2022 and this standard has not yet been endorsed by the EU.

(ii) 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 were endorsed by the EU on 29 November 2019.

(iii) Amendment to IFRS 3 Business Combinations

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.

(iv) Amendment to 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 were endorsed by the EU on 29 November 2019.

(v) Interest Rate Benchmark Reform

Published by the IASB in October 2019. The amendments are effective for annual reporting beginning on or after 1 January 2020 and were endorsed by the EU on 15 January 2020.

(vi) Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

Published by the IASB in January 2020. The amendments are effective for annual reporting beginning on or after 1 January 2022 and have not yet been endorsed by the EU.

(B) Critical accounting policies and 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 Company does not have any accounting policies that are considered to have a significant impact on the financial statements.

Use of estimates

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

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

Item	Accounting policy	Note
Expected credit losses	E	8
Provisions	H	14
Deferred acquisition costs	F	9

(C) Revenue and interest receivable

Revenue represents annual management charges on all contributions into the investor accounts and is recognised when earned. Interest receivable is accounted for on an accruals basis.

Accounting policies (continued)

(D) Subsidiaries

Subsidiaries are those entities (including special purpose 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.

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.

Dividends from subsidiaries are recognised when declared and approved

(E) Receivables and payables

The classification and measurement of financial assets, including receivables, is driven by an assessment of the Company's business model for managing financial assets, and the extent to which the financial assets' contractual cash flows are solely payment of principal and interest. Based on the outcome of this assessment, receivables are initially recognised at the transaction price, with subsequent measurement being at amortised cost.

The Company calculates expected credit losses for all financial assets held at either amortised cost or fair value through other comprehensive income. Expected credit losses are generally calculated on either a 12-month or lifetime basis depending on the extent to which credit risk has increased significantly since initial recognition. The Company makes use of a simplified approach for trade receivables such that expected credit losses are always calculated on a lifetime basis.

Payables are initially recognised at their fair value, with subsequent measurement being at amortised cost.

(F) Deferred acquisition costs

Costs relating to the acquisition of new business for insurance and participating investment contracts are deferred in line with existing local accounting practices, to the extent that they are expected to be recovered out of future margins in revenues on these contracts.

For non-participating investment and investment fund management contracts, incremental acquisition costs and sales enhancements that are directly attributable to securing an investment management service are deferred.

Deferred acquisition costs for non-participating investment and investment fund management contracts are amortised over the period in which the service is provided.

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.

(G) Statement of cash flows

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

(H) Provisions

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. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(I) Income taxes

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

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

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

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

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

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

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

Accounting policies (continued)

(J) Borrowings

Borrowings from group undertakings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. All borrowing costs are expensed as they are incurred.

(K) Share capital

Equity instruments

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

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

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

Income statement
For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Income			
Revenue	C	**18,370**	16,473
Interest Receivable and similar income	C	**—**	24
		18,370	16,497
Expenses			
Operating expenses	1	**(16,204)**	(44,582)
Interest expense	2	**(218)**	(157)
		(16,422)	(44,739)
Profit/(loss) before tax		**1,948**	(28,242)
Tax credit	I & 6	**—**	5,366
Profit/(loss) for the year		**1,948**	(22,876)

The Company has no other comprehensive income *(2018: nil).*

The accounting policies (identified alphabetically) on pages 11 to 14 and notes (identified numerically) on pages 19 to 27 are an integral part of the financial statements.

Statement of changes in equity

For the year ended 31 December 2019

				2019
		Ordinary share capital	Accumulated losses	Total equity
	Note	£'000	£'000	£'000
Balance at 1 January		**104,500**	**(87,669)**	**16,831**
Profit for the year	12	**—**	**1,948**	**1,948**
Transactions with owners in their capacity as owners:				
Issue of share capital	11	**65,000**	**—**	**65,000**
Balance at 31 December		**169,500**	**(85,721)**	**83,779**

				2018
		Ordinary share capital	Accumulated losses	Total equity
	Note	£'000	£'000	£'000
Balance at 1 January		79,500	(64,793)	14,707
Loss for the year	12	—	(22,876)	(22,876)
Transactions with owners in their capacity as owners:				
Issue of share capital	11	25,000	—	25,000
Balance at 31 December		104,500	(87,669)	16,831

The accounting policies (identified alphabetically) on pages 11 to 14 and notes (identified numerically) on pages 19 to 27 are an integral part of the financial statements.

Statement of financial position

As at 31 December 2019

	Note	2019 £'000	2018 £'000
Assets			
Tax assets	I & 13	**5,366**	5,366
Receivables	E & 8	**7,415**	17,726
Deferred acquisition costs	F & 9	**6,527**	—
Prepayments and accrued income	E & 10	**789**	686
Cash and cash equivalents	G & 17	**70,319**	31,223
Total assets		**90,416**	55,001
Equity			
Ordinary share capital	K & 11	**169,500**	104,500
Accumulated losses	12	**(85,721)**	(87,669)
Total equity		**83,779**	16,831
Liabilities			
Provisions	H & 14	**5,432**	10,696
Borrowings from group undertakings	J & 15	**—**	20,000
Payables and other financial liabilities	E & 16	**1,205**	7,474
Total liabilities		**6,637**	38,170
Total equity and liabilities		**90,416**	55,001

The financial statements were approved by the Board of Directors on 24 April 2020 and signed on its behalf by

S E Robinson

Director

The accounting policies (identified alphabetically) on pages 11 to 14 and notes (identified numerically) on pages 19 to 27 are an integral part of the financial statements.

Statement of cash flows

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flows used in operating activities			
Cash used in operating activities	17a	**(5,904)**	(32,038)
Total net cash used in operating activities		**(5,904)**	(32,038)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	11	**65,000**	25,000
(Decrease)/increase in borrowings	15	**(20,000)**	20,000
Total net cash from financing activities		**45,000**	45,000
Total net increase in cash and cash equivalents		**39,096**	12,962
Cash and cash equivalents at 1 January		**31,223**	18,261
Cash and cash equivalents at 31 December	17b	**70,319**	31,223

The accounting policies (identified alphabetically) on pages 11 to 14 and notes (identified numerically) on pages 19 to 27 are an integral part of the financial statements.

Notes to the financial statements

1. Operating expenses

Under a management agreement, Aviva Life Services UK Limited (UKLS) supplies and makes charges for the provision of operational assets and services to the Company. The agreement specifies the amounts payable to UKLS in respect of these expenses, which are included within operating expenses. The amount of this recharge is £23,604,000 *(2018: £36,199,000)*.

	2019 £'000	2018 £'000
UKLS recharges (operating)	**23,604**	36,199
Deferral of acquisition costs	**(6,527)**	–
Other operating (income)/expenses	**(873)**	8,383
Total operating expenses	**16,204**	44,582

The other operating expenses credit balance in 2019 is due to provision releases in the year.

2. Interest expense

	2019 £'000	2018 £'000
Interest payable to group undertakings	**218**	157
Total interest expense	**218**	157

3. Employee information

The Company has no employees *(2018: nil)*. All employees are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited (AES). Disclosures relating to employee remuneration and the average number of persons employed are made in the financial statements of AES. The Company is recharged with the costs of the staff provided by AES.

4. Directors' remuneration

The emoluments of the directors are shown in the table below:

	2019 £'000	2018 £'000
Aggregate emoluments in respect of qualifying services	**2,154**	1,604
Pension	**264**	189
	2,418	1,793

The details of the highest paid director are as follows:

	2019 £'000	2018 £'000
Aggregate emoluments in respect of qualifying services	**680**	602
Company pension contributions to a money purchase scheme	**75**	59
	755	661

During the year the highest paid director received shares under long-term incentive schemes.

Certain of the directors are covered by private medical insurance provided by Aviva Insurance Limited. Payments may be made to, or on behalf of, directors, subject to the normal policy rules.

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

During the year two *(2018: one)* of the directors exercised share options and five *(2018: five)* of the directors received shares under long term incentive schemes.

All directors are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate parent company, Aviva plc.

Notes to the financial statements (continued)

5. Auditors' remuneration

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

	2019 £'000	2018 £'000
Fees payable to PwC LLP for the statutory audit of the Company's financial statements	**15**	2

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 accounts of Aviva plc.

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

6. Tax credit

(a) Tax credited to the income statement

(i) The total tax credit comprises:

	2019 £'000	2018 £'000
Current tax		
For this year	—	5,366
Total current tax	—	5,366
Total tax credited to the income statement	—	5,366

(ii) Unrecognised temporary differences of previous years were used to reduce current tax expense by £29 thousand *(2018: £nil)*.

(b) Tax reconciliation

The tax on the Company's profit/(loss) before tax differs from *(2018: is the same as)* the theoretical amount that would arise using the tax rate in the United Kingdom as follows:

	2019 £'000	2018 £'000
Total profit/(loss) before tax	**1,948**	(28,242)
Tax calculated at standard UK corporation tax rate of 19% (2018: 19%)	**(370)**	5,366
Movement in unprovided deferred tax	**29**	—
Surrender of losses from group undertakings for no charge	**341**	—
Total tax credited to the income statement	—	5,366

Finance Act 2016 introduced legislation reducing the UK corporation tax rate from 1 April 2020 to 17%. In the Budget of 11 March 2020 the UK Government reversed this rate reduction, announcing that the UK corporation tax rate will remain at 19% from 1 April 2020 and this was substantively enacted on 17 March 2020.

As the company has no deferred tax assets or liabilities, any future changes in tax rates have no impact on the net assets of the Company as at 31 December 2019.

7. Investments in subsidiaries

The Company has one subsidiary undertaking. The subsidiary is wholly-owned and incorporated in England.

Subsidiary & Registered Office	Principal activity	Holding
Aviva Client Nominees UK Limited Aviva, Wellington Row, York, YO90 1WR.	Dormant	1 ordinary share of £1

Notes to the financial statements (continued)

8. Receivables

	2019 £'000	2018 £'000
Trade receivables	**4,983**	19,865
Amounts due from group undertaking	**3,647**	3,367
Lifetime expected credit losses	**(1,215)**	(5,506)
Total as at 31 December	**7,415**	17,726
Expected to be recovered in less than one year	**7,415**	17,726
Expected to be recovered in more than one year	**—**	—
	7,415	17,726

All receivables held at the period end are measured at amortised cost. The carrying amount in the financial statements is deemed to be a reasonable approximation of the fair value.

Tax rebates due of £nil *(2018: £nil)* are included within other receivables.

9. Deferred acquisition costs

Deferred acquisition cost – movement in the year:

	2019 £'000	2018 £'000
Carrying amount at 1 January	**—**	—
Acquisition costs deferred during the year	**6,527**	—
Total as at 31 December	**6,527**	—

10. Prepayments and accrued income

	2019 £'000	2018 £'000
Expected to be recovered in less than one year	**789**	686
Expected to be recovered in more than one year	**—**	—
	789	686

11. Ordinary share capital

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

	2019 £'000	2018 £'000
Allotted, called up and fully paid		
169,500,000 (2018: 104,500,000) ordinary shares of £1 each	**169,500**	104,500

On 21 February 2019, 45 million ordinary shares of £1 each were allotted and issued by the Company.

On 11 October 2019, 20 million ordinary shares of £1 each were allotted and issued by the Company.

Notes to the financial statements (continued)

	2019 Number of shares	2019 Share capital £'000	2018 Number of shares	2018 Share capital £'000
At 1 January	**104,500,000**	**104,500**	79,500,000	79,500
New shares issued	**65,000,000**	**65,000**	25,000,000	25,000
At 31 December	**169,500,000**	**169,500**	104,500,000	104,500

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.

12. Accumulated losses

	2019 £'000	2018 £'000
Balance at 1 January	**(87,669)**	(64,793)
Profit/(loss) for the year	**1,948**	(22,876)
Balance at 31 December	**(85,721)**	(87,669)

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to regulated companies imposed by the Financial Conduct Authority (FCA). Its ability to transfer retained earnings to its parent company is therefore restricted to the extent these earnings form part of local regulatory capital.

13. Tax assets

(a) General

Tax assets expected to be received in more than one year are £nil *(2018: £5,366,000)*.

(b) Deferred tax

The Company does not have any recognised or unrecognised deferred tax assets or liabilities *(2018 : no deferred tax asset was recognised for unused trade losses of £152,000)*.

14. Provisions

(a) Carrying amounts

	2019 £'000	2018 £'000
Balance at 1 January	**10,696**	—
Provided in financial year	**—**	10,696
Amounts utilised in financial year	**(4,706)**	—
Amounts released in financial year	**(558)**	—
Balance at 31 December	**5,432**	10,696

Of the amount provided for in 2019, £3,694,000 *(2018: £7,196,000)* relates to remediation costs for customers and advisors impacted by the migration between platform service providers and £1,738,000 *(2018: £3,500,000)* relates to the expected cost of policyholder compensation for errors identified in product administration.

Notes to the financial statements (continued)

15. Borrowings from group undertaking

	2019 £'000	2018 £'000
Loan from fellow group undertaking	—	20,000

On 15 October 2019, the Company repaid in full the £20 million short term loan from a fellow group undertaking.

16. Payables and other financial liabilities

	2019 £'000	2018 £'000
Amounts owed to group undertakings	**4**	5,828
Trade payables	**1,184**	1,615
Other creditors including taxation and social security	**17**	31
Total as at 31 December	**1,205**	7,474
Expected to be settled within one year	**1,205**	7,474
Expected to be settled in more than one year	**—**	—
	1,205	7,474

17. Statement of cash flows

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

	2019 £'000	2018 £'000
Profit/(loss) before tax	**1,948**	(28,242)
Changes in working capital:		
Decrease/(increase) in receivables	**10,311**	(4,913)
Increase in deferred acquisition costs	**(6,527)**	—
(Increase)/decrease in prepayments and accruals	**(103)**	550
(Decrease)/increase in provisions	**(5,264)**	10,696
Decrease in payables and other financial liabilities	**(6,269)**	(10,129)
Total cash used in operating activities	**(5,904)**	(32,038)

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

	2019 £'000	2018 £'000
Cash at bank and in hand	**70,319**	31,223

Notes to the financial statements (continued)

18. Capital

In managing its capital, the Company seeks to:

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

The Company is authorised and regulated by the Financial Conduct Authority (FCA) as an IFPRU (Prudential Sourcebook for Investment Firms) limited license firm and is required to comply with the Capital Requirements Directive (CRD) as set out in GENPRU and IFPRU. The Company has fully complied with these regulatory requirements during the year. The analysis below sets out the Company's capital resources available to meet its regulatory capital requirements.

	2019 £'000	2018 £'000
Total equity	**83,779**	16,831
Adjustments onto a regulatory basis:		
Intangible assets	**(5,352)**	–
Total equity and available capital resources	**78,427**	16,831

The upward movement in the available capital is due to the share capital injection and profits in year.

Capital is managed within the regulatory framework in which the Company operates. This makes use of the Internal Capital Adequacy Assessment Process ('ICAAP') to identify the risks to which the business is exposed and to quantify their impact on economic capital and changes thereto by way of stress and scenario tests. The ICAAP estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk. The Company maintains an efficient capital structure, which is consistent with its risk profile and the regulatory and market requirements of its business. The Company's capital is managed in accordance with its Capital and Solvency Policy to maintain sufficient regulatory capital. The solvency position of the company is formally monitored on a monthly basis.

The Company uses sensitivity test-based analysis, including ICAAP, to understand the impact of volatile markets on expected earnings for decision-making and planning purposes. The impact of a fall in securities or property values at a point in time is limited to the impact on revenue, which is accrued based on those values.

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

19. Risk management

(a) Risk management framework

The Company operates a risk management framework (RMF) 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, life insurance (including long-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 business Chief Executive Officer makes an annual declaration that the system of governance and internal controls was effective and fit for purpose for their 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 the relevant risk committees.

Notes to the financial statements (continued)

Risk models are an important tool in the measurement of risks and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. The Company carries out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged.

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 is 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.

(b) Credit risk

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

An assessment is carried out over all categories of financial asset to determine to what extent assets held can be considered to have low credit risk as at the reporting date. In making this assessment, the Company makes use of both internal and external credit risk ratings, along with other qualitative and quantitative factors where external ratings are not available. Where a financial asset is deemed to have low credit risk, it is assumed that the credit risk on the respective assets has not increased significantly since initial recognition.

A financial asset is considered to be in default where contractual payments are past due, or there is objective evidence that the counterparty will be unable to subsequently meet their payment obligations. A financial asset is written off only when all other available measures have been taken to recover amounts due.

Where external credit ratings are available for financial assets, a significant increase in the credit risk of a financial asset is identified where there has been a significant deterioration in the respective credit rating. All financial assets at the reporting date are unrated.

Expected credit losses on material trade receivables and other assets are calculated with reference to the Company's historical experience of losses, along with an analysis of payment terms. The Company makes use of the simplified approach when calculating expected credit losses on trade receivables which don't include a significant financing component, and therefore calculates expected credit losses over the lifetime of the instrument in question. Expected credit losses have been calculated using a provision matrix where recoverability has been assessed against the age of the receivable.

The following table sets out expected credit losses recognised in the year.

	Expected credit losses relating to trade receivables recognised in year £'000
Opening expected credit losses	5,506
Utilised during the reporting period	(4,291)
Closing expected credit losses	1,215

(c) Market risk

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

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be in a position to meet its liabilities as they fall due. In relation to the Company, this largely relates to ensuring that there are sufficient liquid assets available to meet funding demands from customer transactions. Liquidity risk is managed daily, with oversight provided by ALCO. A contingency funding plan is in place to provide the Company with short term liquidity should it be required.

Notes to the financial statements (continued)

20. Related party transactions

The members of the Board of Directors are listed on page 3 of these financial statements. There are no amounts receivable from or payments due to members of the Board of Directors.

(a) Services provided to related parties

	2019		2018	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£'000	£'000	£'000	£'000
Fellow group undertakings	**—**	**3,647**	—	3,367

The related party receivables are not secured and no guarantees were received in respect thereof. No provision or expense has been recognised during the year in respect of bad and doubtful debts *(2018: £nil).*

(b) Services provided by related parties

Under a management agreement, UKLS supplies and makes charges for the provision of operational assets and staff to the Company. The agreement specifies the amounts payable to UKLS in respect of these expenses, which were £23,604,000 *(2018: £36,199,000).*

During the year the Company paid interest of £218,000 *(2018: £157,000)* to a fellow group undertaking.

Loans payable at year end are due to the following:

	2019	2018
	£'000	£'000
Fellow group undertakings	**—**	20,000

Other amounts payable at year end are due to the following:

	2019		2018	
	Expense incurred in year	Payable at year end	Expense incurred in year	Payable at year end
	£'000	£'000	£'000	£'000
Fellow group undertakings	**23,604**	**4**	36,199	5,828

The related party payables are not secured and no guarantees were issued in respect thereof. Other relevant related party expense disclosures are shown in note 1.

(c) 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:

	2019	2018
	£'000	£'000
Salary and other short-term benefits	**3,365**	2,832
Post-employment benefits	**35**	54
Other long-term benefits	**348**	266
	3,748	3,152

There are no amounts receivable from, or payments due to, key management.

The directors are remunerated by AES, a fellow subsidiary of the ultimate holding company, Aviva plc. The emoluments of these directors are recharged to UKLS, and details of their emoluments are given in note 4.

(d) Parent entity

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

Notes to the financial statements (continued)

(e) Ultimate controlling entity

The immediate and 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.

21. Subsequent events

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. The spread of COVID-19 has resulted in an economic downturn in the UK as well as causing increased volatility and declines in financial markets. If the pandemic is prolonged, or further diseases emerge that give rise to similar effects, the adverse impact on the UK economy could be deepened and result in further declines in financial markets.

Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained, IT systems remaining operational, and employees including frontline customer facing staff being supported to ensure that that we were there to support our customers when they need us most. As the situation is rapidly evolving it is not practicable to quantify the potential impact of volatile financial markets on expected earnings or the Company at this stage. The company continues to maintain strong solvency levels and expects to continue to meet its capital requirements.