Friends Life Holdings plc

Registered in England & Wales No. 06986155

Annual Report and Financial Statements 2019

Contents

Directors and officers

Directors

S Mohammed
J Windsor

Officer – Company Secretary

J C Baddeley

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered office

Pixham End
Dorking
Surrey
RH4 1QA

Company number

Registered in England & Wales No. 06986155

Other information

Friends Life Holdings plc ("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 Company is a wholly-owned subsidiary of Aviva Group Holdings Limited ("AGH"). Its principal activity is to hold two subordinated debt instruments listed on the London Stock Exchange.

Financial position and performance

The financial position of the Company as at 31 December 2019 is shown in the statement of financial position on page 20, with the results shown in the income statement on page 17, and the statement of cash flows on page 21.

Significant events

There were no significant events in the year.

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 2019 and Preliminary Announcement for the year ended 31 December 2019. The Company will work with the Group to support the implementation of these strategies. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

It is anticipated that the Company's significant financial assets will continue to comprise of loans due from fellow Group companies and internal Step-up Tier One Capital Securities ("STICS").

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 17 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:

- *Credit risk:* The Company's principle credit risk exposure arises from intra-group loans and its internal STICS with Aviva Life and Pensions UK Limited ("UKLAP") which has an external insurer financial strength rating of AA-, and as such the risk of counterparty default is considered remote.

Section 172 statement

We report here on how our directors have discharged their duties under Section 172 of the Companies Act 2006.

The Board is responsible for monitoring and upholding the culture, values, standards, ethics, and reputation of the Company to ensure that our obligations to our shareholder and to our stakeholders are met. It monitors adherence to the Aviva Group business standards and compliance with local corporate governance requirements and is committed to acting if our businesses should fail to act in the manner, we expect of them.

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 mindful of 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.

Our culture

As the provider of vital financial services to millions of customers, Aviva seeks to earn customers' trust by acting with integrity and responsibility at all times. We look to build relationships with all our stakeholders based on openness and continuing dialogue.

Our culture is shaped by our clearly defined values to help ensure we do the right thing. We value 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 our business, we are proud that our people live by our core value of Caring More for our customers, for each other and for the communities we serve.

Strategic report continued

Stakeholder Engagement

(i) Engagement with employees

The Company has no employees. All UK employees engaged in the activities of the Company are employed by subsidiary undertakings of Aviva plc. Disclosures relating to employees may be found in the annual report and financial statements of these companies.

(ii) Our customers

The Company has no direct customers.

(iii) Our suppliers

- All Group 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.
- An important part of the Group's culture is the promotion of high legal, ethical, environmental and employee related standards within our business and also among our suppliers. Before working with any new suppliers, we provide them with our Supplier Code of Behaviour, and our interaction with them is guided by our Business Code of Ethics.
- The Board reviews the actions we have taken to prevent modern slavery and associated practices in any part of our supply chain and approves our Modern Slavery Act statement each year.

(iv) Shareholders

The Board considers the long-term impact of corporate actions and decisions on our shareholders. Our ultimate shareholder is Aviva plc and there is ongoing communication and engagement with the Aviva plc Board. 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.

Key performance indicators

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

Measure	**2019** **£m**	2018 £m
Investment return	**69**	68
Finance costs	**(56)**	(100)

Finance costs are lower in 2019 due to the US Dollar ("USD") debt being settled in 2018 resulting in lower interest expense and no foreign exchange losses.

By order of the Board on 4 March 2020

J Windsor
Director

Directors' report

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

Directors

The names of the present directors of the Company appear on page 3.

J Windsor was appointed as director of the Company on 1 July 2019.

T D Stoddard resigned as director of the Company on 30 June 2019.

S Sharrock Yates resigned as director of the Company on 31 December 2019.

Company Secretary

The name of the present Company Secretary appears on page 3.

Dividends

No interim ordinary dividend on the Company's ordinary shares was declared or paid during 2019 *(2018: £28 million)*. The directors do not recommend a final 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 management of its major risks (see note 17).

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.

Financial instruments

The Company uses financial instruments to manage certain types of risks, including those relating to credit, market, liquidity, and operational risks. Details of the objectives and management of these instruments are contained in note 17 on risk management.

Employees

The Company has no employees. All UK employees engaged in the activities of the Company are employed by subsidiary undertakings of Aviva plc.

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 489 of the Companies Act 2006.

Directors' report continued

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 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.

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.

Corporate governance

The Company is a wholly-owned subsidiary of Aviva plc, a Company with a listing on the London Stock Exchange, and as such is subject to Aviva plc's system of risk management, internal control and financial reporting. Aviva plc is subject to the UK Corporate Governance Code. The Aviva plc Annual Report and Accounts set out details of how the Group has applied the principles and complied with the provisions of the UK Corporate Governance Code during 2019. Further information on the Code can be found on the Financial Reporting Council's website, www.frc.org.uk.

By order of the Board on 4 March 2020

J Windsor
Director

Independent auditors' report to the members of Friends Life Holdings plc

Report on the audit of the financial statements

Opinion

In our opinion, Friends Life Holdings plc'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 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 directors.

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 listed 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.

We have provided no non-audit services to the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

- Overall materiality: £10.8 million *(2018: £10.7 million)*, based on 1% of total assets.
- We designed our audit by determining materiality and assessing the risks of material misstatements in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.
- We have no key audit matters to report.

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.

Independent auditors' report to the members of Friends Life Holdings plc continued

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 listing requirements over listed securities, 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, listing rules and tax legislation, 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, 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 manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to misrepresentation of intercompany loan positions or overstatement of investment income relating to intercompany finance costs. Audit procedures performed by the engagement team included:

- Discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulation;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Assessment of matters reported on the entity's whistleblowing helpline and the results of management's investigation of such matters; and
- Identifying and testing journal entries

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. We determined that there were no key audit matters applicable to the company to communicate in our report.

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.

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	£10.8 million *(2018: £10.7 million)*.
How we determined it	1% of total assets.
Rationale for benchmark applied	In determining our materiality, we considered financial metrics which we believed to be relevant, and concluded, consistent with last year that total assets is the most relevant benchmark given the users are principally concerned with the asset position of the Company to service its principal and the debt interest.

We agreed with the directors that we would report to them misstatements identified during our audit above £0.5 million (2018: £0.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent Auditors' Report to the members of Friends Life Holdings plc continued

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 of the United Kingdom's withdrawal 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, Directors' report and Corporate governance statement, 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 set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Independent auditors' report to the members of Friends Life Holdings plc continued

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

We were appointed by the members on 29 April 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2015 to 31 December 2019.

Philip Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2020

Accounting policies

The Company is a public limited company incorporated and domiciled in the United Kingdom ("UK") and limited by shares. 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 financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss (FVTPL).

The financial statements have been prepared on the going concern basis as explained in the directors' report on page 6.

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 2019.

(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

(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.

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

These improvements consist of amendments to four 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, 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) 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 been endorsed by the EU.

(ii) Amendment to IFRS 3 Business Combinations

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

(iii) Amendment to IAS 1 and IAS 8: Definition of material

Published by the IASB in October 2018. The amendment is effective for annual reporting beginning on or after 1 January 2020 and has been endorsed by the EU.

(iv) 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 have 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, with those judgements involving estimation summarised thereafter.

Item	Critical accounting judgement	Accounting policy
Financial investments	Classification and measurement of financial investments including the mandatory application of measurement at fair value through profit or loss.	G

Use of estimates

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

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

Item	Critical accounting estimates	Accounting policy	Note
Fair value of financial instruments	Where quoted market prices are not available, valuation techniques are used to value financial investments and derivatives. 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.	D, G	8
Impairment of financial investments	Factors considered when assessing the size of expected credit losses include payment terms, counterparty credit quality and whether there has been a significant or prolonged decline in fair value.	G	8

(C) Foreign currency transactions

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 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 in the income statement.

(D) 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

Accounting policies continued

(D) Fair value measurement continued

the fair value at initial recognition and the transaction price is not recognised immediately in the income statement, but deferred and recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out or otherwise matures.

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

(E) Net investment income

Investment income consists of interest receivable for the year, realised gains and losses, and unrealised gains and losses on FVTPL investments (as defined in policy G). Interest income is recognised as it accrues, taking into account the effective yield on the investment and includes the amortisation of any discount or premium.

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.

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

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

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

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

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

(G) Financial investments

The Company classifies its investments as financial assets at FVTPL based on a business model assessment, which were assessed as being held to collect, and the extent to which the contractual cash flows associated with financial assets are solely payments of principle and interest. 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 general, the Company's investment or risk management strategy is to manage its financial investments on a fair value basis.

Debt and equity securities, which the Company acquires with the intention to resell in the short term, are classified as mandatorily held at FVTPL. Internal Step-up Tier One Capital Securities ("STICS") are also classified as mandatorily held at FVTPL.

Investments carried at fair value are measured using the methodology outlined in note 8, with values based on the quoted price within the bid-ask spread that is most representative of fair value or based on cash flow models using market observable inputs or unobservable inputs.

(H) Receivables and other financial assets

Receivables and other financial assets are recognised initially at their fair value. Subsequent to initial measurement receivables, excluding those loans due from Group operations held at fair value as described below, are measured at amortised cost using the effective interest rate method, less expected credit losses.

Loans due from Group operations

Loans with fixed maturities are recognised when cash is advanced to borrowers. Loans where repayments consist solely of principal or interest are subsequently measured at amortised cost using the effective interest rate method. Loans with indefinite future lives are carried at unpaid principal balances. All other loans are held at FVTPL based on the outcome of a business model assessment, which were assessed as being held to collect, or where the contractual cash flows are not solely payment of principle and interest.

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.

Accounting policies continued

(I) Payables and other financial liabilities

Payables and other financial liabilities, are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest rate method.

(J) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at banks 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.

(K) 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 balance sheet date. Where the effect of the time value of money is material, the provision is the present value of the expected expenditure. Provisions are not recognised for future operating losses.

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

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 reasonably estimated.

(L) 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 or 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 are similarly recognised in other comprehensive income and directly in equity respectively. Deferred tax related to fair value re-measurement of investments 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.

(M) Borrowings

Borrowings are classified as being for either core structural or operational purposes. They 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.

Accounting policies continued

(N) 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:

- 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
- 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.

(O) Finance costs

All borrowing costs are expensed as they are incurred.

Income statement
For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Income			
Net investment income	E & 1	**69**	68
		69	68
Expenses			
Finance costs	O & 2	**(56)**	(100)
		(56)	(100)
Profit/(loss) for the year before tax		**13**	(32)
Tax (charge)/credit	L & 6	**(2)**	8
Profit/(loss) for the year after tax		**11**	(24)

The accounting policies (identified alphabetically) on pages 12 to 16 and notes (identified numerically) on pages 22 to 34 are an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December 2019

	2019 £m	2018 £m
Profit/(loss) for the year after tax	**11**	(24)
Total other comprehensive income/(expense) for the year	**11**	(24)

The accounting policies (identified alphabetically) on pages 12 to 16 and notes (identified numerically) on pages 22 to 34 are an integral part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2019

	Note	Ordinary share capital £m	Retained earnings £m	Total equity £m
Balance at 1 January 2018		265	145	410
Loss for the year		-	(24)	(24)
Total comprehensive expense		-	(24)	(24)
Dividends paid	N & 7	-	(28)	(28)
Balance at 31 December 2018		**265**	**93**	**358**
Profit for the year		-	11	11
Total comprehensive income		-	11	11
Balance at 31 December 2019		**265**	**104**	**369**

The accounting policies (identified alphabetically) on pages 12 to 16 and notes (identified numerically) on pages 22 to 34 are an integral part of these financial statements.

Statement of financial position
As at 31 December 2019

	Note	2019 £m	2018 £m
Assets			
Non current assets			
Financial investments	G & 9	**508**	493
Receivables and other financial assets	H & 10	**534**	543
Current assets			
Receivables and other financial assets	H & 10	**29**	30
Cash and cash equivalents	J & 16	**10**	6
Total assets		**1,081**	1,072
Equity			
Ordinary share capital	N & 11	**265**	265
Retained earnings	12	**104**	93
Total equity		**369**	358
Liabilities			
Non current liabilities			
Borrowings	M & 14	**663**	669
Deferred tax liabilities	L & 13	**4**	3
Current liabilities			
Borrowings	M & 14	**4**	2
Other liabilities	15	**41**	40
Total liabilities		**712**	714
Total equity and liabilities		**1,081**	1,072

The financial statements were approved by the Board of Directors on 4 March 2020 and signed on its behalf by

J Windsor
Director

Registered in England & Wales No. 06986155

The accounting policies (identified alphabetically) on pages 12 to 16 and notes (identified numerically) on pages 22 to 34 are an integral part of these financial statements.

Statement of cash flows
For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Cash flows from investing activities			
Interest received		**63**	98
Collateral paid		**-**	(73)
Loans transferred to parent		**-**	356
Net disposal of financial investments		**-**	82
Net cash from investing activities		**63**	463
Cash flows from financing activities			
Group relief settlement		**1**	-
Interest paid on borrowings		**(60)**	(94)
Dividends paid		**-**	(20)
Repayment of borrowings		**-**	(438)
Net cash used in financing activities		**(59)**	(552)
Total net increase/(decrease) in cash and cash equivalents		**4**	(89)
Cash and cash equivalents at 1 January		**6**	95
Cash and cash equivalents at 31 December	J & 16	**10**	6

The accounting policies (identified alphabetically) on pages 12 to 16 and notes (identified numerically) on pages 22 to 34 are an integral part of these financial statements.

Notes to the financial statements

1. Details of income

	2019 £m	2018 £m
Interest and other similar income		
Interest income due from loans mandatorily held at FVTPL	**63**	87
Interest income due from derivative financial instruments mandatorily held at FVTPL	**-**	5
	63	92
Net gains and losses		
From financial assets mandatorily held at FVTPL	**6**	(24)
	6	(24)
Net investment income	**69**	68
Total income	**69**	68

2. Details of expenses

	2019 £m	2018 £m
Finance costs		
Interest on subordinated debt	**(60)**	(92)
Fair value amortisation of loans	**4**	4
Retranslation of foreign currency borrowings	**-**	(12)
Total expenses	**(56)**	(100)

3. Employee information

The Company has no employees *(2018: nil)*. All UK employees engaged in the activities of the Company are employed by subsidiary undertakings of Aviva plc.

4. Directors' remuneration

The directors were all remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate parent Aviva plc, for their services to the Group as a whole. They were not remunerated directly for their services as directors of the Company and the amount of time spent performing their duties is incidental to their roles across the Group. This is consistent with prior years.

T Stoddard and J Windsor were directors of Aviva plc during the year and their emoluments are disclosed in that company's annual report and accounts.

S Mohammed and S Sharrock Yates were remunerated for their roles as employees across the Group.

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 the PwC LLP for the statutory audit of the Companys financial statements	**36**	45
	36	45

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

There were no non-audit fees paid to the Company's auditors during the year *(2018: £nil)*. All fees have been borne by Aviva plc.

6. Tax

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

The total tax (charge)/credit comprises:

	Note	2019 £m	2018 £m
Current tax			
Adjustment in respect of prior years		**(1)**	-
Total current tax		**(1)**	-
Deferred tax			
Origination and reversal of temporary differences		**(1)**	9
Changes in tax rates		**-**	(1)
Total deferred tax		**(1)**	8
Total tax (charged)/credited to the income statement	6(c)	**(2)**	8

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

There was no tax credited or charged to other comprehensive income in either 2019 or 2018.

(c) Tax reconciliation

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

	2019 £m	2018 £m
Profit/(Loss) for the year before tax	**13**	(32)
Tax calculated at standard UK corporation tax rate of 19% *(2018: 19%)*	**(2)**	6
Adjustment in respect of prior years	**(1)**	-
Non taxable income	**1**	3
Changes in tax rates	**-**	(1)
Tax (charge)/credit	**(2)**	8

Finance Act 2016, which received Royal Assent on 15 September 2016, is scheduled to reduce the corporation tax rate to 17% from 1 April 2020. The reduction in rate from 19% to 17% has been used in the calculation of the Company's deferred tax assets and liabilities at 31 December 2019.

During 2019 the UK Government indicated that it would reverse the reduction, although this measure has not yet been substantively enacted and therefore no impact is reflected in the calculation of the deferred tax assets and liabilities as at 31 December 2019.

Notes to the financial statements continued

7. Dividends

	2019 £m	2018 £m
Ordinary dividends declared and charged to equity in the year:		
Interim 2018 – £105.66 pounds per share, paid on 31 December 2018	-	28
	-	28

The 2018 interim dividends were settled either in cash or by reducing the loan due from the Company's immediate parent, AGH (see note 18(b)(ii)).

8. Fair value methodology

(a) Basis for determining fair value hierarchy

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 entity 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 markets.
- Quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.
- Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads).
- 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.
- 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 business unit considers that market participants would use in pricing the asset or liability. Examples are investment properties, certain private equity investments and private placements.

The majority of the Company's assets and liabilities measured at fair value are based on quoted market information or observable market data. Where estimates are used, these are based on combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. 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

There were no changes in the valuation techniques during the year compared to those described in the 2018 annual financial statements.

Notes to the financial statements continued

8. Fair value methodology continued

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

Set out below is a comparison of the carrying amounts and fair values of financial assets/liabilities:

	Note	2019 Fair value £m	2019 Carrying amount £m	2018 Fair value £m	2018 Carrying amount £m
Financial liabilities					
Borrowings	14	**(765)**	**(667)**	(784)	(671)
Total financial liabilities		**(765)**	**(667)**	(784)	(671)

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

- Receivables
- Cash and cash equivalents
- Payables and other financial liabilities

Financial investments are carried at fair value.

(d) Fair value hierarchy

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

Recurring fair value measurements	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**2019 Total £m**
Financial investments				
Internal STICS	**-**	**508**	**-**	**508**
Total	**-**	**508**	**-**	**508**
Receivables				
Loans due from fellow Group companies	**-**	**-**	**534**	**534**
Total	**-**	**-**	**534**	**534**

Recurring fair value measurements	Level 1 £m	Level 2 £m	Level 3 £m	2018 Total £m
Financial investments				
Internal STICS	-	493	-	493
Total	-	493	-	493
Receivables				
Loans due from fellow Group companies	-	-	543	543
Total	-	-	543	543

(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.

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

Notes to the financial statements continued

8. Fair value methodology continued

(f) Further information on Level 3 assets and liabilities

The table below shows movements in the Level 3 assets measured at fair value. There are no level 3 liabilities in either 2019 or 2018.

Loans due from fellow Group companies	**2019** **£m**	2018 £m
Opening balance at 1 January	**543**	913
Total net losses recognised in the income statement	**(9)**	(16)
Disposals	**-**	(354)
Balance at 31 December	**534**	543

The principal assets classified as Level 3, and the valuation techniques applied to them, are loans due from fellow Group companies amounting to £534 million *(2018: £543 million)*, valued using a discounted cash flow model. The loans have been valued using the risk-free rate, benchmarked against similar instruments. However, there are no market observable transactions to agree to in the selected securities to provide a reliable proxy price to corroborate the counterparty price.

On the basis of the methodology outlined above, the Company is able to perform sensitivity analysis for all of the Company's Level 3 assets. For these Level 3 assets, changing unobservable valuation inputs to a reasonable alternative would result in a change in fair value by -£11 million / +£11 million *(2018: -£15 million / +£16 million).*

9. Financial investments

(a) Carrying amount

Financial investments comprise:

	2019		2018	
	Mandatorily held at FVTPL	**Total**	Mandatorily held at FVTPL	Total
At fair value through profit and loss	**£m**	**£m**	£m	£m
Internal STICS	**508**	**508**	493	493
Total financial investments	**508**	**508**	493	493
Expected to be recovered in more than one year		**508**		493
Total financial investments		**508**		493

(b) Cost, unrealised gains and fair value

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

	2019			2018		
	Cost/ Amortised cost £m	**Unrealised losses £m**	**Fair value £m**	Cost/ Amortised cost £m	Unrealised losses £m	Fair value £m
Internal STICS	**521**	**(13)**	**508**	521	(28)	493
Total financial investments	**521**	**(13)**	**508**	521	(28)	493

All unrealised gains and losses and impairments on financial investments classified as FVTPL have been recognised in the income statement.

Unrealised gains and losses on financial investments, classified as FVTPL and recognised in the income statement in the year, were a net gain of £15 million *(2018: loss of £24 million)*, which comprises unrealised gains of £15 million *(2018: loss of £24 million)* on investments mandatorily held at FVTPL.

Notes to the financial statements continued

10. Receivables and other financial assets

	Note	2019 £m	2018 £m
Loans due from fellow Group companies	18(a)(i)	**534**	543
Accrued income		**28**	29
Other receivables		**1**	1
Total at 31 December		**563**	573
Expected to be recovered in less than one year		**29**	30
Expected to be recovered in more than one year		**534**	543
Total at 31 December		**563**	573

Loans due from fellow Group companies are mandatorily held at FVTPL. All other receivables are held at amortised cost.

11. Ordinary share capital

	2019 £m	2018 £m
Allotted, called and fully paid		
265 million (*2018: 265 million*) ordinary shares of £1 each	**265**	265

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. Retained earnings

	Note	2019 £m	2018 £m
At 1 January		**93**	145
Profit/(loss) for the year		**11**	(24)
Dividends paid	7	**-**	(28)
At 31 December		**104**	93
Distributable		**69**	57
Non distributable		**35**	36
At 31 December		**104**	93

Notes to the financial statements continued

13. Tax assets and liabilities

(a) Current tax

Tax assets and liabilities expected to be recoverable/payable in more than one year are £nil *(2018: £nil)*.

(b) Deferred tax

(i) The balance at 31 December comprises:

	2019 £m	2018 £m
Deferred tax liability	**(4)**	(3)

(ii) The deferred tax balance arises on the following items:

	2019 £m	2018 £m
Unrealised gains on investments	**2**	4
Unrealised gains on loans due from fellow Group companies	**(6)**	(7)
Net deferred tax liability	**(4)**	(3)

(iii) The movement in the net deferred tax balance was as follows:

	2019 £m	2018 £m
At 1 January	**(3)**	(11)
Amounts (charged)/credited to income statement	**(1)**	8
At 31 December	**(4)**	(3)

The Company has unrecognised temporary differences of £18 million *(2018: £19 million)* to carry forward indefinitely against future taxable income. The timing of reversal of deferred tax assets and liabilities depends on a number of external factors and cannot be calculated with certainty. The majority of deferred tax assets and liabilities are however expected to reverse in more than one year.

14. Borrowings

Borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, most 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. This note shows the carrying values and contractual maturity amounts of each type and explains their main features and movements during the year.

(a) Core structural borrowings

(i) The carrying amounts of these borrowings are:

	2019 £m	2018 £m
12.00% £162 million subordinated notes 2021	**168**	173
8.25% £500 million subordinated notes 2022	**499**	498
Total at 31 December	**667**	671

All borrowings are stated at amortised cost.

Subordinated notes issued by the Company rank below its senior obligations and ahead of its ordinary share capital. The dated subordinated notes rank ahead of the undated subordinated notes.

The 12% £162 million subordinated notes 2021 are irrevocably guaranteed on a subordinated basis by UKLAP. This debt is carried at amortised cost based on the fair value at the date of acquisition of Friends Provident by the Company.

The 8.25% £500 million subordinated notes 2022 are irrevocably guaranteed on a subordinated basis by UKLAP. This debt is carried at amortised cost based on the fair value at the date of acquisition of Friends Provident by the Company.

Notes to the financial statements continued

14. Borrowings continued

(a) Core structural borrowings continued

(ii) The contractual maturity dates of undiscounted cash flows for these borrowings are:

	Principal £m	Interest £m	2019 Total £m	Principal £m	Interest £m	2018 Total £m
Within one year	**-**	**61**	**61**	-	60	60
1 to 5 years	**662**	**61**	**723**	662	122	784
Total at 31 December	**662**	**122**	**784**	662	182	844

Borrowings are considered current if the contractual maturity dates are within a year.

In addition to above, annual principal repayments include amortisation of fair value adjustments of £4 million *(2018: £4 million).*

Total interest expense for financial liabilities not measured at fair value through profit or loss, which arises solely from interest-bearing loans and borrowings, is £60 million *(2018: £60 million).*

15. Other liabilities

	2019 £m	2018 £m
Accruals	**41**	40
Total at 31 December	**41**	40
Expected to be paid in less than one year	**41**	40
Total at 31 December	**41**	40

16. Statement of cash flows

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

	2019 £m	2018 £m
Cash and cash equivalents	**10**	6
Total at 31 December	**10**	6

Notes to the financial statements continued

17. 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 Company's risk management approach is aimed at actively identifying, measuring, managing, monitoring and reporting significant existing and emerging risks. Risks are managed considering the significance of the risk to the business and its internal and external stakeholders.

To promote a consistent and rigorous approach to risk management, the Group has set out formal risk management policies and business standards which set out the risk strategy, framework and minimum requirements for the Group's worldwide operations, including the Company.

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 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.

The directors recognise the critical importance of having efficient and effective risk management systems in place and acknowledge that they are responsible for the Company's framework of internal control and of reviewing its effectiveness. The framework is designed to manage rather than eliminate the risk of failure to achieve the Company's objectives and can only provide reasonable assurance against misstatement or loss. The directors of the Company are satisfied that their adherence to this Company framework provides an adequate means of managing risk in the Company.

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

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 internal counterparties.

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

(i) Financial exposures to Group companies

The Company's principle credit risk exposure arises from amounts due from fellow Group companies comprised of intra-group loans with UKLAP (see note 18(a)(i) and its internal STICS also with UKLAP). 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 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. As at the reporting date, there are no material expected credit losses recognised in relation to UKLAP.

(ii) Financial exposures by credit ratings

The Company's maximum exposure to credit risk of financial assets is represented by the carrying amount of assets included in the statement of financial position.

UKLAP has an external insurer financial strength rating of AA-, and as such the risk of counterparty default is considered remote.

Although there is no contractual obligation for UKLAP to make interest payments or redeem the principal of the internal STICS, the Company has an expectation and is confident that interest will be paid for the reasons set out above as well as the consequential restrictions on the ability of UKLAP to make dividend payments and redeem capital under the terms of the internal STICS, if it defers any interest payment. The Company's exposure to the internal STICS, which are measured at FVTPL, at 31 December 2019 amounted to £508 million *(2018: £493 million).*

Notes to the financial statements continued

17. Risk management continued

(b) Credit risk continued

(iii) Calculation of expected credit losses

Expected credit losses on material receivables and other assets are calculated with reference to the Company's historical experience of losses, along with an analysis of payment terms. Short term financial assets (where all amounts are receivable within twelve months from the reporting date) do not generally attract an expected credit loss charge, unless there is objective evidence that losses are likely to arise.

The Company has no financial assets which are categorised such that lifetime expected credit losses are calculated or which are deemed to be credit impaired at the reporting date. The Company has not purchased or originated any credit-impaired financial assets as at the reporting date.

The Company makes use of the simplified approach when calculating expected credit losses on trade receivables which do not include a significant financing component, and therefore calculates expected credit losses over the lifetime of the instrument in question. As at the reporting date, no lifetime expected credit losses have been recognised in relation to receivables.

There were no financial assets past due or impaired in either 2019 or 2018.

(iv) Modification of contractual cash flows that have not resulted in derecognition

There have been no significant modifications of contractual cash flows on any of the Company's financial assets during the period.

(c) Market risk

Market risk is the risk of adverse financial impact resulting directly or indirectly from fluctuations in interest rates, inflation, and foreign currency exchange rates.

The management of market risk is undertaken at business unit and at Group level. Businesses manage market risks locally using the Group market risk framework and within local regulatory constraints. Group Capital is responsible for monitoring and managing market risk at Group level and has established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

Interest on the Company's external borrowings and STICS and loans to UKLAP are fixed, and therefore the Company is not exposed to interest rate risk through these instruments. Key terms and conditions are disclosed in notes 14 and 18.

However, although interest on the Company's internal STICS is fixed, the price of the internal STICS is sensitive to changes in the inputs used to determine its fair value, principally being market observable yields, as described in note 8, and as such the Company is exposed to changes in market perception as to the credit worthiness of the issuers of the instruments on which the market observable yields are based, being considered a suitable proxy for the internal STICS. The impact of a 100bps increase / decrease in the market observable yields used to calculate the fair value of the internal STICS would be a £3 million decrease / £3 million increase *(2018: £7 million decrease / £7 million increase)* in profit before tax and ordinary shareholders' net equity.

(d) Liquidity risk

Liquidity risk is the risk of 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. The Company monitors its position relative to its agreed liquidity risk appetite. In addition, the Company's long-term subordinated debt and subordinated perpetual debt is irrevocably guaranteed by UKLAP (see note 14).

Aviva plc maintains significant undrawn committed borrowing facilities of £1,650 million (2018: £1,650 million) from a range of leading international banks to mitigate this risk further Aviva plc has an external issuer credit rating of A- and UKLAP has an external insurer financial strength rating of AA-, and therefore the likelihood of Aviva plc being unable to provide liquid funds to the Company or UKLAP failing to honour its guarantee is considered remote.

Notes to the financial statements continued

17. Risk management continued

(d) Liquidity risk continued

Maturity analyses

The following tables show the maturities of the Company's liabilities, and of the financial assets held to meet them. A maturity analysis of the contractual amounts payable for borrowings and other financial liabilities is given in notes 14 and 15 respectively.

(i) Analysis of maturity of liabilities

						2019
	Note	**On demand or within 1 year £m**	**1-5 years £m**	**Greater than 5 years £m**	**No fixed term (perpetual) £m**	**Total £m**
Borrowings	14	**4**	**663**	**-**	**-**	**667**
Other liabilities	15	**41**	**-**	**-**	**-**	**41**
		45	**663**	**-**	**-**	**708**

						2018
	Note	On demand or within 1 year £m	1-5 years £m	Greater than 5 years £m	No fixed term (perpetual) £m	Total £m
Borrowings	14	2	669	-	-	671
Other liabilities	15	40	-	-	-	40
		42	669	-	-	711

(ii) Analysis of maturity of financial assets

The following table 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:

						2019
	Note	**On demand or within 1 year £m**	**1-5 years £m**	**Greater than 5 years £m**	**No fixed term (perpetual) £m**	**Total £m**
Internal STICS	9	**-**	**-**	**-**	**508**	**508**
Receivables and other financial assets	10	**29**	**534**	**-**	**-**	**563**
Cash and cash equivalents	16	**10**	**-**	**-**	**-**	**10**
		39	**534**	**-**	**508**	**1,081**

						2018
	Note	On demand or within 1 year £m	1-5 years £m	Greater than 5 years £m	No fixed term (perpetual) £m	Total £m
Internal STICS	9	-	-	-	493	493
Receivables and other financial assets	10	30	543	-	-	573
Cash and cash equivalents	16	6	-	-	-	6
		36	543	-	493	1,072

The assets above 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

17. Risk management continued

(e) Operational risk

Operational risk is the risk of direct or indirect loss, arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment.

Given its limited activities, the key operational risks to the Company are inadequate governance and lack of sufficiently robust financial controls. The risks are mitigated by the Board's adoption and implementation of the Company's risk management policies and framework and compliance with the Company's Financial Reporting and Controls Framework.

(f) Capital management

The Company's capital risk is determined with reference to the requirements of the Company's stakeholders. In managing capital, the Company seeks to maintain sufficient, but not excessive, financial strength to support the payment of interest due on loans and the requirements of other stakeholders. The sources of capital used by the Company are equity shareholders' funds. At 31 December 2019 the Company had £369 million *(2018: £358 million)* of total capital employed.

(g) Brexit

Brexit & UK-EU Free Trade Agreement (FTA) negotiations: In preparing for the end of the transition period on 31 December 2020 under the UK-EU withdrawal agreement, we have already taken the operational measures necessary to ensure continuous service to our customers irrespective of the outcome of UK-EU Free Trade Agreement negotiations. However, beyond 2020 the consequences of the UK's withdrawal from the EU on future financial services regulation and the UK economy will require careful monitoring.

18. Related party transactions

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

(a) The Company had the following related party transactions

(i) Loans receivable

On 21 April 2011 the Company provided an unsecured loan of £500 million to a fellow Group company, UKLAP. The loan accrues interest at a rate of 8.25% per annum with settlement expected to be received at maturity in 21 April 2022. As at the statement of financial position date, the total fair value loan balance outstanding was £534 million *(2018: £543 million)*.

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

	2019 £m	2018 £m
1-5 years	**534**	543
Total at 31 December	**534**	543

The interest received on this loan shown in the income statement is £41 million *(2018: £65 million)*.

(ii) Loans payable

On 10 September 2015 the Company's parent, AGH, provided an unsecured rolling credit facility of £500 million to the Company, accruing interest at 75 basis points above 6 month LIBOR and with an initial maturity date of 31 December 2022. The total amount drawn down on the facility at 31 December 2019 was £nil *(2018: £nil)*.

(b) Other transactions

(i) Audit fees

There were no non-audit fees paid to the Company's auditors during the year *(2018: £nil)*. Audit fees as described in note 5 are borne by the Company's ultimate parent, Aviva plc.

(ii) Dividends paid

A dividend of £nil *(2018: £28 million)* was paid to the Company's parent, AGH, of which £nil *(2018: £8 million)* relates to an intercompany transaction. Refer to note 7.

(c) Key management compensation

Key management, which comprises the directors of the Company, are not remunerated directly for their services as directors for the Company and the amount of time spent performing their duties are incidental to their role across the Group. The majority of such costs are borne by Aviva plc and are not recharged to the Company. Refer to note 4 for details of directors' remuneration.

(d) Parent entity

The immediate parent entity is Aviva Group Holdings Limited, a private limited Company incorporated and domiciled in the United Kingdom.

Notes to the financial statements continued

18. Related party transactions continued

(e) Ultimate parent entity

The ultimate parent entity and controlling party is Aviva plc, a public limited Group incorporated and domiciled in the United Kingdom. This is the parent undertaking of the smallest and largest Group to consolidate these financial statements. Copies of Aviva plc financial statements are available on application to the Group Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.

19. Subsequent events

There are no subsequent events to report.