Aviva International Insurance Limited

Registered in England and Wales No. 21487

Annual Report and Financial Statements 2017

Contents

Directors and Officers

Directors

J Buttigieg
R W A Howe **
P L Mylet
T D Stoddard *
O Thoresen **
N D Williams **
D J Wright **

* Non-Executive Director
** Independent Non-Executive Director

Officer – Company Secretary

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

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered Office

St Helen's
1 Undershaft
London
EC3P 3DQ

Company Number

Registered in England and Wales no. 21487

Other Information

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

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

Strategic report

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

Review of the Company's Business

The principal activity of the Company is to act as the onshore reinsurance vehicle for the Aviva plc Group ("the Group").

The Company has quota share reinsurance arrangements with fellow Group subsidiaries as follows:

- Aviva Insurance Limited (AIL) which transacts general and health insurance business, to reinsure 50% of its insurance liabilities;
- Aviva Assurances (FGI) a Group subsidiary incorporated in France which transacts general and health insurance business, to reinsure 50% of its insurance liabilities;
- Aviva Life & Pensions UK Limited (UK L&P) which transacts investment and long term insurance business, to reinsure 50% of specified parts of its non-profit sub-fund (NPSF); and
- Aviva Annuity UK Limited (UKA), to reinsure 50% of its annuity insurance liabilities. In 2017, UKA transferred the whole of its business to UK L&P, its immediate parent undertaking, under a Part VII Transfer of the Financial Services and Markets Act 2000. Going forwards annuity business in the United Kingdom (UK) will be written by UK L&P in a sub-fund comprising of the business transferred from UKA, and this annuity business is still subject to the quota share reinsurance arrangement previously with UKA.

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

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

Continued and proactive improvements in capital efficiency and positive cash generation have enabled the Company to pay a £335 million dividend to its parent company during the year (*2016: £nil*).

Financial position and performance

The financial position of the Company at 31 December 2017 is shown in the Statement of Financial Position on page 27, with the results shown in the Income Statement on page 24 and the Statement of Cash Flows on page 28.

The Company's net assets at 31 December 2017 were £2,705 million, up from £2,562 million at 31 December 2016 primarily due to the profits arising on existing reinsurance agreements.

The profit for the year before tax was £592 million, down from £1,556 million in 2016. The decrease is driven by the significant one-off transactions in 2016, notably the reinsurance of the existing liabilities of UKA, AIL, UK L&P and FGI which generated a total profit at inception of £1,022 million. This was partially offset by the adverse impact of the Ogden announcement applied to personal injury awards of £238 million. The profit for the year before tax in 2017 of £592 million was primarily driven by significant longevity assumption changes on the annuity business reinsured into the Company, and included an improved underlying general insurance underwriting result and premium growth in the UK and lower weather claims in France.

Gross written premiums of £7,513 million in 2017 *(2016: £47,022 million)* are wholly in relation to the quota share reinsurance agreements noted above. In 2016, £40,895 million related to the reinsurance of back book liabilities.

Future outlook

Strategies for the Group as a whole are determined by the Board of Aviva plc and these are shown in the Group 2017 Annual Report and Accounts. The Company will work with the Group to support the implementation of these strategies.

The Group has plans to continue to increase the amount of business ceded to the Company. The objective of these plans is to promote capital efficiency and realise the benefits of group diversification of risk through lower solo capital requirements in the ceding entities.

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 24 to the financial statements.

Strategic report continued

Principal risks and uncertainties continued

Risk factors beyond the Company's control, including those accepted through quota share reinsurance arrangements, that could cause actual results to differ materially from those estimated include, but are not limited to:

- Credit risk relating to losses arising from counterparty default or the fluctuations in value of investments arising from credit rating changes or changes in the market value of investments such as government bonds, corporate bonds and commercial mortgages;
- Life insurance risk, currently mainly longevity risk, but could include mortality risk, morbidity risk, persistency risk, expense risk and policyholder behaviour risk around the take-up of insurance guarantees and options;
- General insurance risk including fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations when pricing and reserving; and
- Market risk, which is the risk of loss or adverse change in the Company's financial situation resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables such as interest rates, property prices and foreign exchange rates.

The Company uses a number of metrics to measure, monitor and manage these risks and a fuller explanation of these and other risks may be found in note 24 to the financial statements.

Additionally the Company has a long-term loan due from its parent, Aviva Group Holdings Limited, and the net asset value of the Company's financial resources is exposed to the potential default on this loan. The loan amounts to £200 million *(2016: £200 million)* and is secured by a legal charge against the ordinary share capital of Aviva Insurance Limited. The credit risk arising from Aviva Group counterparties failing to meet all or part of their obligations is considered remote. Due to the nature of the loan, and the fact that it is not traded, the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the credit worthiness of Aviva plc.

Financial assets that were past due or impaired at 31 December 2017 were £nil *(2016: £nil)*.

Key performance indicators

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

- Profit for the year before tax
- Estimated Regulatory Capital Surplus.

A summary of the KPIs is set out below:

Measure	**2017** **£m**	2016 £m
Financial Performance		
Profit for the year before tax	**592**	1,556
Capital Metrics		
Estimated Regulatory Capital Surplus	**1,131**	1,391

By order of the Board on 29 March 2018

Aviva Company Secretarial Services Limited
Company Secretary

Directors' report

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

Directors

The names of the present directors of the Company appear on page 3 and detailed below are the changes that have occurred during 2017 and post year end.

P L Mylet was appointed as a director of the Company on 3 March 2017.

Officer – Company Secretary

Aviva Company Secretarial Services Limited was company secretary over the year.

Dividends

Interim ordinary dividends of £335 million on the Company's ordinary shares were declared and paid during 2017 *(2016: £nil)*. The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2017 *(2016: £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 on page 4. In addition, the financial statements include notes on: the Company's capital structure (note 23); management of its major risks including market, credit and liquidity risk (note 24); and derivative financial instruments (note 25).

The Company and its ultimate holding company, Aviva plc, have considerable financial resources together with a diversified business model, with a spread of business and geographical reach. As a consequence, the directors believe that the Company is well placed to manage its business risks. The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future. After making enquiries, the directors have continued to adopt the going concern basis in preparing the financial statements and have not identified any material uncertainties to the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.

Major Events

There have been no major events during the year.

Future Outlook

Likely future developments in the business of the Company is discussed in the Strategic Report on page 4.

Events since the Statement of Financial Position

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

Financial instruments and financial risk management

The business of the Company includes the use of financial instruments. Details of the Company's risk management objectives and policies and exposures to risk relating to financial instruments are set out in note 24 to the financial statements.

Employees

The Company has no employees. All staff engaged in activities of the Company are employed by a subsidiary undertaking of Aviva plc, Aviva Employment Services Limited. Disclosures relating to employees may be found in the annual report and financial statements of this company. The Company receives a recharge for the provision of staff from this company.

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

Disclosure of information to the Auditors

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

(a) so far as the director is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware; and

(b) each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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 sections 309A to 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. In preparing these financial statements, the directors have also elected to comply with IFRSs issued by the International Accounting Standards Board (IASB). 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU, and IFRSs as issued by the International Accounting Standards Board (IASB) have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 29 March 2018

Aviva Company Secretarial Services Limited
Company Secretary

Independent auditors' report to the members of Aviva International Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Aviva International Insurance Limited's (the Company's) financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

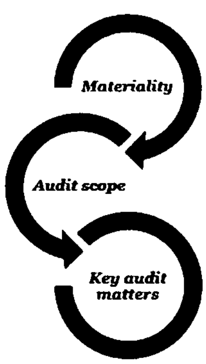
To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in Note 5 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

- Overall materiality: £140 million, based on 0.25% of total assets.



- The Company has reinsurance arrangements with Aviva Life and Pensions UK Limited ('UK L&P'), Aviva Insurance Limited ('AIL') and Aviva Assurances ('FGI'). The Company's financial reporting includes transactions and balances derived from financial information from these companies, and we made use of those companies' auditors to provide evidence over these transactions and balances.
- Based on the output of our risk assessment, full scope audit procedures were performed over UK L&P and AIL, which had the most significant impact on the financial statements of the Company.
- For FGI, we identified specific account balances which were considered to be significant in size or audit risk at the financial statement line item level in relation to the Company, and scoped our audit to include detailed testing of those account balances.

Our risk assessment identified the following key audit matters:

- Valuation of long term business provision (UK L&P)
- Valuation of general insurance liabilities (AIL and FGI)
- Valuation of hard to value investments (UK L&P)

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

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud.

We designed audit procedures at the Company to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the Company's financial statements, including but not limited to, the Companies Act 2006, the Prudential Regulation Authority's regulations and the UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, review of correspondence with legal advisors, enquiries of management, review of work performed by other auditors and review of internal audit reports in so far as they related to the financial statements.

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

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

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Valuation of long term business provision (UK L&P)	
For the long term business provision, the valuation of the provisions for the settlement of future claims involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these liabilities.	In performing our audit over these insurance liabilities we have used actuarial specialists as part of our team to conduct some of the testing. The work included the following procedures: • We understood the governance process in place to determine the insurance contract liabilities, including testing the associated financial reporting control framework. • We tested the design and operating effectiveness of controls over the accuracy and completeness of the data used. We tested the underlying data to source documentation on a sample basis. • Using our actuarial specialist team members, we applied our industry knowledge and experience and we compared the methodology, models and assumptions used against recognised actuarial practices. • We tested the key judgements and controls over the preparation of the manually calculated components of the liability. We focused on the consistency in treatment and methodology period-on-period, across life insurance funds and with reference to recognised actuarial practice. • We used the results of an independent PwC annual benchmarking survey of assumptions to further challenge the assumption setting process by comparing certain assumptions used relative to industry peers. • We assessed the disclosures in the Annual Report and Financial Statements 2017.

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

Key audit matter	***How our audit addressed the key audit matter***
	As part of our consideration of the entire set of assumptions, we focussed on the Annuitant Mortality, Credit Default and Expense assumptions given their significance to the Company's result and the level of judgement involved. These have been considered in greater detail below. *Based on the work performed we found that the assumptions used were supported by the evidence we obtained.*

As part of our consideration of the complete set of assumptions we focused particularly on the following three assumptions within the long term business provision, given their significance to the Company's result and the level of judgement involved.

Annuitant Mortality Assumptions (Annuity business in UK L&P) Annuitant mortality assumptions require a high degree of judgement due to the number of factors which may influence mortality experience. The differing factors which affect the assumptions are underlying mortality experience (in the portfolio), industry and management views on the future rate of mortality improvements and external factors arising from developments in the annuity market. There are two main components to the annuitant mortality assumptions: • Mortality base assumption: this component is typically less subjective as it is derived using the external Continuous Mortality Investigation (CMI) tables, adjusted for internal experience. However, judgement is required in choosing the appropriate table and fitting internal experience to this table. • Rate of mortality improvements: this component is more subjective given the lack of data and the uncertainty over how life expectancy will change in the future. Management has adopted the most recent CMI 2016 model and dataset in setting this assumption with specific adjustments to reflect the profile of their portfolio and their views on the rate of mortality improvement. In addition, a margin for prudence is applied to the annuitant mortality assumptions.	In addition to the procedures above, and in respect of the annuitant mortality assumptions: • We tested the methodology used by management to derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience. This included evaluating management's choice of, and fitting to, the CMI base tables and the adoption of the CMI 2016 model and dataset for improvements and the margin for prudence. • We assessed the results of the experience investigations carried out by management for the annuity business to determine whether they provided support for the assumptions used by management. • We compared the mortality assumptions selected by management against those used by their peers. *Based on the work performed we found that the assumptions used were supported by the evidence we obtained.*
Credit default assumptions for illiquid assets (UK L&P) UK L&P manages the funds withheld from AII. These funds are invested in asset classes with significant credit risk, notably, commercial mortgages and equity release mortgages. Management use an active approach to setting the assumptions. A long term deduction for credit default is made from the current market yields and a supplementary allowance is also held to cover the risk of higher short term default rates along with a margin for prudence.	In addition to the procedures above, and in respect of the credit default assumptions: • We tested the methodology and credit risk pricing models used for commercial and equity release mortgages by management to derive the assumptions with reference to relevant rules and actuarial guidance, including the adoption of an appropriate prudence margin and by applying our industry knowledge and experience. • We validated significant assumptions used by management by ensuring consistency with the assumptions used for the valuation of the assets, and against market observable data (to the extent available and relevant) and our experience of market practices. *Based on the work performed we found that the assumptions used were supported by the evidence we obtained.*
Expense Assumptions (UK L&P) Future maintenance expenses and expense inflation assumptions are used in the measurement of insurance contract	In addition to the procedures above, and in respect of the expense assumptions: • We tested the methodology used by management to

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

Key audit matter	*How our audit addressed the key audit matter*
liabilities. The assumptions reflect the expected future expenses that will be required to maintain the in-force policies at the balance sheet date, including an allowance for project costs and a margin for prudence. The assumptions used require significant judgement.	derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience. This included testing the split of expenses between acquisition and maintenance by agreeing a sample to supporting evidence. • We validated significant assumptions used by management, including the margin for prudence and the rate of inflation against past experience, market observable data (to the extent available and relevant) and our experience of market practices. • We tested that the assumptions appropriately reflect the expected future expenses for maintaining policies in force at the balance sheet date, which includes consideration of the allowance for project costs. *Based on the work performed we found that the assumptions used were supported by the evidence we obtained.*
Valuation of general insurance liabilities (AIL and FGI)	
General insurance liabilities are based on an estimated ultimate cost of all claims incurred but not settled at 31 December 2017, whether reported or not, together with the related claims handling costs. The valuation of these general insurance liabilities is a significant accounting estimate in the financial statements and involves a significant degree of judgement. Key areas of focus this year were: • The underlying volatility attached to estimates for the larger classes of business, such as motor, where small changes in assumptions can lead to large changes in the level of the estimate held and the reported combined operating ratio. • The risk of inappropriate assumptions used in determining current year estimates for the Company. Given that limited data is available, especially for "long-tailed" classes of business, there is greater reliance on expert judgement in their estimation. • The risk of inappropriate methodologies and assumptions used to determine estimates for UK bodily injury claims, in particular following the latest reduction in the Ogden discount rate and the ongoing consultation by the UK Government. • The risk that estimates in respect of natural catastrophes and other large claims losses are inappropriate. There is significant judgment involved in the estimation of such losses, particularly as they are often estimated based on limited data.	In performing our audit over insurance claims liabilities we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included: • Developing independent point estimates for classes considered to be higher risk, particularly focusing on the largest and most uncertain estimates, as at 30 September 2017 and performing roll-forward testing to 31 December 2017. For these classes, we compared our re-projected estimates to those booked by the directors to form part of our determination as to whether the overall estimated insurance claims liabilities represent a reasonable estimate; • For the other classes of business, we tested the methodology and assumptions used by the directors to derive their estimates and whether these produced reasonable estimates based on the Company's facts and circumstances; • For classes of business affected by the Ogden discount rate change, we evaluated the directors' estimate in the context of the facts and circumstances known as at 31 December 2017 and the uncertainty of future rate changes; and • Tested large loss claims estimates arising from known events by evaluating the underlying information, including examining claims loss adjuster reports. In performing the above, we have also considered and tested the following: • The internal control environment in place over insurance claims liabilities including: o Governance control activities; and o Control activities supporting key data used in the estimation process. • The underlying relevant data (including but not limited to claims case estimates and paid claims) to relevant evidence; • The directors' assessment of estimation uncertainty.

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

Key audit matter	*How our audit addressed the key audit matter*
	• We assessed the disclosures in the Annual Report and Financial Statements 2017. Additionally we: • Examined prior year run-off of previous estimates; • Considered whether any of our audit procedures gave rise to an indication of management bias. *Based on the work performed we found that the methodology and assumptions used to value general insurance liabilities were supported by the evidence obtained.*
Valuation of hard to value investments (UK L&P)	
The valuation of the investment portfolio involves judgement and continues to be an area of inherent risk. The risk is not uniform for all investment types and is greatest for the following, where the investments are hard to value because quoted prices are not readily available: • Commercial mortgage loans; • Equity release and UK securitised mortgage; and • Collateralised loan obligations and non-recourse loans.	We assessed the Directors' approach to valuation for these hard to value investments by performing the following procedures: • We tested the operation of data integrity and change management controls for the models, which we baseline every three years; • We agreed data inputs to underlying documentation on a sample basis; • We evaluated the methodology and assumptions used by management, including yield curves, discounted cash flows, property growth rates, longevity and liquidity premiums as relevant to each asset class; • Using our valuation experts, we performed independent valuations for a sample of collateralised loans, non-recourse loans and structured bonds; and • We assessed the disclosures in the Annual Report and Financial Statements 2017. *Based on the work performed and the evidence obtained we found that the assumptions used were supported by the evidence we obtained.*

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 and activities of the Company, the accounting processes and controls, and the industry in which it operates.

The principal activity of the Company is to act as the onshore reinsurance vehicle for the Aviva plc Group. The company has reinsurance arrangements with UK L&P, AIL and FGI. The Company's financial reporting includes transactions and balances derived from financial information from these companies, and we made use of those companies' auditors to provide evidence over these transactions and balances. In determining the scope of the audit, we performed risk assessment procedures which included understanding each of the companies' business operations, internal control environment and process for the preparation of financial information. We identified which of those companies were of most significance to the audit of the Company based on the relative impact of the financial information included in the Company's financial statements derived from them.

Based on the output of our risk assessment, full scope audit procedures were performed over UK L&P and AIL, which had the most significant impact on the financial statements of the Company.

For FGI, we identified specific account balances which were considered to be significant in size or audit risk at the financial statement line item level in relation to the Company, and scoped our audit to include detailed testing of those account balances.

Where the work was performed by other auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the Company financial statements as a whole. We maintained regular and timely communication with the other audit teams, including performing on-site visits, conference calls and written communications.

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

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	£140 million.
How we determined it	0.25% of total assets.
Rationale for benchmark applied	In determining our materiality, we have considered financial metrics which we believe to be relevant to the primary users of the Company's financial statements, being the parent company and the regulator. We concluded total assets was the most relevant benchmark to these users. Total assets represents the overall size of the Company and reflects the Company's ability to meet obligations as they fall due.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £6.6 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

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

P. N. Pannell

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

29 March 2018

Accounting policies

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

(A) Basis of presentation

The financial statements of the Company have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and 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. The financial statements have been prepared on the going concern basis as explained in the Directors' report on page 6.

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

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

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

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

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

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

(ii) **Amendments to IAS 7 – Disclosure Initiative**
The amendments to IAS 7 *Statement of Cash Flows*, which form part of the IASB's Disclosure Initiative, require disclosure of the movements in liabilities arising from financing activities with cash and non-cash changes presented separately. The adoption of this amendment has been reflected in the Company's financial statements.

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

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

The IASB has issued the following new standards, which are not yet effective and have not been adopted early by the Company, but the changes are expected to have a significant impact upon the Company:

(i) **IFRS 9, Financial Instruments (including amendments to IFRS 4, Insurance Contracts)**
In July 2014, the IASB published IFRS 9 Financial Instruments which will replace IAS 39 *Financial Instruments: Recognition and Measurement.* The standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach.

Accounting policies continued

(A) Basis of presentation continued

(i) IFRS 9, Financial Instruments (including amendments to IFRS 4, Insurance Contracts) continued
In September 2016, the IASB published amendments to IFRS 4 *Insurance Contracts* that address the accounting consequences of the application of IFRS 9 to insurers prior to the publication of the forthcoming accounting standard for insurance contracts, IFRS17, which replaces IFRS 4. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9 until 1 January 2021 at the latest. The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied.

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

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

The main features of the new accounting model for insurance contracts are as follows: the measurement of the present value of future cash flows incorporating an explicit risk adjustment and remeasured every reporting period (the fulfilment cash flows); a contractual service margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (coverage period); the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period; and extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

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

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

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

(ii) **Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions**
In June 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*. The amendments are effective from 1 January 2018 and have not yet been endorsed by the EU.

(iii) Annual Improvements to IFRSs 2014-2016
These improvements consist of amendments to three IFRSs including IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates*. The amendments to IFRS 1 and IAS 28 are effective for annual reporting periods beginning on or after 1 January 2018 and the amendment to IFRS 12 for annual reporting periods beginning on or after 1 January 2017. These amendments have not yet been endorsed by the EU.

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

Accounting policies continued

(A) Basis of presentation continued

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

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

(B) Critical accounting policies and the use of estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the Income Statement, Statement of Financial Position, other primary statements and notes to the financial statements.

Critical accounting policies
The major areas of judgement on policy application are considered to be on insurance contract liabilities (set out in accounting policy L).

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

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

Item		Accounting policy	Notes
Insurance contract liabilities	The principal assumption underlying the techniques used to estimate life insurance liabilities, is that a company's past mortality experience and population mortality experience, can be used to project a company's future mortality experience and hence claims costs for annuity and protection business. The principal assumption underlying the techniques used to estimate general insurance claims provisions is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs.	L	16
Derivative financial instruments	Fair values are obtained from quoted market prices or, if these are not available by using valuation techniques such as discounted cash flow models or option pricing models.	P	25

(C) Subsidiaries

Subsidiaries are those entities (including special purpose entities) in which the Company, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits.

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

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

Accounting policies continued

(D) 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 monetary financial assets measured at fair value and designated as held at fair value through profit and loss (FVTPL) are included in foreign exchange gains and losses in the Income Statement. Translation differences on non-monetary items, such as equities which are designated as FVTPL, are reported as part of the fair value gain or loss, whereas such differences on available for sale equities are included in other comprehensive income.

(E) 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 the account the asset's use that is physically possible, legally permissible and financially feasible. Where the carrying amount of a non-financial asset exceeds the fair value, the carrying amount is reduced to the fair value, and a charge made to impairment.

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.

(F) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

As noted in policy A above, insurance contracts in general continue to be measured and accounted for under existing accounting practices at the date of transition to IFRS ("grandfathered") or the date of the acquisition of the entity, in accordance with IFRS 4. IFRS accounting for insurance contracts in UK companies was grandfathered at the date of transition to IFRS and determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers (subsequently withdrawn by the ABI in 2015).

The accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements. When accounting policies or accounting estimates have been changed and adjustments to the measurement basis have occurred then the financial statements of that year will have disclosed the impacts accordingly.

(G) Premiums earned

(i) Premiums written – General Business
Premiums written are recorded on the accruals basis. Premiums are earned on a pro-rata basis over the terms of the underlying policies, and unearned premiums are calculated on either a daily or monthly pro-rata basis. Premium adjustments are recorded when notified. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

(ii) Premiums written – Long term Business
Long-term business premiums are recognised as income when receivable under the terms of the underlying treaties to which they relate.

(H) Other fee and commission income

Other fee and commission income is recognised as the services are provided.

Accounting policies continued

(I) Net investment income

Investment income consists of dividends, interest receivable for the year, realised gains and losses, and unrealised gains and losses on fair value investments (as defined in policy E). Interest income is recognised as it accrues, taking into account the effective yield on the investment.

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.

(J) Receivables and other financial assets

Receivables and other financial assets, including the deposits held by cedants, are initially recognised at cost, being fair value. Deposits held by cedant undertakings represent funds withheld under the terms of the quota share reinsurance arrangements, and in accordance with those arrangements are remeasured to reflect the relevant underlying asset and liability fair values within the cedants. Subsequent to initial measurement all other receivables are measured at amortised cost which, given the short term nature of these items, is considered a reasonable approximation to fair value.

(K) Payables and other financial liabilities

Payables and other financial liabilities are initially recognised at cost, being fair value. Subsequent to initial measurement payables are measured at amortised cost which, given the short term nature of these items, is considered a reasonable approximation to fair value.

(L) Insurance contract liabilities

Claims

Long-term business claims reflect the cost of all claims arising during the year, including claims handling costs.

General insurance and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Insurance provisions

(i) Long-term business provisions

Under IFRS 4, insurance contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting practices. Calculation of the long-term business provisions are based on UK regulatory requirements, prior to the adoption of Solvency II, adjusted to remove certain regulatory reserves and margins in assumptions, notably for annuity business. Each calculation represents a determination within a range of possible outcomes, where the assumptions used in the calculations depend on the prevailing circumstances. The principal assumptions are disclosed in note 16.

(ii) Outstanding claims provisions

General insurance and health outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the Statement of Financial Position date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the Statement of Financial Position date. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques and assumptions are given in note 16.

Provisions for latent claims and claims that are settled on an annuity basis such as structured settlements are discounted, using the relevant swap curve including an illiquidity premium, in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims and the nature of the liabilities. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected as a change in insurance liabilities. The range of discount rates used is described in note 16.

Accounting policies continued

(L) Insurance contract liabilities continued

(ii) Outstanding claims provisions continued

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

(iii) Provision for unearned premiums

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

(iv) Liability adequacy

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

(v) Other assessments and levies

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

(M) Reinsurance

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

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

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

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

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

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

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

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Accounting policies continued

(O) Financial investments

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

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

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

(P) Derivative financial instruments

Derivative financial instruments include over the counter credit swaps that derive their value from fluctuations in the credit worthiness of a basket of European listed corporates. All derivatives are initially recognised in the Statement of Financial Position at their fair value, which is usually represented on initial recognition by their cost. They are subsequently re-measured at their fair value, with the method of recognising movements in this value depending on whether they are designated as hedging instruments, and if so, the nature of the item being hedged.

Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models and option pricing models. All derivatives are carried as assets when the fair values are positive and liabilities when the fair values are negative.

Derivative contracts may be traded on an exchange or over the counter (OTC). Exchange-traded derivatives are standardised and include certain futures and options contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, swaps, caps and floors. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Many OTC transactions are contracted and documented under International Swaps and Derivatives Association (ISDA) master agreements or their equivalent, which are designed to provide legally enforceable set-off in the event of default, reducing the Company's exposure to credit risk. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the Statement of Financial Position as they do not represent the fair value of these transactions. These amounts are disclosed in note 25.

The Company has collateral agreements in place with relevant counterparties. Accounting policy R below covers collateral, both received and pledged, in respect of these derivatives.

Derivatives are treated as held for trading, and fair value gains and losses are recognised immediately in the income statement.

(Q) Loans

Loans with fixed maturities are recognised when cash is advanced to borrowers. Loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method. Loans with indefinite future lives are carried at unpaid principal balances or cost.

To the extent that a loan is considered to be uncollectable, it is written off as impaired through the Income Statement. Any subsequent recoveries are credited to the Income Statement.

At each reporting date, the directors review loans carried at amortised cost for objective evidence that they are impaired and uncollectable, either at the level of an individual security or collectively within a group of loans with similar credit risk characteristics. To the extent that a loan is uncollectable, it is written down as impaired to its recoverable amount, measured as the present value of expected future cash flows discounted at the original effective interest rate of the loan, including any collateral receivable. Subsequent recoveries in excess of the loan's written-down carrying value are credited to the Income Statement.

Accounting policies continued

(R) Collateral

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

Collateral received in the form of cash, which is not legally segregated from the Company, is recognised as an asset in the Statement of Financial Position with a corresponding liability for the repayment. Non-cash collateral received is not recognised in the Statement of Financial Position unless the transfer of the collateral meets the derecognition criteria from the perspective of the transferor. Such collateral is typically recognised when the Company either (a) sells or re-pledges these assets in the absence of a default, at which point the obligation to return this collateral is recognised as a liability; or (b) the counterparty to the arrangement defaults, at which point the collateral is seized and recognised as an asset.

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

(S) Deferred acquisition costs and other assets

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

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

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

(T) Statement of Cash Flows

Cash and cash equivalents

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

Operating cash flows

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

(U) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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

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

Accounting policies continued

(V) Income taxes

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

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

Current and deferred tax, relating to items recognised in Other Comprehensive Income and directly in equity, is similarly recognised in Other Comprehensive Income and directly in equity respectively. Deferred tax related to fair value re-measurement of available for sale investments and other amounts charged or credited directly to Other Comprehensive Income is recognised in the Statement of Financial Position as a deferred tax asset or liability.

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

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

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

(W) 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.

Income Statement
For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Income	1		
Gross written premiums		**7,513**	47,022
Premiums written net of reinsurance		**7,513**	47,022
Net change in provision for unearned premiums		**(25)**	(1,183)
Net earned premiums	G & L	**7,488**	45,839
Net investment income	I	**3,765**	5,454
Other income	D & H	**22**	14
		11,275	51,307
Expenses	2		
Claims and benefits paid, net of recoveries from reinsurers	L	**(5,623)**	(5,636)
Change in insurance liabilities, net of reinsurance	L	**(4,845)**	(42,913)
Fee and commission expense		**(207)**	(1,195)
Other expenses		**(8)**	(7)
		(10,683)	(49,751)
Profit for the year before tax		**592**	1,556
Tax charge	V & 6	**(114)**	(236)
Profit for the year		**478**	1,320

The accounting policies (identified alphabetically) on pages 15 to 23 and notes (identified numerically) on pages 29 to 63 are an integral part of these financial statements.

Statement of Comprehensive Income
For the year ended 31 December 2017

	2017 £m	2016 £m
Profit for the year	**478**	1,320
Other comprehensive income, net of tax	**-**	-
Total comprehensive income for the year	**478**	1,320

The accounting policies (identified alphabetically) on pages 15 to 23 and notes (identified numerically) on pages 29 to 63 are an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2017

	Note	Ordinary share capital £m	Retained earnings £m	Total equity £m
Balance at 1 January 2016		730	462	1,192
Profit for the year		-	1,320	1,320
Total comprehensive income for the year		-	1,320	1,320
Issue of share capital	14	50	-	50
Balance at 31 December 2016		**780**	**1,782**	**2,562**
Profit for the year		-	**478**	**478**
Total comprehensive income for the year		-	**478**	**478**
Dividends paid	7	-	**(335)**	**(335)**
Balance at 31 December 2017		**780**	**1,925**	**2,705**

The accounting policies (identified alphabetically) on pages 15 to 23 and notes (identified numerically) on pages 29 to 63 are an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2017

	Note	2017 £m	2016 £m
Assets			
Financial investments	10	**196**	1,143
Reinsurance assets	M & 17	**6**	6
Receivables and other financial assets	J & 11	**54,725**	49,532
Deferred acquisition costs, prepayments and accrued income	S & 12	**328**	307
Cash and cash equivalents	T & 22(b)	**810**	43
Total assets		**56,065**	51,031
Equity			
Ordinary share capital	14	**780**	780
Retained earnings	15	**1,925**	1,782
Total equity		**2,705**	2,562
Liabilities			
Gross insurance liabilities	L & 16	**52,811**	47,887
Provisions	U & 18	**4**	-
Current tax liabilities	V & 13	**113**	236
Payables and other financial liabilities	K & 19	**425**	340
Other liabilities	K & 20	**7**	6
Total liabilities		**53,360**	48,469
Total equity and liabilities		**56,065**	51,031

The financial statements were approved by the Board of Directors on 29 March 2018 and signed on its behalf by:

Paul Mylet
Director

The accounting policies (identified alphabetically) on pages 15 to 23 and notes (identified numerically) on pages 29 to 63 are an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from / (used in) operations	22(a)	**1,102**	(504)
Net cash generated from / (used in) operating activities		**1,102**	(504)
Cash flows from financing activities			
Proceeds from issue of share capital	14	**-**	50
Cash dividends paid	7	**(335)**	-
Net cash (used in) / generated from financing activities		**(335)**	50
Net increase / (decrease) in cash and cash equivalents		**767**	(454)
Cash and cash equivalents at 1 January		**43**	497
Cash and cash equivalents at 31 December	22(b)	**810**	43

The accounting policies (identified alphabetically) on pages 15 to 23 and notes (identified numerically) on pages 29 to 63 are an integral part of these financial statements.

Notes to the financial statements

1. Details of income

	Note	2017 £m	2016 £m
Gross written premiums			
Long-term insurance business premiums		**4,360**	40,202
General insurance premiums	16(e)	**3,153**	6,820
		7,513	47,022
Change in provision for unearned premiums	16(e)	**(25)**	(1,183)
Net earned premiums		**7,488**	45,839
Other income		**22**	14
Total revenue		**7,510**	45,853
Interest and similar income			
From investments designated as other than trading		**3**	5
From deposits with ceding undertakings		**3,813**	5,465
		3,816	5,470
Other income from financial instruments designated as trading			
Realised (losses)		**(58)**	-
Unrealised gains / (losses)		**2**	(32)
		(56)	(32)
Other income from investments designated as other than trading			
Realised gains		**7**	1
Unrealised (losses) / gains		**(9)**	8
		(2)	9
Income from parent company and subsidiaries			
Interest income		**8**	8
		8	8
Investment expenses		**(1)**	(1)
Net investment income		**3,765**	5,454
Total income		**11,275**	51,307

Gross written premiums in 2017 of £7,513 million *(2016: £47,022 million)* are in respect of the quota share reinsurance agreements entered into between the Company and other Group subsidiaries. A further analysis of the quota share reinsurance premiums is provided below, and additional details on the impacts of these transactions is provided in note 26(a)(iii).

Interest and similar income includes £3,813 million *(2016: £5,465 million)* arising from investment returns on the deposits with ceding undertakings.

Notes to the financial statements continued

1. Details of income continued

	2017 £m	2016 £m
Quota share reinsurance premiums		
Reinsurance of back book liabilities - long term business	-	37,002
Reinsurance of back book liabilities - general insurance & health business	-	3,893
New business premiums - long term business	4,360	3,200
New business premiums - general insurance & health business	3,153	2,927
	7,513	47,022

2. Details of expenses

	Note	2017 £m	2016 £m
Claims and benefits paid, net of recoveries from reinsurers			
Claims and benefits paid - long-term business		3,609	3,490
Claims and benefits paid - general insurance	16(c)(iv)	2,014	1,912
Claims and benefits paid - commutation	16(c)(iv)	-	235
Less: Claims recoveries from reinsurers on general insurance business		-	(1)
		5,623	5,636
Change in insurance liabilities, net of reinsurance			
Change in insurance liabilities - long term business	16(b)(v)	4,843	40,157
Change in insurance liabilities - general insurance	16(c)(iv)	2	2,752
Change in reinsurance asset for insurance provisions	17(c)(i)	-	4
		4,845	42,913
Fee and commission expense, net of reinsurance			
Acquisition costs			
Commission expenses		555	549
Change in deferred acquisition costs	12	(25)	(277)
Other acquisition costs		(323)	923
		207	1,195
Other operating expenses			
Other expenses		8	7
		8	7
Total expenses		10,683	49,751

Notes to the financial statements continued

3. Employees

The Company has no employees (*2016: nil*). All employees are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited. Disclosures relating to employees may be found in the annual report and financial statements of Aviva Employment Services Limited.

4. Directors

Ms Buttigieg, Mr Stoddard and Mr Mylet were all remunerated by Aviva Employment Services Limited, a fellow subsidiary of Aviva plc.

Mr Stoddard was remunerated for his services to the Aviva Group as a whole. He was not remunerated directly for his service as a director of the Company and the amount of time spent performing his duties is incidental to his role across the Aviva Group and details of his emoluments are disclosed in Aviva plc's annual report and financial statements. Mr Stoddard was a director of Aviva plc during the year.

Ms Buttigieg's and Mr Mylet's remuneration is disclosed within the aggregate of key management compensation in note 26 (b).

The fees for Messrs Howe, Thoresen, Williams and Wright are paid for and borne by the Company. In addition, Mr Howe received a fee in respect of his services as a Non-Executive Director of Aviva Life Holdings UK Limited and its subsidiaries, which are also subsidiaries of Aviva plc, and this is disclosed in the annual report and financial statements of those companies.

	2017	2016
	£'000	£'000
Aggregate emoluments	**914**	752
	914	752

During the year, one director (*2016: three*) accrued retirement benefits under money purchase pension schemes in respect of qualifying services.

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

The details of the highest paid director are as follows:

	2017	2016
	£'000	£'000
Aggregate emoluments	**402**	451
Company pension contributions to a money purchase scheme	**3**	7
	405	458

During the year the highest paid director exercised share options and received shares under long term incentive schemes.

5. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors, PricewaterhouseCoopers LLP, in respect of the audit of these financial statements is shown below.

	2017	2016
	£'000	£'000
Fees payable for the audit of the Company's financial statements	**184**	201
Fees payable for other audit related services	**224**	208
	408	409

Fees payable for other audit related services are in relation to the audit of the Solvency II regulatory returns for 2017 and 2016.

Notes to the financial statements continued

6. Tax charge

(a) Tax charged to the Income Statement

The total tax charge comprises:

	2017 £m	2016 £m
Current tax		
For this year	**(113)**	(236)
Adjustment in respect of prior years	**(1)**	-
Total tax charged in the income statement	**(114)**	(236)

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

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

(c) Tax reconciliation

The tax on the Company's profit before tax differs from the tax calculated at the standard United Kingdom corporation tax rate as follows:

	Note	2017 £m	2016 £m
Profit for the year before tax		**592**	1,556
Tax calculated at standard UK corporation tax rate of 19.25% *(2016: 20.00%)*		**(114)**	(311)
Adjustment to tax charge in respect of prior years		**(1)**	-
Surrender of tax losses from group undertakings for no charge		**-**	100
Movement in deferred tax not recognised		**1**	(25)
Tax charged for the year	6(a)	**(114)**	(236)

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

There is no impact on the Company's net assets from the reductions in the rates, as the Company does not have any recognised deferred tax balances.

7. Dividends

	Note	2017 £m	2016 £m
Ordinary dividends declared and charged to equity in the year			
Interim dividends - paid £4,295 per share	14 & 26(a)(iv)	**335**	-
Total dividends for the year		**335**	-

Notes to the financial statements continued

8. Investment in subsidiaries

As at 31 December 2017, the Company has a single investment in a subsidiary undertaking, being CGU Project Services Private Limited, which is in the process of being liquidated. This subsidiary has a fair value of £nil *(2016: £nil)*. Further details of this subsidiary undertaking are listed in note 27.

9. Fair value methodology

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

All financial 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 we use broker quotes 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, we classify the investment 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. Therefore, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset or liability.

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

The Company records investments in listed fixed interest securities as Level 1 in the fair value hierarchy. The Company records its derivative financial instruments as Level 1 in the fair value hierarchy.

Notes to the financial statements continued

9. Fair value methodology continued

(b) Fair value hierarchy

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

		Fair value hierarchy			2017 Statement of financial position
		Level 1	Level 2	Level 3	
	Note	£m	£m	£m	£m
Financial investments					
Debt securities	10	**196**	**-**	**-**	**196**
Financial liabilities					
Derivative financial instruments	25	**(188)**	**-**	**-**	**(188)**
Total		**8**	**-**	**-**	**8**

		Fair value hierarchy			2016 Statement of financial position
		Level 1	Level 2	Level 3	
	Note	£m	£m	£m	£m
Financial investments					
Debt securities	10	1,143	-	-	1,143
Financial liabilities					
Derivative financial instruments	25	(105)	-	-	(105)
Total		1,038	-	-	1,038

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

Transfers between levels of the fair value hierarchy
No transfers occurred between Level 1 and Level 2, nor between Level 2 and Level 3.

10. Financial investments

(a) The carrying amount comprises:

At fair value through profit or loss	**Other than trading**	**2017 Total**
	£m	**£m**
Fixed maturity securities		
Debt securities		
UK Government	**196**	**196**
Total financial investments	**196**	**196**

Notes to the financial statements continued

10. Financial investments continued

(a) The carrying amount comprises continued:

At fair value through profit or loss	Other than trading £m	2016 Total £m
Fixed maturity securities		
Debt securities		
UK Government	1,143	1,143
Total financial investments	1,143	1,143

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

	Cost / amortised cost £m	Unrealised gains £m	Unrealised losses and impairments £m	2017 Fair value £m
Debt securities	**199**	**-**	**(3)**	**196**
	199	**-**	**(3)**	**196**

	Cost / amortised cost £m	Unrealised gains £m	Unrealised losses and impairments £m	2016 Fair value £m
Debt securities	1,135	8	-	1,143
	1,135	8	-	1,143

The Company had £196 million *(2016: £1,143 million)* of financial investments at the Statement of Financial Position date.

The Company measures financial investments at fair value through profit and loss.

The Company held a total of £196 million of UK Governments bonds at the Statement of Financial Position date (*2016: £1,143 million*) all with a maturity date of greater than three months after the Statement of Financial Position date.

Debt securities of £183 million (*2016: £108 million*) have been pledged as collateral to the derivative counterparties against the derivative liabilities held at year end.

Notes to the financial statements continued

11. Receivables and other financial assets

	Note	2017 £m	2016 £m
Loan due from parent company	26(a)(i)	**200**	200
Amounts due from parent company	26(a)(iv)	**64**	52
Amounts due from other Aviva Group companies	26(a)(iv)	**9**	-
Deposits with ceding undertakings	26(a)(iii)	**54,444**	49,280
Receivable for collateral pledged		**8**	-
Total at 31 December		**54,725**	49,532
Expected to be recovered in less than one year		**4,551**	5,994
Expected to be recovered in greater than one year		**50,174**	43,538
		54,725	49,532

Deposits with ceding undertakings represent funds withheld under the terms of the quota share reinsurance arrangements. The receivable for collateral pledged includes £8 million (*2016: £nil*) for cash collateral pledged to the derivative counterparties against the derivative liabilities held at year end.

12. Deferred acquisition costs, prepayments and accrued income

(a) The carrying amount comprises:

	2017 £m	2016 £m
Deferred acquisition costs in respect of insurance contracts	**327**	300
Prepayments and accrued income	**1**	7
Total at 31 December	**328**	307

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

	2017 £m	2016 £m
Carrying amount at 1 January	**300**	21
Commutation	**-**	(21)
Acquisition costs deferred during the year	**804**	712
Amortisation	**(779)**	(414)
Foreign exchange rate movements	**2**	2
Carrying amount at 31 December	**327**	300

Deferred acquisition costs include £304 million *(2016: £298 million)* relating to the general insurance business, and £23 million *(2016: £2 million)* relating to life insurance business. Deferred acquisition costs relating to general insurance business are generally recoverable within one year of the Statement of Financial Position date.

(c) Prepayments and accrued income:

Prepayments and accrued income are expected to be recovered within one year of the Statement of Financial Position date.

Notes to the financial statements continued

13. Tax assets and liabilities

(a) Current tax

The Company has a current tax liability of £113 million *(2016: £236 million)* payable in more than one year.

(b) Deferred taxes

The Company has no recognised temporary differences, and unrecognised temporary differences of £115 million *(2016: £123 million)* carried forward.

14. Ordinary share capital

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

	2017 £m	2016 £m
Allotted, called up and fully paid		
78,000 *(2016: 78,000)* ordinary shares of £10,000 each	**780**	780

Movements in ordinary share capital during the year are as follows:

	Number of shares	Share capital £m
At 1 January 2017	78,000	780
At 31 December 2017	**78,000**	**780**

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.

15. Retained earnings

	Note	2017 £m	2016 £m
At 1 January		**1,782**	462
Profit for the year		**478**	1,320
Dividends	7	**(335)**	-
At 31 December		**1,925**	1,782

All of the retained earnings are considered distributable.

Notes to the financial statements continued

16. Insurance liabilities

(a) Carrying amount

Insurance liabilities at 31 December comprise:

	2017 £m	2016 £m
Long term business provision	**48,330**	43,487
General insurance and health outstanding claims provisions	**2,620**	2,458
General insurance and health provision for claims incurred but not reported	**494**	613
	3,114	3,071
Provision arising from liability adequacy tests	**7**	6
Provision for unearned premiums	**1,360**	1,323
Total at 31 December	**52,811**	47,887

Of the above total £47,690 million *(2016: £42,001 million)* is expected to be paid more than a year after the Statement of Financial Position date.

(b) Long term business provision

(i) Business description

As noted in the Strategic Report, at the start of 2017, the Company has quota share reinsurance arrangements with fellow Group subsidiaries: AIL, FGI, UK L&P and UKA. In 2017, UKA transferred the whole of its business to UK L&P, under a Part VII Transfer of the Financial Services and Markets Act 2000. Going forwards annuity business in the United Kingdom (UK) will be written by UK L&P in a sub-fund comprising of the business transferred from UKA, and this annuity business is still subject to the quota share reinsurance arrangement previously with UKA.

(ii) Methodology

The reserves are calculated using the gross premium method which discounts the projected future cash flows. The cash flows are calculated using explicit assumptions for investment returns, inflation, discount rates, mortality, and future expenses. Assumptions are set on a prudent basis and can vary by contract type and reflect current and expected future experience.

For unit-linked business, a reserve equal to the bid value of the units allocated to policyholders is held. In addition, a non-unit reserve is held. The prospective non-unit reserve is calculated by projecting the future non-unit cash flows using prudent assumptions. Where appropriate, allowance for persistency is based on actual experience adjusted to take into account assumed future trends.

(iii) Company Policy

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions, where discretion is permitted. In turn, the assumptions used depend on the circumstances prevailing. Provisions are most sensitive to assumptions regarding future investment returns, discount rates, and mortality rates.

(iv) Assumptions

Maintenance expense assumptions for non-profit business are generally expressed as a 'per policy' charge set with regards to an allocation of current year expense levels by broad category of business and using the policy counts for in-force business. The assumptions also include an allowance for prudence and increase by future expense inflation over the lifetime of each contract. Expense inflation is assumed to be in line with RPI. An additional liability is held if projected per-policy expenses in future years are expected to exceed current assumptions. Further, explicit project expense liabilities are held for non-discretionary project costs that typically relate to mandatory regulatory requirements. Expense-related liabilities are only held where expenses are not covered by anticipated future profits in the liability methodology, notably for unit-linked contracts.

Notes to the financial statements continued

16. Insurance liabilities continued

(b) Long term business provision continued

(iv) Assumptions continued

Valuation discount rate assumptions are set with regard to yields on the supporting assets and the general level of long-term interest rates as measured by gilt yields. An explicit allowance for risk is included by making a deduction from the yields on corporate bonds, mortgages and deposits, based on historical default experience of each asset class. In the case of Equity Release assets, the allowance for risk reflects a prudent assessment of the expected losses arising from the No-Negative-Equity guarantee. A deduction is also made for reinvestment risk where appropriate. A further margin for risk is then deducted for all asset classes.

Valuation discount rates are as follows.

	Valuation discount rates		
	Gross of investment expenses		Net of investment expenses as reported in 2016*
	2017	2016	2016
Assurances			
Life conventional non-profit	**1.2%**	1.3%	1.3%
Pensions conventional non-profit	**1.5%**	1.6%	1.6%
Annuities**			
Immediate and deferred annuities	**2.8%**	2.9%	2.8%
Non-unit reserves			
Life	**1.2%**	1.3%	1.3%
Pensions	**1.5%**	1.6%	1.6%
Income Protection***			
Active lives	**1.0%**	1.1%	1.1%
Claims in payment – level and index linked	**1.0%**	(0.2)%-1.1%	(0.2)-1.1%

* The valuation discount rates disclosed for 2017 are gross of investment expenses and prior year comparatives have been provided on the same basis. Comparatives as disclosed in 2016, net of investment expenses, have also been provided.

** The valuation discount rates for annuities is set as a margin over swaps with a 2.5% margin for prudence then being applied to the total. This has been shown as an equivalent flat rate in the table above.

*** Income protection business now uses a nominal swaps curve for all sub-classes and has been shown as an equivalent flat rate in the table above. Previously, a real interest rate was used for the index linked claims in payment.

For conventional immediate annuity business the allowance for risk comprises long-term assumptions for defaults or (in the case of equity release assets) losses arising from the No-Negative-Equity guarantee. These allowances vary by asset category and for some asset classes by rating. The risk allowances made for corporate bonds, mortgages (including healthcare mortgages, commercial mortgages and infrastructure assets), and Equity Release for business equated to 48 bps, 40 bps, and 102 bps respectively at 31 December 2017 (*2016: 47 bps, 48 bps, and 102 bps respectively*).

For corporate bonds, the allowance represented approximately 37% of the average credit spreads.

Notes to the financial statements continued

16. Insurance liabilities continued

(b) Long term business provision continued

Mortality assumptions are set with regard to recent Company experience and general industry trends. The base mortality tables are unchanged but assumptions have been updated in 2017 to allow for recent experience:

	Mortality tables used 2017	Mortality tables used 2016
Assurances		
Non-profit mortality	**AM00/AF00 or TM08/TF08 or ELT15 adjusted for smoker status and age/sex specific factors**	AM00/AF00 or TM00/TF00 or ELT15 adjusted for smoker status and age/sex specific factors
Non-profit critical illness	**AC08 or IC94 or reinsurer rates adjusted for smoker status and age/sex specific factors**	CIM11A or IC94 or reinsurer rates adjusted for smoker status and age/sex specific factors
Non-profit PHI inception rates	**CIDA adjusted by factors derived from our own experience**	CIDA adjusted by factors derived from our own experience
Non-profit PHI recovery rates	**CMIR12 adjusted by factors derived from our own experience**	CMIR12 adjusted by factors derived from our own experience
Pure endowments and deferred annuities before vesting	**AM00/AF00 adjusted**	AM00/AF00 adjusted
Annuity business after vesting	**PCMA00/PCFA00 adjusted, plus allowance for future mortality improvement**	PCMA00/PCFA00 adjusted, plus allowance for future mortality improvement

For individual pensions annuity business, the underlying mortality assumptions for Males are 104.0% of PCMA00 (*2016: 98.0% of PCMA00*) with base year 2000; for Females the underlying mortality assumptions are 94.5% of PCFA00 (*2016: 91.0% of PCFA00*) with base year 2000. A negative provision of £59 million (*2016: £nil*) is also held to allow for higher mortality at old ages being experienced in our portfolio relative to the above assumptions.

For all the main portfolios of annuities, improvements are based on "CMI_2016 (S=7.5) Advanced with adjustments" (*2016: CMI_2015*) with a long-term improvement rate of 1.75% (*2016: 1.75%*) for males and 1.5% (*2016: 1.5%*) for females, both with an addition of 0.5% (*2016: 0.5%*) to all future annual improvement adjustments. The CMI_2016 tables have been adjusted by adding 0.25% and 0.35% to the initial rate of mortality improvements for males and females respectively (to allow for greater mortality improvements in the annuitant population relative to the general population on which CMI_2016 is based), and uses the advanced parameters to taper the long term improvement rates to zero between ages 90 and 115 (the 'core' parameters taper the long term improvement rates to zero between ages 85 and 110).

For pension annuity business, year-specific adjustments are made for business written from 1999 to allow for potential selection effects due to the development of the Enhanced Annuity market and covering possible selection effects from pension freedom reforms. Other adjustments were applied for some of this business depending on factors specific to each annuity, such as health factors, geographical region and annuity size.

Notes to the financial statements continued

16. Insurance liabilities continued

(b) Long term business provision continued

(v) Movements

The following changes have occurred in the long term business provision during the year:

	Note	2017 £m	2016 £m
Carrying amount at 1 January		**43,487**	3,330
Reinsurance of back book liabilities		**-**	36,305
Provisions in respect of new business		**1,895**	1,064
Expected change in business provisions		**(1,252)**	(972)
Variance between actual and expected experience		**3,769**	2,480
Impact of operating assumption changes		**(105)**	(120)
Impact of economic assumption changes		**570**	1,410
Impact of model and other changes		**(34)**	(10)
Change in liability recognised as an expense	2	**4,843**	40,157
Carrying amount at 31 December		**48,330**	43,487

The variance between actual and expected experience primarily relates to better than expected investment performance of unit linked funds, increasing liabilities in respect of unit linked contracts. This better than expected investment performance is due to increases in equity markets in 2017.

Reserve releases for operating assumption changes primarily relate to a change in mortality assumptions for annuities, and a change in expense assumptions.

The impact of expenses on long-term business has resulted in an increase in reserves, following a review of recent experience. This includes recognition of future project expense reserves of £30 million (*2016: £nil*).

Changes in mortality assumptions for annuitant contracts include: the impact of completing a review of the allowance for anti-selection risk, updates reflecting our recent experience, updates to the rate of historic and future mortality improvements, and the adoption of CMI 2016. The impact of these changes was a reduction in liabilities of £297 million.

The impact of economic assumptions on long-term business relates primarily to the change in the valuation discount rate for annuities. A narrowing of credit spreads has decreased the valuation discount rate, which has been partially offset by an increase in risk-free rates and a change to the method used to select assets to back liabilities (resulting in a reduction in liabilities of £77 million).

(c) General insurance liabilities

(i) Provisions for outstanding claims

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

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

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

Notes to the financial statements continued

16. Insurance liabilities continued

(c) General insurance liabilities continued

(ii) Discounting

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

Aviva Insurance Limited

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

Aviva Assurances

Class	Discounting Rate		Mean term of liabilities	
	2017	2016	**2017**	2016
Latent claims	**N/a**	0.0% to 1.24%	**N/a**	15 years
Structured settlements	**(0.23)% to 1.59%**	0.15% to 1.43%	**11 years**	13 years

The gross outstanding claims provision before discounting was £3,201 million *(2016: £3,189 million)*. The period of time which will elapse before the liabilities are settled has been estimated by modelling the expected settlement patterns of underlying claims.

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

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

Due to the uncertainty around the Ogden discount rate, the claim reserves in the UK have been calculated using the current Ogden discount rate of -0.75%, as this is the enacted legislative rate that was announced by the Lord Chancellor last year. The Civil Liability Bill was published on 20 March 2018 with the Ministry of Justice accepting the majority of the recommendations proposed by the Justice Select Committee. The Bill is not expected to be enacted until later in 2018. By way of illustration, should the Ogden discount rate increase in the future by 1%, then this would be expected to reduce reserves by approximately £125 million with an equivalent positive impact on profit before tax.

(iii) Assumptions

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

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

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

Notes to the financial statements continued

16. Insurance liabilities continued

(c) General insurance liabilities continued

(iii) Assumptions continued

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

(iv) Movements

The following changes have occurred in the general insurance claims provisions and the liability adequacy provision during the year:

	Note	**2017** £m	2016 £m
Carrying amount at 1 January		**3,077**	216
Claims losses and expenses incurred in the current year		**2,116**	2,111
Increase in estimated claim losses and expenses incurred in prior years		**(105)**	-
Impact of changes in economic assumptions		**-**	120
Reinsurance of back book liabilities		**-**	2,668
Incurred claims losses and expenses		**2,011**	4,899
Less:			
Payments made on claims incurred in the current year		**(1,163)**	(1,912)
Payments made on claims incurred in prior years		**(851)**	-
Payment made on commutation		**-**	(235)
Claims payments made in the year	2	**(2,014)**	(2,147)
Unwinding of discount		**5**	-
Changes in claims reserve recognised as an expense	2	**2**	2,752
Foreign exchange rate movements		**42**	109
Carrying amount at 31 December		**3,121**	3,077

The discount rates that have been applied to latent claims reserves and periodic payment orders are based on the relevant swap rate, in the relevant currency, having regard to the expected settlement of the claims. The range of discount rates used depends on the duration of the claims and is given in the table in section (c)(ii) above. Any change in discount rates between the start and the end of the accounting period is reflected as an economic assumption change. The increase in claims provisions due to changes in economic assumptions of £nil million *(2016: £120 million)* includes these changes in discount rates and other changes in economic assumptions, being primarily inflation assumptions.

Notes to the financial statements continued

16. Insurance liabilities continued

(d) Loss development tables

(i) Description of tables

The tables that follow present the development of claims payments and estimated ultimate cost of claims for the accident years 2012 to 2016. The upper half of the tables show the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2012, by the end of 2017 £21 million had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £28 million was re-estimated to be £24 million at 31 December 2017. The original estimates will be increased or decreased, as more information becomes known about individual claims and overall claim frequency and severity.

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

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

(ii) Gross figures

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

£m Accident year	2012	2013	2014	2015	2016	2017	Total
Gross cumulative claim payments							
At end of accident year	-	-	(156)	(82)	(1,911)	(1,167)	
One year later	(5)	-	(218)	(162)	(2,764)		
Two years later	(10)	-	(373)	(162)			
Three years later	(20)	-	(373)				
Four years later	(21)	-					
Five years later	(21)						
Estimate of gross ultimate claims							
At end of accident year	28	6	407	153	5,096	2,123	
One year later	29	7	361	162	5,005		
Two years later	31	4	373	162			
Three years later	25	1	373				
Four years later	24	1					
Five years later	24						
Estimate of gross ultimate claims	24	1	373	162	5,005	2,123	**7,688**
Cumulative payments	(21)	-	(373)	(162)	(2,764)	(1,167)	**(4,487)**
Total gross undiscounted reserves	**3**	**1**	**-**	**-**	**2,241**	**956**	**3,201**
Total gross discount	-	-	-	-	(87)	-	**(87)**
Present value in the Statement of Financial Position	**3**	**1**	**-**	**-**	**2,154**	**956**	**3,114**

Notes to the financial statements continued

16. Insurance liabilities continued

(d) Loss development tables continued

(iii) Net of reinsurance

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

£m Accident year	2012	2013	2014	2015	2016	2017	Total
Net cumulative claim payments							
At end of accident year	-	-	(156)	(82)	(1,911)	(1,167)	
One year later	(3)	-	(218)	(162)	(2,764)		
Two years later	(5)	-	(373)	(162)			
Three years later	(13)	-	(373)				
Four years later	(13)	-					
Five years later	(13)						
Estimate of net ultimate claims							
At end of accident year	15	-	407	153	5,096	2,123	
One year later	16	-	361	162	5,005		
Two years later	17	-	373	162			
Three years later	13	-	373				
Four years later	13	-					
Five years later	13						
Estimate of net ultimate claims	13	-	373	162	5,005	2,123	**7,676**
Cumulative payments	(13)	-	(373)	(162)	(2,764)	(1,167)	**(4,479)**
Total net outstanding claims provisions	**-**	**-**	**-**	**-**	**2,241**	**956**	**3,197**
Effect of discounting	-	-	-	-	(87)	-	**(87)**
Present value in the Statement of Financial Position	**-**	**-**	**-**	**-**	**2,154**	**956**	**3,110**

In the loss development tables shown above, the cumulative claims payments and estimates of cumulative claims for each accident year are translated into sterling at the exchange rates that applied at the end of that accident year.

(e) Provision for unearned premiums

The following changes have occurred in the provision for unearned premiums (UPR) during the year:

	Note	2017 £m	2016 £m
Carrying amount at 1 January		**1,323**	103
Commutation		**-**	(103)
Premiums written during the year	1	**3,153**	6,820
Less: Premiums earned during the year		**(3,128)**	(5,534)
Change in provision for unearned premiums	1	**25**	1,183
Foreign exchange rate movements		**12**	37
Carrying amount at 31 December		**1,360**	1,323

Notes to the financial statements continued

17. Reinsurance assets

(a) Carrying amount

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

	2017 **£m**	2016 £m
Long term business provision	**2**	2
Outstanding claims provisions	**3**	3
Provision for claims incurred but not reported	**1**	1
	4	4
Provisions for unearned premiums	**-**	-
Total at 31 December	**6**	6

Of the above total, £5 million *(2016: £5 million)* is expected to be recovered more than a year after the Statement of Financial Position date.

(b) Assumptions

The assumptions used for reinsurance contracts follow those used for insurance contracts, shown in notes 16(b) and 16(c). Reinsurance assets are valued net of an allowance for their recoverability.

(c) Movements

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

(i) Reinsurers' share of outstanding claims provisions and IBNR

	Note	**2017** **£m**	2016 £m
Carrying amount at 1 January		**4**	9
Reinsurers' share of claim losses and expenses incurred in prior years		**-**	(5)
Reinsurers' share of incurred claim losses and expenses		**-**	(5)
Less:			
Reinsurance recoveries received on claims incurred in prior years		**-**	(1)
Reinsurance recoveries received in the year	2	**-**	(1)
Change in reinsurance asset recognised as an expense	2	**-**	(6)
Foreign exchange rate movements		**-**	1
Carrying amount at 31 December		**4**	4

18. Provisions

(a) Carrying amount

	2017 **£m**	2016 £m
Other provisions	**4**	-
Total at 31 December	**4**	-

Notes to the financial statements continued

18. Provisions continued

(b) Movements during the year

	Other provisions £m	Total provisions £m
At 1 January	-	-
Charge for the year	4	4
Total at 31 December	4	4

Other provisions relate to costs arising from litigation on the termination of Capital Maintenance Agreements previously in existence between the company and Aviva USA subsidiaries, which were terminated upon the sale of the USA business. The Company has established this provision following legal proceedings and settlement discussions, which are expected to be court approved in 2018. This provision is fully recoverable under an indemnity with Aviva Group Holdings Limited, and this recovery has been reflected in amounts due from parent company (note 11).

Of the above total, £4 million (*2016: £nil*) is expected to be settled in less than one year after the Statement of Financial Position date.

19. Payables and other financial liabilities

	Note	2017 £m	2016 £m
Amounts due to other Group companies	26(a)(iv)	**237**	235
Derivative financial liabilities	25	**188**	105
Total at 31 December		**425**	340
Expected to be settled in less than one year		**291**	271
Expected to be settled in more than one year		**134**	69
		425	340

All payables and other financial liabilities are carried at cost, which approximates to fair value, except for derivative liabilities, which are carried at their fair values. Amounts due to other group companies of £237 million is related to group tax relief settlement (*2016: liability £8 million reflected in amounts due from parent company note 11*), and is due to be settled in less than one year. The prior year amount of £235 million due to other group companies primarily represented a liability to cover the strengthening of claims reserves following the change in discount rate applicable to determining lump sum personal injury claims in the UK.

20. Other liabilities

	2017 £m	2016 £m
Other liabilities	**7**	6
Total at 31 December	**7**	6

Of the above total, £7 million *(2016: £6 million)* is expected to be settled in less than one year after the Statement of Financial Position date.

Notes to the financial statements continued

21. Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 16 gives details of the estimation techniques used in determining the general business outstanding claims provisions, which are designed to allow for prudence. These are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where experience is worse than that assumed, or future general business claims inflation differs from that expected, there is uncertainty in respect of this liability.

(b) Asbestos, pollution and social environmental hazards

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

(c) Regulatory

The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) regulate and authorise the Company's UK business and in addition monitor the financial resources and organisation of the Company as a whole. The FCA and PRA have broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation, to investigate marketing and sales practices and to require the maintenance of adequate financial resources. The Company's regulator outside the UK, the Prudential and Resolution Control Authority (ACPR) in France, has similar powers to the UK regulators, and operates under the auspices of the French central bank, Banque de France.

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

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

Notes to the financial statements continued

22. Statement of Cash Flows

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

	Note	2017 £m	2016 £m
Profit for the year before tax		**592**	1,556
Adjustments for:			
Foreign exchange gains		**(6)**	(5)
Realised gains on investments	1	**(7)**	(1)
Unrealised losses / (gains) on investments	1	**9**	(8)
Amortisation of discount / premium on fixed interest securities	1	**6**	-
Realised losses on derivatives	1	**58**	-
Unrealised (gains) / losses on derivative liabilities	1	**(2)**	32
		58	18
Changes in working capital:			
Decrease in reinsurance assets		**-**	3
(Increase) in receivables and other financial assets		**(5,139)**	(45,329)
(Increase) in deferred acquisition costs and prepayments		**(19)**	(279)
Increase in insurance liabilities		**4,869**	44,179
Increase in provisions		**4**	-
(Decrease) / increase in payable and other financial liabilities		**(205)**	284
Increase in other liabilities		**1**	1
		(489)	(1,141)
Net disposal / (purchase) of operating assets			
Financial investments		**941**	(937)
Cash used in operations		**1,102**	(504)

(b) Cash and cash equivalents in the Statement of Cash Flows at 31 December comprise:

	2017 £m	2016 £m
Cash at bank and in hand	**-**	27
Cash equivalents	**810**	16
Total at 31 December	**810**	43

23. Capital structure

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

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

Notes to the financial statements continued

23. Capital structure continued

(b) Capital management

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

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

(c) Different measures of capital

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

(i) Accounting basis

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

(ii) Regulatory basis

Relevant capital and solvency regulations are used to measure and report the Company's financial strength. These measures are based on the PRA regulatory requirements under Solvency II, which were effective from 1 January 2016. The regulatory capital tests verify that the Company retains an excess of solvency capital above the required minimum level calculated using a risk-based capital model. The risk management note (note 24) gives further details.

Solvency II "own funds" represents the amount of regulatory capital resources that are available to meet regulatory capital requirements under the Solvency II regime, and is a closely monitored metric. At 31 December 2017 the Company's estimated own funds under Solvency II were £3,839 million *(2016: £3,943 million)*. The Company's own funds are sufficient to meets its capital requirements under Solvency II. The Company fully complied with the relevant regulatory requirements during the year.

(c) Company capital structure

	2017	2016
	£m	£m
Total capital employed	**2,705**	2,562
Financed by:		
Equity shareholders' funds	**2,705**	2,562

24. Risk management

The risk management framework (RMF) in Aviva forms an integral part of the management and Board processes and decision-making framework. The key elements of the Company's risk management framework comprise risk appetite, risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes we use 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 Aviva's risk policies, risks are usually grouped by risk type: credit, market, liquidity, life insurance (including long-term health), general insurance and operational risk. Risks falling within these types may affect a number of metrics including those relating to balance sheet strength, liquidity and profit. They may also affect the service to our cedants, which can be categorised as risks to our brand and reputation.

To promote a consistent and rigorous approach to risk management, 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 Company's compliance with these policies and standards throughout the year is assessed and signed-off annually by the Company's chief executive officer providing assurance to the relevant oversight committees that there is a consistent framework for managing the business and the associated risks. This sign-off is supported by a risk opinion provided by the Company's chief risk officer.

Notes to the financial statements continued

24. Risk management continued

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 risk assessment processes are used to generate risk reports which are shared with the relevant risk committees.

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 tests (where one risk factor, for example such as interest rates, is assumed to vary) and scenario tests (where combinations of risk factors are assumed to vary) to evaluate their impact on the business and the management actions available to respond to the conditions envisaged. For those risk types managed through the holding of capital, we measure and monitor our risk profile on the basis of the Solvency II solvency capital requirement (SCR).

Roles and responsibilities for risk management in the Company are based around the 'three lines of defence model' where ownership for risk is taken at all levels. Line management in the business (the first "line of defence") is accountable for risk management, including the implementation of the risk management framework and embedding of the risk culture. The risk function (the "second line of defence") is accountable for quantitative and qualitative oversight and challenge of the IMMMR process and for developing the risk management framework. Internal Audit (the "third line of defence") provides an independent assessment of the risk 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. Economic capital risk appetites are also set for key risks.

The Company's position against risk appetite is monitored and reported to the Board on a regular basis. Long-term sustainability depends upon the protection of franchise value. The oversight of risk and risk management is supported by the Asset Liability Committee & Operational Risk Committee (ALCO/ORC), which focuses on business, financial, operational and reputational risks.

As a predominantly quota share reinsurer of business written within the Aviva Group, much of the primary risk management activity occurs within the Company's cedants, which are subject to the same Aviva group wide risk policies and business standards. The reinsurance treaties require flows of management information to the Company to allow it to assess, monitor and manage its own risks.

(a) Credit risk

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

The Company's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. Our credit risks arise principally through exposures to debt security investments, structured asset investments, bank deposits, derivative counterparties, mortgage lending and reinsurance counterparties. The Company's management of credit risk is carried out in accordance with Group credit risk processes.

The Company's maximum exposure to credit risk is equal to the carrying value of assets in the Statement of Financial Position.

Notes to the financial statements continued

24. Risk management continued

(a) Credit risk continued

Receivables, financial investments, intercompany loans and reinsurance assets

The Company's principal financial asset is deposits with ceding undertakings of £54,444 million *(2016: £49,280 million)* as disclosed in notes 11 & 26(a)(iii). These deposits arise from the quota share reinsurance agreements between the Company and other group companies as disclosed in the related party transactions note 26(a)(iii). The deposits represent investments in a range of assets exposed to credit risk including government bonds, corporate bonds, commercial mortgages and bank deposits and the Company has direct exposure to movements in the value of or defaults on these investments. The risks on these assets are managed in the first instance by the cedants through the application of a credit limit framework and credit risk appetite, adherence to the credit risk policy and related business standards and through oversight by the cedants' asset liability committees. The Company is exposed to the risk of the cedant defaulting, although this is significantly reduced by the ability of the Company to offset the deposit with ceding undertaking against its obligation to make payments in respect of the cedants insurance liabilities. The Company also has its own asset portfolio which it currently invests in line with a conservative investment strategy including cash and cash equivalents and government bonds. These are also exposed to credit risk. The individual cedant exposures and the aggregate Company exposure is monitored by the Company's ALCO/ORC and subject to agreed credit risk limits set by the Board.

The Company also has a loan due from its parent, Aviva Group Holdings Limited, amounting to £200 million *(2016: £200 million)*, with further amounts due from both its parent and other Group companies amounting to £73 million *(2016: £52 million)*. The credit risk arising from Aviva Group Holdings Limited failing to meet all or part of its obligations is considered remote, as in its most recent audited financial statements dated 31 December 2016 Aviva Group Holdings Limited had net assets of £24,495 million. The loan to Aviva Group Holdings Limited is secured by a legal charge against the ordinary share capital of Aviva Insurance Limited mitigating the risk of loss in the event of Aviva Group Holdings Limited defaulting. Due to the nature of the intra-group loans, and the fact that these loans are not traded, the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the credit worthiness of its counterparties.

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

The following table provides information regarding the aggregated credit risk exposure of the Company for financial assets with external credit ratings, excluding assets 'held for sale'. Deposits with ceding undertakings have been rated by reference to the cedant's own credit rating. 'Non-rated' assets capture assets not rated by external ratings agencies.

						Credit rating	2017 Carrying value in the financial statements
	AAA	**AA**	**A**	**BBB**	**Speculative grade**	**Non-rated**	
	%	**%**	**%**	**%**	**%**	**%**	**£m**
Financial investments	**-**	**100.0%**	**-**	**-**	**-**	**-**	**196**
Deposits with ceding undertakings	**-**	**-**	**100.0%**	**-**	**-**	**-**	**54,444**
Reinsurance assets	**-**	**-**	**100.0%**	**-**	**-**	**-**	**6**

						Credit rating	2016 Carrying value in the financial statements
	AAA	AA	A	BBB	Speculative grade	Non-rated	
	%	%	%	%	%	%	£m
Financial investments	-	100.0%	-	-	-	-	1,143
Deposits with ceding undertakings	-	-	100.0%	-	-	-	49,280
Reinsurance assets	-	-	100.0%	-	-	-	6

Financial investments

Financial investments reflect the Company's holding in UK Government Treasury Bills and liquidity funds denominated in pounds sterling and euro.

Notes to the financial statements continued

24. Risk management continued

(a) Credit risk continued

Reinsurance assets

The Company is exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The Group operates a policy to manage its reinsurance counterparty exposures by limiting the reinsurers that may be used and applying strict limits to each reinsurer. Reinsurance exposures are aggregated with other exposures to ensure that the overall risk is within appetite.

The Company's largest reinsurance counterparty is Aviva Re Limited. At 31 December 2017, the reinsurance asset recoverable from Aviva Re Limited was £6 million *(2016: £6 million)*.

The Company is also indirectly exposed to counterparty risk in respect of reinsurers of the insurers ceding risk to the Company. If these reinsurers default on their obligations the Company will share in the resulting losses as a result of the quota share reinsurance arrangements.

Impairment of financial assets

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

							2017
		Financial assets that are past due but not impaired					
	Neither past due nor impaired	**0 – 3 months**	**3 – 6 months**	**6 months – 1 year**	**Greater than 1 year**	**Financial assets that have been impaired**	**Carrying value in the financial statements**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities	**196**	-	-	-	-	-	**196**
Reinsurance assets	**6**	-	-	-	-	-	**6**
Receivables and other financial assets	**54,725**	-	-	-	-	-	**54,725**

							2016
		Financial assets that are past due but not impaired					
	Neither past due nor impaired	0 – 3 months	3 – 6 months	6 months – 1 year	Greater than 1 year	Financial assets that have been impaired	Carrying value in the financial statements
	£m	£m	£m	£m	£m	£m	£m
Debt securities	1,143	-	-	-	-	-	1,143
Reinsurance assets	6	-	-	-	-	-	6
Receivables and other financial assets	49,532	-	-	-	-	-	49,532

Receivables and other financial assets represent a loan and other amounts due from Group companies as well as deposits with ceding undertakings. There were no material financial assets that would have been past due or impaired had the terms not been renegotiated.

Notes to the financial statements continued

24. Risk management continued

(b) Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly from fluctuations in interest rates, foreign currency exchange rates, and equity and property prices. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held. As for credit risk, the Company is exposed to the underlying performance of the assets representing the deposits with cedants as well as assets that it holds directly. In particular, the Company is exposed to interest rate movements where there is a mismatch between the sensitivity to interest rates of the Company's assets (including deposits with cedants) and liabilities.

The market risk on the assets backing the deposits with the cedants are managed in the first instance by the cedants through the application of market risk appetites and tolerances, adherence to the market risk policy and the relevant business standards and through oversight by the cedants' asset liability committees (ALCOs). The individual cedant exposures and the aggregate Company exposure is monitored by the Company's ALCO/ORC subject to agreed market risk appetites and tolerances.

Interest rate risk also arises from the Company's long term loan due from its parent, Aviva Group Holdings Limited (see note 26(a)(i)). The effect of a 100 basis point increase / decrease in interest rates would be an increase / decrease in interest income (before tax) of £2 million *(2016: increase / decrease of £2 million)*. Sensitivity to changes in interest rates is given in section (f) below.

(c) Liquidity risk

Liquidity risk is the risk of the Company not being able to make payments as they become due because there are insufficient assets in cash form. The Company seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due through the application of the Aviva Group liquidity risk policy and business standard and monitoring the Company's position relative to its agreed liquidity risk appetite.

In addition to the existing liquid resources, expected inflows and the ability to make deposit withdrawal elections in respect of deposits with cedants, in extreme circumstances the Company would approach the Aviva Group for additional short-term borrowing.

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:

					2017
	On demand or within 1 year	**1-5 years**	**Over 5 years**	**No fixed term**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Debt securities	**49**	**147**	**-**	**-**	**196**
Reinsurance assets	**1**	**3**	**2**	**-**	**6**
Receivables and other financial assets	**4,551**	**11,328**	**38,846**	**-**	**54,725**
Cash and cash equivalents	**810**	**-**	**-**	**-**	**810**
	5,411	**11,478**	**38,848**	**-**	**55,737**

					2016
	On demand or within 1 year	1-5 years	Over 5 years	No fixed term	Total
	£m	£m	£m	£m	£m
Debt securities	228	915	-	-	1,143
Reinsurance assets	1	3	2	-	6
Receivables and other financial assets	5,994	10,983	32,470	85	49,532
Cash and cash equivalents	43	-	-	-	43
	6,266	11,901	32,472	85	50,724

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

24. Risk management continued

(c) Liquidity risk continued

For insurance contracts, the analysis of liabilities below is based on the estimated timing of future cash flows. The following table shows the Company's general insurance, life insurance and financial liabilities analysed by duration:

					2017
	Within 1 year	**1-5 years**	**5-15 years**	**Over 15 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
General insurance liabilities	**1,280**	**1,337**	**381**	**123**	**3,121**
Life insurance liabilities	**2,481**	**9,146**	**17,861**	**18,842**	**48,330**
Provisions	**4**	**-**	**-**	**-**	**4**
Payables and other financial liabilities	**291**	**134**	**-**	**-**	**425**
	4,056	**10,617**	**18,242**	**18,965**	**51,880**

					2016
	Within 1 year	1-5 years	5-15 years	Over 15 years	Total
	£m	£m	£m	£m	£m
General insurance liabilities	1,160	1,370	405	142	3,077
Life insurance liabilities	3,403	11,235	17,462	11,387	43,487
Provisions	-	-	-	-	-
Payables and other financial liabilities	271	69	-	-	340
	4,834	12,674	17,867	11,529	46,904

(d) Insurance risk (General Insurance and Life)

The Company is exposed to a range of insurance risks as a result of the reinsurance accepted from cedants.

General insurance risks

General insurance mainly arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source or cause;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten; and
- Inadequate reinsurance protection or other risk transfer techniques.

The majority of the general insurance business reinsured by the Company is short tail in nature such as motor, household and commercial property insurances. General insurance risk written within Aviva Group companies is subject to the general insurance risk policy and related business standards and agreed risk appetites and tolerances and underwriting authorities. External reinsurance is used by cedants to provide protection from aggregations of risk and from catastrophe cover, which in turn reduces the Company's exposure. Oversight of the Company's exposure is carried out in the ALCO/ORC.

Life insurance risks

Life insurance risk can include mortality risk, morbidity risk, longevity risk, persistency risk and policyholder behaviour risk around take-up of insurance guarantees and options. The Company's principal life insurance risk is longevity risk arising from the reinsurance accepted from the annuity business within UK L&P (previously UKA).

Life insurance risk written within Aviva Group companies is subject to the life insurance risk policy and related business standards and agreed risk appetites and underwriting authorities. Oversight of the Company's exposure is carried out in the ALCO/ORC.

Notes to the financial statements continued

24. Risk management continued

(d) Insurance risk (General Insurance and Life) continued

Life insurance risks continued

Longevity risk is carefully monitored against the latest available internal and external industry data and emerging trends. The annuity business within UK L&P has used reinsurance solutions to reduce the risks from longevity and continually monitors emerging market solutions to mitigate this risk further. Such reductions in this exposure would generally also reduce the Company's exposure.

Expense risk is primarily managed through the assessment of profitability and frequent monitoring of expense levels.

(e) Operational risk

Operational risk is the risk of direct or indirect loss, arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment. The Company has limited appetite for operational risk and aims to reduce these risks as far as is commercially sensible in line with the Company's agreed franchise value risk preference. The Company is also exposed to operational risks in the Group cedants through the reinsurance treaties in place. The Group cedants remain responsible for managing their operational risks in line with the group wide operational risk framework including the risk and control self assessment process, but this responsibility does not imply a limit to the Company's exposure.

The Company is primarily responsible for identifying and managing its own operational risks using the group wide operational risk and control management framework including the risk and control self-assessment process. Management must be satisfied that all material risks falling outside risk tolerances are being mitigated, monitored and reported to an appropriate level. Any risks with a high potential impact are monitored centrally on a regular basis. Management use management information to help monitor the status of the risk and control environment and also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning. Oversight is carried out through the ALCO/ORC.

(f) Risk and capital management

The Company uses a number of risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Primarily, a risk-based capital model and scenario tests are used. Sensitivities to economic and operating experience are regularly produced on financial performance metrics to inform Management's decision making and planning processes and quantifying the risks to which the Company is exposed.

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

Life insurance contracts

The nature of long-term business is such that a number of assumptions are made in compiling these financial statements. Assumptions are made about investment returns, expenses, mortality rates and persistency in connection with the in-force policies for each cedant. Assumptions are best estimates plus margins for adverse deviation based on historical and expected experience of the cedant. A number of the key assumptions for the Company's central scenario are disclosed elsewhere in these statements.

General insurance and health

General insurance and health claim liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims.

Notes to the financial statements continued

24. Risk management continued

(f) Risk and capital management continued

Sensitivity results

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

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

The above sensitivity factors are applied using actuarial and statistical models. The impacts for the year ended 31 December 2017 are shown in the tables below.

Pre-tax impacts on profit and shareholders' equity:

(i) Impact on profit before tax (£m)

2017	Interest rates	Interest rates	Credit spreads	Property / Equity	Property / Equity	Assurance mortality	Annuitant mortality	Gross loss ratios
	+1%	-1%	+0.5%	+10%	-10%	+5%	-5%	+5%
Gross of reinsurance	(319)	354	(223)	56	(56)	(12)	(330)	(100)
Net of reinsurance	(319)	354	(223)	56	(56)	(12)	(330)	(100)

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

2017	Interest rates	Interest rates	Credit spreads	Property / Equity	Property / Equity	Assurance mortality	Annuitant mortality	Gross loss ratios
	+1%	-1%	+0.5%	+10%	-10%	+5%	-5%	+5%
Gross of reinsurance	(319)	354	(223)	56	(56)	(12)	(330)	(100)
Net of reinsurance	(319)	354	(223)	56	(56)	(12)	(330)	(100)

Notes to the financial statements continued

24. Risk management continued

(f) Risk and capital management continued

Sensitivity results continued

(iii) Impact on profit before tax (£m)

2016	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Property / Equity +10%	Property / Equity -10%	Assurance mortality +5%	Annuitant mortality -5%	Gross loss ratios +5%
Gross of reinsurance	(298)	278	(292)	-	(11)	(20)	(330)	(108)
Net of reinsurance	(298)	278	(292)	-	(11)	(20)	(330)	(108)

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

2016	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Property / Equity +10%	Property / Equity -10%	Assurance mortality +5%	Annuitant mortality -5%	Gross loss ratios +5%
Gross of reinsurance	(298)	278	(292)	-	(11)	(20)	(330)	(108)
Net of reinsurance	(298)	278	(292)	-	(11)	(20)	(330)	(108)

Limitations of sensitivity analysis

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

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs.

As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action.

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

25. Derivative financial instruments

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

	2017 £m	2016 £m
OTC credit default contracts		
Contract/notional amount	**5,326**	3,628
Fair value liability	**188**	105

The notional amounts above reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect the current market values of the open positions. Fair value liabilities are recognised as 'derivative financial liabilities' in note 19.

Notes to the financial statements continued

25. Derivative financial instruments continued

The contractual undiscounted cash flows in relation to derivative liabilities have the following maturities:

	2017 £m	2016 £m
Within one year	**(54)**	(31)
Between one and two years	**(54)**	(31)
Between two and three years	**(54)**	(31)
Between three and four years	**(54)**	(31)
	(216)	**(124)**

26. Related party transactions

(a) The Company had the following related party transactions

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

(i) Loan due from parent company

The loan accrues interest at 12 month LIBOR plus a credit margin, currently at 308 basis points, with settlement to be received in cash at maturity in December 2042. The credit margin is reset every 5 years, and was reset on 31 December 2017. From 1 January 2018 the credit margin will be 195 basis points. This follows a fair value assessment of the credit risk of Aviva Group Holdings Limited and the terms and conditions of the loan agreement. The next reset of the credit margin is due on 31 December 2022. The aggregate interest rate moves each year with changes in the risk free rate (12 month LIBOR), and with the change in credit margin the effective interest rate from 1 January 2018 will be 2.72%. As at the Statement of Financial Position date, the loan balance outstanding was £200 million *(2016: £200 million)*. This facility has been secured by a legal charge against the ordinary share capital of Aviva Insurance Limited.

	2017 £m	2016 £m
Over 5 years	**200**	200
	200	200
Effective interest rate	**3.86%**	4.15%

(ii) Retrocession reinsurance arrangements

The Company entered into a reinsurance arrangement with Aviva Re Limited, with effect from 1 January 2012, whereby it insures various risks on behalf of fellow Group subsidiaries, and then retrocedes the majority of those risks to Aviva Re Limited, a fellow Group subsidiary, with the balance passed to external parties.

Notes to the financial statements continued

26. Related party transactions continued

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

(ii) Retrocession reinsurance arrangements continued

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

	2017 £m	2016 £m
Premiums earned	-	-
Premiums ceded	-	-
	-	-
Claims incurred	-	1
Claims ceded	-	(1)
	-	-

The balances in the Statement of Financial Position as at 31 December 2017 relating to this arrangement are:

	2017 £m	2016 £m
Reinsurance asset	6	6
Insurance liabilities	(6)	(6)

(iii) Quota share reinsurance arrangements

The Company has quota share reinsurance arrangements with fellow Group subsidiaries as follows:

- Aviva Insurance Limited (AIL) which transacts general and health insurance business, to reinsure 50% of its insurance liabilities;
- Aviva Assurances (FGI) a Group subsidiary incorporated in France which transacts general and health insurance business, to reinsure 50% of its insurance liabilities;
- Aviva Life & Pensions UK Limited (UK L&P) which transacts investment and long term insurance business, to reinsure 50% of specified parts of its non-profit sub-fund (NPSF); and
- Aviva Annuity UK Limited (UKA), to reinsure 50% of its annuity insurance liabilities. In 2017, UKA transferred the whole of its business to UK L&P, its immediate parent undertaking, under a Part VII Transfer of the Financial Services and Markets Act 2000. Going forwards annuity business in the United Kingdom (UK) will be written by UK L&P in a sub-fund comprising of the business transferred from UKA, and this annuity business is still subject to the quota share reinsurance arrangement previously with UKA.

As part of these arrangements funds in respect of premiums due from the cedants are withheld and this has been reflected in the Statement of Financial Position within Receivables and other financial assets (note 11).

Notes to the financial statements continued

26. Related party transactions continued

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

(iii) Quota share reinsurance arrangements continued

Income Statement	Note	2017 Life insurance £m	2017 General insurance £m	2016 Life insurance £m	2016 General insurance £m
Reinsurance premiums earned	1	**4,360**	**3,128**	40,202	5,637
Interest and similar income	1	**3,763**	**50**	5,309	156
Other income	1	**-**	**16**	-	15
Claims and benefits paid	2	**(3,609)**	**(2,014)**	(3,490)	(2,147)
Change in insurance liabilities	16(b)(v), 16(c)(iv)	**(4,843)**	**(2)**	(40,112)	(2,758)
Fee and commission expense	2	**852**	**(1,059)**	(512)	(683)
		523	**119**	1,397	220

Statement of Financial Position	Note	2017 Life insurance £m	2017 General insurance £m	2016 Life insurance £m	2016 General insurance £m
Deposits with ceding undertakings	11	**50,192**	**4,252**	45,128	4,152
Deferred acquisition costs	12	**23**	**304**	2	298
Receivables	11	**2**	**7**	-	-
Insurance liabilities	16(b)(v), 16(c)(iv)	**(48,278)**	**(4,477)**	(43,437)	(4,396)
Payables	19	**-**	**-**	-	(240)

(iv) Other transactions

The Company receives interest income from, and pays dividends and interest to its parent company and fellow subsidiaries in the normal course of business. These activities are reflected in the tables below.

Services provided to related parties

	2017 Income earned in the year £m	2017 Receivable at year end £m	2016 Income earned in the year £m	2016 Receivable at year end £m
Immediate parent	**12**	**64**	8	52
Other Aviva Group companies	**-**	**9**	-	-
	12	**73**	8	52

The interest receivable from the Company's immediate parent of £8 million (2016: £8 million) relates to interest on a loan of £200 million (*2016: £200 million*), as explained in note 26 (a)(i). The related party receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms. In addition the income earned during the year of £12 million includes £4 million (*2016: £nil*) as a recovery against the provision detailed in note 18, under the terms of an indemnity agreement with its immediate parent company, Aviva Group Holdings Limited.

Notes to the financial statements continued

26. Related party transactions continued

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

(iv) Other transactions continued

Services provided and expenses recharged by related parties

	2017		2016	
	Services provided/ expenses recharged £m	**Payable at year end £m**	Services provided/ expenses recharged £m	Payable at year end £m
Other Aviva Group companies	**8**	**237**	8	1
	8	**237**	8	1

Services provided include £8 million (*2016: £7 million*) inter company management fees payable to fellow subsidiaries of the Aviva Group. Expenses incurred includes £7 million (*2016: £6 million*) relating to staff, facilities and other service charges from Aviva Central Services UK Limited. The remaining £1 million (*2016: £1 million*) relates to investment management fees charged to the Company by Aviva Investors Global Services Limited, arising from the management of the Company's investments. The related party payables are not secured, and will be settled in accordance with normal credit terms.

Group relief
The net balance with Group companies for settlement of corporation tax assets and liabilities by group relief is disclosed in note 19. The movement relates to payments made and updated group taxation positions.

Dividends paid
Interim ordinary dividends totalling £335 million (*2016: £nil*) on the Company's ordinary shares were declared and settled during 2017.

(b) Key management compensation

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

	2017	2016
	£'000	£'000
Aggregate emoluments	**1,033**	829
	1,033	829

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

(c) Parent entity

The immediate parent undertaking is Aviva Group Holdings Limited, registered in the United Kingdom.

(d) Ultimate controlling entity

The immediate and ultimate parent entity and controlling party is Aviva plc, a public limited company incorporated and domiciled in the United Kingdom, which is the parent undertaking of the smallest and largest Group to consolidate these financial statements. Copies of Aviva plc consolidated 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.

Notes to the financial statements continued

27. Related undertakings

The direct related undertaking of the Company as at 31 December 2017 is listed below:

Name of undertaking	Country of Incorporation	Share Class	% held	Address
CGU Project Services Private Limited	India	RS. 10 shares	100	2nd Floor, Prakash Deep Building 7, Tolstoy Marg, New Delhi, 110001, India

28. Events after the statement of financial position date

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