# Aviva Life Services UK Limited

## Registered in England and Wales No. 2403746

# Annual Report and Financial Statements 2021

## Contents

## Directors and Officer

### Directors

D A Brown
A MacKenzie
R J Priestley

### Officer – Company Secretary

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

### Independent Auditors

PricewaterhouseCoopers LLP
29 Wellington Street
Leeds
LS1 4DL

### Registered Office

Aviva
Wellington Row
York
YO90 1WR

### Company Number

Registered in England and Wales no. 2403746

### Other Information

Aviva Life Services UK Limited ("the Company") is authorised and regulated by the Financial Conduct Authority ("FCA")

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

# Strategic report

The directors present their strategic report for the Company for the year ended 31 December 2021.

## Review of the Company's business

### Principal activities

The Company is a wholly owned subsidiary of Aviva Life Holdings UK Ltd (UKLH) and is incorporated in the United Kingdom. The Company operates as part of the Aviva plc group of companies (the Group). Further information is contained in the 2021 financial statements of Aviva plc. The Company's ultimate parent and controlling company is Aviva plc.

The principal activity of the Company formerly comprised the provision of sales and corporate administrative services to the Aviva UK Life group, being Aviva Life Holdings UK Limited (UKLH) and its subsidiaries and the provision of in-house advisory services under the brand of Aviva Financial Advice (AFA). As of 1 January 2021, the AFA business transferred to Aviva Administration Limited (AAL), a fellow group undertaking.

During 2021, COVID-19 continued to impact on our customers, our people and the communities in which we operate. We maintained our remote working capability to maintain strong levels of service for individual and commercial customers. As the year progressed, we adapted our customer service model to reflect the government advice in place at that particular time. We have also provided extensive support for our people throughout the period of restrictions, focusing on wellbeing and mental health support, as well as practical assistance for working at home and in the subsequent return to office based activities.

### Events since the statement of financial position

On 17 March 2022 the Company resolved to approve the extension of the Global Framework Services Agreement with FNZ for UK Life Savings & Retirement Workplace and Retail Platform software and investment administration services with FNZ from 31st August 2025 to 31st August 2029.

### Financial position and performance

The Company has generated a post-tax loss of £1.5 million in 2021 *(2020: £9.9 million loss).*

Total operating expenses have increased from £1,143.8 million in 2020 to £1,196.2 million in 2021.

Total equity and loss for the year are detailed in the key performance indicators section set out below.

### Section 172 (1) statement and our stakeholders

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

S.172 sets out a series of matters to which the directors must have regard to in performing their duty to promote the success of the Company for the benefit of its shareholders, which includes having regard to other stakeholders. Where this statement draws upon information contained in other sections of the Strategic report, this is signposted accordingly.

Our Board considers it crucial that the Company maintains a reputation for high standards of business conduct. The Board is responsible for monitoring and upholding the culture, values, standards, ethics and reputation of the Company to ensure that our obligations to our shareholder, customers and other stakeholders are met and Management drives the embedding of the desired culture throughout the organisation. The Board monitors adherence to our policies and compliance with local corporate governance requirements and is committed to acting where our businesses fall short of the standards we expect.

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

#### The Company's culture

Our culture is shaped, in conjunction with the wider Aviva Group, by our clearly defined purpose – with you today for a better tomorrow. As the provider of financial services to millions of customers, Aviva seeks to earn their trust by acting with integrity and a sense of responsibility at all times. We look to build relationships with all our stakeholders based on openness and transparency and we value diversity and inclusivity in our workforce and beyond.

#### Key strategic decisions in 2021

On 1 January 2021, the transfer of the Aviva Financial Advice (AFA) business from the Company to Aviva Administration Limited was completed in order to simplify the business.

For each matter that comes before the Board, the Board considers the likely consequences of any decision in the long term, identifies stakeholders who may be affected, and carefully considers their interests and any potential impact as part of the decision-making process.

# Strategic report (continued)

**Stakeholder engagement**

The table below sets out our approach to stakeholder engagement during 2021:

| Stakeholders | Why are they important to Aviva? | What is our approach to engaging with them? |
|---|---|---|
| Employees | Our people's well-being and commitment to serving our customers is essential for our long-term success. | a. The Company has no employees. The majority of staff engaged in the activities of the Company are employed by fellow subsidiary undertakings of Aviva plc. As part of the Aviva Group, these staff enjoy the benefit of the Aviva Group policies and benefits made available to them.<br>b. The Company's engagement mechanisms align with those of the Aviva Group, such as employee forums, internal communication channels, and informal meetings with the Directors and employee engagement surveys.<br>c. We are committed to recruiting, training and retaining the best talent we can find. We are proud to have been a pioneer in some areas of employee benefits, including providing six months paid parental leave for all UK employees.<br>d. Our people share in the businesses' success as shareholders through membership of the Group's global share plans.<br>e. The Company supported the safety and well-being of staff through the provision of equipment to enable all employees to work from home through the Covid-19 pandemic as well as transitioning to a hybrid way of working in mid- 2021. |
| Customers | Understanding what's important to our customers is key to our long-term success. | a. The Board ensures the Company supports the UK Life group to deliver customer outcomes and strategic initiatives throughout the year.<br>b. The Board closely monitors customer metrics and engages with the leadership team to understand the issues if performance does not meet customers' expectations. The Company's parent entity, Aviva Life Holdings UK Limited, is supported by a Conduct Committee to enable it to monitor customer metrics, the Company's Board can escalate any matter it feels necessary to the Aviva Life Holdings UK Limited Conduct Committee for further scrutiny.<br>c. The Board continues to monitor and review developments concerning changes to our IT platforms which will allow us to simplify and support service delivery to our customers. |
| Suppliers | We operate in conjunction with a wide range of suppliers to deliver services to our customers. It is vital that we build strong working relationships with our intermediaries. | a. The Company maintains oversight of the management of its most important suppliers and reviews reports on their performance.<br>b. All supplier related activity is managed in line with the Group's Procurement & Outsourcing Business Standard. This ensures that supply risk is managed appropriately including in relation to customer outcomes, data security, corporate responsibility, financial, operational, contractual, and brand damage caused by inadequate oversight or supplier failure.<br>c. An important part of our culture is the promotion of high legal, ethical, environmental and employee related standards within our business and also among our suppliers. Before working with any new suppliers we provide them with the Aviva Supplier Code of Behaviour, and our interaction with them is guided by Aviva's Business Code of Ethics.<br>d. The Board reviews the actions the Group has taken to prevent modern slavery and associated practices in any part of our supply chain and approves the Group's *Modern Slavery Act statement each year.*<br>e. In the UK, Aviva is a signatory of the Prompt Payment Code which sets standards for high payment practices. We are a Living Wage employer in the UK, and our supplier contracts include a commitment to paying eligible employees not less than the Living Wage in respect of work provided at our premises in the UK. |
| Communities | We recognise the importance of contributing to our communities through volunteering, community investment, and long-term partnerships. As a major insurance company we are fully engaged in building resilience against the global impact of climate change. | a. Our Board supports the community activities of the Aviva Group including the wellbeing proposition for UK employees, the Aviva Communities to help drive greater diversity and inclusivity throughout the organisation and to support colleagues to volunteer in their communities.<br>b. Recognising climate change presents risk and opportunities for customers, communities and business, Aviva is signed up to the United Nations Net-Zero Asset Owner Alliance commitment. As part of the Aviva Group, Aviva Life Services UK Limited is committed to Aviva's long-term strategy to reach net zero by 2040, and to support achieving this target the Aviva Group has defined climate risk preferences and operating risk limits. The Aviva plc Board approved the adoption of the new climate risk preferences during the year, along with its 2022-2024 Plan which takes the new climate risk preferences into consideration. |
| Shareholders | Our retail and institutional shareholders are the ultimate owners of the Company. | a. The Company's ultimate shareholder is Aviva plc and there is ongoing communication and engagement with the Aviva plc Board. Any matters requiring escalation are escalated by the Board through the Chair to its parent. Additionally, members of the Aviva plc board can attend the Company's Board meetings by invitation. |
| Regulators | As an insurance company, we are subject to financial services regulations and approvals in all the markets we operate in. | a. The Company and the Company's senior management and its compliance function liaise with the FCA on any matters pertinent to the operations of the business |

## Strategic report (continued)

### Future outlook

Strategies for the Group as a whole are determined by the Board of Aviva plc and these are shown in the Group 2021 Annual Report and Accounts. The Company will work with the Group to support the implementation of these strategies.

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

The business will continue to provide corporate administration services to UKLH and its subsidiaries under the terms of revised management service agreements (MSAs), the primary MSA being that with Aviva Life & Pensions UK Limited which expires on 31 December 2023. The renegotiation of these agreements has provided an opportunity to harmonise the service agreement model across UK Life and during 2021 all expenses incurred in providing services to UKLH and its subsidiaries are recharged by the Company at cost, with no profit or loss being made on the services supplied.

On 24 February 2022, on-going tensions between Russia and Ukraine developed into full-scale armed conflict between the two countries. The Company is monitoring and responding to this dynamic situation - note 17 gives more detail on this.

### Principal risks and uncertainties

The Company is exposed to financial risk through its financial assets and liabilities in the ordinary course of its business. It is also exposed to operational risk resulting from inadequate or failed internal processes, personnel or systems, or from external events, including regulatory risk. The Company uses a number of metrics to identify, measure, manage, monitor and report risks and a fuller explanation of these risks, other than operational risk, may be found in note 17 to the financial statements.

### Key performance indicators

Revenue represents fees charged by the Company for the provision of operational assets and services during the year. Revenue for the year has increased by £67.3 million to £1,196.3 million *(2020: £1,129.0 million).*

Total expenses for the year increased by £55.0 million to £1,198.8million *(2020: £1,143.8 million).*

Loss for the year decreased from £9.9 million in 2020 to £1.5 million in 2021.

Total equity has decreased by £1.5 million to £42.1 million *(2020: decreased by £9.9 million to £43.6 million)*, reflecting the loss for the year of £1.5m (*2020: loss of £9.9 million).*

Approved by the Board on 7 September 2022 and signed on its behalf by:

**Aviva Company Secretarial Services Limited**

Company Secretary

# Directors' report

The directors present their annual report and audited financial statements for Aviva Life Services UK Limited (the Company) for the year ended 31 December 2021.

### Directors

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

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

| | |
|---|---|
| A MacKenzie | Appointed 26 April 2021 |
| A J Darlington | Resigned 30 April 2021 |
| D A Brown | Appointed 18 May 2021 |

### Company Secretary

The name of the Company Secretary is shown on page 3.

### Dividends

No dividend was paid for the financial year ending 31 December 2021 *(2020 £nil)*.

### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report, which includes a section describing the principal risks and uncertainties. In addition, the financial statements include notes on: the Company's capital structure (note 16); management of its risks including market, credit and liquidity risk (note 17).

The Company and its ultimate holding company, Aviva plc, have considerable financial resources together with a diversified business model, with a spread of businesses and geographical reach. The directors believe that the Company is well placed to manage its business risks successfully.

The going concern and longer-term viability review includes consideration of the Company's current and forecast solvency and liquidity positions over a three-year period through management's 2022-2024 business plan and evaluates the results of stress and scenario testing.

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

### Major events

Major events in 2021 are discussed in the key strategic decisions section of the Strategic Report on page 4.

### Future developments

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

### Financial risk management

Details of financial risk management are discussed in the principal risks and uncertainties section of the Strategic Report on page 5 and note 17 to the financial statements.

### Employees

The Company has no employees (*2020: nil*). The majority of employees engaged in the 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 these companies. The Company is recharged with the costs of the staff provided by these companies however the associated costs and average number of persons employed cannot be accurately disclosed.

### Disclosure of information to the auditors

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

### Independent auditors

Under the Competition and Markets Authority Regulations, the Company's ultimate parent Company, Aviva plc is required to tender for the provision of the external audit every 10 Years. PricewaterhouseCoopers LLP (PwC) was appointed for the first time for the 31 December 2012 financial year end and therefore a mandatory re-tender was required for the year ending 31 December 2022. The audit tender process was initiated during 2020 but, as previously reported, COVID-19 restrictions caused delays and Aviva sought a two-year extension from the FRC which was granted. Following a full and rigorous competitive tender process, which was overseen by the Aviva Life Holdings UK Limited Audit Committee, the selection of Ernst & Young LLP from the year ending 31 December 2024 was approved by the Aviva plc Board. PwC will continue in its role and, subject to reappointment by the Company's shareholders at the 2022 and 2023 Annual General Meetings, will undertake the audit for the financial years ending 31 December 2022 and 2023.

# Directors' report (continued)

### Qualifying indemnity provisions

Aviva plc, the Company's ultimate parent, granted in 2004 an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985, which continue to apply in relation to any provision made before 1 October 2007. This indemnity is a "qualifying third party indemnity" for the purposes of section 234 of the Companies Act 1985. These qualifying third party indemnity provisions were in force throughout the year and 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 in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 UK-adopted international accounting standards.

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

By order of the Board on 7 September 2022

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

# Independent auditors' report to the members of Aviva Life Services UK Limited

## Report on the audit of the financial statements

### Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 2021 (the "Annual Report"), which comprise: statement of financial position as at 31 December 2021; income statement, statement of changes in equity and statement of cash flows for the year then ended; the the accounting policies; and the notes to the financial statements.

### Basis for opinion

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

#### *Independence*

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

### Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### 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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

### Responsibilities for the financial statements and the audit

#### *Responsibilities of the directors for the financial statements*

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

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

## Independent auditors' report to the members of Aviva Life Services UK Limited (continued)

***Auditors' responsibilities for the audit of the financial statements***

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Financial Conduct Authority ("FCA") regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate reported results and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- enquiry of management and those charged with governance around actual and potential litigations and claims;
- enquiry of management and those charged with governance to identify any instances of non-compliance with laws and regulations;
- review of minutes of meetings held by those charged with governance;
- reading key correspondence with the FCA, including those in relation to compliance with laws and regulations;
- review of financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing; and
- performing procedures over the risk of management override of controls, including through testing journal entries based on specific risk criteria and other adjustments for appropriateness, and testing accounting estimates (considering the risk of management bias).

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 obtained 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.

J. Wilkinson

James Wilkinson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Leeds

8 September 2022

# Accounting policies

The Company, a private company limited by shares, incorporated and domiciled in the United Kingdom (UK), provides sales and corporate administrative services and operational assets to Aviva UK Life. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

## (A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and the legal requirements of the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

On 31 December 2020, IFRS as adopted by the EU at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Company transitioned to UK-adopted International Accounting Standards on 1 January 2021. This change constitutes a change in accounting framework. However, this has no impact on recognition, measurement or disclosure in the period as a result of the change in framework.

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

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

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 European Economic Area ("EEA") parent and is included in the consolidated financial statements for the Group, i.e. the ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates, at the same date. These financial statements therefore present information about the Company as an individual entity. Information on the ultimate controlling parent and immediate parent can be found in note 18.

**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 2021. The amendments have been issued and endorsed by the EU and do not have a significant impact on the Company's financial statements.

*(i) Amendments to IFRS 16 leases: Covid-19 related rent concessions (published by the IASB in May 2020)*

*(ii) Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (published by the IASB in August 2020)*

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

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

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

The impact of the adoption of IFRS 17 is not expected to have a significant impact on the Company's financial statements. Following amendments to the standard published in June 2020, it is now expected that the standard will apply to annual reporting periods beginning on or after 1 January 2023. Following departure from the EU and the end of the transition period in December 2020, the Company will be subject to IFRS as endorsed by the UK. IFRS17 was endorsed by the UK on 16 May 2022.

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:

*(ii) Amendments to IFRS 16 Leases: COVID-19 Related Rent Concessions beyond 30 June 2021*
Published by the IASB in March 2021. The amendments are effective for annual reporting beginning on or after 1 April 2021 and have been endorsed by the UK.

*(iii) Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework*
Published by the IASB in May 2020. The amendments are effective for annual reporting beginning on or after 1 January 2022 and have been endorsed by the UK.

*(iv) Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use*
Published by the IASB in May 2020. The amendments are effective for annual reporting beginning on or after 1 January 2022 and have been endorsed by the UK.

*(v) Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts - Costs of Fulfilling a Contract*
Published by the IASB in May 2020. The amendments are effective for annual reporting beginning on or after 1 January 2022 and have been endorsed by the UK.

## Accounting policies (continued)

(vi) *Annual Improvements to IFRSs 2018-2020 Cycle*
Published by the IASB in May 2020, these improvements consist of amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture. These amendments are effective for annual reporting beginning on or after 1 January 2022 and have been endorsed by the UK.

(vii) *Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting Policies*
Published by the IASB in January 2020. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have yet to be endorsed by the UK.

(viii) *Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates*
Published by the IASB in February 2021. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have yet to be endorsed by the UK.

(ix) *Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Published by the IASB in May 2021. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have yet to be endorsed by the UK

(x) *Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current*
Published by the IASB in February 2021. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have yet to be endorsed by the UK

### (B) Critical accounting policies and use of estimates

The preparation of the Company's financial statements, in accordance with IFRS, requires management to make judgements, estimates and assumptions in applying the accounting policies that affect items reported in the income statement, statement of financial position, other primary statements and notes to the financial statements.

**Critical accounting policies**

The Company does not have any critical accounting policies that are considered to have a significant impact on the financial statements.

**Use of estimates**

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly. The list below sets out those items we consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

| Item | Accounting policy | Note |
|---|---|---|
| Impairment of subsidiaries | G | 8 |
| Provisions | K | 13 |

### (C) Revenue

Revenue represents fees charged by the Company for the provision of operational assets and services during the year. Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

### (D) Net investment income

Net investment income consists of interest receivable, accounted for on an accruals basis.

### (E) Operating expenses

Operating expenses are recognised on an accruals basis.

### (F) Intangible assets

Costs of developing and acquiring intangible assets are capitalised only if the asset can be reliably measured, will generate future economic benefits and there is an ability to use or sell the asset. An impairment review is carried out at each reporting date and an impairment loss is recognised for the amount by which the carrying amount exceeds the recoverable amount.

Intangible assets consist of internally generated software. These assets are amortised over their useful lives using the straight-line method.

Computer software 5 years

The amortisation charge for the period is included in the income statement under operating expenses.

### (G) Subsidiaries

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

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power overt he investee to affect its returns.

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

## Accounting policies (continued)

Investments in subsidiaries are recognised at cost less impairment. Investments are reviewed annually to test whether any indicators of impairment exist. Where there is objective evidence that such an asset is impaired, such as the financial difficulty of the entity or a significant or prolonged decline in its fair value below cost, the investment is impaired to its recoverable value and any unrealised loss is recorded in the income statement.

Income from shares in group undertakings is recognised in the period in which they are received.

### (H) Impairment of non financial assets

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

### (I) Receivables and payables and other financial liabilities

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

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

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

### (J) Statement of cash flows

Cash and cash equivalents consist of cash at banks and in hand, deposits held on 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.

### (K) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recorded as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Where the effect of the time value of money is material, the provision is the present value of the expected expenditure.

### (L) Income taxes

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

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

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

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

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

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

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

### (M) Share capital

*Equity instruments*

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

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

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

# Income statement

For the year ended 31 December 2021

| | Note(s) | 2021<br>£000 | 2020<br>£000 |
|---|---|---|---|
| **Income** | | | |
| Revenue | C | **1,196,254** | 1,129,008 |
| Interest receivable | D & 1 | **97** | 268 |
| | | **1,196,351** | 1,129,276 |
| **Expenses** | | | |
| Operating expenses | E & 2 | **(1,196,236)** | (1,143,765) |
| Finance costs | 3 | **(21)** | (2) |
| Impairment loss on subsidiary undertakings | G & 8 | **(2,567)** | — |
| | | **(1,198,824)** | (1,143,767) |
| **Loss before tax** | | **(2,473)** | (14,491) |
| Tax credit | L & 6 | **976** | 4,557 |
| **Loss for the year** | | **(1,497)** | (9,934) |

The Company has no other comprehensive income *(2020: £nil).*

The accounting policies (identified alphabetically) on pages 11 to 13 and the notes (identified numerically) on pages 18 to 25 are an integral part of these financial statements.

## Statement of changes in equity

For the year ended 31 December 2021

| | | | | 2021 |
|---|---|---|---|---|
| | | Ordinary share capital | Retained earnings | Total equity |
| | Note(s) | £000 | £000 | £000 |
| **Balance at 1 January** | | **22,800** | **20,834** | **43,634** |
| Loss for the year | 11 | — | (1,497) | (1,497) |
| **Balance at 31 December** | | **22,800** | **19,337** | **42,137** |

| | | | | 2020 |
|---|---|---|---|---|
| | | Ordinary share capital | Retained earnings | Total equity |
| | Notes | £000 | £000 | £000 |
| **Balance at 1 January** | | 22,800 | 30,768 | 53,568 |
| Loss for the year | 11 | — | (9,934) | (9,934) |
| **Balance at 31 December** | | 22,800 | 20,834 | 43,634 |

The accounting policies (identified alphabetically) on pages 11 to 13 and the notes (identified numerically) on pages 18 to 25 are an integral part of these financial statements.

## Statement of financial position

As at 31 December 2021

| | Note(s) | 2021 £000 | 2020 £000 |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | F & 7 | **4,643** | 10,243 |
| Investments in subsidiaries | G & 8 | **46,033** | 48,600 |
| Deferred tax assets | L & 12 | **4,140** | 3,456 |
| Tax assets | L & 12 | **4,132** | 8,737 |
| Receivables | I & 9 | **47,274** | 40,725 |
| Cash and cash equivalents | J & 15 | **59,708** | 113,128 |
| **Total assets** | | **165,930** | 224,889 |
| **Equity** | | | |
| Ordinary share capital | M & 10 | **22,800** | 22,800 |
| Retained earnings | 11 | **19,337** | 20,834 |
| **Total equity** | | **42,137** | 43,634 |
| **Liabilities** | | | |
| Provisions | K & 13 | **21,839** | 19,401 |
| Payables and other financial liabilities | I & 14 | **101,954** | 161,854 |
| **Total liabilities** | | **123,793** | 181,255 |
| **Total equity and liabilities** | | **165,930** | 224,889 |

The financial statements were approved by the Board of Directors on 7 September 2022 and signed on its behalf by

Richard Priestley

R J Priestley

Director

The accounting policies (identified alphabetically) on pages 11 to 13 and the notes (identified numerically) on pages 18 to 25 are an integral part of these financial statements.

## Statement of cash flows

For the year ended 31 December 2021

| | Note | 2021<br>£000 | 2020<br>£000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash (used in)/generated from operations | 15 | **(53,399)** | 107,379 |
| **Net cash (used in)/generated from operating activities** | | **(53,399)** | 107,379 |
| **Cash flows from financing activities** | | | |
| Interest paid | 3 | **(21)** | (2) |
| **Net cash used in financing activities** | | **(21)** | (2) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(53,420)** | 107,377 |
| Cash and cash equivalents at 1 January | | **113,128** | 5,751 |
| **Cash and cash equivalents at 31 December** | 15 | **59,708** | 113,128 |

The accounting policies (identified alphabetically) on pages 11 to 13 and notes (identified numerically) on pages 18 to 25 are an integral part of the financial statements.

## Notes to the financial statements

For the year ended 31 December 2021

### 1. Interest receivable

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Interest receivable | **97** | 268 |
| **Total interest receivable** | **97** | 268 |

### 2. Operating expenses

Under a management agreement Aviva Central Services UK Limited, a fellow group undertaking, supplies and makes charges for the provision of operational assets and services to the Company. The agreement specifies the amounts payable in respect of these services.

Aviva Employment Services Limited, a fellow group undertaking, supplies and makes a charge for the provision of staff to the Company.

The Group offers share awards and option plans over Aviva plc ordinary shares, including a Save As You Earn plan. The costs of these plans relating to Aviva Life are recharged to the Company. Aggregate disclosures in relation to share-based payments have been included in the financial statements of Aviva plc, the ultimate parent undertaking.

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| ACS recharges (operating) | **1,190,658** | 1,135,790 |
| Other operating expenses | **5,578** | 7,975 |
| **Total operating expenses** | **1,196,236** | 1,143,765 |

### 3. Finance costs

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Interest payable to group undertakings | **21** | 2 |

### 4. Directors' remuneration

All directors were remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate parent company, Aviva plc. The emoluments are recharged, as part of a head office management charge under management service agreements, to all operating divisions of the Aviva Group. No direct recharge has been made to the Company in respect of these emoluments as they cannot be accurately calculated or disclosed. Accordingly, no emoluments are disclosed in respect of these directors. Their total emoluments are disclosed in the financial statements of Aviva Life & Pensions UK Limited.

### 5. Auditors' remuneration

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

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Fees payable for the audit of the Company's financial statements | **81** | 82 |

The Company is exempt under SI 2008/489 from the obligation to disclose fees in respect of 'Other services' as the Company is a subsidiary of Aviva plc, which prepares consolidated financial statements. Fees paid to the Company's auditors, PricewaterhouseCoopers LLP and its associates for services other than the statutory audit and audit related assurance services of the Company and other Group undertakings are disclosed in the consolidated financial statements of Aviva plc. Audit fees are payable by Aviva Central Services UK Limited, a fellow group company, and recharged as appropriate to the Company and fellow Group companies.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 6. Tax credit

#### (a) Tax credited to the income statement

(i) The total tax credit comprises:

| | 2021 £000 | 2020 £000 |
|---|---|---|
| **Current tax** | | |
| For this year | **741** | 3,841 |
| Prior period adjustments | **(449)** | 1,465 |
| **Total current tax** | **292** | 5,306 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(310)** | (1,218) |
| Changes in tax rates or tax laws | **994** | 469 |
| **Total deferred tax** | **684** | (749) |
| **Total tax credited to the income statement** | **976** | 4,557 |

#### (b) Tax reconciliation

The tax on the Company's loss before tax differs from (*2020: differs from*) the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Loss before tax | **(2,473)** | (14,491) |
| Tax calculated at standard UK corporation tax rate of 19% (*2020: 19%*) | **470** | 2,753 |
| Adjustment to tax credit in respect of prior years | **—** | 1,243 |
| Non-assessable income | **—** | 92 |
| Impairment of investment in subsidiaries | **(488)** | — |
| Changes in future statutory tax rate | **994** | 469 |
| **Total tax credited to the income statement** | **976** | 4,557 |

During 2021 the UK Government enacted an increase in the UK corporation tax rate to 25%, from 1 April 2023. This revised rate has been used in the calculation of the Company's deferred tax assets as at 31 December 2021 and increased the Company's deferred tax assets by £1 million.

*During 2020, the reduction in the UK corporation tax rate that was due to take effect was cancelled, and as a result, the rate remained at 19%. This rate was* used in the calculation of the Company's deferred tax assets as at 31 December 2020 and increased the Company's deferred tax assets by £0.5 million.

### 7. Intangible Assets

| | 2021 £000 | 2020 £000 |
|---|---|---|
| **Cost** | | |
| At 1 January | **32,695** | 32,695 |
| At 31 December | **32,695** | 32,695 |
| **Accumulated amortisation** | | |
| At 1 January | **22,452** | 15,913 |
| Charge for the year | **5,600** | 6,539 |
| At 31 December | **28,052** | 22,452 |
| **Net book value** | | |
| At 1 January | **10,243** | 16,782 |
| **At 31 December** | **4,643** | 10,243 |

Intangible assets relate to internally generated software. There is no indication of impairment at 31 December 2021 *(2020: £nil)*.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 8. Investments in subsidiaries

#### (a) Movements in the Company's investments in its subsidiaries

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| **Carrying amount at 1 January** | **48,600** | 48,600 |
| Impairment losses | **(2,567)** | — |
| **At 31 December** | **46,033** | 48,600 |

Investments in subsidiaries are recognised at cost less impairment. Investments are reviewed annually to test whether any indicators of impairment exist. Where there is objective evidence that such an asset is impaired, such as the financial difficulty of the entity or a significant or prolonged decline in its fair value below cost, the investment is impaired to its recoverable value and any unrealised loss is recorded in the income statement.

The impairment losses for 2021 are driven by losses in Aviva Administration Limited.

(b) The subsidiary undertakings of the Company are shown below, all of which are wholly-owned and incorporated in England.

| **Subsidiary** | **Principal activity** |
|---|---|
| Aviva Management Services UK Limited | Corporate administration services |
| Aviva Administration Limited | In house adviser services |

Registered office address:
Aviva, Wellington Row, York, United Kingdom, YO90 1WR

### 9. Receivables

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Trade receivables | — | 43 |
| Amounts owed by group undertakings | **39,716** | 23,392 |
| Other receivables | **7,558** | 17,290 |
| **Total as at 31 December** | **47,274** | 40,725 |
| Expected to be recovered in less than one year | **47,274** | 40,725 |
| Expected to be recovered in more than one year | — | — |
| | **47,274** | 40,725 |

### 10. Ordinary share capital

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Allotted, called up and fully paid | | |
| 22,800,000 (*2020: 22,800,000*) ordinary shares of £1 each | **22,800** | 22,800 |

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.

### 11. Retained earnings

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Balance at 1 January | **20,834** | 30,768 |
| Loss for the year | **(1,497)** | (9,934) |
| **Balance at 31 December** | **19,337** | 20,834 |

## 12. Tax assets

### (a) Current tax

The current tax asset of £4.1m includes balances recoverable in more and less than one year of £0.7 million and £3.4 million (*2020: £3.8 million and £4.9 million*) respectively.

### (b) Deferred Taxes

(i) The net deferred tax asset arises on the following items:

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Accelerated capital allowances | **3,956** | 3,666 |
| Other temporary differences | **184** | (210) |
| **Net deferred tax asset** | **4,140** | 3,456 |

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

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| **Net deferred tax asset at 1 January** | **3,456** | 4,205 |
| Amounts credited/(charged) to income statement | **684** | (749) |
| **Net deferred tax asset at 31 December** | **4,140** | 3,456 |

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

## 13. Provisions

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| **Balance At 1 January** | **19,401** | 30,174 |
| Provided in the year | **2,438** | — |
| Amounts utilised | — | (10,773) |
| **Balance At 31 December** | **21,839** | 19,401 |

In 2015 a provision of £22 million was made in relation to an onerous contract in respect of maintenance contracts on three properties that have been vacated by the Group. The balance outstanding at 31 December 2021 is £14.8 million *(2020: £16.2 million)*. The discount rate used to calculate the onerous lease element of the provision remained unchanged at 2.5%.

The balance of the provision relates to onerous contracts in respect of vacant properties. This provision was recalculated in 2021 based on updated vacant floor space which resulted in an increase.

## 14. Payables and other financial liabilities

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Amounts owed to group undertakings | **101,341** | 156,053 |
| Other payables including taxation and social security | **613** | 5,801 |
| **Total as at 31 December** | **101,954** | 161,854 |
| Expected to be settled within one year | **101,954** | 161,854 |
| Expected to be settled in more than one year | — | — |
| | **101,954** | 161,854 |

# Notes to the financial statements (continued)

For the year ended 31 December 2021

## 15. Statement of cash flows

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

| | 2021 £000 | 2020 £000 |
|---|---|---|
| **Loss before tax** | **(2,473)** | (14,491) |
| Adjustments for: | | |
| Amortisation of intangible assets | **5,600** | 6,539 |
| Impairment losses on investments in subsidiaries | **2,567** | — |
| Interest expense | **21** | 2 |
| **Changes in working capital:** | | |
| (Increase)/decrease in receivables | **(6,549)** | 219,952 |
| Increase/(decrease) in provisions | **2,439** | (10,773) |
| Decrease in payables and other financial liabilities | **(55,004)** | (93,850) |
| **Total cash (used in)/generated from operating activities** | **(53,399)** | 107,379 |

### (b) Cash and cash equivalents in the statement of cash flows for the year ended 31 December comprised:

| | 2021 £000 | 2020 £000 |
|---|---|---|
| **Cash at bank and in hand** | **59,708** | 113,128 |

## 16. Capital

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 IPRU (Interim Prudential Sourcebook for Investment Businesses) and MIPRU (Prudential Sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries) rulebooks.

### 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.

### 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 Company being subject to the capital requirements applicable to companies which are personal investment firms imposed by the FCA. The Company fully complied with the relevant regulatory requirements during the year.

The reconciliation below is between total IFRS funds and total own funds under IPRU (Inv) and MIPRU.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Total IFRS shareholders' funds | **42,137** | 43,634 |
| **Adjustments onto a regulatory basis:** | | |
| Intangible assets | **(4,643)** | (10,243) |
| Deferred tax assets | **(4,140)** | (3,456) |
| **Total own funds** | **33,354** | 29,935 |

The intangible assets deduction relates to capitalised internal computer software development costs, which along with deferred tax assets are inadmissible for FCA purposes.

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

### 17. Risk management

#### (a) Risk management framework

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

The RMF has been adopted by the boards of the legal entities within the business collectively referred to as "UK Life" (including this Company).

For the purposes of risk identification and measurement, and aligned to the Company's risk policies, risks are usually grouped by risk type: credit, market, liquidity, life insurance (including long-term health), and operational risk. Risks falling within these types may affect a number of metrics including those relating to statement of financial position strength, liquidity and profit.

To promote a consistent and rigorous approach to risk management across the business, the Company has a set of risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Company's operations. The Chief Executive Officer of UK Life makes an annual declaration that the system of governance and internal controls was effective and fit for purpose for their business throughout the year; this declaration is supported by an opinion from the Chief Risk Officer of UK Life. Any material weaknesses in subsidiary companies are considered as part of this overall process.

The Risk Appetite Framework was refreshed during the year, with revised and new risk appetites, preferences and tolerances considered and approved by the Board Risk Committee. Climate Risk was integrated and defined within the risk appetite framework to be incorporated into risk-based decision-making.

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. UK Life also operates a risk and control self-assessment process. The risk assessment processes are used to generate risk reports which are shared with the relevant risk committees.

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

Oversight of risk and risk management across the Company is maintained on a regular basis across UK Life. The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take.

#### (b) Market risk

Market risk is the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates, foreign exchange rates, equity, property and commodity prices. The nature of the business means that the Company is not exposed to significant market risk.

#### (c) Credit risk

Credit risk is the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements.

The nature of the Company's business means that it is not exposed to significant credit risk. This is because its receivables are mainly inter-company balances. A significant amount of business relates to the Aviva Group of companies and exposure is managed through regular and timely payments.

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

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

## Notes to the financial statements (continued)

For the year ended 31 December 2021

| | Expected credit losses relating to trade receivables recognised in year |
|---|---|
| | £000 |
| Opening expected credit losses | — |
| Provided during the reporting period | 718 |
| Closing expected credit losses | 718 |

### (d) Liquidity risk

The nature of the business means that the Company is not exposed to significant liquidity risk. The Board seeks to determine that the Company has sufficient financial resources to meet its obligations as they fall due.

The Company has no liabilities with a contractual maturity date and as such no analysis of liabilities based on the remaining period at the statement of financial position date to their contractual maturity is supplied.

### (e) Conflict in Ukraine

As a result of the escalation in the conflict on 24 February 2022, UK Life's crisis management framework was invoked with meetings of the Crisis Action Leadership Team in order to assess the business response, provide strategic direction and manage communications. The Company does not conduct operations in the affected region, and does not have material direct investment holdings there.

## 18. Related party transactions

**(a)** The members of the Board of Directors are listed on page 3 of these financial statements.

Under a management agreement Aviva Central Services UK Limited, a fellow group undertaking, supplies and makes charges for the provision of operational assets and services to the Company. The agreement specifies the amounts payable in respect of these services.

### (b) Services provided to related parties

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

| Other amount receivables | 2021 | | 2020 | |
|---|---|---|---|---|
| | Income earned in year | Receivable at year end | Income earned in year | Receivable at year end |
| | £000 | £000 | £000 | £000 |
| Parent | **2** | **—** | (65) | — |
| Fellow subsidiaries | **1,193,508** | **39,716** | 1,125,682 | 23,392 |
| | **1,193,510** | **39,716** | 1,125,617 | 23,392 |

The related parties' receivables are not secured and no guarantees were received in respect thereof. No provision or expense has been recognised during the year in respect of bad and doubtful debts *(2020: £nil).*

### (c) Services provided by related parties

| Other amount payables | 2021 | | 2020 | |
|---|---|---|---|---|
| | Expense incurred in year | Payable at year end | Expense incurred in year | Payable at year end |
| | £000 | £000 | £000 | £000 |
| Fellow subsidiaries | **1,190,658** | **101,341** | 1,135,970 | 156,053 |
| | **1,190,658** | **101,341** | 1,135,970 | 156,053 |

The related parties' payables are not secured and no guarantees were received in respect thereof.

### (d) Key management compensation

Key management personnel are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate parent company, Aviva plc. They act as key management for a number of fellow subsidiary undertakings and their remuneration is recharged, under management service agreements, across a number of operating divisions of the Aviva Group. Key management personnel's remuneration cannot be accurately calculated or disclosed. Accordingly, no costs are disclosed in respect of these employees.

### (e) Parent undertaking

The immediate parent undertaking is Aviva Life Holdings UK Limited, a company incorporated in England.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

**(f) Ultimate controlling entity**

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

The company has taken the exemption from preparing consolidated financial statements.

### 19. Subsequent events

On 17 March 2022 the Company resolved to approve the extension of the Global Framework Services Agreement with FNZ for UK Life Savings & Retirement Workplace and Retail Platform software and investment administration services with FNZ from 31st August 2025 to 31st August 2029.