

Aviva Life & Pensions UK Limited

Directors and Officers

Directors

A D Briggs
M G Carvill (non-executive director)
V F Gooding (non-executive director)
R W A Howe (non-executive director)
J B O'Roarke (non-executive director)
H R Patel (non-executive director)
S P Trickett (non-executive director)
J M Windsor

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

Aviva
Wellington Row
York
YO90 1WR

Company Number

Registered in England and Wales: No. 3253947

Other Information

Aviva Life & Pensions UK 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").

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Aviva Life & Pensions UK Limited

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Aviva Life & Pensions UK Limited

Registered in England No. 3253947

Strategic report

The directors present their strategic report for Aviva Life & Pensions UK Limited ("the Company") for the year ended 31 December 2017.

Review of the Company's business

The principal activity of the Company is the transaction of long-term insurance business. The Company has both non-profit and with-profit funds and offers a market leading range of propositions to individual and corporate customers covering their savings, retirement, insurance and protection needs. The directors consider that this will continue unchanged into the foreseeable future. During 2017 the Company continued to reinsure a significant proportion of its non-profit business outwards to a fellow subsidiary Aviva International Insurance Limited ("AII").

The Aviva Group is the UK's largest insurer with an 18% share of the UK life and savings market. The Company has one of the largest balance sheets in the UK life and pensions market. The strategy is the cornerstone of the Group's composite model which puts Digital First.

Key focus areas for the Company include helping customers provide for a more comfortable retirement by supporting them with secure income from annuities, helping customers to protect themselves and their families financially against death or illness, and supplying services to the corporate marketplace by offering pensions, protection and bulk annuity propositions to both large and small companies.

The Company has access to customers across the UK through a market leading distribution network, with a growing Digital Direct offering for sales and service, strong relationships with independent financial advisers, brokers, employee benefit consultants, banks and single-tie agreements with three of the largest estate agencies.

Sales volumes, measured as the present value of new business premiums (PVNBP) have increased across all product segments. Bulk purchase annuity (BPA) sales have more than tripled to £2,045 million, up from £620 million in the prior year. Protection sales volumes have continued to benefit from the launch of the Aviva Life Protection Solutions (ALPS) platform for intermediaries in mid-2015.

On 1 January 2017, the transfer of all of the Aviva Annuity UK Limited (UKA) business into the Company was effected, under a Part VII Transfer of the Financial Services and Markets Act 2000, (Scheme Transfer). On 1 October 2017, a transfer of the Friends Life Limited (FLL) and Friends Life & Pensions Limited (FLP) business into UKLAP was effected also under Scheme Transfers. This consolidates all of the Group's UK life insurance business into one legal entity which delivers both capital and efficiency benefits.

These improvements in capital efficiency together with cost management and positive cash generation, have enabled a £671 million dividend payment to the parent company during the year (2016: £930 million).

Financial position and performance

Shareholders' equity has increased by £2,331 million (2016: *decreased by £889 million*), reflecting the Scheme Transfers, trading profit and other comprehensive income for the year, less the dividend paid.

The loss for the year is £687 million (2016: *£33 million profit*). This comprises a trading profit after tax of £1,031 million (2016: *£33 million profit*) including £136 million (2016: *£96 million*) profit arising from the shareholder element of the bonus declared on with-profit policies, offset by a loss of £1,718 million from the reduction in value of the Company's investment in UKA following the Part VII transaction. The loss for the year is due to the mismatch in the accounting treatment for the decrease in the value of subsidiary and the business transfer for the UKA Part VII. A negative movement of £1,718 million is taken through the income statement for the former but the positive offset of £1,747 million for the latter is taken directly to the Statement of changes in equity.

Future outlook

Brexit continues to drive uncertainty, but the Aviva Group is well placed to manage with the implications. The Company is continuing to prepare for regulatory change in UK markets, with the Markets in Financial Instruments Directive (MiFID), the Insurance Distribution Directive (IDD) and the General Data Protection Regulation (GDPR) coming into force in 2018.

The Company will continue to support customers through the wide range of choices they have as they approach and move through their retirement with market leading propositions (investment, drawdown, annuity, equity release), online guides and tools and an in-house advice service, Aviva Financial Advice. 2018 will also see Auto-Enrolment minimum contributions start to increase from the current base of 1% employee contributions to 3% in April 2018, and then to 5% in April 2019. This is a key period in establishing better retirement prospects for all UK workers.

Priorities for 2018 include delivering growth by leveraging the power of Aviva's breadth of offering within the UK to deliver compelling propositions to meet customer needs, driving digitisation of the Insurance business through customer services, propositions and ensuring that the Company is easy for customers to do business with, growing business expanding propositions in targeted markets such as corporate multinational, bulk purchase annuities and digital, driving simplicity across our operating model.

Principal risks and uncertainties

The principal risks and uncertainties to which the Company is exposed are outlined below:

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.

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.

Life Insurance Risk

Life insurance risk includes mortality risk, morbidity risk, longevity risk, persistency risk, expense risk (including commissions) and policyholder behaviour risk around take-up of insurance guarantees and options.

Liquidity Risk

Liquidity risk is the risk that liabilities cannot be met in a timely and cost-effective manner as they fall due.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.

Legislative Risk

The Company operates in a complex legislative environment and may be impacted by changes in legislation.

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 36 to the financial statements.

Aviva Life & Pensions UK Limited

Strategic report (continued)

Key performance indicators ("KPI")

A summary of the KPIs is set out below:

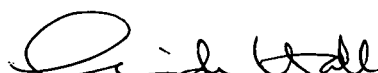
	2017 £m	2016 £m
Capital metrics		
Own funds	14,030	7,102
Surplus capital	4,806	2,417
Financial performance metrics		
Net premiums, including deposits for non-participating investment contracts	11,512	2,283
Increase / (decrease) in shareholders equity	2,331	(889)
Profit for the year after tax, excluding FV gains / losses on subsidiaries	1,053	729

The capital KPIs are taken from the Q4 2017 Solvency II quarterly return.

The Company has maintained a strong capital position in line with a target range for capital coverage. Available capital has increased during the year through trading activity and the impact of Scheme Transfers. In accordance with Solvency II regulatory rules, the Company is required to hold sufficient capital (own funds) to meet its solvency capital requirements. Own funds have increased to £14,030 million (2016: £7,102 million). The capital coverage ratio measured as own funds over solvency capital requirement is 152% (2016: 152%).

Combined net premiums collected under insurance and participating investment contracts and deposits collected under non-participating investment contracts for the year have increased by 404% to £11,512 million. This increase represents the inclusion of the business from UKA for the entirety of 2017 and 3 months of premiums from FLL and FLP.

By order of the Board



Aviva Company Secretarial Services Limited
Company Secretary

27 March 2018

Aviva Life & Pensions UK Limited

Registered in England No. 3253947

Directors' report

The directors present their annual report and audited financial statements for Aviva Life & Pensions UK Limited ("the Company") for the year ended 31 December 2017.

Directors

The names of the present directors of the Company appear on page 1.

M J Hawker was appointed as a non-executive director of the Company on 1 January 2017 and resigned as a director of the Company on 31 March 2017.

B J Richards resigned as a non-executive director of the Company on 28 September 2017.

A E Hutchinson resigned as a non-executive director of the Company on 31 October 2017.

J R F Walls resigned as a non-executive director of the Company on 28 February 2018.

V F Gooding was appointed as a non-executive director of the Company on 28 February 2018.

J B O'Roarke was appointed as a non-executive director of the Company on 8 March 2018.

Company Secretary

M Risam resigned as the Company Secretary on 31 August 2017 and on the same date Aviva Company Secretarial Services Limited was appointed as Company Secretary.

Dividend

A final dividend for the year of £300 million was paid on 8 May 2017 (*2016: £510 million*). An interim dividend for the year of £271 million was paid on 2 November 2017 (*2016: £420 million*). On 13 February 2017 a further £100 million deferred from 2016 was paid.

Major events

On 9 November 2016 the Board approved the transfer of the long-term insurance business of a wholly owned subsidiary, UKA, to the Company through an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 (the "Scheme Transfer"). Additionally, on 19 July 2017 the Board approved the transfer of the whole of the long-term insurance business of two fellow subsidiaries, FLL and FLP, to the Company through Scheme transfers.

The UKA Scheme Transfer became effective on 1 January 2017 with £69,577m of assets and £67,830m of liabilities transferring into the Company. The £1,747m impact of the transfer was taken through the statement of changes in equity whereas a £1,718m loss arising on the write down of the Company's investment in UKA to its net asset value of £5m was taken through the income statement.

The FLL and FLP Scheme Transfers became effective on 1 October 2017 with £62,025m of assets and £61,045m of liabilities transferring from FLL and £39,290m of assets and £38,332m of liabilities transferring from FLP into the Company. The £980m (FLL) and £958m (FLP) impacts of the transfers on the Company were taken through the statement of changes in equity.

As a consequence of the UKA Scheme Transfer, the 22.5% quota share reinsurance arrangement between UKA and the Company ended on 1 January 2017. The business transferred into the Company from UKA continued to be subject to a 50% quota share reinsurance arrangement with Aviva International Insurance Limited (AII), a fellow Aviva subsidiary.

Future developments

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

Aviva Life & Pensions UK Limited

Directors' report (continued)

Financial risk management

Details of financial risk management are discussed in the principal risks and uncertainties section of the Strategic Report on page 4 and in note 36 of the financial statements.

Overseas branches

The Company has branch offices outside the UK in Belgium, France and Ireland.

Financial instruments

The business of the Company includes 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 36 to the financial statements.

Employees

All staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited, who make a management charge for services including the provision of staff to the Company. It is not possible to ascertain separately the element of the management charge that relates to staff costs. Disclosures relating to employee remuneration and the average number of persons employed are made in the financial statements of Aviva Employment Services Limited.

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:

- 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
- each director has taken all the steps that they ought to have taken as a director in order to make themselves 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 Section 418 of the Companies Act 2006.

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.

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 sections 309A to 309C 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

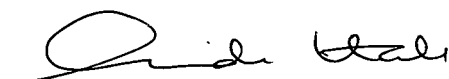
The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



Aviva Company Secretarial Services Limited
Company Secretary

27 March 2018

Aviva Life & Pensions UK Limited

Independent auditors' report to the members of Aviva Life & Pensions UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Aviva Life & Pensions UK Limited'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 loss 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 audited Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

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

Basis for opinion

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

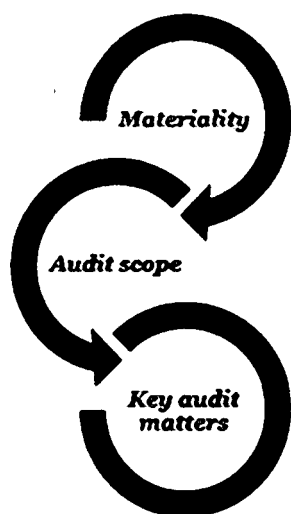
Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in Note 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: £101 million, based on 1% of a three year average of net assets, adjusted for unallocated divisible surplus.
-
- Aviva Life & Pensions UK Limited is a standalone life insurance entity and a wholly owned subsidiary of Aviva plc.
 - We performed a full scope audit of the complete financial information in accordance with our materiality and risk assessment.
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- Valuation of insurance contract liabilities
 - Annuitant mortality assumptions
 - Credit default assumptions for illiquid assets, specifically: Commercial mortgages and equity release mortgages
 - Expense assumptions
 - Valuation of hard to value investments
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Aviva Life & Pensions UK Limited

Independent auditors' report to the members of Aviva Life & Pensions UK 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 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 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 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
<i>Valuation of insurance contract liabilities</i>	
For the insurance contract liabilities, as set out in accounting policy I and note 23, the Directors' 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.	<p>The work to address the valuation of the insurance contract liabilities included the following procedures:</p> <ul style="list-style-type: none">• 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.• 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 liabilities, including the manually calculated components. We focused on the consistency in treatment and methodology period-on-period and with

Aviva Life & Pensions UK Limited

Independent auditors' report to the members of Aviva Life & Pensions UK Limited (continued)

Key audit matter	How our audit addressed the key audit matter
	<p>reference to recognised actuarial practice.</p> <ul style="list-style-type: none"> 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 the company's industry peers. We assessed the disclosures in the financial statements. <p>As part of our consideration of the entire set of assumptions, we focussed particularly on the annuitant mortality, credit default and expense assumptions given their significance to the result and the level of judgement involved. These have been considered in greater detail below.</p>

Annuitant mortality assumptions

Annuitant mortality assumptions, as set out in notes 23 and 26, 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.

Credit default assumptions for illiquid assets, specifically: Commercial mortgages and equity release mortgages

The company has substantial holdings 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 along with a

In addition to the procedures above, 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.
- We compared the mortality assumptions selected by management against those used by their peers.

Based on the work performed and the evidence obtained, we consider the assumptions used for annuitant mortality to be appropriate.

In addition to the procedures above, in respect of the credit default assumptions:

- We tested the methodology and credit risk pricing models used by management for commercial and equity release mortgages 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.

Aviva Life & Pensions UK Limited

Independent auditors' report to the members of Aviva Life & Pensions UK Limited (continued)

Key audit matter	How our audit addressed the key audit matter
margin for prudence, as set out in note 26.	<ul style="list-style-type: none"> 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. <p><i>Based on the work performed and the evidence obtained, we consider the assumptions for credit default risk to be appropriate.</i></p> <p>In addition to the procedures above, in respect of the expense assumptions:</p> <ul style="list-style-type: none"> 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 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 have 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. <p><i>Based on the work performed and the evidence obtained, we consider the assumptions for expense risk to be appropriate.</i></p>
<p>Expense assumptions</p> <p>Future maintenance expenses and expense inflation assumptions, as set out in notes 23 and 26, are used in the measurement of insurance contract 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.</p>	
<p>Valuation of hard to value investments</p> <p>The valuation of the investment portfolio involves judgement and continues to be an area of inherent risk, as set out in accounting policy U and notes 12 and 13. 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:</p> <ul style="list-style-type: none"> Commercial mortgage loans Equity release and UK securitised mortgage loans Collateralised loan obligations and non-recourse loans 	<p>We assessed the Directors' approach to valuation for these hard to value investments by performing the following procedures:</p> <ul style="list-style-type: none"> 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. We tested the operation of data integrity and change management controls for the models, which we baseline every three years. Using our valuation experts, we performed independent valuations for a sample of collateralised loans, non-recourse loans and structured bonds. We assessed the disclosures in the financial statements.

Aviva Life & Pensions UK Limited

Independent auditors' report to the members of Aviva Life & Pensions UK Limited (continued)

Key audit matter	How our audit addressed the key audit matter
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Based on the work performed and the evidence obtained, we consider the assumptions used by management to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The company is a standalone life insurance entity and a wholly owned subsidiary of Aviva plc. We performed a full scope audit of the complete financial information in accordance with our materiality and risk assessment. We conducted our audit at the offices of the company and the offices of their outsourcers who operate certain policy administration and investment functions.

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	£101 million.
How we determined it	1% of three year average net assets, adjusted for unallocated divisible surplus.
Rationale for benchmark applied	We believe the main users of the financial statements, being policyholders and the regulators, are most focussed on balance sheet strength and ability to pay future claims. As such, we have chosen three year average net assets, adjusted for unallocated divisible surplus as the benchmark for our materiality. In order to smooth the impact of market movements on fair value of assets, and also the variations in the annual level of capital distributions to Aviva Life Holdings UK Limited, we take an average of net assets over the last 3 years to better reflect an underlying position of the company.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £5 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.

Aviva Life & Pensions UK Limited

Independent auditors' report to the members of Aviva Life & Pensions UK Limited (continued)

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.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Aviva Life & Pensions UK Limited

Independent auditors' report to the members of Aviva Life & Pensions UK Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

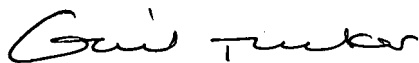
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.



Gail Tucker (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 March 2018

Aviva Life & Pensions UK Limited

Accounting policies

The Company, a limited company incorporated and domiciled in the United Kingdom ("UK"), transacts long-term insurance business.

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 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The financial statements have been prepared under the historical cost convention, except for investment properties, mortgage loans, subsidiaries, associates, joint ventures and those financial instruments and financial liabilities (including derivative instruments) at fair value through profit and loss.

The financial statements are prepared on the going concern basis and in accordance with Companies Act 2006.

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

Minor clarifications to existing guidance on a number of standards became effective for the reporting period beginning on 1 January 2017. The principle clarifications are to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses relating to recognition of deferred tax when an asset's fair value is below its tax base, IAS 7, Statement of Cash Flows, relating to additional disclosure of the movements in liabilities arising from financing activities, and IFRS 12, Disclosure of Interest In Other Entities, clarifying existing guidance. The amendments do not have any impact on the Company's financial statements. The additional disclosure required by the changes to IAS 7 have previously already been disclosed in the Company's financial statements.

The IASB has issued four new standards which are not yet effective and haven't been adopted early by the Company.

(i) IFRS 9, Financial Instruments

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.

In September 2016, the IASB published amendments to IFRS 4, Insurance Contracts, which address the accounting consequences of the application of IFRS 9 to insurers prior to implementing the new accounting standard for insurance contracts, IFRS 17, which replaces IFRS 4. The amendments allow insurers to either apply a temporary exemption from applying IFRS 9 until 1 January 2021 at the latest ('the deferral approach') or allow 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 overlay approach').

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 1 January 2018. The impact of the adoption of IFRS 9 on the Group's consolidated financial statements will, to a large extent, have to take into account the interaction with IFRS 17. As such, it is not possible to fully assess the effect of the adoption of IFRS 9. IFRS 9 has been endorsed by the EU.

(ii) IFRS 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. The standard is not expected to have a material impact on the financial statements.

(iii) IFRS 16, Leases

In January 2016, the IASB published IFRS 16, Leases, which will replace IAS 17, Leases. The standard removes the distinction between finance leases and operating leases for lessees, and proposes a new model whereby lessees include all lease contracts on the balance sheet. Lessor accounting remains similar to current

practice. The impact of the adoption of IFRS 16 has yet to be fully assessed by the Company. This standard applies to accounting periods beginning on or after 1 January 2019 and has been endorsed by the EU.

(iv) 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 and applies to all types of insurance contracts as well as to certain guarantees and financial instruments with discretionary participation features. 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:

- 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) representing the unearned profit of the insurance contracts to be recognised in profit and loss over the service period (coverage period);
- Presentation of revenue and expenses in the statement of comprehensive income based on the service provided during the period; and
- Extensive disclosures providing information on amounts recognised 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 Group 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 IASB has issued a number of amendments to standards which are not yet effective and have not been adopted early by the Company.

- IAS 28 Investments in Associates
- IAS 40, Investment Property
- IFRS 2, Classification and Measurement of Share-Based Payment Transactions
- IFRS 12, Disclosure of Interest in Other Entities

The amendments to IAS 28 and IFRS 12 have been endorsed by the EU. The amendments to IAS 40 and IFRS 2 have not been endorsed by the EU. The amendments are not expected to have a material impact on the financial statements.

(B) Critical accounting estimates and judgements

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 the reported amounts of assets, liabilities, income and expenses.

These major areas of judgement on policy application are summarised below:

- (i) Product classification (set out in policy E)
- (ii) AVIF and other intangible assets (set out in policy L)
- (iii) Deferred acquisition costs (set out in policy X)

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.

- (i) Measurement of insurance and participating investment contract liabilities (set out in policy I)
- (ii) Reinsurance (set out in policy K)
- (iii) Fair value of financial investments (set out in policy S)
- (iv) Fair value of derivative financial instruments (set out in policy T)

Aviva Life & Pensions UK Limited

Accounting policies (continued)

- (v) Loans (set out in policy U)
- (vi) Provisions and contingent liabilities (set out in policy Z)
- (vii) Deferred income taxes (set out in policy AA)

Further details on the estimation of amounts for insurance and participating investment contract liabilities are given in notes 23 and 24 to these financial statements.

(C) Foreign currency translation

Income statements and cash flows of foreign branches are translated into the Company's presentation currency at average exchange rates for the year while their statements of financial position are translated at the year-end exchange rates. Exchange differences arising from the translation of foreign branches are recognised in other comprehensive income and taken to the currency translation reserve within equity. On disposal of a foreign branch, such exchange differences are transferred out of this reserve and are recognised in the income statement as part of the gain or loss on sale.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on financial assets measured at fair value and designated as held at fair value through profit or loss ("FV") are reported as part of the fair value gain or loss. Translation differences on assets held at amortised cost are included in foreign exchange gains and losses in the income statement.

(D) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Company takes into account the asset's use that is physically possible, legally permissible and financially feasible.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. In certain circumstances, the fair value at initial recognition may differ from the transaction price. If the fair value is not evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or is not based on a valuation technique whose variables include only data from observable markets, then the difference between the fair value at initial recognition and the transaction price is not recognised immediately in the income statement but deferred and recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out or otherwise matured.

If an asset measured at fair value has a bid price and an ask price, the bid price is used to measure fair value.

(E) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts.

Aviva Life & Pensions UK Limited

Accounting policies (continued)

Some insurance and investment contracts contain a discretionary participating feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts.

(F) Premiums earned

Premiums on long-term insurance contracts and participating investment contracts are recognised as income when receivable, except for investment-linked premiums that are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular premium contracts, receivables are recognised at the date when payments are due. Premiums are shown before deduction of commission and before any sales-based taxes or duties. Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums.

Deposits collected under investment contracts without a discretionary participating feature (non-participating contracts) are not accounted for through the income statement, except for the fee income (covered in policy G) and the investment income attributable to those contracts, but are accounted for directly through the statement of financial position as an adjustment to the investment contract liability.

(G) Fee and commission income

Investment contract policyholders are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's balance.

These fees are recognised as revenue in the period in which they are collected unless they relate to services to be provided in future periods, in which case they are deferred and recognised as the service is provided.

Initiation and other "front-end" fees (fees that are assessed against the policyholder balance as consideration for origination of the contract) are charged on some non-participating investment contracts. The front-end fees that relate to the provision of investment management services are deferred and recognised as the services are provided.

(H) Net investment income

Investment income consists of dividends, interest and rents receivable for the year, realised gains and losses, and unrealised gains and losses on FV investments (as defined in policy S). Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest income is recognised as it accrues, taking into account the effective yield on the investment. Rental income is recognised on an accruals basis, and is recognised on a straight line basis unless there is compelling evidence that benefits do not accrue evenly over the period of the lease.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate.

Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year. Realised gains or losses on investment property represent the difference between the net disposal proceeds and the carrying amount of the property.

(I) Insurance and participating investment contract liabilities

Claims

Claims reflect the cost of all claims arising during the year, including claims handling costs, as well as policyholder bonuses accrued in anticipation of bonus declarations.

Aviva Life & Pensions UK Limited

Accounting policies (continued)

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.

Long-term business provisions

Under IFRS 4, insurance and participating investment contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting practices, with the exception of those relating to with-profit contracts. The Company has adopted FRS 27, *Insurance Contracts*, for liabilities relating to such contracts, which adds to the requirements of IFRS but does not vary them in any way.

Calculation of the long-term business provisions are based on regulatory requirements prior to the adoption of Solvency II and represent 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 23(b). For with-profit funds FRS 27 requires liabilities to be calculated as the realistic basis liabilities, which are grandfathered from Prudential Regulation Authority ("PRA") requirements prior to the adoption of Solvency II, adjusted to remove the shareholders' share of future bonuses.

Unallocated divisible surplus

In certain participating long-term insurance and investment business, the nature of the policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain. Amounts whose allocation either to policyholders or shareholders has not been determined by the end of the financial year are held within liabilities as an unallocated divisible surplus.

If the aggregate carrying value of liabilities for a particular participating business fund is in excess of the aggregate carrying value of its assets, then the difference is held as a negative unallocated divisible surplus balance, subject to recoverability from margins in that fund's participating business. Any excess of this difference over the recoverable amount is charged to net income in the reporting period.

Embedded derivatives

Embedded derivatives that meet the definition of an insurance contract or correspond to options to surrender insurance contracts for a set amount (or based on a fixed amount and an interest rate) are not separately measured. All other embedded derivatives are separated and measured at fair value, if they are not considered as closely related to the host insurance contract or do not meet the definition of an insurance contract. Fair value reflects own credit risk to the extent the embedded derivative is not fully collateralised.

Liability adequacy

At each reporting date an assessment is made of whether the recognised long-term business provisions are adequate, using current estimates of future cash flows. If that assessment shows that the carrying amount of the liabilities (less related assets) is insufficient in the light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up an additional provision in the statement of financial position.

(J) Non-participating investment contract liabilities

Claims

For non-participating investment contracts with an account balance, claims reflect the excess of amounts paid over the account balance released.

Investment contract liabilities

Deposits collected under non-participating investment contracts are not accounted for through the income statement, except for the investment income attributable to those contracts, but are accounted for directly through the statement of financial position as an adjustment to the investment contract liability.

Nearly all of the Company's contracts classified as non-participating investment contracts are unit-linked contracts and are measured at fair value.

The fair value liability is determined using a valuation technique to provide a reliable estimate of the amount for which the liability could be transferred in an orderly transaction between market participants at the measurement date, subject to a minimum equal to the surrender value. For unit-linked contracts, the fair value liability is equal to the current unit fund value, including any unfunded units. In addition, if required, additional non-unit reserves are held based on a discounted cash flow analysis. For non-linked contracts, the fair value liability is based on a discounted cash flow analysis, with allowance for risk calibrated to match the market price for risk.

(K) Reinsurance

The Company accepts and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance accepted are recognised as revenue in the same manner they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities and investment contract liabilities. This includes balances in respect of contracts which are legally reinsurance contracts but do not meet the definition of a reinsurance contract under IFRS. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Reinsurance contracts that principally transfer financial risk are accounted for directly through the statement of financial position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsurer.

Certain reinsurance contracts transfer significant insurance risk, but relate in whole or in part to underlying non-participating investment contracts. Assets arising under such contracts are recognised within reinsurance assets. Those elements of the reinsurance contracts that relate to underlying non-participating investment contracts are accounted for directly through the statement of financial position. This presentation has been adopted in order to remove the accounting mismatch that would otherwise arise in the income statement in respect of gross and reinsurance premiums and claims.

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 a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

(L) Acquired value of in-force business ("AVIF") and intangible assets

AVIF

The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of a subsidiary, is recognised as an asset. If the AVIF results from the acquisition of an investment in a joint venture or an associate, it is held within the carrying amount of that investment. The AVIF is amortised over the useful lifetime of the related contracts in the portfolio on a systematic basis. The rate of amortisation is chosen by considering the profile of the additional value of in-force business acquired and the expected depletion in its value. Non-participating investment contract AVIF is reviewed for evidence of impairment, consistent with reviews conducted for other finite life intangible assets. Insurance and participating investment contract AVIF is reviewed for impairment at each reporting date as part of the liability adequacy requirements of IFRS 4 (see accounting policy I). AVIF is reviewed for evidence of impairment and impairment tested at product portfolio level by reference to a projection of future profits arising from the portfolio and any reductions are charged as expenses in the income statement.

Aviva Life & Pensions UK Limited

Accounting policies (continued)

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 software internally generated in a fellow group undertaking and amortised over their useful lives of five years using the straight line method. The amortisation charge for the period is included in the income statement under other expenses.

(M) Subsidiaries

Subsidiaries are stated at their fair values, estimated using applicable valuation models underpinned by Solvency II and IFRS net asset value. Subsidiaries managed on a fair value basis are classified as held at fair value through profit or loss, with movements recognised in the income statement. Subsidiaries for which fair values cannot be measured reliably are recognised at cost less impairment. Fair values cannot be measured reliably where there is no active market for shares in the subsidiary and the variability in the range of reasonable fair value estimates is significant.

Dividends from subsidiaries are recognised when declared and approved.

(N) Associates and joint ventures

Property management undertakings

The Company has invested in a number of property limited partnerships ("PLPs"), either directly or via property unit trusts ("PUTs"), through a mix of capital and loans. The PLPs are managed by general partners ("GPs") in which the Company holds equity stakes and which themselves hold nominal stakes in the PLPs. The PUTs are managed by a fellow group subsidiary. Accounting for the PUTs and PLPs as subsidiaries, associates, joint ventures or other financial investments depends on the shareholdings in the GPs and the terms of each partnership agreement.

Where the Company exerts control over a PLP it has been treated as a subsidiary. Where the partnership is managed by a contractual agreement such that no party exerts control, notwithstanding that the Company's partnership share in the PLP (including its indirect stake via the relevant PUT and GP) may be greater than 50%, such PUTs and PLPs have been classified as joint ventures. Where the Company has significant influence over a partnership, but not control, the investment is classified as an associate. Generally, it is presumed that the Company has significant influence if it has between 20% and 50% of voting rights. Where the Company holds minority stakes in PLPs, with no disproportionate influence, the relevant investments are carried at fair value through profit or loss within financial investments.

Associates and joint ventures

Associates and joint ventures are stated at their fair values, estimated using applicable valuation models underpinned by Solvency II and IFRS net asset value. Associates and joint ventures are managed on a fair value basis and classified as held at fair value through profit or loss, with movements recognised in the income statement.

(O) Property and equipment

Owner-occupied properties are carried at their revalued amounts. Net gains are recognised in other comprehensive income and taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. Any net losses are recognised in the income statement.

Aviva Life & Pensions UK Limited

Accounting policies (continued)

Property (other than owner-occupied property) and equipment are carried at historical cost less accumulated depreciation.

Investment properties under construction are included within property and equipment until completion, and are stated at cost less provision for any impairment in their values until construction is completed or fair value becomes reliably measurable.

Depreciation is calculated using the straight line method to write down the cost of assets to their residual values over their estimated useful lives as follows:

Properties under construction	No depreciation
Computer equipment	Three to five years
Other assets	Three to five years

Land is not depreciated.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount.

Borrowing costs directly attributable to the acquisition and construction of property and equipment are capitalised. All repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

(P) Investment property

Investment property is held for long-term rental yields and is not occupied by the Company. Completed investment property is stated at its fair value, which is supported by market evidence, as assessed by qualified external valuers or by qualified staff of the Group. Changes in fair values are recorded in the income statement within net investment income.

As described in policy O above, investment properties under construction are included within property and equipment, and are stated at cost less any provision for impairment in their values until construction is completed or fair value becomes reliably measurable.

(Q) Impairment of non-financial assets

Property and equipment and other non-financial assets held at cost are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Non-financial assets except goodwill which have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(R) De-recognition 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

Aviva Life & Pensions UK Limited

Accounting policies (continued)

- the Company has transferred its rights to receive cash flows from the asset and has 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, cancelled or expires.

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

(S) Financial investments

The Company classifies its investments as FV. The FV category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as FV (referred to in this accounting policy as ‘other than trading’) upon initial recognition.

In general, the FV category is used as, in most cases, the Company’s investment or risk management strategy is to manage its financial investments on a fair value basis. In certain circumstances, the FV category is used where this eliminates an accounting mismatch. Derivatives, which the Company acquires with the intention to resell, are classified as trading. All other securities in the FV 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 less transaction costs. Debt securities are recorded at their fair value, which is initially taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as trading and other than trading are subsequently carried at fair value. Changes in the fair value of trading and other than trading investments are included in the income statement in the period in which they arise.

Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

(T) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, interest rate futures, equity futures and options, cross currency and interest rate swaps, swaptions, inflation linked swaps, credit default swaps and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, equity indices or inflation rates. All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently re-measured at their fair value with fair value gains and losses recognised immediately in net investment income. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset in the statement of financial position at the date of purchase, representing their fair value at that date.

Derivative contracts may be traded on an exchange or over-the-counter (“OTC”). Exchange-traded derivatives are standardised and include certain futures and option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards and swaps. Derivatives are subject to various market risks, 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 Group’s exposure to credit risk. Credit risk is also mitigated by the posting of collateral between the Company and counterparties.

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 potential gain or loss associated with such transactions. These amounts are disclosed in note 37.

Aviva Life & Pensions UK Limited

Accounting policies (continued)

The Group has collateral agreements in place between the individual Group entities and relevant counterparties. Accounting policy (V) below covers collateral, both received and pledged, in respect of these derivatives.

(U) Loans

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

For mortgage loans, including commercial property, healthcare, PFI and Equity Release mortgage loans, the Company has taken advantage of the revised fair value option under IAS 39 to present the mortgages at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch that would otherwise arise from using different measurement bases for these items. The fair values of mortgages classified as FV are estimated using discounted cash flow forecasts which reflects the risks associated with these products. They are revalued at each period end, with movements in their fair values being taken to the income statement. Loans are classified as non-performing when there is objective evidence that they are not collectable either individually or collectively within a group loans with similar credit risk characteristics. The fair value of non performing loans is measured at the net recoverable value of the underlying property less costs to sell.

Loans and advances to banks and infrastructure loans are also valued at fair values using discounted cash flow techniques, based on a risk adjusted discount rate which reflects the risks associated with these investments. They are revalued at each period end, with movements in their fair values being taken to the income statement.

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

(V) Collateral

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

Collateral received in the form of cash, which is not legally segregated from the Company, is recognised as an asset in the statement of financial position with a corresponding liability for the repayment. Non-cash collateral received is not recognised in the statement of financial position unless the Company either (a) sells or re-pledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability; or (b) the counterparty to the arrangement defaults, at which point the collateral is seized and recognised as an asset.

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

(W) Other receivables and payables

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

(X) Deferred acquisition costs

The costs directly attributable to the acquisition of new business for non-participating insurance contracts are deferred to the extent that they are expected to be recoverable out of future margins in revenues on these contracts. For participating contracts, acquisition costs are generally not deferred, as the liability for these contracts is calculated on a realistic basis (see accounting policy I). For non-participating investment contracts, incremental acquisition costs and sales enhancements that are directly attributable to securing an investment management service are also deferred.

Where such business is reinsured, the deferred acquisition costs are tested for recoverability against the present value of future profits, net of reinsurance, and impaired where this value does not support recoverability of the costs.

Deferred acquisition costs are amortised systematically over a period no longer than that in which they are expected to be recoverable out of future margins. Deferred acquisition costs for non-participating investment contracts are amortised over the period in which the service is provided.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

(Y) Statement of cash flows

Cash and cash equivalents

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.

For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included within payables and other financial liabilities on the statement of financial position.

Operating cash flows

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

(Z) Provisions and contingent liabilities

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

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.

(AA) 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.

Aviva Life & Pensions UK Limited

Accounting policies (continued)

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 principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, technical provisions and other insurance items, provisions for pensions and other post-retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantively enacted at the statement of financial position date are used to value the deferred tax assets and liabilities.

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

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

Deferred taxes are not provided in respect of temporary differences arising 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.

In addition to paying tax on shareholders' profits, the company pays tax on policyholders' investment returns ('policyholder tax') on certain products at policyholder tax rates. Policyholder tax is accounted for as an income tax and is included in the total tax expense.

(AB) Borrowings

Borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. All borrowing costs are expensed as they are incurred except where they are directly attributable to the acquisition or construction of property and equipment as described in policy O above.

(AC) 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.

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.

(AD) Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Assets in such leases are included in investment properties, and are stated at fair value. Payments made as lessee under operating leases (net of any incentives received from the lessor) are charged to

the income statement on a straight-line basis over the period of the relevant leases. The Company has not entered into any material finance lease arrangements either as lessor or lessee.

(AE) Business transfer from subsidiaries

The Part VII Transfers during the year are considered to meet the definition of business combinations under common control which are scoped out of the requirements of IFRS 3 Business Combinations. The approach applied in respect of these transfers has been to recognise a gain directly in the statement of changes in equity for the net value of assets and liabilities received. The value of assets and liabilities received has been determined using their predecessor values (i.e. the previous carrying value of the assets and liabilities in the transferor entities).

Aviva Life & Pensions UK Limited

Statement of comprehensive income

For the year ended 31 December 2017

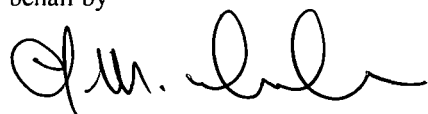
	Note	2017 £m	Restated 2016 £m
Income	2		
Gross written premiums		5,521	2,295
Premiums ceded to reinsurers		(2,731)	(4,042)
Net premiums earned	F	2,790	(1,747)
Fee and commission income	G	508	359
Net investment income	H	10,370	10,712
		13,668	9,324
Expenses	3		
Claims and benefits paid, net of recoveries from reinsurers		(6,185)	(4,858)
Change in insurance liabilities, net of reinsurance		3,155	6,052
Change in investment contract provisions		(6,408)	(5,681)
Change in unallocated divisible surplus		137	(238)
Fee and commission expense		(282)	(864)
Other expenses		(579)	(282)
Finance costs		(3,805)	(2,953)
(Loss) / Profit before tax		(299)	500
Tax expense	AA & 6	(388)	(467)
(Loss) / Profit for the year		(687)	33
Foreign exchange rate movements		5	12
Tax effect	6	(1)	(4)
Other comprehensive income for the year		4	8
Total comprehensive income for the year		(683)	41

The accounting policies (identified alphabetically) on pages 16 to 28 and notes (identified numerically) on pages 33 to 104 are an integral part of these financial statements.

Aviva Life & Pensions UK Limited
Statement of financial position
As at 31 December 2017

	Note	2017 £m	2016 £m
Assets			
Acquired value of in-force business and intangible assets	L & 7	79	73
Investments in subsidiaries	M & 8	1,879	2,903
Investments in joint ventures and associate	N & 9	929	1,251
Property and equipment	O & 10	-	5
Investment property	P & 11	5,714	3,413
Loans	U & 13	24,719	2,994
Financial investments	S & 15	189,416	82,538
Reinsurance assets	K & 16	59,252	33,307
Receivables	17	3,856	11,526
Deferred acquisition costs	X & 18	1,812	823
Prepayments and accrued income	18(c)	1,297	586
Cash and cash equivalents	Y & 34(b)	22,415	9,853
Total assets		311,368	149,272
Equity			
Ordinary share capital	AC & 19	192	192
Currency translation reserve	C & 20	12	8
Retained earnings	21	6,010	4,178
Other equity	22	495	-
Total equity		6,709	4,378
Liabilities			
Gross insurance liabilities	I & 23	103,350	42,906
Gross liabilities for investment contracts	I, J & 24	134,822	64,709
Unallocated divisible surplus	I & 27	2,699	2,168
Deferred tax liabilities	AA & 28	851	359
Current tax liabilities	AA & 28	380	290
Borrowings	AB & 29(c)	1,317	451
Payables and other financial liabilities	30	60,789	33,772
Other liabilities	31	451	239
Total liabilities		304,659	144,894
Total equity and liabilities		311,368	149,272

The financial statements were approved by the Board of directors on 27 March 2018 and were signed on its behalf by



J M Windsor Director

The accounting policies (identified alphabetically) on pages 16 to 28 and notes (identified numerically) on pages 33 to 104 are an integral part of these financial statements.

Aviva Life & Pensions UK Limited

Statement of changes in equity

For the year ended 31 December 2017

	Note	Ordinary share capital	Currency translation reserve	Retained earnings	Other equity	Total equity
		£m	£m	£m	£m	£m
Balance at 1 January 2016		192	-	5,075	-	5,267
Profit for the year		-	-	33	-	33
Other comprehensive income for the year		-	8	-	-	8
Dividends	AC & 21	-	-	(930)	-	(930)
Balance at 31 December 2016		192	8	4,178	-	4,378
Loss for the year		-	-	(687)	-	(687)
Other comprehensive income for the year		-	4	-	-	4
Dividends	AC & 21	-	-	(671)	-	(671)
Scheme Transfer from subsidiary and fellow subsidiaries	41	-	-	3,685	-	3,685
STICS Transfer from fellow subsidiary	22	-	-	(495)	495	-
Balance at 31 December 2017		192	12	6,010	495	6,709

The accounting policies (identified alphabetically) on pages 16 to 28 and notes (identified numerically) on pages 33 to 104 are an integral part of these financial statements.

Aviva Life & Pensions UK Limited
Statement of cash flows
For the year ended 31 December 2017

The cash flows presented in this statement cover all the Company's activities and include flows from policyholder and shareholder activities.

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated in operations	34(a)	2,712	2,467
Tax paid		(214)	(127)
Net cash generated from operating activities		2,498	2,340
Cash flows from investing activities			
Acquisitions of subsidiaries, joint ventures and associates		(80)	(277)
Cash transferred from subsidiary		2,305	-
Cash transferred from fellow subsidiaries		8,096	-
Disposals of subsidiaries, joint ventures and associates		525	320
Purchases of intangible assets		(11)	-
Net cash generated from investing activities		10,835	43
Cash flows from financing activities			
Repayment of borrowings		(175)	(162)
Interest paid on borrowings		(13)	(14)
Dividends paid		(671)	(930)
Net cash used in financing activities		(859)	(1,106)
Net increase in cash and cash equivalents		12,474	1,277
Cash and cash equivalents at 1 January		9,804	8,421
Foreign exchange rate movements		40	106
Cash and cash equivalents at 31 December	34(b)	22,318	9,804

The accounting policies (identified alphabetically) on pages 16 to 28 and notes (identified numerically) on pages 33 to 104 are an integral part of these financial statements.

Aviva Life & Pensions UK Limited
Notes to the financial statements
For the year ended 31 December 2017

1. Prior Period Adjustment

During 2017 the Company reviewed how external reinsurance premium refunds from Aviva International Insurance Limited (AII) under the 50% quota share reinsurance arrangement had been accounted for. In 2016 these amounts were reported in reinsured expenses in error. It was concluded that the calculation of premiums payable to AII took account of these amounts and therefore it was appropriate to net the balance against "Premiums ceded to reinsurers". This has been presented as a prior year adjustment with no net impact on the income statement or net assets.

	As reported £m	Effect of prior period adjustments £m	2016 Restated £m
Total net premiums earned			
Gross written premiums	2,295	-	2,295
Less: Premiums ceded to reinsurers	(4,227)	185	(4,042)
Net premiums earned	(1,932)	185	(1,747)
 Total other expenses			
Amortisation and impairment of AVIF and intangible assets	19	-	19
Reinsured expenses	(294)	185	(109)
Other	372	-	372
Other expenses	97	185	282

As a result of this adjustment, comparative information in the Income Statement, Note 2 Income and Note 3 Expenses, has been restated.

Aviva Life & Pensions UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2017

2. Income

	2017 £m	Restated 2016 £m
Gross written premiums		
Insurance contracts	5,342	1,979
Participating investment contracts	179	316
	5,521	2,295
Less: Premiums ceded to reinsurers	(2,731)	(4,042)
Net premiums earned	2,790	(1,747)
Fee and commission income	508	359
Total revenue	3,298	(1,388)
Net investment income		
Interest and similar income	2,296	601
Dividend income	1,451	1,536
Other income from investments designated as trading		
Realised losses / gains on disposals	(23)	28
Unrealised gains / losses		
Gains arising in the year	550	34
Gains recognised in prior years and now realised	(351)	(28)
Other income from investments designated as other than trading		
Realised gains on disposals	1,548	1,994
Unrealised gains / losses		
Gains arising in the year	7,150	7,376
Gains recognised in prior years and now realised	(2,255)	(1,993)
Foreign exchange losses/gains	(248)	89
Net income from investment properties		
Rent	218	206
Expenses relating to properties with rental income	(26)	(35)
Realised gains on disposal	17	10
Fair value gains/losses on investment properties	234	(149)
Investment income from quota share reinsurance	-	1,062
Other investment expenses	(191)	(19)
Net investment income	10,370	10,712
Total income	13,668	9,324

Net premiums earned includes £1,702 million (2016: £3,560 million) premiums ceded in respect of a quota share reinsurance arrangement with AII. Further details of the quota share reinsurance arrangements are given in note 40.

Following a correction to the accounting treatment of external reinsurance premium refunds under the 50% quota share arrangement with AII, prior year comparatives have been restated. See note 1 for further details.

Interest and similar income primarily consists of interest receivable on debt securities.

Following the Scheme transfer of the long term business from UKA, the quota share arrangement with UKA ended. In 2017 there was no investment income received from the quota share arrangement (2016: £1,062 million).

Aviva Life & Pensions UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2017

3. Expenses

	2017 £m	Restated 2016 £m
Claims and benefits paid to policyholders		
Insurance contracts	7,340	4,701
Participating investment contracts	1,218	1,158
	8,558	5,859
Less: Claim recoveries from reinsurers	(2,373)	(1,001)
Claims and benefits paid, net of recoveries from reinsurers	6,185	4,858
Change in insurance liabilities	(8,640)	1,062
Less: Change in reinsurance asset for insurance provisions	5,485	(7,114)
Change in insurance liabilities, net of reinsurance	(3,155)	(6,052)
Investment income allocated to investment contracts	6,168	5,376
Other changes in provisions		
Participating investment contracts	240	306
Less: Change in reinsurance asset for investment provisions	-	(1)
Change in investment contract provisions	6,408	5,681
Change in unallocated divisible surplus	(137)	238
Acquisition costs		
Commission expenses and other acquisition costs for insurance and participating investment contracts	481	361
Change in deferred acquisition costs for insurance and participating investment contracts	(206)	100
Commission expenses for non-participating investment contracts	16	12
Change in deferred acquisition costs for non-participating investment contracts	(58)	342
Other fee and commission expense	49	49
Fee and commission expense	282	864
Amortisation and impairment of AVIF and intangible assets	20	19
Reinsured expenses	(133)	(109)
Other	692	372
Other expenses	579	282
Investment expense on quota share reinsurance	3,741	2,917
Other similar charges	64	36
Finance costs	3,805	2,953
Total expenses	13,967	8,824

Following a correction to the accounting treatment of external reinsurance premium receipts under the 50% quota share arrangement with AII, prior year comparatives have been restated. See note 1 for further details.

Net claims and benefits paid includes £1,498 million (2016: £460 million) claim recoveries in respect of a quota share reinsurance agreement with AII and £nil (2016: £476 million) claims paid in respect of a quota share reinsurance arrangement with UKA. Other fee and commission expense includes £nil (2016: £58 million) in respect of the UKA quota share arrangement. See note 40 for further details.

Aviva Life & Pensions UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2017

4. Directors' emoluments

Emoluments of directors in office during 2017 were:

	2017 £'000	2016 £'000
Aggregate emoluments in respect of qualifying services	3,384	3,006
Pension	320	331
Accrued pension at end of year from defined benefit pension scheme	-	-
Termination benefits	-	-
Emoluments of the highest paid director:		
Aggregate emoluments in respect of qualifying services	1,801	1,685
Pension	203	198
Accrued pension at end of year from defined benefit pension scheme	-	-

Where directors have multiple directorships, it is not possible to accurately apportion their emoluments to individual companies. The emoluments of directors reported in the above table are in respect of qualifying services performed for the Aviva Group, which may also be disclosed within the financial statements of other Aviva Group companies.

The highest paid director during the year received shares under the executive long-term incentive scheme.

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

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

During the year, 1 of the directors exercised share options (2016: 3) and 2 of the directors received shares under long term incentive schemes (2016: 2).

5. Auditors' remuneration

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

	2017 £'000	2016 £'000
Fees payable for the audit of the Company's financial statements	2,651	797
Fees payable for other audit related services	1,370	549
	4,021	1,346

Fees payable for other audit related services are in relation to the audit of the Solvency II for 2017 and 2016. The Company is exempt under SI 2008/489 from the obligation to disclose fees in respect of 'Other services' as the Company is a subsidiary of Aviva plc, which prepares consolidated financial statements. Fees paid to the Company's auditors, PricewaterhouseCoopers LLP and its associates for services other than the statutory audit of the Company and other Group undertakings are disclosed in the consolidated accounts of Aviva plc.

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.

Aviva Life & Pensions UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2017

6. Tax expense

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	2017 £m	2016 £m
Current tax		
For the year	408	409
Prior year adjustments	(44)	(4)
Total current tax	364	405
Deferred tax		
Origination and reversal of temporary differences	24	64
Changes in tax rates or tax laws	-	(2)
Total deferred tax	24	62
Total tax charged to the income statement (note 6 (b))	388	467

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

	2017 £m	2016 £m
Deferred acquisition costs	(1)	(47)
Unrealised gains on investments	24	112
Provisions and other temporary differences	1	(3)
Total deferred tax charged/(credited) to the income statement	24	62

(b) Tax charged to other comprehensive income

The total tax charge comprises:

	2017 £m	2016 £m
Current tax		
In respect of foreign exchange movements	-	1
Total current tax	-	1
Deferred tax		
In respect of foreign exchange movements	1	3
Total deferred tax	1	3
Total tax charged to other comprehensive income	1	4

Aviva Life & Pensions UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2017

(c) Tax reconciliation

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

	2017 £m	2016 £m
(Loss) / Profit before tax	(299)	500
Tax calculated at standard UK corporation tax rate of 19.25% (2016: 20%)	(57)	100
Different basis of tax for UK life insurance	159	244
Adjustment to tax charge in respect of prior years	(6)	2
Non-assessable income	(36)	(22)
Disallowable expenses	1	2
Reduction in future UK tax rate	-	(2)
Movements in unrealised gains	324	145
Movement in deferred tax	5	-
Different local basis of tax on overseas profits	(2)	(2)
Total tax charged to the income statement (note 6 (a))	388	467

Finance (No 2) Act 2015 introduced legislation reducing the rate of corporation tax from 20% at 1 April 2016 to 19% from 1 April 2017 and to 18% from 1 April 2020. Finance Act 2016, which received Royal Assent on 15 September 2016, will reduce the corporation tax rate further to 17% from 1 April 2020.

The reductions in rate from 20% to 19% and then to 17% have been used in the calculation of the Company's deferred tax assets and liabilities at 31 December 2017.

7. Acquired value of in-force business ("AVIF") and intangible assets

	AVIF £m	Intangible assets £m
Gross amount		
At 1 January 2016 and 31 December 2016	168	110
Additions	-	11
At 31 December 2017	168	121
Accumulated amortisation & impairment		
At 1 January 2016	(118)	(68)
Amortisation	(7)	(12)
At 31 December 2016	(125)	(80)
 Scheme Transfer from fellow subsidiary	 13	 -
Amortisation	(6)	(12)
At 31 December 2017	7	(12)
Carrying amount		
At 1 January 2016	50	42
At 31 December 2016	43	30
At 31 December 2017	50	29

Aviva Life & Pensions UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2017

8. Investments in subsidiaries

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

	2017	2016
	£m	£m
Carrying amount at 1 January	2,903	3,606
Scheme Transfer from subsidiary (note 41)	152	-
Scheme Transfer from fellow subsidiary (note 41)	652	-
Additions	24	30
Disposals	(112)	(37)
Fair value losses	(1,740)	(696)
At 31 December	1,879	2,903

Distributions received from subsidiaries during the year amounted to £17 million (2016: £398 million).

Subsidiaries are stated at their fair values, estimated using applicable valuation models underpinned by Solvency II and IFRS net asset value.

Following the transfer of the net assets from the Company's 100% owned subsidiary UKA under the Scheme transfer, the value of the Company's investment in UKA decreased from £1,723m to £5m.

(b) Additions

During the year the Company made further investments of £20 million in Aviva Pension Trustees UK Limited (2016: £30 million) and £5 million in UKLAP De-Risking.

(c) Disposals

During the year the Company made disposals at fair value of property limited partnerships totalling £106 million (2016: £36 million) and £6 million in Aviva Special PFI Limited Partnership (2016: £1 million).

A full list of the subsidiary undertakings of the company is shown in the appendix to these financial statements on page 105.

9. Investments in joint ventures and associates

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

	2017	2016
	£m	£m
Carrying amount at 1 January	1,251	1,160
Additions	56	247
Disposals	(410)	(283)
Fair value gains	32	127
At 31 December	929	1,251

Associates and joint ventures are stated at their fair values. A full list of joint ventures and associates is included within the list of significant holdings in undertakings other than subsidiary undertakings in the appendix to these financial statements on page 105.

Aviva Life & Pensions UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2017

Distributions received from joint ventures during the year amounted to £33 million (2016: £36 million).

The joint ventures have no significant contingent liabilities to which the Company is exposed, nor has the Company any significant contingent liabilities in relation to its interest in the joint ventures.

Most of the PLPs have raised external debt, secured on their respective property portfolios. The lenders are only entitled to obtain payment, of both interest and principal, to the extent that there are sufficient resources in the respective PLPs. The lenders have no recourse whatsoever to the Company.

10. Property and equipment

	Owner occupied property	Properties under construction	Computer equipment	Other assets	Total
	£m	£m	£m	£m	£m
Cost or valuation					
At 1 January 2016	-	3	43	28	74
Additions	-	2	-	-	2
Disposals	-	-	(43)	(28)	(71)
Capitalised expenditure	-	-	-	-	-
At 31 December 2016	-	5	-	-	5
Transfer to Investment Property	-	(5)	-	-	(5)
Scheme Transfer from subsidiary (note 41)	3	-	-	-	3
Disposals	(3)	-	-	-	(3)
Carrying amount					
At 1 January 2016	-	3	-	-	3
At 31 December 2016	-	5	-	-	5
At 31 December 2017	-	-	-	-	-

Aviva Life & Pensions UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2017

11. Investment property

(a) Carrying amounts

	Freehold	Leasehold	Total
	£m	£m	£m
Carrying amount at 1 January 2016	3,036	1,071	4,107
Transfer between freehold and leasehold	28	(28)	0
Additions	2	1	3
Capitalised expenditure on existing properties	64	8	72
Fair value losses	(103)	(35)	(138)
Disposals	(403)	(261)	(664)
Foreign exchange rate movements	18	15	33
At 31 December 2016	2,642	771	3,413
Transfer from properties under construction	5	-	5
Additions	198	4	202
Capitalised expenditure on existing properties	49	24	73
Fair value gains	227	24	251
Disposals	(420)	(68)	(488)
Scheme Transfer from subsidiary (note 41)	32	140	172
Scheme Transfer from fellow subsidiary (note 41)	1,602	476	2,078
Foreign exchange rate movements	5	3	8
At 31 December 2017	4,340	1,374	5,714

Investment property is valued at least annually by external chartered surveyors at open market values in accordance with the guidance issued by The Royal Institution of Chartered Surveyors or using internal valuations and estimates during the intervening period. In the event of a material change in market conditions between the valuation date and balance sheet date, adjustments are made to reflect any material changes in fair value.

Values are calculated using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, lease expiry, or break option taking into consideration lease incentives and assuming no future growth in the estimated rental value of the property. This uplift and the discount rate are derived from rates implied by recent market transactions on similar properties.

(b) Operating leases

The fair value of investment properties leased to third parties under operating leases, all of which are on commercial terms, is as follows:

	2017	2016
	£m	£m
Freeholds	4,145	2,475
Long leaseholds – over 50 years	1,305	679
	5,450	3,154

Future contractual aggregate minimum lease rentals receivable under non-cancellable operating leases are as follows:

	2017	2016
	£m	£m
Within one year	291	170
Later than one year and not later than five years	909	519
Later than five years	1,349	896
	2,549	1,585

12. Fair value methodology

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

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

Quoted market prices in active markets – ('Level 1')

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities.

Modelled with significant observable market inputs – ("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).
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs).

Modelled with significant unobservable market inputs – ("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. Examples are certain private equity investments, private placements, equity release and commercial mortgage loans.

Changes to valuation techniques:

There were no changes in the valuation techniques during the year compared to those described in the 2016 financial statements.

The fair values of investments in subsidiaries are estimated using applicable valuation models that are underpinned by Solvency II and IFRS net asset value. Prior to the adoption of Solvency II in 2016, market consistent embedded value was used to underpin these valuation models.

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Comparison of the carrying amount and fair values of financial instruments:

Set out below is a comparison of the carrying amounts and fair values of financial instruments carried at amortised cost:

	Fair value £m	2017 Carrying amount £m	Fair value £m	2016 Carrying amount £m
Financial assets				
Loans	2,710	2,746	2,466	2,543
Financial liabilities				
Borrowings	1,398	1,317	486	451

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

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

(b) Fair value hierarchy analysis

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

	Fair Value Hierarchy			2017
	Level 1 £m	Level 2 £m	Level 3 £m	Total Fair Value £m
Recurring fair value measurements				
Property and equipment (note 10)				
Owner occupied property	-	-	-	-
Investments in subsidiaries (note 8)	-	-	1,879	1,879
Investments in joint venture and associates (note 9)	-	-	929	929
Investment property (note 11)	-	-	5,714	5,714
Financial investments and loans (notes 15 and 13)				
Loans	-	442	21,531	21,973
Debt securities	21,558	38,569	6,662	66,789
Equity securities	36,992	-	34	37,026
Other investments (including derivatives)	80,001	4,569	1,031	85,601
Deposits with ceding undertakings (note 17)	-	-	-	-
Total	138,551	43,580	37,780	219,911
Financial liabilities				
Non-participating investment contracts (note 24)	111,462	-	-	111,462
Deposits received from reinsurers (note 30)	-	-	50,203	50,203
Derivative liabilities (note 30)	327	4,141	114	4,582
Total	111,789	4,141	50,317	166,247

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	Fair Value Hierarchy			2016
	Level 1 £m	Level 2 £m	Level 3 £m	Total Fair Value £m
Recurring fair value measurements				
Property and equipment (note 10)				
Owner occupied property				
Investments in subsidiaries (note 8)	-	-	2,903	2,903
Investments in joint venture and associates (note 9)	-	-	1,251	1,251
Investment property (note 11)	-	-	3,413	3,413
Financial investments and loans (notes 15 and 13)				
Loans	-	-	451	451
Debt securities	12,080	14,095	1,005	27,180
Equity securities	30,196	-	3	30,199
Other investments (including derivatives)	21,149	3,134	876	25,159
Deposits with ceding undertakings (note 17)	-	-	8,960	8,960
Total	63,425	17,229	18,862	99,516
Financial liabilities				
Non-participating investment contracts (note 24)	51,999	-	-	51,999
Deposits received from reinsurers (note 30)	-	-	25,232	25,232
Derivative liabilities (note 30)	76	1,933	1,077	3,086
Total	52,075	1,933	26,309	80,317

Assets and liabilities for which fair value is disclosed

The table below shows the fair values and the level in which they are categorised in the fair value hierarchy of assets and liabilities that are not carried at fair value but for which fair value is disclosed in the notes.

	Fair Value Hierarchy			2017
	Level 1 £m	Level 2 £m	Level 3 £m	Total Fair Value £m
Loans measured at amortised cost	-	-	2,710	2,710
Borrowings measured at amortised cost	-	-	1,398	1,398

	Fair Value Hierarchy			2016
	Level 1 £m	Level 2 £m	Level 3 £m	Total Fair Value £m
Loans measured at amortised cost	-	-	2,466	2,466
Borrowings measured at amortised cost	-	-	486	486

Investments classified as Level 2

Fixed income assets classified as Level 2, are valued in line with market practice, generally using an independent pricing service. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis. Pricing services, where available, are used to obtain the third party broker quotes. Where pricing services

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providers are used, a single valuation is obtained and applied. When prices are not available from pricing services, quotes are sourced from brokers. Other Level 2 investments including unit trusts are valued using net asset values which are deemed to be observable market inputs.

Transfers between Levels 1, 2 and 3 of the fair value hierarchy

The Company assesses the fair value hierarchy of its financial investments annually at 31 December and transfers between fair value hierarchy levels are deemed to occur to have occurred at the assessment date.

Transfers from fair value hierarchy Level 1 to Level 3 in respect of equity securities amounted to £2 million (2016: £nil) and arose following suspension of securities meaning a market price is no longer available for these financial instruments.

Transfers from fair value hierarchy Level 2 to Level 3 amounted to £798 million (2016: £3 million). The transfers arose in respect of debt securities and other investments (£788 million and £10 million respectively (2016: £3 million and £nil respectively)). Transfers out of fair value hierarchy Level 3 to Level 2 amounted to £854 million (2016: £166 million) in respect of debt securities and other investments (£772 million and £82 million respectively (2016: £166 million and £nil respectively)). There were no transfers out of fair value hierarchy Level 3 to Level 1 (2016: £nil).

Fair value levels for debt securities are reviewed on a semi-annual basis. The fair value levelling policy allows for bonds to move between levels 2 and 3 depending on an assessment of the observability of market data used to price each bond at the reporting date.

Fair value hierarchy transfers in respect of other investments relate to OTC derivatives, and in particular RPI swaps. Following a review of our fair value levelling methodology, we adjusted the fair value level for RPI swaps from Level 3 to 2 during 2017. Our review concluded that all inputs used in the valuation model for RPI swaps are observable and that a Level 3 classification was not merited.

(c) Further information on Level 3 financial instruments

(i) The tables below show movements in the Level 3 assets and liabilities measured at fair value.

	2017					
	Property and equipment £m	Investments in subsidiaries £m	Investments in joint ventures and associates £m	Investment property £m	Loans £m	Debt securities £m
Balance at 1 January	-	2,903	1,251	3,413	451	1,005
Scheme Transfer from subsidiary (note 41)	3	152	-	172	17,530	3,819
Scheme Transfer from fellow subsidiary (note 41)	-	652	-	2,078	615	2,244
Total net gains / (losses) recognised in the income statement	-	(1,740)	32	251	589	(818)
Additions	-	24	56	76	3,299	1,504
Disposals	(3)	(112)	(410)	(362)	(958)	(1,111)
Capitalised expenditure on existing properties	-	-	-	73	-	-
Transfers into Level 3	-	-	-	5	-	788
Transfers out of Level 3	-	-	-	-	-	(772)
Foreign exchange rate movements	-	-	-	8	5	3
Balance at 31 December	-	1,879	929	5,714	21,531	6,662

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	2017				
	Equity securities £m	Other investments £m	Deposits with ceding undertakings £m	Deposits received from reinsurers £m	Derivative liabilities £m
Balance at 1 January	3	876	8,960	(25,232)	(1,077)
Scheme Transfer from subsidiary (note 41)	-	11	(8,960)	(19,910)	(388)
Scheme Transfer from fellow subsidiary (note 41)	51	27	-	-	(18)
Total net losses recognised in the income statement	(19)	(30)	-	(3,741)	(16)
Additions	6	429	-	(1,320)	6
Disposals	(9)	(212)	-	-	103
Capitalised expenditure on existing properties	-	-	-	-	-
Transfers into Level 3	2	11	-	-	-
Transfers out of Level 3	-	(82)	-	-	1,276
Foreign exchange rate movements	-	1	-	-	-
Balance at 31 December	34	1,031	-	(50,203)	(114)

	2016					
	Property and equipment £m	Investments in subsidiaries £m	Investments in joint ventures and associates £m	Investment property £m	Loans £m	Debt securities £m
Balance at 1 January	-	3,606	1,160	4,107	523	1,484
Total net gains / (losses) recognised in the income statement	-	(696)	127	(138)	8	104
Additions	-	30	247	3	91	133
Disposals	-	(37)	(283)	(664)	(175)	(557)
Capitalised expenditure on existing properties	-	-	-	72	-	-
Transfers into Level 3	-	-	-	-	-	3
Transfers out of Level 3	-	-	-	-	-	(166)
Foreign exchange rate movements	-	-	-	33	4	4
Balance at 31 December	-	2,903	1,251	3,413	451	1,005

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	2016				
	Equity securities £m	Other investments £m	Deposits with ceding undertakings £m	Deposits received from reinsurers £m	Derivative liabilities £m
Balance at 1 January	12	1,213	8,103	-	(486)
Total net gains / (losses) recognised in the income statement	(4)	51	1,062	(2,917)	(539)
Additions	-	44	-	(22,315)	(164)
Disposals	(5)	(435)	(205)	-	112
Capitalised expenditure on existing properties	-	-	-	-	-
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Foreign exchange rate movements	-	3	-	-	-
Balance at 31 December	3	876	8,960	(25,232)	(1,077)

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

- Investments in subsidiaries amounting to £1,879 million (2016: £2,903 million) and investments in joint ventures and associates amounting to £929 million (2016: £1,251 million). Investments in subsidiaries, joint ventures and associates are valued using applicable valuation models underpinned by IFRS net asset value.
- Investment property amounting to £5,714 million (2016: £3,413 million). In the UK, investment property is valued at least annually by external chartered surveyors in accordance with guidance issued by The Royal Institution of Chartered Surveyors, and using estimates during the intervening period. Fair values are determined using an income method, by which own lease agreement cash flows are adjusted for anticipated uplifts, and discounted by rates implied by recent market transactions for similar properties where available.
- Mortgage loans including commercial property, healthcare, and PFI amounting to £9,135 million (2016: £120 million), valued using a Portfolio Credit Risk Model (PCRM). This model calculates a Credit Risk Adjusted Value (CRAV) for each mortgage. The contractual cash flows are adjusted for credit risk and discounted using a swap curve and global assumptions for the liquidity premium. The model explicitly calculates the additional return that would be demanded by investors due to uncertainties in the asset cash flows. The mortgage loans have been classified as Level 3 as the liquidity premium is not deemed to be market observable. The liquidity premium used in the discount rate ranges between 75 bps to 245 bps as at 31 December 2017.
- Equity release mortgage loans amounting to £5,225 million, valued using a discounted cash flow model. Cash flows are adjusted for the 'No Negative Equity Guarantee (NNEG)' risk and discounted using a swap curve and a global assumption for the liquidity premium. The model derives a best estimate view on property growth and explicitly calculates the additional return that would be demanded by investors due to uncertainties in the asset cash flows. The mortgage loans have been classified as Level 3 as assumptions used to derive the NNEG risk are not deemed to be market observable. The liquidity premium used in the discount rate was 210bp as at 31 December 2017.
- Loans and advances to banks amounting to £554 million valued using a DCF model whereby risk adjusted cash-flows are discounted to give the present value. The model considers the likelihood of the counterparty defaulting along with the performance of the underlying collateral in the event of counterparty default. Losses occur in scenarios where the counterparty defaults and the value of the collateral is below the loan advanced.
- Private equity investment funds held by the Company amounting to £394 million (2016: £537 million). In valuing its interest in these funds, the Company relies on quarterly investment valuation reports received from the fund manager as well as fully audited accounts received on an annual basis. Adjustments to fair values are made to reflect draw downs and distributions made between the date of the most recent valuation report received from the fund manager and the reporting date. In accordance with Solvency 2 requirements, the company also undertakes an annual assessment to estimate the extent of uncertainty inherent in the valuation of private equity funds.

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- External hedge fund investments held by the Company amounting to £nil million (2016: £1 million), valued using the net asset values obtained from the fund manager administrators. Investors are unable to obtain details of the underlying assets on a timely basis to establish their composition and classification, hence these have been classified as Level 3 investments.
- Notes issued by loan partnerships held by the Company amounting to £2,790 million (2016: £842 million), for which there is no active market. These are valued using counterparty quotes, benchmarked against the prices of selected similar securities. However, there are insufficient market observable transactions in the selected securities to provide a reliable proxy price to corroborate the counterparty price.
- Other fixed maturity securities held by the Company amounting to £3,872 million (2016: £163 million). These are non-internally modelled assets, where insufficient corroboration has been sought and/or there are significant differences between the external valuation provided and the validation model.
- The value of deposits with ceding undertakings is £nil (2016: £8,960 million), change in value is as a result of the Aviva Annuity UK Ltd Part VII. The value of deposits received from reinsurers of £50,203 million (2016: £25,232million) is driven by the value of the underlying assets held by Company that are attributable to AII under the quota share arrangement of 50% (2016: 50%). The deposit assets and liabilities have been classified as Level 3 as there are significant underlying assets that are classified as Level 3. Changing the unobservable inputs to the valuation of the underlying assets will have a direct proportionate impact on the valuation of the deposit assets and liabilities.

The table below shows the sensitivity of the fair value of Level 3 investments at 31 December 2017 to changes in unobservable inputs to a reasonable alternative:

	2017		Change in fair value	
	Fair value £m	Most significant unobservable inputs	Positive impact £m	Negative impact £m
Investments in subsidiaries				
Aviva Equity Release UK Limited	600	Property value	21	(30)
PLPs and other subsidiaries	1,279	Multiple of IFRS net asset value	77	(77)
Investments in joint ventures and associates	929	Multiple of IFRS net asset value	56	(56)
Property and equipment	-	Uncertainty has been assessed based on ranges of expected rental yields sourced from 7 independent surveyors	-	-
Investment property	5,714	Expected rental yields	336	(336)
Loans				
Commercial mortgages	9,135	Illiquidity premium	144	(135)
Healthcare, infrastructure and PFI unsecured loans	1,720	Illiquidity premium	75	(72)
Equity release mortgages	5,994	Property values	168	(216)
Loans and advances to banks	554	Discounts spreads and collateral values	11	(12)
Loans to Subsidiaries	744	Property values	21	(27)
Other loans	3,384	Illiquidity premium	60	(57)
Fixed maturity securities				
Loan partnership notes	2,790	Multiple of IFRS net asset value	49	(48)
Other	3,872	Multiple of IFRS net asset value	101	(97)
Equity securities				
Unlisted/private equities directly held	34	Multiple of IFRS net asset value	169	(169)
Other investments				
Hedge funds with significant level 3 investments	-	Multiple of IFRS net asset value	-	-
Unlisted investment funds invested in private equities	394	Multiple of IFRS net asset value	115	(38)
Minority holdings in property limited partnerships	234	Prepayment rates	10	(10)
Derivative assets	403	Difference between value and counterparty value	25	(26)
Total Level 3 investments	37,780		1,438	(1,406)

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	2016 Fair value £m	Most significant unobservable inputs	Change in fair value	
			Positive impact £m	Negative impact £m
Investments in subsidiaries				
Aviva Annuity UK Limited	1,723	Longevity	342	(342)
		Credit spreads	104	(82)
Aviva Equity Release UK Limited	543	Property value	30	(37)
		Interest rates	12	(1)
PLPs and other subsidiaries	636	Multiple of IFRS net asset value	27	(27)
Investments in joint ventures and associates	1,251	Multiple of IFRS net asset value	57	(57)
Property and equipment	-	-	-	-
Investment property	3,413	Expected rental yields	179	(179)
Loans				
Commercial mortgages	-	-	-	-
Healthcare, infrastructure and PFI unsecured loans	-	-	-	-
Equity release mortgages	-	-	-	-
Loans and advances to banks	-	-	-	-
Mortgage loans	120	Liquidity Premium	2	(2)
Other loans	331	Credit spreads	13	(14)
Fixed maturity securities				
Loan partnership notes	842	Multiple of IFRS net asset value	23	(11)
Other	163	Multiple of IFRS net asset value	3	(1)
Equity securities				
Unlisted/private equities directly held	3	Multiple of IFRS net asset value	-	-
Other investments				
Hedge funds with significant level 3 investments	1	Multiple of IFRS net asset value	-	-
Unlisted investment funds invested in private equities	537	Multiple of IFRS net asset value	141	(78)
Minority holdings in property limited partnerships	223	Prepayment rates	10	(10)
Derivative assets	115	Difference between value and counterparty value	6	(2)
Total Level 3 investments	9,901		949	(843)

For Level 3 financial liabilities, changing one or more unobservable inputs to a reasonable alternative would not have a significant impact on the fair value of financial liabilities carried at fair value.

63% (2016: 37%) of valuations for Level 3 investments are sourced from independent third parties, usually validated against internally modelled valuations. Where these third parties are unwilling to provide a sensitivity analysis for their valuations, the analysis in the above table has been prepared on the following basis:

- For third party valuations validated against internally modelled valuations using significant unobservable inputs, the table reflects the sensitivity of the internally modelled valuation to changes in unobservable inputs to a reasonable alternative.

For third party valuations either not validated or validated against a Level 2 internally modelled valuation, the third party valuation in its entirety is considered an unobservable input. The sensitivity analysis above is determined by flexing to a reasonable alternative the yield, NAV multiple, IRR or other suitable valuation multiples of the financial instrument implied by the third party valuation. For example, for a fixed income security the implied yield would be the rate of return which discounts the security's contractual cash flows to equal the third party valuations.

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13. Loans

(a) Carrying amount

	2017 £m	2016 £m
Policy loans	22	15
Mortgage loans	15,571	120
Healthcare, infrastructure and PFI unsecured loans	1,720	-
Loans to credit institutions	2,524	2,009
Loans to parent	487	156
Loans to subsidiaries	744	233
Loans to fellow group undertakings	-	250
Other loans	3,651	211
	24,719	2,994

£9,135 million (2016: £120 million) of the above mortgage loans are Commercial Mortgages. The majority of mortgages, healthcare and PFI loans are valued using a Portfolio Credit Risk Model ("PCRM"). This model calculates a Credit Risk Adjusted Value ("CRAV") for each mortgage. The risk adjusted cash flows are discounted using a swap yield curve, taking into account the term dependant gilt yield curve, and global assumption for the liquidity premium.

The CRAV model provides consistency in valuation of assets and related liabilities, with both being discounted using a yield curve including an allowance for liquidity.

The cumulative change in fair value of loans attributable to changes in credit risk to 31 December 2017 was a £811 million loss (2016: £93 million loss). Further details of the fair value methodology are given in note 12.

Of the above total, £23,748 million (2016: £804 million) is expected to be recovered more than one year after the statement of financial position date.

Further information regarding collateral received on the loans can be found in note 38(b).

(b) Collateral

The Company holds collateral in respect of loans where it is considered appropriate, in order to reduce the risk of non-recovery. This collateral generally takes the form of liens or charges over properties. In the event of a default, the Company is able to sell or repledge the collateral.

14. Interests in unconsolidated structured entities

A structured entity is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

As permitted under IAS 27 and under Section 400 of the Companies Act 2006, the Company has elected not to present consolidated financial statements and as such all holdings in structured entities are unconsolidated.

The Company holds redeemable shares or units in investment vehicles, which consist of:

- Debt securities which comprise securitisation vehicles that the Company does not originate and those issued by a wholly owned subsidiary Aviva ERFA 15 UK Limited (see note 15b). These securities consist of: Residential Mortgage-Backed Securities ("RMBS"), Commercial Mortgage-Backed Securities ("CMBS"), Asset Backed Securities ("ABS"), Asset Backed Commercial Papers ("ABCP"), Wrapped credits securities and Collateralised Loan Obligation ("CLO") securities.
- Investment funds which include: hedge funds, liquidity funds, private equity funds, unit trusts, mutual funds and Private Finance Initiative (PFIs).

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- Specialised investment vehicles which comprise Open Ended Investment Companies ("OEICs"), Property Limited Partnerships ("PLPs"), and Sociétés d'Investissement à Capital Variable ("SICAVs").

The Company's holdings in investment vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles.

The investment manager makes investment decisions after extensive due diligence of the underlying investment vehicle including consideration of its strategy and the overall quality of the underlying investment vehicle's manager. All of the investment vehicles in the investment portfolio are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset-based fee and a performance based incentive fee, and is reflected in the valuation of the investment vehicles.

As at 31 December 2017, the total interest in unconsolidated structured entities was £103,369 million (2016: £32,464 million) on the statement of financial position, which are held at fair value through profit or loss. The Company does not sponsor any of the unconsolidated structured entities.

As at 31 December, a summary of the Company's interest in unconsolidated structured entities is as follows:

						2017
	Interest in Subsidiaries £m	Interest in joint ventures £m	Interest in associates £m	Financial investments £m	Loans £m	Total assets £m
Debt securities - Other						
RMBS	-	-	-	635	-	635
CMBS	-	-	-	635	-	635
ABS	-	-	-	1,100	-	1,100
CLO	-	-	-	377	-	377
ABCP	-	-	-	-	-	-
Wrapped credit FV	-	-	-	633	-	633
Non-UK government FV	-	-	-	101	-	101
Investment funds	-	-	-	-	-	-
Hedge funds	-	-	-	-	-	-
Liquidity funds	-	-	-	19,863	-	19,863
Private equity funds	-	-	-	520	-	520
Unit trusts	-	-	-	13,214	-	13,214
Specialised investment	-	-	-	-	-	-
OEICs	-	-	-	13,058	-	13,058
PLPs (including loans)	668	821	102	234	268	2,093
SICAVs	-	-	-	12,382	-	12,382
TTFs	-	-	-	40,903	-	40,903
Infrastructure Loans	-	-	-	-	3,384	3,384
PFI commercial mortgages	-	-	-	-	1,720	1,720
Derivatives	-	-	-	-	-	-
Derivative Assets	-	-	-	363	-	363
Derivative Liabilities	-	-	-	6	-	6
Total	668	821	102	104,024	5,372	110,987

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	2016					
	Interest in Subsidiaries £m	Interest in joint ventures £m	Interest in associates £m	Financial investments £m	Loans £m	Total assets £m
Debt securities - Other						
RMBS	-	-	-	31	-	31
RMBS issued by Aviva ERFA						
CMBS	-	-	-	97	-	97
ABS	-	-	-	111	-	111
CLO	-	-	-	409	-	409
ABCP	-	-	-	2	-	2
Wrapped credit FV	-	-	-	55	-	55
Investment funds						
Hedge funds	-	-	-	1	-	1
Liquidity funds	-	-	-	8,508	-	8,508
Private equity funds	-	-	-	595	-	595
Unit trusts	-	-	-	5,189	-	5,189
Specialised investment						
Healthcare, infrastructure and OEICs	-	-	-	8,894	-	8,894
PLPs (including loans)	593	1,148	97	223	114	2,175
SICAVs	-	-	-	6,301	-	6,301
Infrastructure Loans	-	-	-	-	97	97
Total	593	1,148	97	30,416	211	32,465

The maximum exposure to loss to the interests presented above is the carrying amount of the investments and the majority of debt securities above are investment grade securities. Based on the different structures of the securities, in some cases the Company may be required to absorb losses from an unconsolidated structured entity before other parties. Those cases occur when and if the Company's interest is more subordinated with respect to other owners of the same security.

The Company has granted loans to PLPs classified as subsidiaries, joint ventures and associates for a total of £268 million (2016: £114 million). This amount has been provided for the purpose of short term liquidity funding for commitments to property management joint ventures.

In relation to risk management, disclosures on debt securities and investment vehicles are given in note 36.

The Company has provided letters of support in respect of a number of its investments in PLPs. The Company has not provided any other financial or other support in addition to that described above as at the reporting date, and there are no intentions to provide support in relation to other unconsolidated structured entities in the foreseeable future.

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15. Financial investments

(a) Carrying amount

	At fair value through profit or loss		2017
	Trading	Other than trading	Total
	£m	£m	£m
Debt securities	-	66,789	66,789
Equity securities	-	37,026	37,026
Other investments			
Unit trusts	-	80,064	80,064
Derivative financial instruments	5,156	-	5,156
Other	-	381	381
	5,156	184,260	189,416

	At fair value through profit or loss		2016
	Trading	Other than trading	Total
	£m	£m	£m
Debt securities	-	27,180	27,180
Equity securities	-	30,199	30,199
Other investments			
Unit trusts	-	20,980	20,980
Derivative financial instruments	3,662	-	3,662
Other	-	517	517
	3,662	78,876	82,538

Of the above total, £67,707 million (2016: £26,610 million) is expected to be recovered more than one year after the statement of financial position date.

Of the above financial investments £744 million (2016: £725 million), £203 million (2016: £220 million), £301 million (2016: £295 million) and £596 million (2016: £nil) are held in Trust on behalf of the Trustees of Friends Provident, West Ferry Printers, John Laing and Pearson Bulk Purchase Annuity Schemes respectively. Amounts become payable to the Trustees in the event that the Company is in breach of its payment obligations in respect of policyholder benefits.

(b) Debt Securities issued by wholly owned Subsidiary

Following the UKA Scheme transfer, Aviva ERFA 15 UK Limited (ERFA 15) became a wholly owned subsidiary of the Company. Debt Securities issued by ERFA 15 amounting to £510m have been included in the total value of debt securities. The loan notes, which also transferred to the Company under the Scheme transfer, were issued as a result of the securitisation of equity release mortgages (ERM) originally held by UKA. Since UKA was the ultimate beneficial owner of the ERM both before and after the securitisation, the requirements of IAS 39, did not permit UKA to derecognise the ERM assets. Following the Scheme transfer the ERM assets continue to be recognised as loans (see note 15) by the Company. As a result not derecognising the ERM, the Company recognises an intra company liability to ERFA 15, which is offset against the value of the loan notes, with the net balance being included in the value of debt securities as follows:

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	Debt Securities	Inter Company Loan	Net Debt Security
	£m	£m	£m
At 1 January 2017	-	-	-
Scheme Transfer from subsidiary (note 41)	4,800	(4,576)	224
Additions	735	(738)	(3)
Repayments	-	288	288
Fair value gains / (losses)	969	(969)	-
At 31 December 2017	6,504	(5,995)	509

(c) Stock lending arrangements

The Company has entered into stock lending arrangements during the year in accordance with established market conventions. The majority of the Company's stock lending transactions occur in the UK, where investments are lent to EEA-regulated, locally domiciled counterparties and governed by agreements written under English law. See note 38.

(d) Non UK Government Debt Securities

	2017			2016		
Non-UK Government Debt Securities	Participating funds assets	Shareholder assets	Total	Participating funds assets	Shareholder assets	Total
	£m	£m	£m	£m	£m	£m
Austria	72	124	196	139	80	219
Belgium	51	295	346	60	175	235
Denmark	62	-	62	60	-	60
France	521	455	976	437	64	501
Germany	200	519	719	171	329	500
Ireland	62	31	93	62	30	92
Italy	1	12	13	-	-	-
Netherlands	87	257	344	142	80	222
Norway	14	359	373	20	3	23
Spain	-	4	4	-	-	-
Switzerland	-	-	-	33	-	33
European Supranational	694	1,528	2,222	752	47	799
Other European countries	662	491	1,153	359	36	395
Europe	2,426	4,075	6,501	2,235	844	3,079
Canada	-	1	1	-	-	-
United States	21	486	507	15	-	15
North America	21	487	508	15	-	15
Australia	-	23	23	-	1	1
Singapore	15	64	79	15	-	15
Other	909	263	1,172	931	-	931
Asia Pacific and Other	924	350	1,274	946	1	947
Total	3,371	4,912	8,283	3,196	845	4,041

The above table does not include the Company's unit-linked non-UK government debt securities.

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(e) Exposure to Worldwide banks – debt and equity securities

Debt securities	Shareholder assets				Participating funds assets				2017
	Total senior debt	Total subordinated debt	Total debt	Total equity	Total senior debt	Total subordinated debt	Total debt	Total equity	
	£m	£m	£m	£m	£m	£m	£m	£m	
Australia	210	8	218	-	178	6	184	110	
Austria	-	-	-	-	-	-	-	1	
Belgium	-	1	1	-	-	-	-	1	
Denmark	-	9	9	-	466	-	466	1	
France	385	41	426	-	209	4	213	17	
Germany	-	-	-	-	5	5	10	3	
Ireland	-	1	1	-	-	-	-	1	
Italy	3	-	3	-	-	-	-	20	
Netherlands	265	175	440	-	72	107	179	25	
Norway	3	-	3	-	75	-	75	1	
Spain	383	29	412	-	98	-	98	19	
Sweden	111	-	111	-	208	-	208	5	
Switzerland	13	-	13	-	962	-	962	6	
United Kingdom	1,134	424	1,558	8	681	444	1,125	316	
United States	691	155	846	-	389	73	462	250	
Other	33	47	80	-	312	27	339	143	
Total	3,231	890	4,121	8	3,655	666	4,321	919	

Total	Shareholder assets				Participating funds assets				2016
	159	23	182	-	4,378	385	4,763	644	

The above table does not include the Company's unit-linked debt and equity securities.

16. Reinsurance assets

(a) The carrying amounts at 31 December comprised:

	2017 £m	2016 £m
Insurance contracts	53,164	29,464
Non-participating investment contracts	6,086	3,841
Participating investment contracts	2	2
	59,252	33,307

Included in total reinsurance assets are £48,173 million (2016: £25,500 million) relating to quota share reinsurance – see note 40.

Of the above total, £56,408 million (2016: £30,312 million) is expected to be recovered more than one year after the statement of financial position date.

(b) Assumptions

The assumptions used for reinsurance contracts follow those used for insurance and investment contracts. Reinsurance assets are valued net of an allowance for their recoverability.

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(c) Movements

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

	2017 £m	2016 £m
Carrying amount at 1 January	33,307	6,353
Scheme Transfer from fellow subsidiaries	7,459	-
Scheme Transfer from subsidiary	26,259	-
Termination of intercompany reinsurance arrangement with subsidiary	(8,278)	-
Asset in respect of quota share arrangement (note 40)	1,894	25,500
Asset in respect of other new business	500	296
Transfer to Other financial assets	(4,663)	-
Expected change in existing business assets	(1,117)	294
Variance between actual and expected experience	4,074	493
Impact of operating assumption changes	(738)	(16)
Impact of economic assumption changes	543	349
Change in assets	25,933	26,916
Foreign exchange rate movements	12	38
At 31 December	59,252	33,307

The effects of changes in the main assumptions are given in note 26.

As a result of action taken to restructure agreements with the Company's largest reinsurance counterparty, BlackRock Life Limited, £4,663 million of funds previously reported with BlackRock Life Limited have been transferred to other financial securities.

Included within the Scheme Transfer from subsidiary is (£8,054) million relating to the reversal of the reinsurance asset created in UKA under the 50% QS arrangement with the Company and (£224) million relating to an intergroup reinsurance arrangement UKA had with the Company, both of which were extinguished immediately after the Scheme Transfer. See note 40.

17. Receivables

	2017 £m	2016 £m
Deposits with ceding undertakings	-	8,960
Amounts owed by contract holders	206	76
Amounts owed by intermediaries	53	39
Amounts due from reinsurers	194	105
Amounts due from brokers for investment sales	106	36
Amounts due from parent companies	147	103
Amounts due from fellow subsidiaries	155	220
Collateral pledged	2,376	1,385
Amounts due from government, social security and sales taxes	302	137
Other receivables	317	465
	3,856	11,526

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On 1st January 2017, immediately after the UKA Part VII Transfer, the 50% QS arrangement between UKA and the Company was ended resulting in there no longer being any deposits withheld. See note 40. £nil is expected to be recovered more than one year after the statement of financial position date (2016: £8,960 million).

18. Deferred acquisition costs, other assets, prepayments and accrued income

(a) The carrying amount comprises:

	2017 £m	2016 £m
Deferred acquisition costs in respect of:		
Insurance contracts	866	273
Participating investment contracts	17	9
Non-participating investment contracts	929	541
	1,812	823

Of the above total, £1,552 million (2016: £740 million) is expected to be recovered more than one year after the statement of financial position date.

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

	2017 £m	2016 £m
Carrying amount at 1 January	823	1,252
Acquisition costs deferred during the year	146	48
Impact of assumption changes	192	1
Amortisation	(74)	(491)
Foreign exchange rate movements	4	13
Scheme Transfer from fellow subsidiaries	721	-
At 31 December	1,812	823

(c) Prepayments and accrued income

Of the £1,297 million prepayments and accrued income, £nil (2016: £7 million) is expected to be recovered more than one year after the statement of financial position date.

19. Ordinary share capital

	2017 £m	2016 £m
The allotted, called up and fully paid share capital of the Company was:		
192,000,000 (2016: 192,000,000) ordinary shares of £1 each	192	192

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

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20. Currency translation reserve

	2017 £m	2016 £m
At 1 January	8	-
Foreign exchange rate movements	5	12
Tax effect	(1)	(4)
Total other comprehensive income for the year	4	8
At 31 December	12	8

21. Retained earnings

	2017 £m	2016 £m
At 1 January	4,178	5,075
Loss / Profit for the year	(687)	33
STICS transfer from fellow subsidiary	(495)	-
Scheme Transfer from subsidiary and fellow subsidiary	3,685	-
Dividends		
2016 deferred interim dividend paid of 52.1 pence per share (2016: £nil)	(100)	-
Final dividend paid of 156.25 pence per share (2016: 265.63 pence per share)	(300)	(510)
Interim dividend paid of 141.15 pence per share (2016: 218.75 pence per share)	(271)	(420)
At 31 December	6,010	4,178

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to insurance companies imposed by the PRA. Its ability to transfer retained earnings to its parent company is therefore restricted to the extent these earnings form part of regulatory capital requirements. See note 35.

22. Other equity – Step-up tier one insurance capital securities

	2017 £m	2016 £m
At 1 January	-	-
Scheme Transfer from fellow subsidiary	495	-
At 31 December	495	-

On 1 October 2017, under the FLL Scheme transfer, £500m of Step-up Tier one Insurance Capital Securities ("STICS") were transferred to the Company for no consideration. Originally issued by FLL on 27 June 2005, the STICS bear interest at a rate of 4.39% from 1 July 2015 to 30 June 2020 and have no maturity date but are redeemable in the whole or part at the option of the Company on 1 July 2015, or thereafter on every fifth anniversary of this date. £5m of issue costs are capitalised in the carrying value of the instruments.

The STICS are perpetual securities and are not redeemable at the option of the holders at any time. For each coupon period after 1 July 2015 the STICS will bear interest that is reset every five years. Under IAS 32 Financial Instruments it is necessary to treat STICS as equity as there is no requirement to settle the obligation in cash or another financial asset.

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23. Insurance liabilities

(a) The carrying amount comprises:

	2017 £m	2016 £m
Participating	27,743	22,322
Unit-linked non-participating	10,529	3,111
Other non-participating	64,100	16,771
Outstanding claims provisions	978	702
	103,350	42,906

Of the above total, £96,097 million (2016: £37,767 million) is expected to be paid more than one year after the statement of financial position date.

(b) Insurance liabilities

(i) Business description

The Company underwrites long-term business as follows:

- New With-Profits Sub-Fund (NWPSF), where the with-profit policyholders are entitled to at least 90% of the distributed profits, with the shareholders receiving the balance. Any surplus or deficit emerging in NWPSF that is not distributed as bonus will be transferred from this sub-fund to the Reattributed Inherited Estate External Support Account (RIEESA) (see below).
- Old With-Profits Sub-Fund (OWPSF), With-Profits Sub-Fund (WPSF) and Provident Mutual Sub-Fund (PMSF), where the with-profit policyholders are entitled to at least 90% of the distributed profits, with the shareholders receiving the balance.
- Under the FLL and FLP Scheme Transfers in October 2017, the following With-Profits business transferred into the Company;
 - o The Friends Life Limited FP With-Profits Fund (FP WPF), which was formally closed to new business during 2017 and where shareholders are entitled to 10% of the distributed profits, plus 60% of the surplus arising on pre-demutualisation non-profit and unitised business and non-investment sources of surplus on policies held by post-demutualisation policyholders. The Friends Provident demutualisation occurred in 2001.
 - o The Friends Life Limited With-Profits Fund (FPLAL WPF), which is closed to new business and where policyholders are entitled to 100% of the distributed profits.
 - o The Friends Life Limited FLC New With-Profits Fund (FLC New WPF), the Friends Life Limited FLC Old With-Profits Fund (FLC Old WPF), the Friends Life Limited WL With-Profits Fund (WL WPF) and Friends Life Limited FLAS With-Profits Fund (FLAS WPF) which are closed to new business and where policyholders are entitled to 90% of the distributed profits aside from certain policies in the FLC New WPF and the FLC Old WPF with guaranteed bonus rates, and certain policies in the WL WPF which are reinsured into the fund where the shareholders do not receive one-ninth of the bonus.
 - o The Friends Life and Pensions Limited SGF With Profits Fund (SGF WPF), is closed to new business and where policyholders are entitled to 100% of the distributed profits.
- Non-profit funds, where shareholders are entitled to 100% of the distributed profits. Shareholder profits on unitised with-profit business written by WPSF and on stakeholder unitised with-profit business are derived from management fees and policy charges, and emerge in the non-profit funds.
- The RIEESA, which is a non-profit fund where shareholders are entitled to 100% of the distributed profits, but these cannot be distributed until the 'lock-in' criteria set by the Reattribution Scheme have been met.

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The RIEESA is used to provide capital support to NWPSF, and has been used in the past to write non-participating business.

(ii) *Company practice with-profit and non-profit business*

Insurance liabilities are calculated separately for each fund.

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 in each of the life funds. Provisions are most sensitive to assumptions regarding future investment returns, discount rates, future bonus rates, mortality/morbidity rates and persistency.

Bonuses paid during the year are reflected in claims paid, whilst those allocated as part of the bonus declaration are included in the movements in insurance liabilities.

For with-profit life funds falling within the scope of FRS 27 an amount should be recognised for the present value of future profits (PVFP) on non-participating business written in a with-profit fund where the determination of the realistic value of liabilities in that with-profit fund takes account, directly or indirectly, of this value. For the NWPSF, OWPSF, WPSF and PMSF, no adjustment for this value is made to the participating insurance and investment contract liabilities or the unallocated divisible surplus. For the with-profits funds transferred from FLL and FLP under the Scheme Transfer, the non-participating liabilities are measured on a realistic basis with implicit recognition of the present value of future profits and hence no additional explicit adjustment is required for this value.

(iii) *Methodology*

(1) *With-profit funds*

The Group's UK with-profit liabilities are evaluated by reference to FRS 27, which was grandfathered under IFRS 4, prior to the adoption of Solvency II. Under these rules, provision for guarantees and options within realistic liabilities are measured at fair value, using market-consistent stochastic models. A stochastic approach includes measuring the time value of guarantees and options, which represents the additional cost arising from uncertainty surrounding future economic conditions.

The key elements of the realistic liabilities are the with-profit benefit reserve (WPBR) and the present value of the expected cost of any payments in excess of the WPBR (referred to as the cost of future policy-related liabilities). The realistic liability for any contract is equal to the sum of the WPBR and the cost of future policy-related liabilities, which includes the value of any 'planned enhancements' to benefits agreed by the Company.

The WPBR for an individual contract is generally calculated on a retrospective basis, and represents the accumulation of the premiums paid on the contract, allowing for investment return, taxation, expenses and any other charges levied on the contract. For a small proportion of business, a prospective valuation is used, including allowance for anticipated future regular and final bonuses.

The cost of future policy-related liabilities includes:

- Maturity Guarantees;
- Guarantees on surrender, including no-MVR (market value reduction) guarantees and guarantees linked to inflation;
- Guaranteed Annuity Options ("GAOs");
- Guaranteed Minimum Pension ("GMP") underpin on Section 32 transfers; and
- Expected payments under the Mortgage Endowment Promise.

The costs of future policy related liabilities are determined using a market consistent approach, and in the main, this is based on a stochastic model calibrated to market conditions at the end of the reporting period. Non-market

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related assumptions (for example, persistency, mortality and expenses) are assessed on a best estimate basis with reference to Company and wider industry experience, adjusted to take into account future trends.

On 1 January 2016 the Pillar I regulatory regime was replaced with Solvency II, under which realistic liabilities were replaced with Best Estimate Liabilities ("BEL"). Key differences between the realistic liabilities and the Solvency II BEL are that BEL excludes the shareholder's share of future bonuses, excludes certain planned and approved enhancements to benefits (part of Solvency II surplus funds) and uses a higher yield (EIOPA specified) for future investment returns and discounting. Adjusting the yield used in the calculation of the BEL by removing the volatility and credit risk adjustments, including planned enhancements that are part of the Solvency II surplus funds and making other less significant adjustments, results in a valuation in accordance with FRS 27. Consequently, for periods subsequent to 31 December 2015, the with-profit business is valued based on an adjusted Solvency II BEL assessment, which represents a change in estimate of the liabilities.

(2) Non-profit funds

The valuation of non-profit business is based on grandfathered regulatory requirements under IFRS 4 prior to the adoption of Solvency II, adjusted to remove certain regulatory reserves and margins in assumptions, notably for annuity business. Conventional non-profit contracts, including those written in the with-profits funds are valued using the gross premium method which discounts the projected future cash flows. The cash flows are calculated using the amount of contractual premiums payable together with explicit assumptions for investment returns, inflation, discount rates, mortality, morbidity, persistency and future expenses. These assumptions can vary by contract type and reflect current and expected future experience with an allowance for prudence. For the with-profits funds that transferred from FLL and FLP, the non-participating liabilities are measured on a realistic basis with implicit recognition of the present value of future profits.

(iv) Assumptions – with-profit business

The principal assumptions underlying the cost of future policy-related liabilities are:

(1) Future investment return

A 'risk-free' rate equal to the spot yield on UK swaps is used for the valuation of with-profit business. The rates vary according to the outstanding term of the policy, with a typical rate as at 31 December 2017 of 1.29% (2016: 1.25%) for a policy with ten years outstanding.

(2) Volatility of investment return

Volatility assumptions are set with reference to implied volatility data on traded market instruments, where available, or on a best estimate basis if not.

Class	Volatility	
	2017	2016
UK equities	21%	24%
Property	16%	16%

The equity volatility used depends on term, money-ness and region. The figure shown is for a sample UK equity, at the money, with a ten year term. Fixed interest yield volatility is also dependent on term and money-ness.

(3) Future regular bonuses

Annual bonus assumptions for 2018 have been set consistently with the 31 December 2017 declaration. Future annual bonus rates reflect the principles and practices of each fund. In particular the level is set with regard to the projected margin for final bonus and the change from one year to the next is limited to a level consistent with past practice.

(4) Persistency

Rates, which will vary between classes of business, are based on experience adjusted to take into account assumed future trends.

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(5) GAO take-up rates

Rates are used for all with-profit funds, based on recent experience.

(6) Expenses

Maintenance charge assumptions for with-profits business are generally expressed as a fixed 'per policy' charge in line with agreements between the services companies and Aviva Life & Pensions UK (UKLAP). The assumptions increase by future charge inflation over the lifetime of each contract, which is 50% RPI, 100% RPI or 100% RPI + 1% depending on product type. Any excess of expenses charged by UKLS to UKLAP over the charges specified by the agreements is borne by the non-profits business.

(7) Future expenses

Where expense charges are subject to a defined fee arrangement, the expense assumption reflects a continuation of that defined basis. Assumptions for other expenses are based on experience, adjusted to take into account future trends.

(8) Mortality

Mortality assumptions are set with regard to recent company experience and general industry trends.

	Mortality tables used 2017	Mortality tables used 2016
Assurances, pure endowments and deferred annuities before vesting	Nil or AM00/AF00 adjusted	Nil or AM00/AF00 adjusted
Pensions business after vesting and pensions annuities in payment	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

(9) Guarantee charge

An annual charge of 0% pa is assumed for all years in the With-Profit Sub-Fund after the guarantee charge was discontinued with effect from 1 January 2014.

An annual charge of 0.7% pa for the first 10 years is assumed in the New With-Profit Sub-Fund ("NWPSF") and the Old With-Profit Sub-Fund ("OWPSF") in respect of some inflation protection guaranteed bonds.

In the Provident Mutual fund, a charge or addition at maturity will be assumed sufficient to ensure a zero estate, subject to a maximum of 10% of WPBR.

(v) Assumptions – non-profit business in the with-profit funds

The gross premium method is used for all material classes of business.

For unit-linked and some unitised with-profits business, the provisions are valued by adding a prospective non-unit reserve to the bid value of units. The prospective non-unit reserve is calculated by projecting the future non-unit cash flows using prudent assumptions and on the assumption that future premiums cease, unless it is more onerous to assume that they continue. Where appropriate, allowance for persistency is based on actual experience.

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 restricting the yields for equities and properties with reference to a margin over long-term interest rates or by making an explicit deduction from the yields on corporate bonds, mortgages and deposits, based on historical and expected future default experience of each asset class. A further margin for risk is then deducted for all asset classes.

Valuation discount rates for non-profit business in with-profits funds are as follows:

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	Valuation discount rates	
	2017	2016
Assurances		
Life conventional non-profit	1.6%-1.9%	0.8%-1.0%
Pensions conventional non-profit	1.7%-1.9%	0.8%
Deferred annuities		
Non-profit – in deferment	2.0%-2.4%	1.4%-1.9%
Non-profit – in payment	2.0%-2.4%	1.4%-1.7%
Annuities in payment	2.0%-2.4%	1.5%-1.6%
Non-unit reserves		
Life	-	1.3%
Pensions	-	1.6%

Mortality assumptions are set with regard to recent company experience and general industry trends.

	Mortality tables used	Mortality tables used
	2017	2016
Assurances	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 CIM11A or IC94 or reinsurer rates adjusted for smoker status and age/sex specific factors
Pure endowments and deferred annuities before vesting	AM00/AF00 adjusted	Nil or AM00/AF00 adjusted
Annuities in payment		
General annuity and pension business	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

(vi) Assumptions – non-profit funds

The gross premium method is used for all contracts.

For unit-linked business, a reserve equal to the bid value of the units allocated to policyholders is held.

For unit-linked business, the provisions are valued by adding a prospective non-unit reserve to the bid value of units. The prospective non-unit reserve is calculated by projecting the future non-unit cash flows using prudent assumptions and on the assumption that future premiums cease, unless it is more onerous to assume that they continue. Where appropriate, allowance for persistency is based on actual experience.

The provisions held in respect of guaranteed annuity options are a prudent assessment of the additional liability incurred under the option on a basis and method consistent with that used to value basic policy liabilities, and includes a prudent assessment of the proportion of policyholders who will choose to exercise the option.

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

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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.

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 for business in the non-profit funds is 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	0.8%-2.5%	0.8% -1.3%	0.8%-1.3%
Pensions conventional non-profit	1.0%-2.4%	0.8%-1.7%	0.8%-1.7%
Annuities**			
Immediate and deferred annuities	1.0%-2.8%	0.7%-2.9%	0.6%-2.8%
Non-unit reserves			
Life	0.8%-1.2%	0.7%-1.3%	0.7%-1.3%
Pensions	0.8%-1.5%	0.7%-1.6%	0.7%-1.6%
Income Protection***			
Active lives	1.0%-2.5%	1.1%	1.1%
Claims in payment – level and index linked	1.2%-1.5%	(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 business transferred in from Aviva Annuity UK Ltd 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 (pre-existing UKLAP) 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 transferred in from Aviva Annuity UK Ltd in 2017 equated to 48 bps, 40 bps, and 102 bps respectively at 31 December 2017 (2016: 47 bps, 48 bps, and 102 bps respectively). The risk allowances made for corporate bonds and mortgages for business transferred in from Friends Life Limited in 2017 equated to 47 bps and 33 bps respectively at 31 December.

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For corporate bonds, the allowance represented approximately 37% and 39% respectively of the average credit spreads for the portfolios transferred in from Aviva Annuity UK Limited and from Friends Life.

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	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 the largest portfolio of pensions annuity business transferred from UKA, 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 £0.1billion is also held to allow for higher mortality at old ages being experienced in our portfolio relative to the above assumptions. For the largest portfolio of pensions annuity business transferred from FLL, the underlying mortality assumptions for Males are 103.4% of PCMA00 (2016: 98.5% of PCMA00) with base year 2000; for Females the underlying mortality assumptions are 104.4% of PCFA00 (2016: 98.5% of PCFA00) with base year 2000.

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 transferred in from UKA, 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

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this business depending on factors specific to each annuity, such as health factors, geographical region and annuity size.

(c) The following movements have occurred in insurance liabilities during the year:

	2017 £m	2016 £m
Carrying amount at 1 January	42,906	41,535
Scheme Transfer from fellow subsidiaries	32,859	-
Scheme Transfer from subsidiary	36,135	-
Termination of intercompany reinsurance arrangement with subsidiary	(8,278)	-
Change in liability from Scheme Transfer in	60,716	-
Provisions in respect of new business	3,095	494
Expected change in existing business provisions	(5,076)	(3,394)
Variance between actual and expected experience	1,031	1,771
Impact of operating assumption changes	(1,114)	(46)
Impact of economic assumption changes	1,700	2,237
Change in liability recognised as expense/(income)	(364)	1,062
Foreign exchange rate movements	92	309
At 31 December	103,350	42,906

The effect of changes in the main assumptions is given in note 26.

For many types of long-term business, including unit-linked and participating funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit.

For participating business, a movement in liabilities is generally offset by a corresponding adjustment to the unallocated divisible surplus and does not impact on profit. Where assumption changes do impact on profit, these are included in the effect of changes in assumptions and estimates during the year shown in note 26, together with the impact of movements in related non-financial assets.

During 2017, long-term assumptions for future property prices and rental income have been kept under review to allow for the possible future adverse impact of the decision for the UK to leave the European Union. The aim has been to maintain the same allowance in these assumptions in 2017 as was included in 2016, as the impact of the Brexit process on the UK economy remains uncertain.

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24. Liabilities for investment contracts

(a) The carrying amount comprises:

	2017 £m	2016 £m
Participating contracts	23,196	12,710
Non-participating contracts	111,462	51,999
Outstanding claims provisions	164	-
	134,822	64,709

Of the above total, £127,215 million (2016: £58,496 million) is expected to be paid more than one year after the statement of financial position date.

(b) Investment liabilities

Investment contracts are those that do not transfer significant insurance risk from the contract holder to the issuer, and are therefore treated as financial instruments under IFRS.

Many investment contracts contain a discretionary participation feature in which the contract holder has a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts and are measured according to the methodology and practice for insurance liabilities as described in note 23. The liability in respect of participating investment contracts of £23,196 million (2016: £12,710 million) has been calculated in accordance with actuarial principles. These contracts are not measured at fair value as there is currently no agreed definition of fair valuation for discretionary participation features under IFRS. In the absence of such a definition it is not possible to provide a range of estimates within which fair value is likely to be. For participating business, the discretionary participation feature is recognised separately from the guaranteed element and is classified as a liability, referred to as the unallocated divisible surplus. Guarantees on long-term investment products are discussed in note 25. Investment contracts that do not contain a discretionary participation feature are referred to as non-participating contracts and the liability is measured at fair value.

Of the non-participating investment contracts measured at fair value, £111,566 million (2016: £51,945 million) are unit-linked in structure and the fair value liability is equal to the unit reserve plus additional non-unit reserves, if required, on a fair value basis.

These contracts are classified as "Level 1" in the fair value hierarchy, as the unit reserve is calculated as the publicly quoted unit actively traded price multiplied by the number of units in issue. Of the remaining non-participating contracts measured at fair value, all are non-linked contracts classified as "Level 1" in the fair value hierarchy. For this business, a deferred acquisition cost asset and deferred income reserve liability are recognised in respect of transaction costs and front-end fees, that relate to the provision of investment management services, and which are amortised on a systematic basis over the contract term. The amount of the related deferred acquisition cost asset is shown in note 18 and the deferred income reserve is shown in note 31.

For non-participating investment contracts, deposits collected and amounts withdrawn are not shown on the income statement, but are accounted for directly through the statement of financial position as an adjustment to the gross liabilities for investment contracts. The associated change in investment contract provisions shown on the income statement consists of the attributed investment return. Participating investment contracts are treated consistently with insurance contracts with the change in investment contract provisions primarily consisting of the movement in participating investment contract liabilities (net of reinsurance) over the reporting period.

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c) Movements in the year

The following movements have occurred in the year:

(i) Participating investment contracts

	2017 £m	2016 £m
Carrying amount at 1 January	12,710	12,400
Scheme Transfer from fellow subsidiaries	10,245	-
Provisions in respect of new business	37	54
Expected change in existing business provisions	(1,222)	(826)
Variance between actual and expected experience	999	635
Impact of operating assumption changes	10	6
Impact of economic assumption changes	416	437
Change in liability recognised as an (income)/expense	240	306
Foreign exchange rate movements	1	4
At 31 December	23,196	12,710

The effect of changes in the main assumptions is given in note 26.

(ii) Non-participating investment contracts

	2017 £m	2016 £m
Carrying amount at 1 January	51,999	45,556
Scheme Transfer from fellow subsidiaries	52,400	-
Provisions in respect of new business	2,109	1,401
Expected change in existing business provisions	(749)	(696)
Variance between actual and expected experience	5,719	5,256
Impact of economic assumption changes	1	1
Change in liability recognised as expense	7,080	5,962
Foreign exchange rate movements	147	481
At 31 December	111,626	51,999

The effect of changes in the main assumptions is given in note 26.

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25. Financial guarantees and options

As a normal part of operating activities, the Company has given guarantees and options, including investment return guarantees, in respect of certain long-term insurance products. Further information on assumptions is given in accounting policy I.

(a) With-profit business

FRS 27, Insurance Contracts, which is grandfathered from PRA requirements prior to the adoption of Solvency II, requires liabilities to be calculated as realistic basis liabilities. Provisions for guarantees and options within realistic liabilities must be measured using a market consistent approach, which generally requires a stochastic approach. A stochastic approach includes measuring the time value of guarantees and options, which represents the additional cost arising from uncertainty surrounding future economic conditions.

The material guarantees and options to which this provision relates are:

- (i) **Maturity value guarantees** – Substantially all of the conventional with-profit business and a significant proportion of unitised with-profit business have minimum maturity values reflecting the sums assured plus declared annual bonus.
- (ii) **No MVR guarantees** – For unitised business, there are a number of circumstances where a ‘no MVR’ guarantee is applied, for example on certain policy anniversaries, guaranteeing that no market value reduction will be applied to reflect the difference between the accumulated value of units and the market value of the underlying assets.
- (iii) **GAOs** – The Company’s with-profit funds have written individual and group pension contracts which contain GAOs where the policyholder has the option to take the benefits from a policy in the form of an annuity based on guaranteed conversion rates.
- (iv) **GMP** – The Company’s with-profit funds also have certain policies which contain a guaranteed minimum level of pension as part of the condition of the original transfer from state benefits to the policy.
- (v) **Inflation guarantees** – For some unitised with-profit life contracts the amount paid after the fifth anniversary is guaranteed to be at least as high as the premium paid increased in line with the rise in Retail Price Index or Consumer Price Index.
- (vi) In addition the Company has made promises to certain policyholders in relation to their with-profit mortgage endowments. Top up payments will be made on these policies at maturity to meet the mortgage value up to a maximum of the 31 December 1999 illustrated shortfall.

(b) Non-profit business in the with-profit fund

FRS 27 requires the non-profit liabilities in a with-profit fund to be evaluated by reference to the grandfathered regulatory requirements prior to the adoption of Solvency II.

Guaranteed unit price on certain products – Certain unit-linked pension products linked to long-term life insurance funds provide policyholders with guaranteed benefits at retirement or death. No provision is required for other guarantees because the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates.

(c) Non-profit business

Non-profit business was not subject to the requirements of the PRA’s realistic reporting regime and, therefore, liabilities are evaluated by reference to grandfathered regulatory requirements prior to the adoption of Solvency II.

- (i) **GAO** – Similar options to those written in the with-profit fund have been written in relation to non-profit products. Provision for these guarantees does not materially differ from a provision based on a market-consistent stochastic model, and amounts to £100 million at 31 December 2017 (2016: £30 million).

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(ii) Guaranteed unit price on certain products – Certain unit-linked pension products linked to long-term life insurance funds provide policyholders with guaranteed benefits at retirement or death. Provision is made for guarantees, except where the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates. An additional provision is made for guarantees in the Unit Linked Guarantee Fund.

(iii) Mortgage Protection Guarantee - Some mortgage protection policies include a guarantee that the policy will make up any shortfall between the sum assured on the policy schedule and the amount owed to the mortgage provider in the event of a claim, if certain eligibility conditions are met. Provisions are held to meet the potential shortfall.

(iv) Maturity Value Guarantees - One of the linked funds has offered maturity value guarantees on certain unit-linked products.

(v) Return of Premium guarantees - German Pension products sold in Friends Life between 2006 and 2014 are subject to a Return of Premium guarantee whereby the product guarantees to return the maximum of the unit fund value or total premiums paid (before deductions). Provisions for this guarantee are calculated using a market-consistent stochastic model and amount to £132 million at 31 December 2017 (2016: £145 million).

26. Effect of changes in assumptions and estimates during the year

Certain estimates and assumptions used in determining liabilities for insurance and investment contract business were changed during 2017 and had the following effect on the unallocated divisible surplus (“UDS”) and the profit recognised for the year, both gross and net of reinsurance. This disclosure only shows the impact on liabilities and related reinsurance assets, and does not allow for offsetting movements in the value of backing financial assets.

	Effect on UDS before reinsurance £m	Effect on profit before reinsurance £m	Effect on UDS after reinsurance £m	2017 Effect on profit after reinsurance £m
Assumptions				
Insurance contracts				
Economic assumptions	119	1,581	120	1,037
Persistency rates	3	106	3	80
Mortality for assurance contracts	-	(756)	1	(179)
Mortality for annuity contracts	(55)	(908)	(55)	(484)
Expenses / (income)	3	468	3	231
Other operating assumptions	37	(12)	37	(13)
	107	479	109	672
Investment contracts – Participating				
Economic	278	138	278	138
Persistency Rates	1	5	1	5
Expenses	-	6	-	6
Other operating assumptions	(1)	(1)	(1)	(1)
	278	148	278	148
Investment contracts – Non-participating				
Economic	(1)	2	(1)	2
Expenses	-	(1)	-	(1)
Other operating assumptions	-	1	-	1
	(1)	2	(1)	2
Total increase as a result of changes in assumptions and estimates	384	629	386	822

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	Effect on UDS before reinsurance £m	Effect on profit before reinsurance £m	Effect on UDS after reinsurance £m	2016 Effect on profit after reinsurance £m
Assumptions				
Insurance contracts				
Persistency rates	(4)	(59)	(5)	(11)
Economic assumptions	(737)	(1,500)	(736)	(1,151)
Mortality for assurance contracts	-	42	-	(11)
Mortality for annuity contracts	-	49	-	49
Expenses / (income)	-	27	-	14
Other operating assumptions	(5)	(4)	(5)	(2)
	(746)	(1,445)	(746)	(1,112)
Investment contracts – Participating				
Economic	(266)	(171)	(266)	(171)
Persistency Rates	(4)	(2)	(4)	(2)
Expenses	-	-	-	-
Other operating assumptions	-	-	-	-
	(270)	(173)	(270)	(173)
Investment contracts – Non-participating				
Economic	(1)	-	(1)	-
Expenses	-	-	-	-
Other operating assumptions	-	-	-	-
	(1)	-	(1)	-
Total decrease as a result of changes in assumptions and estimates	(1,017)	(1,618)	(1,017)	(1,285)

The impact of persistency rates on long-term business has resulted in an increase in reserves following a review of recent experience.

The impact of mortality and morbidity for assurance contracts on long-term business has resulted in a reduction in reserves following a review of recent experience, most notably for critical illness.

The impact of mortality for annuitant contracts on long-term business relates primarily to a reduction in reserves due to recognition of benefits from changes in longevity assumptions including: the impact of completing our review of the allowance for anti-selection risk of £170 million, updates reflecting our recent experience of £170 million, updates to the rate of historic and future mortality improvements, including the adoption of CMI 2016, of £340 million, and other less significant movements of £30 million.

In 2016 there was a release of annuitant reserves of £50 million, including the impact of the adoption of CMI 2015 mortality improvement assumptions of £30m, and the impact of updating assumptions following a review of experience (including the exposure to anti-selection) of £20m.

The Company is exposed to credit risk in respect of defaults on corporate bonds, commercial mortgages, healthcare mortgages, and infrastructure assets. This risk is allowed for through prudent deductions to the discount rate used to value the liabilities. The impact of aggregation of credit risk is monitored as described above.

For business transferred from UKA, allowances for credit defaults on mortgages (including healthcare, commercial and infrastructure assets but excluding equity release) and corporate bonds at 31 December 2017 amounted to £1.3 billion (2016: £1.3 billion) over the remaining term of the portfolio, split as £0.5 billion on mortgages (2016: £0.5 billion) and £0.8 billion on corporate bonds (2016: £0.8 billion). For business transferred from FLL the allowance for credit defaults was £0.5 billion (2016: £0.5 billion) over the remaining term of the portfolio.

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For business transferred in from UKA, the Company is also exposed to losses arising from the No-Negative-Equity guarantee on Equity Release assets. This risk is also allowed for through prudent deductions to the discount rate used to value the liabilities. The allowance at 31 December 2017 amounted to £1.3 billion (2016: £1.3 billion) over the remaining term of the portfolio.

The impact of interest rates on long-term business relates primarily to annuities. A narrowing of credit spreads has decreased the valuation interest rate, which has been partially offset by an increase in risk-free rates and changes to the approach used to allocate assets to back liabilities (which includes an alignment of approach to allocating assets across the Life portfolios, resulting in a reduction in liabilities of £153 million).

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 £125 million (2016: £nil).

27. Unallocated divisible surplus

A UDS is established where the nature of policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain. This note shows the movements in this surplus during the year.

The following movements have occurred in the year:

	2017 £m	2016 £m
Carrying amount at 1 January	2,168	1,906
Change in with-profit funds assets	(5,996)	1,020
Change in with-profit funds liabilities	5,859	(782)
Change in liability recognised as expense	(137)	238
Foreign exchange rate movements	5	24
Scheme Transfer from fellow subsidiaries	663	-
At 31 December	2,699	2,168

28. Tax assets and liabilities

(a) General

Of the £380 million current tax liabilities, £413 million (2016: £161 million) is payable in more than one year.

(b) Deferred tax

(i) The balance at 31 December comprises:

	2017 £m	2016 £m
Deferred acquisition costs	164	88
Unrealised gains on investments	623	265
Provisions and other temporary differences	64	6
Net deferred tax liability	851	359

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The timing of reversal of deferred tax assets and liabilities depends on a number of external factors and cannot be calculated with certainty. The majority of deferred tax assets and liabilities are however expected to reverse in more than one year.

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

	2017 £m	2016 £m
Net liability at 1 January	359	294
Relating to Scheme Transfer from subsidiary	467	-
Amounts charged to profit (note 6(a))	24	62
Retranslation of overseas branch tax balances charged to other comprehensive income	1	3
Net liability at 31 December	851	359

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. Deferred tax assets of £15 million have not been recognised (2016: £nil).

29. Borrowings

(a) Contractual maturity

The following table provides information about the maturity periods of the Company's borrowings.

Borrowings are considered current if the contractual maturity dates are within a year. The carrying amount is a reasonable approximation for fair value at the statement of financial position date. Contractual undiscounted cash flows of these borrowings are shown below. The figures include contractual interest payments and so do not agree directly to the carrying amounts shown on the statement of financial position.

	Subordinated debt	Amounts owed to fellow subsidiaries	Amounts owed to subsidiaries	Amounts owed to reinsurers	2017 Total
	£m	£m	£m	£m	£m
Contractual maturity date					
Within 1 year	-	456	50	12	518
Between 1 and 5 years	-	500	-	38	538
Over 5 years	200	-	-	61	261
Total	200	956	50	111	1,317

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					2016
	Subordinated debt	Amounts owed to fellow subsidiaries	Amounts owed to subsidiaries	Amounts owed to reinsurers	Total
	£m	£m	£m	£m	£m
Contractual maturity date					
Within 1 year	-	100	52	15	167
Between 1 and 5 years	-	-	35	42	77
Over 5 years	-	-	156	69	225
Total	-	100	243	126	469

(b) Description and features

Subordinated debt

Under the UKA Scheme transfer, £200 million 5.9% undated subordinated debt transferred to the Company. This was originally novated to UKA in 2009 from a fellow Group undertaking. Since December 2014 the subordinated debt has been callable at par at the option of the Company. In the event that the Company does not call the debt, the coupon will reset at each application reset date to 5 year Benchmark Gilt plus 1.2%. Interest payable on the loan from December 2014 and the next five years is chargeable at an annual rate of 2.5068% and equated to £5 million per annum.

Under the FLL Scheme transfer, the following subordinated debt transferred to the Company;

- (a) £500m lower tier two subordinated debt with Friends Life Holdings plc ("FLH") with an interest rate of 8.25% and a maturity date of 2022.
- (b) £356m upper tier two subordinated debt with FLH with an interest rate of 7.92% which is redeemable at option of the issuer in 2018.

The subordinated debt ranks below the senior obligations of the Company and ahead of the ordinary share capital issued by the Company.

Amounts owed to fellow subsidiaries

Amounts owed to fellow subsidiaries includes £100 million (2016: £100 million) to Aviva Life Services UK Limited ("UKLS") and £856 million (2016: nil) to FLH.

Amounts owed to subsidiaries

Amounts owed to subsidiaries includes £50 million (2016: £50 million) to UKER.

Amounts owed to reinsurers

The Company has entered into a number of financial reinsurance contracts with Swiss Reinsurance Company Limited. Under these contracts the Company receives an up-front accelerated claims payment and in return recognises an obligation to repay this to Swiss Reinsurance Company Limited, contingent on future surplus arising on selected policies.

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(c) Movements in carrying amount during the year

	2017 £m	2016 £m
Carrying amount at 1 January	451	630
Loans from parent undertaking	200	-
Loans from group undertaking	856	-
Repayments	(175)	(162)
Amortisation	(15)	(17)
At 31 December	1,317	451

30. Payables and other financial liabilities

	2017 £m	2016 £m
Payables arising out of direct insurance	640	514
Payables arising out of reinsurance operations	102	54
Deposits received from reinsurers	50,203	25,232
Amounts due to subsidiaries	111	178
Amounts due to fellow subsidiaries	298	350
Derivative financial liabilities	4,582	3,086
Amounts due to brokers for investment purchases	84	41
Obligations for repayment of cash collateral received (note 38 (b))	3,684	3,982
Other financial liabilities	988	286
Bank overdrafts	97	49
	60,789	33,772

Of the above total, £48,463 million (2016: £25,716 million) is expected to be paid more than one year after the statement of financial position date.

Deposits received from reinsurers represent funds withheld by the Company under the terms of two quota share reinsurance arrangements entered into with AII; one 50% (2016: 50%) arrangement entered into on 1 January 2016 covering the non-profit business of the Company and another 50% (2016:nil) pre-existing arrangement covering the annuity business which transferred from UKA under the Scheme transfer on 1 January 2017. See note 40 for further details.

All payables and other financial liabilities are carried at cost, which approximates to fair value, except for derivative liabilities and deposits received from reinsurers, which are carried at their fair values.

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31. Other liabilities

	2017 £m	2016 £m
Deferred income	123	36
Accruals	328	203
	451	239

Of the above total, £90 million (2016: £31 million) is expected to be released more than one year after the statement of financial position date.

32. Contingent liabilities and other risk factors

(a) Guarantees on long-term savings products

As a normal part of their operating activities, the Company has given guarantees and options, including interest rate guarantees, in respect of certain long-term insurance and investment products. In providing these guarantees and options, the Company's capital position is sensitive to fluctuations in financial variables including foreign currency exchange rates, interest rates, property values and equity prices. Interest rate guaranteed returns, such as those available on guaranteed annuity options, are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made. The directors continue to believe that the existing provisions for such guarantees and options are sufficient.

(b) Regulatory compliance

The PRA regulates the Company's insurance and investment business and monitors the financial resources and organisation of the Company as a whole. Both the PRA and FCA have broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation; to investigate marketing and sales practices; and to require the maintenance of adequate financial resources.

The 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 their 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 and potential customers. Regulatory action against a member of the Aviva Group could result in adverse publicity for, or negative perceptions regarding the Group, or could have a material adverse effect on the business of the Group, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

(c) Other

In the course of conducting insurance and investment business, the Company receives liability claims, and becomes involved in actual or threatened litigation arising therefrom. In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect.

The Company has indemnified the overdrafts of certain other Group companies. In the opinion of the directors, no material loss will arise in respect of these indemnities.

The Company has granted a floating charge to a fellow Group Company, AII, in respect of the exposure to the funds withheld by the Company under the terms of a 50% (2016: 50%) quota share reinsurance agreement. The charge, subordinate to policyholders, is issued over the non-profit fund assets of the Company, excluding the

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financial investments of the BPA schemes disclosed in note 15 and those providing cover for derivative transactions as required by regulatory reporting regulations.

33. Commitments

Capital commitments

There are contractual commitments of £8 million (*2016: £18 million*) for acquisitions or capital expenditures of subsidiaries and joint ventures, associates and minority holdings in property partnerships. Of these commitments, £6 million (*2016: £6 million*) is in connection with joint ventures, £2 million (*2016: £3 million*) is in connection with associates, and £nil (*2016: £nil*) is in connection with minority holdings.

There are contractual commitments of £783 million (*2016: £29 million*) for further advances of infrastructure loans, and £73 million (*2016: £nil*) in connection with private equity funds.

There are no contractual commitments for acquisitions or capital expenditure of property and equipment, investment property and intangible assets, which are not recognised in the financial statements.

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34. Statement of cash flows

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

	2017 £m	2016 £m
(Loss) / Profit before tax	(299)	500
Adjustments for:		
Profit on sale of investment property	(17)	(11)
Profit on sale of other financial investments	(1,525)	(2,022)
Fair value losses on subsidiaries	1,740	696
Fair value gains on joint ventures	(32)	(127)
Fair value (gains)/losses on investment property	(234)	149
Fair value gains on investments and loans	(8,380)	(5,978)
Impact of assumption changes	(192)	-
Foreign exchange losses/(gains)	248	(89)
Capitalised expenditure on properties	(73)	(74)
Amortisation of investments	275	189
Amortisation of borrowings	(15)	(17)
Amortisation of deferred acquisition costs	74	490
Amortisation and impairment of AVIF and other intangible assets	18	19
Interest expense on borrowings	13	14
Changes in working capital:		
Increase in reinsurance assets	(494)	(26,916)
Increase in deferred acquisition costs	(146)	(46)
Decrease / (increase) in receivables	8,995	(2,054)
Decrease in prepayments and accrued income	63	50
(Decrease) / increase in insurance liabilities	(364)	1,062
Increase in liability for investment contracts	7,320	6,268
(Decrease) / increase in unallocated divisible surplus	(137)	238
(Decrease) / increase in payables and other financial liabilities	(5,317)	25,551
Increase / (Decrease) in other liabilities	14	(12)
Purchases of investment property	(202)	(3)
Proceeds on sale of investment property	488	664
Net sale of operating assets		
Financial investments and loans	891	3,926
Total cash generated from operations	2,712	2,467

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

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(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	1,057	347
Cash equivalents	21,358	9,506
	22,415	9,853
Bank overdrafts	(97)	(49)
	22,318	9,804

Of the above total, £21,869 million (2016: £9,063 million) relates to cash and cash equivalents held in the long-term fund that can only be used for the purposes of long-term insurance business.

35. Capital

In managing its capital, the Company seeks to:

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

The Company considers not only the traditional sources of capital funding, but alternative sources of capital as appropriate when assessing its available capital. This includes reinsurance, securitisation and certain financing arrangements that can be recognised as capital on a regulatory basis, such as the subordinated loan of £200 million (note 29) the Company has from Aviva Life Holdings UK Limited.

In accordance with Solvency II regulatory rules, the Company is required to hold sufficient capital (own funds) to meet its solvency capital requirements. The Company also 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 when the actual capital level is above or below the desired target level.

The Company has complied with its regulatory capital requirements throughout the financial year.

The reconciliation below is between total IFRS funds and total own funds under Solvency II, based on the Q4 2017 private submission to the PRA.

	2017 £m	2016 £m
Total IFRS shareholders' funds	6,709	4,378
Unallocated divisible surplus	2,699	2,168
Adjustments onto a regulatory basis:		
Intangible assets	(79)	(73)
Regulatory valuation differences	5,815	2,060
Solvency II net assets	15,144	8,533
Ring fenced funds restriction	(2,230)	(1,431)
Subordinated debt	1,116	
Total own funds	14,030	7,102

36. Risk management

(a) Risk management framework

The ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates (collectively known as "the Group") operate a risk management framework ("RMF"), which forms an integral part of the management and board processes and decision-making framework across the Group. The key elements of our risk management framework comprise risk strategy and risk appetite, risk policy categorisation, enterprise-wide approach to managing risk, including how to identify, measure, manage, monitor and report risks, and risk governance and oversight (including boards and board committees, risk policies and business standards, delegated authorities and management committees, and roles and responsibilities). The Group's approach to risk management ensures that significant existing or emerging risks are actively identified, measured, managed, monitored and reported on a continuous basis. 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, risks are usually grouped by risk type: market, credit, life insurance, liquidity and operational risk. Risks falling within these types may affect a number of key metrics, including those relating to balance sheet strength, liquidity and profit. They may also affect the performance of the products that the Company delivers to customers and the service to customers and distributors, which can be categorised as risks to our brand and reputation or as conduct risk.

Risk models are an important tool in the Company's measurement of risk and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. The Company carries out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged. Board oversight of risk and risk management across the Group 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 it is willing to take. The Group's position against risk appetite is monitored and reported to the Board on a regular basis. A similar arrangement prevails at the UK Life business level.

UK Life sets limits to manage material risks to ensure the risks stay within risk tolerance (the desired or upper bound on the level of risk that UK Life will take in pursuit of its purpose and strategy). UK Life assesses the size and scale of a risk by considering how likely it is that the risk will materialise and the potential impact the risk could have on its business and its stakeholders. Where risks are outside of tolerance, actions are agreed to bring the risks within tolerance. Impact assessments are considered against financial, operational and reputational criteria and take into account underlying factors such as economic conditions, for example, UK economic growth and inflation.

The UK Life business has an established governance framework, which has the following key elements:

- Defined terms of reference for the legal entity boards and the associated board committees within the UK Life business, including the Risk Committee, Conduct Committee, Audit Committee, Investment Committee, With Profits Committee and Independent Governance Committee.
- A clear organisational structure with documented delegated authorities and responsibilities from the legal entity boards to CEOs and senior management. Often the senior management are assisted in discharging their delegated authority through the discussion at management committees (for example, the Executive Committee, Operational Risk and Conduct Committee and Asset Liability Committee);
- Adoption of the Group policy framework that defines risk appetite measures and sets out risk management and control standards for the Group's worldwide operations. The risk policies and associated business standards also set out the roles and responsibilities of Group, Businesses, Policy and Standard Owners, and Board and Management Committees.

UK Life operates within a three lines of defence risk management model that encourages close working relationships between line management and the risk function whilst facilitating independent assurance by internal audit, and the roles of the three lines of defence each contribute to embedded risk management:

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- First line of defence (Management): Primary responsibility for risk identification, measurement, management, monitoring and reporting lies with management. The first-line management is responsible for the implementation and practice of risk management.
- Second line of defence (Risk function): Responsibility for reviewing and challenging the completeness and accuracy of risk identification, measurement, management, monitoring and reporting, and the adequacy of, and progress against, mitigation plans lies with the Risk function. This necessitates the early involvement by management of the risk function in key business decisions or projects, both in relation to customer and shareholder risks. The Risk function is responsible for overseeing effective operation of the Risk Management Framework, particularly in relation to setting Risk Appetite, and compliance with Solvency II requirements.
- Third line of defence (Internal Audit function): Responsibility for assessing and reporting (to group and business unit audit, risk and governance committees, as appropriate) on the effectiveness of the design and operation of the framework of controls which enable risk to be assessed and managed lies with Internal Audit.

The Regulators also require UK Life to assess its economic capital requirements to ensure that it adequately reflects the risks facing the business. UK Life has accordingly developed economic capital models that support the measurement, comparison and further understanding of its risks. The results of the modelling are incorporated into key strategic planning and decision-making processes. These models show the relative impact to economic capital from the risks faced. In turn this supports the assessment of appropriate and effective mitigating strategies where risks are outside of appetite.

Regulatory impact on risk and risk assessments

Where the Company has written products where the majority of investment risks are borne by its policyholders, these risks are actively and prudently managed in order to satisfy the policyholders' risk and reward objectives. In addition, the insurance operations are subject to numerous regulatory requirements that prescribe the level of assets to be maintained in order to meet insurance liabilities. Meeting these requirements helps to ensure the Company's market risk is maintained at an acceptable level.

(b) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, foreign exchange rates, equity prices and property prices. Market risk arises within the Company due to fluctuations in the relationship between the values of the liabilities and the value of investments held, as a result of movements in market prices.

For each of the major components of market risk, described in more detail below, the Company has put in place additional policies and procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite.

The Company manages market risks within the asset/liability management ("ALM") framework. The Company is also constrained by the requirement to meet policyholders' reasonable expectations and to minimise or avoid market risk in a number of areas.

The financial impact of market risk is examined through stress tests on the capital position under Solvency II, which consider the impact on Economic Capital from variations in financial circumstances on either a remote scenario or to changes from the central operating scenario. Management actions that may be taken in mitigation of the change in circumstances are also considered.

The Company's market risk policy sets out the minimum principles and framework for setting an ALM and investment strategy, the approaches to be taken when liabilities cannot be matched and the monitoring and reporting processes that are required. The Company applies appropriate matching techniques to assets and liabilities for all classes of business in order to manage the financial risk from the mismatching of assets and liabilities when investment markets change. The Company monitors adherence to this policy through the Asset & Liability Committee ("ALCO").

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Certain policyholder participation features contribute to the Company's market risk. The major features include guaranteed surrender values, guaranteed annuity options, and minimum surrender and maturity values. The full list of material guarantees and options is set out in note 25.

(i) Equity risk

The Company is subject to equity risk from equity market dynamics due to both price and index movements and changes in volatility and correlation. The Company's shareholders are exposed to direct equity holdings in shareholder assets; to indirect impact of changes in the value of equities held in policyholder funds from which management charges or a share of performance are taken; and to its interest in the free assets of long-term funds.

Equity price risk is actively managed in order to mitigate anticipated unfavourable market movements where this lies outside the risk appetite of the fund concerned. The Company holds diversified portfolios of assets thereby reducing exposure to individual equities.

The Company actively models the performance of equities through the use of stochastic models, in particular to understand the impact of equity performance on guarantees, options and bonus rates.

In the principal with-profits funds, a dynamic hedging strategy is in place, which aims to protect the surplus within the funds from adverse changes in assets values, in particular equities and properties.

The Company actively monitors its directly owned equity assets including subsidiary investments and shareholdings in strategic business partners, with regular management information presented to the Board Investment Committee. The fair values will fluctuate as the underlying assets and liabilities held by the subsidiaries, including the in-force business where applicable, change in value.

A sensitivity of profit and shareholders' equity to changes in equity prices is given in section (h) below.

(ii) Property risk

The Company is subject to property risk due to holdings of investment properties. Property price risk is actively managed subject to the expectations of policyholders and in order to mitigate unfavourable market movements where this lies outside the risk appetite of the fund concerned. The Company holds a diversified portfolio of property thereby reducing exposure to individual properties. The financial impact from changes in property values is examined through stress tests adopted for Solvency II reporting.

A sensitivity of profit and shareholders' equity to changes in property prices is given in section (h) below.

(iii) Interest rate risk

Interest rate risk arises primarily from the Company's nominal and real yield curve exposure within both assets and liabilities. Interest rate risk also exists in policies that carry investment guarantees on early surrender or at maturity, where claim values can become higher than the value of backing assets when interest rates rise or fall.

The Company manages this risk by adopting asset liability matching techniques, to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements. However where any mismatch is within the Company's risk appetite, the impact is monitored through economic capital measures such as Solvency II.

Interest rate risk is also managed using a variety of derivative instruments, including futures, options and swaps, in order to provide a degree of hedging against unfavourable market movements in interest rates inherent in the assets backing technical liabilities. Swaps have been put in place to improve the overall matching of asset and liability cash flows.

A sensitivity of profit and shareholders' equity to changes in interest rates is given in section (h) below.

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(iv) Inflation risk

Inflation risk arises primarily from the Company's exposure to expense inflation and exposure to inflation linked benefits within the UK annuity portfolio. Increases in long-term inflation expectations are closely linked to long-term interest rates and so are frequently considered with interest rate risk. Exposure to inflation risk is monitored through economic capital modelling, sensitivity testing and stress and scenario testing. The Company typically manages inflation risk through its investment strategy and, in particular, by investing in inflation linked securities and through a variety of derivative instruments, including inflation linked swaps.

(v) Currency Risk

The Company is subject to currency risk from financial instruments held in currencies other than Sterling, although this risk is limited as nearly all such holdings are backing either unit-linked or with-profit contract liabilities or mitigated by hedging.

(vi) Derivative risk

Derivatives are used within policy guidelines agreed by the Board of Directors and overseen by Group Risk which monitors implementation of the policy, exposure levels and supports large or complex transactions.

Derivatives are used for efficient investment management, risk hedging purposes or to structure specific retail-savings products. Derivative transactions are materially covered by either cash or corresponding assets and liabilities. Speculative activity is prohibited. Over the counter derivative contracts are entered into only with approved counterparties, in accordance with the Company's policies, thereby reducing the risk of credit loss. The Company applies strict requirements to the administration and valuation processes it uses, and has a control framework that is consistent with market and industry practice for the activity that is undertaken.

(vii) Correlation risk

Interdependencies between risks are taken into consideration in Solvency II in the aggregation of the stress tests. Stress and Scenario testing also considers scenarios involving a number of correlated events.

(c) Legislative risk

The Company operates in a complex legislative environment and may be impacted by changes in legislation. The Company performs regular risk assessments of the relevant risks (including the risks linked to the change in legislation) and of the resulting impacts, to inform business strategy and to ensure ongoing compliance with all applicable laws. The Company also actively monitors legislative changes and has processes in place to take account of them in our businesses, both to be compliant, but also to enable our business to respond commercially to anticipated legislative changes.

(d) Credit risk

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

Our 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. Credit risk categories include spread risk, default risk and rating migration risk:

- Spread risk arises from changes in level of volatility of third party credit spreads over risk-free interest rates, that can be caused by credit concerns (improving or worsening) on the issuer, or from market factors, such as risk appetite and liquidity within the market;
- Default risk is the risk that a counterparty is unable or unwilling to meet its financial obligations when they fall due, and includes delays in repayments, restructuring or repayments/interest schedule and bankruptcy;

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- Rating migration risk is the risk that a change in external credit rating of a counterparty adversely impacts Aviva.

Financial assets are graded according to current credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. For the purposes of the table below financial assets which fall outside this range are classified as non-investment grade. Credit limits for individual counterparties are set based on default probabilities that are in turn based on the rating of the counterparty concerned. Ratings published by companies such as Standard & Poor's are used where available. Whilst not externally rated, the risk characteristics of commercial mortgages are assessed before acquisition and are monitored thereafter. Internal reinsurance assets and receivables are not externally rated.

The following table provides information regarding the aggregated credit risk exposure, for financial assets with external credit ratings, of the Company at 31 December.

	Credit rating						2017
	AAA	AA	A	BBB	Non-investment grade	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Debt securities	9,200	29,373	14,651	9,795	564	3,206	66,789
Reinsurance assets	-	4,124	55,025	81	-	22	59,252
Other investments	22	44	59	-	22	85,454	85,601
Loans	-	1,971	-	-	-	22,748	24,719
	9,222	35,512	69,735	9,876	586	111,430	236,361

	Credit rating						2016
	AAA	AA	A	BBB	Non-investment grade	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Debt securities	6,257	15,812	2,540	1,651	153	767	27,180
Reinsurance assets	-	2,365	30,083	723	115	21	33,307
Other investments	-	55	217	-	22	24,865	25,159
Loans	-	2,009	156	-	-	829	2,994
	6,257	20,241	32,996	2,374	290	26,482	88,640

The carrying amount of assets included on the statement of financial position represents the maximum credit exposure, except for guarantees that are set out in note 25, and the undrawn portion of an intercompany loan commitment of £100 million (2016: £100 million).

The Company is generally not exposed to significant concentrations of credit risk due to internal credit limits, that limit investments in individual assets and asset classes. In cases where the Company is particularly exposed to credit risk, this risk is translated into a more conservative discount rate used to value the liabilities, creating a greater capital requirement, and this credit risk is actively managed. The impact of aggregation of credit risk is monitored as described above.

With the exception of AAA and AA rated Governments and the reinsurance assets with AII, the largest aggregated counterparty exposure does not exceed 0.6% (2016: 0.6%) of the Company's total financial assets.

The impact of collateral held on the net credit exposure is shown below.

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			2017
	Carrying value in the statement of financial position £m	Collateral held £m	Net Credit exposure £m
Reinsurance assets	59,252	48,203	11,049
Derivatives	5,156	4,115	1,041
Loans	24,719	18,813	5,906
Accrued Income	352	330	22
			2016
	Carrying value in the statement of financial position £m	Collateral held £m	Net Credit exposure £m
Reinsurance assets	33,307	26,156	7,151
Derivatives	3,662	2,901	761
Loans	2,994	2,129	865
Accrued income	216	184	32

There was no fair value of collateral held against loans that are non-performing at 31 December 2017 (2016: *£nil*), as there are no non-performing loans.

Accrued income is in respect of interest receivable on derivative assets.

Additional information in respect of collateral is provided in note 38.

To the extent that collateral held is greater than the amount receivable that it is securing, the table above shows only an amount equal to the latter. In the event of default, any over-collateralised security would be returned to the relevant counterparty.

Reinsurance credit exposures

The Company is exposed to concentrations of risk with individual reinsurers, due to the nature of the reinsurance market. The Company places reinsurance with those reinsurers that have acceptable credit ratings. The Company has a significant reinsurance asset as a result of the quota share reinsurance ceded to AII, as detailed in note 40, which is considered to be an acceptable exposure to a fellow group undertaking. The Company operates a policy to manage its reinsurance counterparty exposures and the impact from reinsurer default is measured regularly, in particular through Solvency II tests, and is managed accordingly.

Derivative credit exposures

The Company is exposed to counterparty credit risk through derivative trades. This risk is mitigated through collateralising almost all trades (the exception being certain FX trades where it has historically been the market norm not to collateralise, exchange traded positions and certain swaps with PFI counterparties). The Company operates strict standards around collateral management and controls including the requirement that all "over the counter" derivatives are supported by credit support annexes and ISDAs.

Unit-linked business

For unit-linked business the policyholder bears the market risk, including credit risk, on investment assets in the unit funds. The exception to this is credit risk on certain reinsured unit-linked business which is borne by the Company. Therefore the shareholders' exposure to credit risk is limited to the reinsured funds and to the extent that their income arises from asset management charges based on the value of assets in the fund.

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Impairment of financial assets

The following table provides information regarding the ageing of financial assets that are past due but not impaired.

							2017
	Neither past due nor impaired £m	Financial assets that are past due but not impaired				Carrying value of impaired financial assets £m	Total £m
		0-3 months £m	3-6 months £m	6 months to 1 year £m	Greater than 1 year £m		
Reinsurance assets	59,252	-	-	-	-	-	59,252
Loans	24,719	-	-	-	-	-	24,719
Receivables	3,857	-	-	-	-	-	3,857

Excluded from loans in the table above are £17,291 million of mortgage loans (2016: £120 million), £487 million loans to parent (2016: £233 million) and £3,383 million other loans (2016: £211 million) which are measured at fair value and are therefore not subject to impairment testing.

Also excluded from the table, due to being carried at fair value and therefore not subject to impairment testing, are £66,789 million of debt securities (2016: £27,180 million) and £85,601 million of other investments (2016: £25,159 million).

							2016
	Neither past due nor impaired £m	Financial assets that are past due but not impaired				Carrying value of impaired financial assets £m	Total £m
		0-3 months £m	3-6 months £m	6 months to 1 year £m	Greater than 1 year £m		
Reinsurance assets	33,307	-	-	-	-	-	33,307
Loans	2,543	-	-	-	-	-	2,543
Receivables	11,695	-	-	-	-	-	11,695

(e) Life insurance risk

(i) Type of risk

Life insurance risk includes mortality risk, morbidity risk, longevity risk, persistency risk, expense risk (including commissions) and policyholder behaviour risk around take-up of insurance guarantees and options.

(ii) Risk management

The Company has developed a policy for the management of life insurance risk and guidelines for the practical application of key areas of life insurance practice. The impact of life insurance risk is monitored by the Company as part of the control cycle of business management. Exposure is monitored through the assessment of liabilities, the asset liability management framework, operation of a deals governance framework that includes economic capital assessments of insurance risk-related deals, profit reporting under IFRS, Stress & Scenario analysis, and the Internal Model process.

Mortality and morbidity risks are mitigated by use of reinsurance. The Company assesses the risk exposures and monitors the aggregation of risk ceded to individual reinsurers.

Longevity risk is carefully monitored against the latest internal and external industry data and emerging trends.

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Persistency risk is managed through frequent monitoring of Company experience, benchmarked against expectations. Where possible the financial impact of lapses is reduced through appropriate product design and risk management actions.

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

In addition to economic capital modelling and Stress & Scenario analysis, Solvency II reporting uses sensitivity testing to measure the impact on the Solvency II closing balance sheet due to exposure to life insurance risks. This enables the Company to determine whether action is required to reduce risk, or whether that risk is within the overall risk appetite.

(iii) Concentration risk

The Company writes a diverse mix of business that is subject to similar risks (mortality, persistency etc). The Company assesses the relative costs and concentrations of each type of risk through the Internal Model. This analysis enables the Company to assess whether accumulations of risk exceed risk appetite.

The main concentrations of insurance risk for the Company are persistency, mortality, morbidity and longevity. The Company continually monitors these risks and the opportunities for mitigating actions through reinsurance, improved asset liability matching, or innovative solutions that emerge in the market.

Internal Model analysis helps identify both concentrations of risk types and the benefits of diversification of risk.

(iv) Embedded derivatives within insurance contracts

The Company has exposure to a variety of embedded derivatives within its long-term savings business due to product features offering varying degrees of guaranteed benefits at maturity or on early surrender, along with options to convert their benefits into different products on pre-agreed terms.

Examples of each type of embedded derivative affecting the Company are:

Options: call, put, surrender and maturity options, guaranteed annuity options, option to cease premium payment, options for withdrawals free of market value adjustment, annuity option, guaranteed insurability options;

Guarantees: embedded floor (guaranteed return), maturity guarantee, guaranteed death benefit, guaranteed minimum rate of annuity payment;

Other: indexed interest or principal payments, maturity value, loyalty bonus.

The impact of these is reflected in the economic capital model and managed as part of the asset liability framework.

(f) Liquidity risk

ALCO seeks to determine that the Company has sufficient financial resources to meet its obligations as they fall due.

Maturity analyses

The following tables show the maturities of the Company's insurance and investment contract liabilities, and of the financial and reinsurance assets to meet them. A maturity analysis of the contractual amounts payable for borrowings, payables, other financial liabilities and derivatives is given in notes 29, 30, 31 and 37 respectively. Contractual obligations under operating capital commitments are given in note 33.

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Analysis of expected maturity of insurance and investment contract liabilities

For insurance and investment business, the following table shows the gross liability at 31 December analysed by remaining duration. The total liability is split by remaining duration in proportion to the present value of cash-flows estimated to arise during that period.

					2017
	Total	Within	1-5 years	5-15 years	Over
	£m	1 year	£m	£m	15 years
		£m			£m
Insurance contracts non-linked	94,259	7,707	19,111	28,991	38,450
Investment contracts non-linked	47,030	2,951	6,914	8,036	29,129
Linked business	96,883	4,202	14,779	36,777	41,125
Total contract liabilities	238,172	14,860	40,804	73,804	108,704

					2016
	Total	Within	1-5 years	5-15 years	Over
	£m	1 year	£m	£m	15 years
		£m			£m
Insurance contracts non-linked	39,822	4,913	11,458	15,510	7,941
Investment contracts non-linked	10,186	1,033	3,299	4,589	1,265
Linked business	57,607	5,406	16,262	23,013	12,926
Total contract liabilities	107,615	11,352	31,019	43,112	22,132

For both insurance and investment contracts the analysis of liabilities shown above is based on the estimated timing of future cash flows. For many insurance contracts and almost all investment contracts the contract may be surrendered on demand, and the earliest contractual maturity date is therefore the current statement of financial position date. For non-participating investment contracts the undiscounted contractual maturity value is £111,626 million (2016: £51,950 million). For participating and non-participating unit-linked business, the surrender amount available on demand is approximately equal to the current statement of financial position liability.

Analysis of maturity of financial and reinsurance assets

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise. The table also includes the maturity of deposits received from reinsurers that represent the reinsurers' interest in the Company's financial assets. The Company also has non-financial assets, such as investment property of £5,714 million (2016: £3,413 million), for which a maturity analysis has not been provided.

					2017
	Total	On demand	1-5 years	Over	No fixed
	£m	or within	£m	5 years	term
		1 year		£m	(perpetual)
		£m			£m
Debt securities	66,789	3,904	16,941	45,944	-
Equity securities	37,026	37,026	-	-	-
Other investments (including derivatives)	85,601	80,780	336	4,485	-
Loans	24,719	971	5,160	18,588	-
Reinsurance assets	59,252	2,844	10,405	46,003	-
Deposits received from reinsurers	(50,203)	(2,574)	(9,498)	(38,131)	-
Cash and cash equivalents	22,415	22,415	-	-	-
	245,599	145,366	23,344	76,889	-

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	Total £m	On demand or within 1 year £m	1-5 years £m	Over 5 years £m	2016 No fixed term (perpetual) £m
Debt securities	27,180	4,182	10,119	12,879	-
Equity securities	30,199	30,199	-	-	-
Other investments (including derivatives)	25,159	21,547	759	2,853	-
Loans	2,994	2,190	733	71	-
Reinsurance assets	33,307	2,995	9,117	21,195	-
Deposits received from reinsurers	(25,232)	(2,313)	(6,994)	(15,925)	-
Cash and cash equivalents	9,853	9,853	-	-	-
	103,460	68,653	13,734	21,073	-

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company. Where an instrument can be put back to the issuer on demand, such as a unit trust or similar type of investment vehicle, it is included in the "On demand or within 1 year" column. Most of the Company's investments in equity securities and debt securities are market traded and therefore, if required, can be liquidated for cash at short notice.

(g) Risk and capital management

The Company uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Primarily Stress & Scenario analysis and the Internal Model are used. Sensitivities to economic and operating experience are regularly produced on all of the Company's financial performance measurements to inform the Company's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which the Company is exposed.

(h) Life insurance and investment contracts

The nature of long-term business is such that a number of assumptions have been made in compiling these financial statements. Assumptions are made about investment returns, expenses, mortality and morbidity rates, and persistency in connection with the in-force policies. Assumptions are best estimates based on historical and expected experience of the business. A number of the key assumptions are disclosed in note 23.

Some results of sensitivity testing for long-term 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. This reflects the sensitivity of profit and shareholders' equity in the non-profit funds and NWPSF only. Profit in the other with-profit funds arises on the shareholders' share of bonuses paid on claims during the year, or added to policies at the end of the year. Changes in the sensitivity factors will have no impact upon this figure.

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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.
Expenses	The impact of an increase in maintenance expenses by 10%
Equity/property market values	The impact of a change in equity/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%
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 (including mortgages and equity release). The test allows for any consequential impact on liability valuations. In allowing for the liability impacts the credit default allowances have been increased by 25% of the changes in spreads.

The above sensitivity factors are applied using actuarial and statistical models, with the following pre-tax impacts on profit and shareholders' equity at 31 December:

Impact on profit before tax and shareholders' equity before tax

	Interest rates +1% £m	Interest rates -1% £m	Equity/ property +10% £m	Equity/ property -10% £m	Expenses +10% £m	Assurance mortality +5% £m	Annuitant mortality -5% £m	2017 Credit Spreads +0.5% £m
Insurance								
Participating	(29)	27	(21)	(19)	-	-	(9)	(9)
Non-participating	(304)	335	(122)	100	-	(70)	(576)	(498)
Investment								
Participating	(6)	13	(8)	(4)	-	-	-	(3)
Non-participating	-	(13)	9	(9)	-	-	-	(2)
Total	(339)	362	(142)	68	-	(70)	(585)	(512)

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							2016	
	Interest rates +1% £m	Interest rates -1% £m	Equity/ property +10% £m	Equity/ property -10% £m	Expenses +10% £m	Assurance mortality +5% £m	Annuitant mortality -5% £m	Credit Spreads +0.5% £m
Insurance								
Participating	(47)	47	(109)	62	-	-	(9)	(8)
Non-participating	(33)	(99)	(29)	6	-	(32)	(238)	(110)
Investment								
Participating	(14)	14	(31)	17	-	-	-	(2)
Non-participating	10	(19)	40	(48)	-	-	-	-
Total	(84)	(57)	(129)	37	-	(32)	(247)	(120)

The tables above indicate the impact of the stated changes after the effect of reinsurance. The impact of changes in assurance mortality and interest rates would be significantly higher if existing reinsurance arrangements were not in place.

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, such an occurrence is remote, due to correlations 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 and may be different at the time that any actual market movement occurs.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk 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..

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37. Derivative financial instruments

The Company uses non-hedge derivatives to mitigate risk, as detailed below:

	2017			2016		
	Contract/ notional amount £m	Fair value asset £m	Fair value liability £m	Contract/ notional amount £m	Fair value asset £m	Fair value liability £m
Foreign exchange contracts						
OTC						
Forwards	5,582	23	(26)	1,955	10	(18)
Currency swaps	5,974	80	(540)	4,411	9	(608)
Total	11,556	103	(566)	6,366	19	(626)
Interest rate contracts						
OTC						
Interest swaps	42,526	4,244	(1,741)	30,970	2,886	(1,299)
Options	-	-	-	-	-	-
Exchange traded						
Futures	4,112	11	(14)	3,364	33	(20)
Swaptions	1,220	143	(7)	415	95	(9)
Total	47,858	4,398	(1,762)	34,749	3,014	(1,328)
Equity/index contracts						
OTC						
Options	559	29	-	1,228	24	(38)
Exchange traded						
Futures	16,269	254	(249)	4,980	61	(54)
Options	1,282	142	-	2,907	453	-
Total	18,110	425	(249)	9,115	538	(92)
Credit contracts						
OTC						
Swaps	613	7	(10)	314	-	(5)
Swap index	3,956	-	(63)	-	-	-
Total	4,569	7	(73)	314	-	(5)
Other contracts						
OTC						
Swaps	14,710	223	(1,932)	18,802	91	(1,035)
	14,710	223	(1,932)	18,802	91	(1,035)
	96,803	5,156	(4,582)	69,346	3,662	(3,086)

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.

Swap option ("swaption") contracts are included within interest rate options above as management intention in entering into and subsequent managing of the interest rate related swaption contracts most closely resembles option-type contracts.

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Fair value assets are recognised as 'derivative financial instruments' in note 15. Fair value liabilities are recognised as 'derivative financial liabilities' in note 30.

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

	2017	2016
	£m	£m
Within one year	857	671
Between one and two years	470	393
Between two and three years	350	326
Between three and four years	291	243
Between four and five years	275	212
After five years	2,803	1,427
	5,046	3,272

Certain derivative contracts involve the receipt or pledging of collateral. The amounts of collateral receivable or repayable are included as other financial assets or liabilities in notes 17 and 30 respectively. See note 38 for further discussion regarding these collateral positions.

38. Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

(a) Offsetting financial assets and liabilities and related net exposures

Financial assets and liabilities are offset in the statement of financial position when the Company has a currently enforceable legal right to offset and has the intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

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

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

Aviva participates in a number of stock lending and repurchase arrangements. In some of these arrangements cash is exchanged by Aviva for securities and a related receivable is recognised within 'Loans to credit institutions' (note 13). These arrangements are reflected in the table below. In instances where the collateral is recognised on the statement of financial position, the obligation for its return is included within 'payables and other financial liabilities'.

In other arrangements, securities are exchanged for other securities. The collateral received must be in a readily realisable form such as listed securities and is held in segregated accounts. Transfer of title always occurs for the collateral received. In many instances, however, no market risk or economic benefit is exchanged and these transactions are not recognised on the statement of financial position in accordance with our accounting policies, and accordingly not included in the tables below. If risks and benefits are exchanged then the transactions are recognised on the balance sheet and reflected in the tables below.

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						2017
			Related amounts not set off in the statement of financial position			
	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the statement of financial position £m	Net amounts of financial assets presented in the statement of financial position £m	Financial instruments £m	Collateral received £m	Net amount £m
Financial assets						
Derivatives	4,297	-	4,297	(3,115)	(1,084)	98
Securities lending and Reverse repurchase	2,524	-	2,524	-	(2,502)	22
Total	6,821	-	6,821	(3,115)	(3,586)	120

						2017
			Related amounts not set off in the statement of financial position			
	Gross amounts of recognised financial liabilities £m	Gross amounts of recognised financial assets set off in the statement of financial position £m	Net amounts of financial liabilities presented in the statement of financial position £m	Financial instruments £m	Collateral pledged £m	Net amount £m
Financial liabilities						
Derivatives	4,211	-	4,211	(3,164)	(1,042)	5
Total	4,211	-	4,211	(3,164)	(1,042)	5

The totals for each financial instrument in the tables above and below represent the total balance of the financial asset/liability as aggregated into a line item in the statement of financial position, after including any other amounts not subject to enforceable netting arrangements.

						2016
			Related amounts not set off in the statement of financial position			
	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the statement of financial position £m	Net amounts of financial assets presented in the statement of financial position £m	Financial instruments £m	Collateral received £m	Net amount £m
Financial assets						
Derivatives	3,662	-	3,662	(2,196)	(806)	660
Securities lending and Reverse repurchase	2,009	-	2,009	-	(2,009)	-
Total	5,671	-	5,671	(2,196)	(2,815)	660

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						2016
			Related amounts not set off in the statement of financial position			
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments	Collateral pledged	Net amount
	£m	£m	£m	£m	£m	£m
Financial liabilities						
Derivatives	3,086	-	3,086	(2,194)	(714)	178
Total	3,086	-	3,086	(2,194)	(714)	178

Derivative assets are recognised as 'Derivative financial instruments' in note 15, while fair value liabilities are recognised as 'Derivative financial liabilities' in note 30. £859 million (2016: £608 million) of derivative assets and £371 million (2016: £179 million) of derivative liabilities are not subject to master netting agreements and are therefore excluded from the table above.

Amounts receivable related to securities lending and reverse-repurchase agreements totalling £2,524 million (2016: £2,009 million) are recognised within 'Loans to credit institutions' in note 13.

(b) Collateral

In the tables above, the amounts of assets or liabilities presented in the statement of financial position are offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than amounts presented in the tables above in the case of over collateralisation.

The total amount of collateral received which the Company is permitted to sell or re-pledge in the absence of default was £23,398 million (2016: £17,841 million), all of which other than £4,708 million (2016: £3,942 million) is related to securities lending arrangements. £1,948 million (2016: £2,037 million) of collateral has been received related to balances recognised within 'Loans to credit institutions' in note 13.

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

39. Related party transactions

(a) The members of the Board of Directors are listed on page 1 of these financial statements.

Under separate management agreements UKLS, Aviva Management Services UK Limited (AMSL) and Aviva Administration Limited (AAL) supply and make charges for the provision of operational assets and staff to the Company. The agreements specify the amounts payable to UKLS, AMSL and AAL in respect of acquisition costs and administrative expenses. The amount of this charge in UKLS is £678 million (2016: £464 million) in AMSL £67 million (2016: nil) and in AAL £38m (2016: nil). Investment management services have been provided to the Company by Aviva Investors Global Services Limited. The amount of this charge is £124 million (2016: £125 million).

During the year, the Company received dividends of £nil (2016: £350 million) from its subsidiary UKA, and paid dividends of £671 million (2016: £930 million) to its parent.

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Also included within distributions received from subsidiaries (note 8) are distributions from property limited partnerships of £17 million (2016: £48 million). Included within distributions received from joint ventures and associates (note 9) are distributions from property limited partnerships of £33 million (2016: £36 million).

Included within debt securities in note 15 are £510 million (2016: £nil) of loan notes issued by a wholly owned subsidiary Aviva ERFA 15 UK Limited and £106 million (2016: £19 million) of loan notes issued by the five special purpose securitisation companies: Equity Release Funding (No.1) plc, Equity Release Funding (No.2) plc, Equity Release Funding (No.3) plc, Equity Release Funding (No.4) plc and Equity Release Funding (No.5) plc, which directly, or in trust, hold the beneficial interest in five portfolios of mortgages transferred by a fellow group subsidiary. Interest receivable during the year in respect of these loan notes amounted to £nil (2016: £nil) in respect of Aviva ERFA 15 UK Limited and £2 million (2016: £nil) in respect of the other five special purpose securitisation vehicles.

Under the terms of a quota share agreement 50% of the Company's non-profit fund (excluding reinsurance accepted and the Irish branch) and 50% of the annuity business transferred under the Scheme transfer from UKA is reinsured to AII. Further details of these reinsurance arrangements are given in note 40.

Amounts receivable from, or payments due to, related parties are disclosed separately in notes 17 and 30 respectively. The related parties' receivables and payables are not secured, and no guarantees were received in respect thereof. The receivables and payables will be settled in accordance with normal contract terms.

Loans due from related parties are disclosed separately in note 13.

(b) Reinsurance accepted from subsidiaries

	2017 Reinsurance accepted in year £m	2016 Reinsurance accepted in year £m
Premiums	-	329
Interest receivable	-	1,062
Claims	-	489
Ceding commission payable	-	58
Share of change in insurance and investment contract liabilities	-	799

(c) Reinsurance accepted from fellow subsidiaries

	2017 Reinsurance accepted in year £m	2016 Reinsurance accepted in year £m
Premiums	-	-
Claims	-	23
Share of change in insurance and investment contract liabilities	-	457

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(d) Reinsurance ceded to subsidiaries

	2017	2016
	Reinsurance ceded in year	Reinsurance ceded in year
	£m	£m
Claims	-	9
Share of change in reinsurance assets	-	130

(e) Reinsurance ceded to fellow subsidiaries

	2017	2016
	Reinsurance ceded in year	Reinsurance ceded in year
	£m	£m
Premiums	1,702	3,560
Claims	1,498	429
Expenses	382	294

(f) Other income receivable from related parties

	2017	2016
	Income earned in year	Income earned in year
	£m	£m
Parent	17	14
Subsidiaries	10	11

(g) Other expenses payable to related parties

	2017	2016
	Expense incurred in year	Expense incurred in year
	£m	£m
Fellow subsidiaries	646	606

(h) Asset Transfers to Related Parties

	2017	2016
	Value of Asset Transfer in year	Value of Asset Transfer in year
	£m	£m
Fellow subsidiaries - Loans	738	-

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(i) 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 executive directors is as follows:

	2017 £'000	2016 £'000
Salary and other short-term benefits	6,291	9,056
Post-employment benefits	148	57
Other long-term benefits	633	933
Termination benefits	396	195
	7,468	10,241

Figures in the above table are in respect of qualifying services performed for the Aviva Group

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

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

(j) Ultimate parent undertaking and controlling party

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

The ultimate parent undertaking and controlling party is Aviva plc, a company incorporated in England.

Aviva plc is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2017. The consolidated financial statements of Aviva plc are available on www.aviva.com or by application to the Group Company Secretary, Aviva plc, St. Helen's, 1 Undershaft, London, EC3P 3DQ

40. Quota Share Reinsurance

On 31 December 2013, the company entered into a Quota Share reinsurance arrangement with its fully owned insurance subsidiary undertaking UKA. Under the terms of the Quota Share Reinsurance, 22.5% of the Long Term Fund of UKA is reinsured to the company. On 1 January 2017, as a consequence of the Scheme transfer, this Quota Share reinsurance arrangement ended.

On 1 January 2016, the Company entered into a Quota Share reinsurance arrangement with AII. Under the terms of this Quota Share Reinsurance 50% of the non-profit fund, excluding the Irish branch is reinsured to AII. On 1 January 2017, under the Scheme transfer, the 50% Quota Share Reinsurance arrangement with AII covering the reinsurance of annuity business in UKA transferred along with the long term business into the Company and continues to be effective.

During the year, 50% of new business premiums, claims, investment returns and expenses of the Company have been ceded to AII. The Company expects this to continue in future.

The reinsurance arrangement with AII is priced on an economic basis which makes allowance for items not included within the IFRS valuation. The net impact of the reinsurance in the Income Statement and the Statement of Financial Position may be summarised as follows:

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		2017		2016
	Reinsurance ceded £m	Reinsurance accepted £m	Reinsurance ceded £m	Reinsurance accepted £m
Income statement				
Reinsurance premiums				
New quota share arrangement	-	-	(3,129)	-
Quota share of premiums	(1,702)	-	(616)	329
Investment income	-	-	-	1,062
Investment expense	(3,741)	-	(2,917)	-
Reinsurance claims	1,498	-	460	(476)
Change in insurance liabilities	-	-	-	(575)
Change in reinsurance assets	3,243	-	6,179	-
Change in deferred acquisition costs	15	-	(275)	-
Reinsured expenses	133	-	109	-
Ceding commission payable	-	-	-	(58)
Net impact on profit before tax	(554)	-	181	282
		2017		2016
	Reinsurance ceded £m	Reinsurance accepted £m	Reinsurance ceded £m	Reinsurance accepted £m
Statement of financial position				
Assets				
Deposit with ceding undertaking (note 17)	-	-	-	8,960
Amounts due under reinsurance (note 17)	-	-	200	48
Reinsurance assets (note 16)	48,174	-	25,476	-
Liabilities				
Insurance liabilities (note 23)	-	-	-	8,129
Deposit received from reinsurer (note 30)	50,191	-	25,218	-

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41. Business transfers from subsidiaries

On 9th November 2016 the Company approved the transfer of the whole of the long-term insurance business of a wholly owned subsidiary UKA to the Company through an insurance business transfer scheme under Scheme transfer of the Financial Services and Markets Act 2000. The UK Court approved the scheme on 6th December 2016 and on 1st January 2017 the transfer of the business of UKA to the Company came into effect.

Subsequent to the UKA transfer, on 19th July 2017 the Company approved the transfer of the whole of the long-term insurance business of two fellow subsidiaries; FLL and FLP, into the Company following approval from the Regulators and the Court under the terms of a Scheme transfer. The transfers were approved by the Court on 13th September 2017 and on 1 October 2017 the transfers of the business of FLL and FLP to the Company came into effect.

The effect of these transfers on the Company's Statement of Financial Position at the transfer dates is shown below:

		Scheme transfers into the Company at;			Total
		1 st January 2017	1 st October 2017		
		(UKA)	(FLL)	(FLP)	
		£m	£m	£m	£m
Note					
Assets					
Intangible assets	L & 7	-	13	-	13
Investment in subsidiaries	M & 8	152	652	-	804
Investment in JV & associates	N & 9	-	-	-	-
Property and Equipment	O & 10	3	-	-	3
Investment property	P & 11	172	2,078	-	2,250
Loans	U & 13	18,731	743	-	19,474
Financial investments	S & 15	20,916	48,760	31,570	101,246
Reinsurance assets	K & 16	26,259	1,207	6,252	33,718
Tax assets		171	-	-	171
Receivables	W & 17	420	673	227	1,320
Deferred acquisition costs	X & 18	-	448	273	721
Prepayments and accrued income	18(c)	448	279	44	771
Cash and cash equivalents	Y & 34	2,305	7,172	924	10,401
Total assets		69,577	62,025	39,290	170,892
Liabilities					
Gross insurance liabilities	I & 23	36,135	29,998	2,861	68,994
Gross liability for investment contracts	I, J & 24	-	27,508	35,137	62,645
Unallocated divisible surplus	I & 27	-	663	-	663
Deferred tax liabilities	AA & 28	56	379	33	468
Current tax liabilities	AA & 28	-	135	5	140
Borrowings		200	856	-	1,056
Payables and other financial liabilities	30	31,380	1,292	281	32,953
Pensions obligations and other provisions		-	79	11	90
Other liabilities	31	59	135	4	198
Total liabilities		67,830	61,045	38,332	167,207

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Financial assets and liabilities were transferred at fair value and insurance and participating investment contract liabilities were transferred at a value consistent with IFRS 4. The transfer was for £nil consideration in accordance with the Scheme of Transfer.

The impact from the Scheme transfers recognised in Statement of changes in equity is shown below;

	Scheme transfers into the Company at;			Total
	1 st January	1 st October		
	2017	2017		
	(UKA)	(FLL)	(FLP)	
	£m	£m	£m	£m
Scheme transfers	1,747	980	958	3,685

42. Retirement benefit obligations

(a) Introduction

Following the Scheme transfer of the business of FLL and FLP on 1 October 2017 the Company has been charged management fees by AMSL in relation to monthly deficit recovery contributions made into the Friends Provident Pension Scheme ('FPPS'), a defined benefit pension scheme.

The FPPS has been closed to new members since 1 July 2007 and was closed to active membership on 31 December 2012. The assets of FPPS are held in separate trustee-administered funds to meet long-term pension liabilities to past and present employees. The appointment of trustees is determined by trust documentation. Trustees are required to act in the best interests of the scheme's beneficiaries. The long-term investment objectives of the trustees and the employer are to limit the risk of the assets failing to meet the liabilities of the scheme over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of the scheme. The scheme operates within the UK pensions' regulatory framework.

As the employing company for most of the Aviva UK Life staff in the UK, the pension costs are initially borne by AES an Aviva employment services company, and are then recharged to the operating divisions of the Group as part of an overall charge for payroll-related items. The level of recharges for pension and other costs to each business is reviewed annually.

In the absence of any contractual arrangements or stated policy to allocate the net defined benefit cost for the FPPS, measured in accordance with IAS 19 Employee Benefits, to individual businesses it is Aviva Group's policy to allocate this cost fully to AES (the statutory employer of the FPPS). The pension surplus/deficit, calculated in accordance with IAS 19 as required under FRS 101, is reflected within the balance sheet of Aviva Employment Services Limited. The cost recognised by the Company is equal to its contribution payable for the period.

The disclosures required by IAS 19 in respect of group pension plans where there is no contractual arrangement or stated policy to allocate the net defined benefit cost are set out in this note. Given that prior to the implementation of the Part VII Transfers the Company did not bear the costs of deficit reduction contributions these disclosures are provided for 2017 only. For 2016 and previous periods the disclosures were provided in FLL and FLP.

Aviva Life & Pensions UK Limited
Notes to the financial statements (continued)
For the year ended 31 December 2017

(b) IAS 19 disclosures

The details for the FPPS are given below.

(i) Movements in the scheme's surplus

Movements in the pension scheme's surplus comprise:

	Scheme assets	Scheme liabilities	2017 Pension scheme surplus
	£m	£m	£m
Net surplus in the Scheme at 1 January	1,965	(1,804)	161
Administrative expenses	(3)	-	(3)
Net interest on the pension scheme	49	(44)	5
Total recognised income	2,011	(1,848)	163
Remeasurements			
Return on scheme assets excluding interest income	41	-	41
Losses from change in financial assumptions	-	(30)	(30)
Gains from change in demographic assumption	-	7	7
Experience gains	-	(28)	(28)
Total remeasurements recognised in other comprehensive income	2,052	(1,899)	153
Plan participant contributions	46	-	46
Benefits paid	(153)	153	-
Net surplus in the Scheme at 31 December	1,945	(1,746)	199

(ii) Scheme assets

Total scheme assets are analysed by those that have a quoted market price in an active market and other, as follows:

	Total quoted	Total other	2017 Total
	£m	£m	£m
Bonds			
Fixed interest	575	-	575
Index linked	872	-	872
Equities	35	-	35
Pooled investment vehicles	-	587	587
Cash	31	-	31
Other	(784)	-	(784)
Insurance contract	-	629	629
Total fair value of assets at 31 December	729	1,216	1,945

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For the year ended 31 December 2017

(iii) Assumptions on scheme liabilities

The valuations used for accounting under IAS 19 have been based on the most recent full actuarial valuations, updated to take account of the standard's requirements in order to assess the liabilities of the material schemes at 31 December 2017.

The projected unit credit method

The inherent uncertainties affecting the measurement of scheme liabilities require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit credit method. This is an accrued benefits valuation method which calculates the past service liability to members and makes allowance for their projected future earnings. It is based on a number of actuarial assumptions, which vary according to the economic conditions. Changes in these assumptions can materially affect the measurement of the pension obligations.

Financial assumptions

The main financial assumptions used to calculate scheme liabilities under IAS 19 are:

	2017
Inflation rate (<i>note 1</i>)	3.3%/2.2%
Pension increases	Relevant inflation assumption with Black-Scholes Model & Caps and floors
Deferred pension increases	RPI assumption less deduction 1.1% at all terms
Discount rate	2.4%
Basis of discount rate	AA-rated Corporate Bonds

Note 1 – Assumptions shown are RPI / CPI single rates. For the FPPS RPI / CPI swap curves are used, which are broadly equivalent to the single rates disclosed.

The discount rate and pension increase rate are the two assumptions that have the largest impact on the value of the liabilities, with the difference between them being known as the net discount rate. The discount rate is based on current average yields of high quality debt instruments, taking account of the maturity of the defined benefit obligation.

Mortality assumptions

Mortality assumptions are significant in measuring the Company's obligations under its defined benefit scheme. The assumptions used are summarised in the table below and have been selected to reflect the characteristics and experience of the membership of the scheme. The mortality table, average life expectancy and pension duration used at 31 December 2017 for scheme members are as follows:

Mortality table

	Normal retirement age (NRA)	Life expectancy (pension duration) at NRA of a male		Life expectancy (pension duration) at NRA of a female	
		Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
SAPS, including allowance for future improvement	60	89.1 (29.1)	91.0 (31.0)	89.9 (29.9)	91.9 (31.9)

The table make allowance for observed variations in such factors as age, gender, pension amount, salary and postcode-based lifestyle group, and has been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption.

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Notes to the financial statements (continued)
For the year ended 31 December 2017

Maturity profile of the defined benefit obligation

The FPPS discounted scheme liabilities have an average duration of 21 years.

(iv) Risk management and asset allocation strategy

As noted above, the long-term investment objectives of the trustee and the employer are to limit the risk of the assets failing to meet the liabilities of the scheme over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term cost of the scheme. The investment strategy will continue to evolve over time and is expected to match to the liability profile increasingly closely.

The Group works closely with the trustee, who is required to consult with the Group on the investment strategy. Interest rate and inflation risks are managed using a combination of liability-matching assets and derivatives. The other principal risk is longevity risk which is reduced by the insurance contract the FPPS has entered into.

(v) Funding

Formal actuarial valuations normally take place every three years and where there is a deficit, the Company and the trustee would agree a deficit recovery plan. The assumptions adopted for triennial actuarial valuations are determined by the trustee and agreed with the Group and are normally more prudent than the assumptions adopted for IAS19 purposes, which are best estimate.

On 4 January 2016 the FPPS trustees signed a new deficit recovery plan and supporting schedule of contributions which requires contributions of £43 million from January 2016 to September 2016 and from October 2016 to December 2019 at a fixed rate of £43 million per annum until the scheme is at least 100% funded on a technical provisions basis.

(c) Charges to the income statement

The total management charge borne by the Company in relation to the FPPS is disclosed below. This relates to the three months following the Scheme transfer of FLL and FLP's business into the Company.

	2017 £m
Deficit reduction contribution	11
Contribution to administrative expenses	1
Total FPPS pension costs	12

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Appendix to the financial statements – Related undertakings of the Company

A list of the subsidiary undertakings and significant holdings in undertakings other than subsidiary undertakings of the company is shown below. The list also includes holdings in open-ended investment companies (OEICs), sociétés d'investissement à capital variable (SICAVs), investment companies with variable capital (ICVCs) and liquidity funds where the Company has a significant holding in the underlying assets of the fund, where information is available.

Registered Address	Percentage of Ownership	Share Class
FRANCE		
20, Place Vendôme, 75001 Paris, France		
AXA LBO Fund IV Feeder	41%	Private Equity Fund
AXA UK Infrastructure Investment SAS	100%	Limited Company
47 rue du Faubourg Saint-Honoré, 75008, Paris 8, France		
CGU Equilibre	89%	FCP
5/7 rue de Monttessuy, 75007 Paris, France		
Elite 1818 Securite FCP	20%	FCP
GUERNSEY		
PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3QL, Channel Islands		
AXA Property Trust Limited	28%	Closed End
F&C Commercial Property Trust Limited	20%	Closed End
IRELAND		
25/28 North Wall Quay, Dublin, Ireland		
Aviva Investors European Liquidity Fund	77%	ICVC
Aviva Investors Sterling Government Liquidity Fund	47%	ICVC
Aviva Investors Sterling Liquidity Fund	74%	ICVC
Aviva Investors Sterling Strategic Liquidity Fund	81%	ICVC
33 Sir John Rogerson's Quay, Dublin 2, Ireland		
L&G Global Equity Index Fund	39%	ICVC
L&G Multi-Index III Euro	100%	ICVC
L&G Multi-Index IV Euro	100%	ICVC
L&G Multi-Index V Euro	100%	ICVC
George's Court, Mr William Roberts, 54-62 Townsend Street, Dublin 2, Ireland		
FPPE - PRIVATE EQUITY	100%	Limited Company
Guild House, Guild Street, IFSC, Dublin, Ireland		
Aviva Irl Merrion Multi Asset Fund	44%	Unit Trust
JERSEY		
19-21 Broad Street, St Helier, Jersey, Channel Islands, JE1 3PB		
11-12 Hanover Square LP Property Unit Trust	50%	Unit Trust
130 Fenchurch Street LP Property Unit Trust	50%	Unit Trust
30 Warwick Street LP Property Unit Trust	50%	Unit Trust
30-31 Golden Square S LP Property Unit Trust	50%	Unit Trust
Barrat House LP Property Unit Trust	50%	Unit Trust
Chancery House London LP Property Unit Trust	50%	Unit Trust
Irongate House LP Property Unit Trust	50%	Unit Trust
New Broad Street House LP Property Unit Trust	50%	Unit Trust

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Appendix to the financial statements – Related undertakings of the Company (continued)

Pegasus House And Nuffield House LP Property Unit Trust 22 Grenville Street, St. Helier, Jersey, JE4 8PX Channel Islands	50%	Unit Trust
AXA SUN LIFE PRIVATE EQUITY (NO1) LP Lime Grove House , Green Street, St Helier, Jersey, Channel Islands, JE1 2ST	100%	Limited Partnership
20 Gracechurch Unit Trust - Closed	100%	Unit Trust
Designer Retail Outlet Centres Unit Trust	97%	Unit Trust
Quantum Unit Trust - Closed	50%	Unit Trust
Serviced Offices Unit Trust Closed	50%	Unit Trust
Southgate Property Unit Trust Open	50%	Unit Trust
LUXEMBOURG		
1c, rue Gabriel Lippmann, L-5365 Munsbach, Luxembourg		
PATRIARCH CLASSIC B&W GLOBAL FREESTYLE	27%	FCP
2 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg		
Aviva Investors Alt Income Solutions Fund Open Ended	98%	Limited Partnership
Aviva Investors Asian Equity Income Fund	44%	SICAV
Aviva Investors Emerging Markets Equity Income Fund	87%	SICAV
Aviva Investors Emerging Markets Equity Small Cap Fund	66%	SICAV
Aviva Investors Emerging Markets Local Currency Bond Fund	87%	SICAV
Aviva Investors European Corporate Bond Fund	26%	SICAV
Aviva Investors European Equity Income Fund	85%	SICAV
Aviva Investors European Real Estate Securities Fund	28%	SICAV
Aviva Investors Global Aggregate Bond Fund	94%	SICAV
Aviva Investors Global Convertibles Absolute Return Fund	70%	SICAV
Aviva Investors Global Convertibles Fund	23%	SICAV
Aviva Investors Global Emerging Markets Index Fund	83%	SICAV
Aviva Investors Global Equity Endurance Fund	81%	SICAV
Aviva Investors Global High Yield Bond Fund	39%	SICAV
Aviva Investors Global Investment Grade Corporate Bond Fund	72%	SICAV
Aviva Investors Long Term European Bond Fund	43%	SICAV
Aviva Investors Multi-Strategy Target Income Fund	23%	SICAV
Aviva Investors UK Opportunities Fund (SICAV)	57%	SICAV
Centaurus Cer (Aviva Investors) Sarl Ord	100%	Ordinary Shares
Hexagpone Sarl Equity	100%	FCP
Project Lion Vitus Group	100%	Fund
3 rue des Labours, L-1912 Luxembourg, Luxembourg		
Haspa Trendkonzept	37%	FCP
6 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg		
German Retail Fund	98%	FCP
7 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg		
Logaxes Closed	85%	FCP
9 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg		
EPI Nu Sarl	100%	Sarl
10 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of		

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Appendix to the financial statements – Related undertakings of the Company (continued)

Luxembourg		
Victor Hugo I Sarl German Mandate Closed	100%	Fund
12 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg		
Victor Hugo Sarl Closed	100%	Fund
14 rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg		
Aviva Investors European Renewable Energy Fund Sicav	100%	Sarl
47 Avenue John F Kennedy, Luxembourg		
Goodman Eur Business Park Offshore Prp Unit Trust	67%	Sarl
Parkridge CER II Ltd Partnership Eur	50%	Unit Trust
49 Avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg		
F&C Diversified Growth Fund	67%	SICAV
F&C European Growth & Income Fund	86%	SICAV
AXA IM Cash - Sterling Strateg Axa Im Cs Sterling Strat M	21%	FCP
DB X-Trackers li Iboxx Eur Sovereigns Eurozone 15+	35%	SICAV
UNITED KINGDOM		
100 Wood Street, London, EC2V 7AN, United Kingdom		
LIVINGBRIDGE 4 Limited Partnership	32%	Limited Partnership
31 Gresham Street, London EC2V 7QA, United Kingdom		
Schroder Institutional QEP Us Core I Inc	40%	Unit Trust
5 Old Broad Street, London EC2N 1AD, United Kingdom		
Architas Ma Active Growth Fund	20%	OEIC
Architas Multi-Manager Diversified Protector 70	48%	OEIC
Architas Multi-Manager Diversified Protector 80	35%	OEIC
50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, United Kingdom		
ASL CARAVEL LP	100%	Limited Partnership
ASL CLIPPER LP	100%	Limited Partnership
ASL MAINSAIL LP	100%	Limited Partnership
ASL SCHOONER LP	100%	Limited Partnership
ASL/SLAS XEBEC LP	100%	Limited Partnership
SLAS TOPSAIL LP	100%	Limited Partnership
50 Stratton Street, London, W1J 8LL		
Lazard Multicap UK Income R Acc	49%	OEIC
80 George Street, Edinburgh, EH2 3BU, United Kingdom		
F&C EUROPEAN CAPITAL PARTNERS LP	30%	Limited Partnership
AX7 Newgate Street, London EC1A 7NX, United Kingdom		
AXA Rosenberg American Fund	92%	OEIC
AXA Rosenberg Asia Pacific Ex-Japan Fund	92%	OEIC
AXA Rosenberg Global Fund	92%	OEIC
AXA Rosenberg Japan Fund	97%	OEIC
BlackRock Pensions, Murray House, 1 Royal Mint Court, London, EC3N 4HH		
Blackrock Aquila Connect Currency Hedged Gbl Equity Fund	22%	OEIC
Excel House, 30 Sempole Street, Edinburgh EH3 8BL		
Liontrust UK Ethical 3 Inc (Sf Icv) Gbp	81%	OEIC

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Appendix to the financial statements – Related undertakings of the Company

(continued)

Liontrust Col Sf Corporate Bond Fund	44%	OEIC
Liontrust Sustainable Fut Euro Gwth Fund	64%	OEIC
Liontrust Sustainable Fut Mngd Fund	86%	OEIC
Liontrust Sustainable Future Absolute Gwth Fund	74%	OEIC
Liontrust Sustainable Future Gbl Gwth Fund	62%	OEIC
Liontrust Sustainable Future UK Growth Fund	57%	OEIC
Exchange House, Primrose Street, London, EC2A 2NY, United Kingdom		
F&C Global Bond Fund	37%	OEIC
F&C Institutional UK Equity Fund	68%	OEIC
F&C Mm Navigator Progressive Fund	23%	OEIC
F&C Strategic Bond Fund	55%	OEIC
St Helen's, 1 Undershaft, London, EC3P 3DQ, United Kingdom		
2-10 Mortimer Street Limited Partnership	50%	Limited Partnership
Ascot Real Estate Investments LP Property Unit Trust	50%	Limited Partnership
Aviva Investors Asia Pacific Property Fund	79%	OEIC
Aviva Investors Cash Fund	60%	OEIC
Aviva Investors Corporate Bond Fund	93%	OEIC
Aviva Investors European Property Fund	72%	OEIC
Aviva Investors Global Equity Endurance Fund	100%	OEIC
Aviva Investors Global Equity Fund	88%	Collective Investment Scheme
Aviva Investors Global Equity Income Fund	85%	OEIC
Aviva Investors High Yield Bond Fund	24%	OEIC
Aviva Investors Idx-Lkd Gilts Ovr 5 Yrs Idx Fd	87%	Collective Investment Scheme
Aviva Investors Index Linked Gilt Fund	98%	Collective Investment Scheme
Aviva Investors International Index Tracking Fund	43%	OEIC
Aviva Investors Japan Equity Fund	98%	Collective Investment Scheme
Aviva Investors Japan Equity Mom 1 Fund	75%	OEIC
Aviva Investors Japanese Equity Index Fund	83%	Collective Investment Scheme
Aviva Investors Managed High Income Fund	60%	OEIC
Aviva Investors Money Market Vnav Fund	99%	Collective Investment Scheme
Aviva Investors Multi-Asset 40 85 Shares Index Fund	100%	Collective Investment Scheme
Aviva Investors Multi-Asset I Fund	44%	OEIC
Aviva Investors Multi-Asset Ii Fund	40%	OEIC
Aviva Investors Multi-Asset Iii Fund	51%	OEIC
Aviva Investors Multi-Asset Iv Fund	39%	OEIC
Aviva Investors Multi-Asset V Fund	41%	OEIC
Aviva Investors Multi-Manager 20-60% Shares Fund	74%	OEIC
Aviva Investors Multi-Manager 40-85% Shares Fund	71%	OEIC
Aviva Investors Multi-Manager Flexible Fund	80%	OEIC
Aviva Investors Multi-Strategy Target Income Fund	57%	SICAV

Aviva Life & Pensions UK Limited

Appendix to the financial statements – Related undertakings of the Company

(continued)

Aviva Investors Multi-Strategy Target Return Fund	37%	SICAV
Aviva Investors Non-Gilt Bond All Stocks Index Fund	91%	Collective Investment Scheme
Aviva Investors Non-Gilt Bond Over 15 Yrs Index Fund	98%	Collective Investment Scheme
Aviva Investors North American Equity Fund	99%	Collective Investment Scheme
Aviva Investors North American Equity Index Fund	100%	Collective Investment Scheme
Aviva Investors Pre-Annuity Fixed Interest Fund	98%	Scheme
Aviva Investors Private Equity Programme 2008 Onshore Closed	33%	Limited Partnership
Aviva Investors Sterling Corporate Bond Fund	27%	Collective Investment Scheme
Aviva Investors Sterling Gilt Fund	68%	Collective Investment Scheme
Aviva Investors Stewardship Fixed Interest Fund	97%	Collective Investment Scheme
Aviva Investors Stewardship International Equity Fund	98%	Collective Investment Scheme
Aviva Investors Stewardship UK Equity Fund	96%	Collective Investment Scheme
Aviva Investors Stewardship UK Equity Income Fund	96%	Scheme
Aviva Investors Strategic Bond Fund	30%	OEIC
Aviva Investors Strategic Global Equity Fund	98%	Collective Investment Scheme
Aviva Investors UK Eq Ex Aviva Inv Trusts Index Fund	99%	Collective Investment Scheme
Aviva Investors UK Equity Alpha Fund	97%	Collective Investment Scheme
Aviva Investors UK Equity Dividend Fund	96%	Collective Investment Scheme
Aviva Investors UK Equity Fund	73%	Collective Investment Scheme
Aviva Investors UK Equity Income Fund	79%	Collective Investment Scheme
Aviva Investors UK Equity Income Fund	54%	Collective Investment Scheme
Aviva Investors UK Equity Index Fund	72%	Scheme
Aviva Investors UK Equity Mom 1 Fund	86%	OEIC
Aviva Investors UK Gilts All Stocks Index Fund	78%	Collective Investment Scheme
Aviva Investors UK Gilts Over 15 Years Index Fund	99%	Collective Investment Scheme
Aviva Investors UK Index Tracking Fund	72%	Scheme
Aviva Investors UK Opportunities Fund (OEIC)	99%	OEIC
Aviva Investors Us Equity Index Fund	66%	Collective Investment Scheme

Aviva Life & Pensions UK Limited

Appendix to the financial statements – Related undertakings of the Company

(continued)

Capital Residential Fund - Life Co Holdings Only	88%	Unit Trust
Cardiff Bay Limited Partnership Closed	100%	Limited Partnership
Chesterford Park	50%	Limited Partnership
Cornerford Ltd Npv	100%	Ordinary Shares
Igloo Regeneration Fund	40%	Limited Partnership
Paddington Central 3 Unit Trust Closed	100%	Unit Trust
Parkridge Sarl	100%	Limited Partnership
Rugby Radio	50%	Limited Partnership
Sue Developments LP	50%	Limited Partnership
Whitgift Shopping Centre Unit Trust Closed	100%	Unit Trust
Aviva Special PFI LP	100%	Limited Partnership
Aviva Investors 30 70 Global Eq Ccy Hedged Ind Fund	100%	Collective Investment Scheme
Aviva Investors 40 60 Global Equity Index Fund	99%	Collective Investment Scheme
Aviva Investors 50 50 Global Equity Index Fund	99%	Collective Investment Scheme
Aviva Investors 60 40 Global Equity Index Fund	99%	Collective Investment Scheme
Aviva Investors Asia Pacific Ex Japan Fund	98%	Collective Investment Scheme
Aviva Investors Balanced Life Fund	96%	Collective Investment Scheme
Aviva Investors Balanced Pension Fund	98%	Collective Investment Scheme
Aviva Investors Cautious Pension Fund	98%	Collective Investment Scheme
Aviva Investors Continental Euro Equity Index Fund	100%	Collective Investment Scheme
Aviva Investors Continental European Eq Alpha Fund	98%	Collective Investment Scheme
Aviva Investors Dev Asia Pacific Ex Japan Eq Ind Fund	69%	Collective Investment Scheme
Aviva Investors Dev Euro Ex UK Equity Index Fund	60%	Collective Investment Scheme
Aviva Investors Dev World Ex UK Equity Index Fund	88%	Collective Investment Scheme
Aviva Investors Developd Overseas Gov Bd Ex UK Ind Fd	48%	Collective Investment Scheme
Aviva Investors Distribution Life Fund	96%	Collective Investment Scheme
Aviva Investors Europe Equity Ex UK Fund	48%	Collective Investment Scheme
Aviva Investors Global Equity Alpha Fund	98%	Collective Investment Scheme
Woolgate Exchange, 25 Basinghall Street London EC2V 5HA, United Kingdom		
Investec Fund Series II - American Fund	24%	OEIC