General Accident plc

Registered in Scotland No. SC119505

Annual Report and Financial Statements 2015

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Directors and officers

Directors

K A Cooper
D F S Rogers
T D Stoddard

Officer – Company Secretary

J C Baddeley

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered Office

Pitheavlis
Perth
Scotland
PH2 0NH

Company Number

Registered in Scotland No. SC119505

Other Information

General Accident plc (the Company) is a member of the Aviva plc group of companies (the Group).

Strategic report
For the year ended 31 December 2015

This strategic report is addressed to, and written for, the members of General Accident plc (the Company) with the aim of providing a fair review of the business development, performance during the year and position at the current time. In providing this review, the aim is to present a view that is both balanced and comprehensive and is consistent with the size and complexity of the business.

Review of the Company's Business

The Company is a wholly-owned subsidiary of Aviva plc. Its principal activity is the provision of loans to its parent company. During 2015, the income of the Company continued to consist of interest received on a loan made to its parent company. The Company continues to have preference shares listed on the London Stock Exchange.

Financial position and performance

The financial position of the Company as at 31 December 2015 is shown in the Statement of Financial Position on page 18, with the trading results shown in the Income Statement on page 15.

Future outlook

High level strategies of the Aviva Group are determined by the Board of Aviva plc and these are shown in the Aviva plc Annual Report and Accounts 2015 and Preliminary Announcement for the year ended 31 December 2015. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

It is anticipated that the Company's significant financial assets will continue to comprise amounts due from its parent company, Aviva plc. Consequently, the positive performance of these loans is expected to continue as the credit risk arising from the parent company failing to meet all or part of its obligations is considered remote.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies to manage and mitigate these risks are set out in note 14 to the financial statements.

Risk factors beyond the Company's control that could cause actual results to differ materially from those estimated, include credit and interest rate risk.

Credit risk
The net asset value of the Company's financial resources is exposed to the potential default on the loan and short term receivables due from its parent, Aviva plc which has an external issuer credit rating of A-[1], and as such the risk of counterparty default is considered remote. In addition, the loan amounting to £10,100 million (*2014: £10,210 million)* is secured by a legal charge against the ordinary share capital of Aviva Group Holdings Limited mitigating the risk of loss in the event of Aviva plc defaulting. Due to the nature of the loan, and the fact that it is intended to be held until settled by Aviva plc (on maturity or earlier if redeemed before maturity) and not traded, the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the credit worthiness of Aviva plc. There were no financial assets that were past due or impaired at either 31 December 2015 or 31 December 2014.

Interest rate risk
The net asset value of the Company's financial resources is exposed to potential fluctuations in interest rates. The effect of a 100 basis point increase / decrease in interest rates would be an increase / decrease in net interest income of £101 million (*2014*: *increase / decrease of £102 million*). Interest rate risk is a risk the Company chooses to accept rather than reduce or mitigate, as although it may materially impact the results of the Company, it does not impact the Company as a going concern, as the Company has no operating expenses and, in respect of preference dividends, it has both discretion over payment and also a loan structure in place, which generates more than adequate income, even at zero LIBOR rates, to cover the annual cost of those dividends.

[1] Issuer credit ratings represent an issuer's ability to meet its overall financial commitments as they fall due.

Strategic report (continued)

Key performance indicators

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

- Effective interest rate earned on loans
- Level of bad debt

A summary of the KPIs is set out below:

Measure	**2015**	2014
Effective interest rate earned on loans	**1.23%**	2.07%
Value of loans that perform without defaulting on interest due or loan repayments expressed as a percentage of all loans	**100.00%**	100.00%

The effective interest rate has decreased from 2.07% in 2014 to 1.23% in 2015. This is due to a reduction in the loan interest received following a restructuring of the loan in December 2014, when two loans of £407m and £9,803m earning interest of LIBOR plus 1.8% and LIBOR plus 1.5% respectively, were combined into a single loan with an interest rate of LIBOR plus 0.65%.

By order of the Board on 9 March 2016

K A Cooper
Director

Directors' report

The directors present their annual report and audited financial statements for General Accident plc (the Company) for the year ended 31 December 2015. This directors' report also comprises the management report required under Disclosure and Transparency Rule 4.1.5R.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements appear on page 3.

In accordance with the Company's articles of association, at the forthcoming Annual General Meeting, all directors will retire from office and, being eligible, will offer themselves for re-election.

Secretary

The name of the present Secretary of the Company appears on page 3. J C Baddeley was appointed as Secretary on 5 August 2015 and K Baily resigned as Secretary of the Company on 25 September 2015.

Dividends

Interim ordinary dividends of £110 million on the Company's ordinary shares were declared and paid during 2015 *(2014: £172 million)*. The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2015 *(2014: £nil)*. The total cost of dividends paid during the year, including preference dividends of £21 million *(2014: £21 million)*, amounted to £131 million *(2014: £193 million)*.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The financial statements sections include notes on the management of its risks including market, credit and liquidity risk (note 14).

The Company and its immediate holding company, Aviva plc, have considerable financial resources and as a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain macro-economic outlook. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Future outlook

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

Events since the Statement of Financial Position date

There are no events since the Statement of Financial Position date to report.

Financial instruments & Financial Risk Management

The business of the Company includes the use of financial instruments. Details of the Company's risk management objectives, policies and exposures to risk relating to financial instruments are set out in note 14 to the financial statements.

Purchase of own shares

At the Annual General Meeting held on 5 June 2015, shareholders renewed the Company's authority to make market purchases of up to 140 million $8^{7}/_{8}$ % cumulative irredeemable preference shares of £1 each and up to 110 million $7^{7}/_{8}$ % cumulative irredeemable preference shares £1 each. These authorities were not used during the year or up to the date of this report. At the 2016 Annual General Meeting, shareholders will be asked to renew these authorities for another year.

Employees

The Company has no employees. Employees are employed by subsidiary undertakings of Aviva plc, Aviva Employment Services Limited and Aviva Investors Employment Services Limited as well as Friends Life entities; Friends Life Services Limited, Friends Life Management Services Limited and Sesame Services Limited. Disclosures relating to employees may be found in the annual report and financial statements of these companies respectively.

Directors’ report (continued)

Disclosure of information to the Auditors

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

(a) so far as the director is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware; and
(b) each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Independent Auditors

A resolution is to be proposed at the 2016 Annual General Meeting for the re-appointment of PricewaterhouseCoopers LLP as auditor of the Company.

A resolution will also be proposed authorising the directors to determine the auditors’ remuneration.

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 remain in force as at the date of approving the Directors’ Report by virtue of paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

Statement of directors’ responsibilities

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

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

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

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

The directors consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company’s performance, business model and strategy.

Directors' report (continued)

Statement of directors' responsibilities continued

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the current directors listed on page 3 confirms that, to the best of their knowledge:

- the Company's financial statements in this report, which have been prepared in accordance with IFRSs as adopted by the European Union, and issued by IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the management report, contained in the annual report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Corporate Governance

The Company is a wholly-owned subsidiary of Aviva plc, a company with a premium listing on the London Stock Exchange, and as such is subject to Aviva plc's system of risk management, internal control and financial reporting. Aviva plc is subject to the UK Corporate Governance Code. The Aviva plc Annual Report and Accounts sets out details of how the Aviva Group has applied the principles and complied with the provisions of the UK Corporate Governance Code during 2015 and it is available at www.aviva.com/reports/2015ar. Further information on the Code can be found on the Financial Reporting Council's website, www.frc.org.uk.

By order of the Board on 9 March 2016

K A Cooper
Director

Independent auditors' report to the members of General Accident plc

Report on the financial statements

Our opinion

In our opinion, General Accident plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements 2015 (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2015;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Statement of Cash flows for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7 and 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Independent auditors' report to the members of General Accident plc

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
9 March 2016

Accounting policies

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

(A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. In addition to fulfilling their legal obligation to comply with IFRS as adopted by the EU, the Company has also complied with IFRS as issued by the IASB and applicable at 31 December 2015. The financial statements have been prepared under the historical cost convention. The date of transition to IFRS was 1 January 2004.

The Company and its immediate holding company, Aviva plc, have considerable financial resources and as a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain macro-economic outlook. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Company's 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 pound sterling (£m).

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

The Company has adopted the following amendments to standards which became effective for the annual reporting period beginning 1 January 2015.

(i) Amendments to IAS 19, Employee Benefits – Employee Contributions

These narrow scope amendments simplify accounting for defined benefit plans that require contributions from employees or third parties. The adoption of the amendments has no impact on Company's financial statements as the Company does not have defined benefit plans that require employees or third parties to contribute to the cost of the plan.

(ii) Annual Improvements to IFRSs 2011-2013

These improvements to IFRSs consist of amendments to four IFRSs including IFRS 3 *Business Combinations* and IFRS13 *Fair Value Measuremen*t. The amendments clarify existing guidance and there is no impact on the Company's financial statements.

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

The following new standards, amendments to existing standards and interpretations have been issued, are not yet effective and have not been adopted early by the Company:

(i) Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

These amendments provide additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. The amendments to IAS 16 and IAS 38 prohibit the use of revenue-based depreciation for property, plant and equipment and significantly limit the use of revenue-based amortisation for intangible assets.

The adoption of these amendments is not expected to have any impact on the Company's financial statements as the Company has no property plant and equipment. These amendments are effective for annual reporting periods beginning on or after 1 January 2016 and have yet to be endorsed by the EU.

(ii) Amendments to IAS 27, Equity Method in Separate Financial Statements

The amendments to IAS 27 allow investments in subsidiaries to be accounted for using the equity method within the Company's financial statements. The Company does not intend on electing to use the equity method in separate financial statements. The amendments to IAS 27 are effective for annual reporting periods beginning on or after 1 January 2016 and have not yet been endorsed by the EU.

Accounting policies (continued)

(A) Basis of preparation continued

(iii) Narrow scope amendments to IFRS10, IFRS 12 and IAS 28 – Applying the Consolidation Exception

These narrow-scope amendments clarify the application of the requirements for investment entities to measure subsidiaries at fair value instead of consolidating them. There are no implications for the Company's financial statements as the Company does not meet the definition of an investment entity. These amendments are effective for annual reporting periods beginning on or after 1 January 2016 and have not yet been endorsed by the EU.

(iv) Amendments to IAS 1 – Disclosure Initiative

These amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The adoption of these amendments will have no impact for the Company's profit or loss or equity. The amendments are effective for annual reporting periods beginning on or after 1 January 2016 and have not yet been endorsed by the EU.

(v) Annual Improvements to IFRSs 2012-2014

These improvements consist of amendments to five IFRSs including IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures and IAS 19 Employee Benefits. The amendments clarify existing guidance. The adoption of these amendments is not expected to have a significant impact on the Company's financial statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2016 and have yet to be endorsed by the EU.

(vi) IFRS 15, Revenue from Contracts with Customers

IFRS 15 will replace IAS 18 Revenue and establishes a principle based five-step model to be applied to all contracts with customers, except for insurance contracts, financial instruments and lease contracts. IFRS 15 also includes enhanced disclosure requirements. The impact of the adoption of the new standard has yet to be fully assessed by the Company. This standard applies to annual reporting periods beginning on or after 1 January 2018 and has not yet been endorsed by the EU.

(vii) 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. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach. The IASB is currently drafting an Exposure Draft to consult on a package of temporary measures that would address the application of IFRS 9 to insurers prior to the publication of the new accounting standard of insurance contracts. A final standard is expected to be issued in 2016. The impact of the adoption of the new standard on the Company's financial statements has yet to be fully assessed. IFRS 9 has not been endorsed by the EU.

(viii) Amendments to IFRS 10 and IAS 28 – Sale of Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to IFRS 10 and IAS 28 clarify that for transactions between an investor and its associate or joint venture, full gains are to be recognised where the assets sold or contributed constitute a business as defined in IFRS 3 Business Combinations. Where the assets sold or contributed do not constitute a business, gains and losses are recognised only to extent of other investors' interests in associate or joint venture. The adoption of these amendments is not expected to have any implications for the Company's financial statements. These amendments will be effective for annual reporting periods beginning on or after 1 January 2016. However the IASB has decided to postpone it indefinitely pending the outcome of its research project on the equity method of accounting.

Accounting policies (continued)

(B) Investment income

Investment income consists of interest receivable for the year. Interest receivable is recognised as it accrues, taking into account the effective yield on the investment.

(C) Financial instruments

Loans to, or from other Aviva group companies are recognised when cash is advanced to, or received from these companies. These loans are subsequently 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.

The Company reviews the carrying value of loans on a regular basis. If the carrying value of the loan is greater than the recoverable amount, the carrying value is reduced through a charge to the Income Statement in the period of impairment.

(D) Cash and cash equivalents

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

(E) 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 reserves as appropriate.

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

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.

(F) Share capital

Equity instruments

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

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares, or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

(G) Earnings per share

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Details are given in note 7.

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

(H) 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. Dividends on preference shares are recognised in the period in which they are declared and appropriately approved.

Accounting policies (continued)

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

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

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

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

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

Income Statement
For the year ended 31 December 2015

	Note	2015 £m	2014 £m
Income			
Investment income	B & 4	**166**	247
Profit for the year before tax		**166**	247
Tax charge	E & 5	**(34)**	(53)
Profit for the year after tax attributable to owners of the company		**132**	194
Earnings per share			
Basic (pounds per share)	7	**0.01**	0.01
Diluted (pounds per share)	7	**0.01**	0.01

The accounting policies (identified alphabetically) on pages 11 to 14 and notes (identified numerically) on pages 20 to 26 are an integral part of these financial statements.

Statement of Comprehensive Income
For the year ended 31 December 2015

	2015	2014
	£m	£m
Profit for the year	**132**	194
Total comprehensive income for the year	**132**	194

The accounting policies (identified alphabetically) on pages 11 to 14 and notes (identified numerically) on pages 20 to 26 are an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2015

	Note	Ordinary share capital £m	Preference share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 1 January 2014		4,781	250	8,859	25	13,915
Profit for the year and total comprehensive income		-	-	-	194	194
Dividends paid	H & 6	-	-	-	(193)	(193)
Balance at 31 December 2014		**4,781**	**250**	**8,859**	**26**	**13,916**
Profit for the year and total comprehensive income		**-**	**-**	**-**	**132**	**132**
Dividends paid	H & 6	**-**	**-**	**-**	**(131)**	**(131)**
Balance at 31 December 2015		**4,781**	**250**	**8,859**	**27**	**13,917**

The accounting policies (identified alphabetically) on pages 11 to 14 and notes (identified numerically) on pages 20 to 26 are an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2015

	Note	2015 £m	2014 £m
Assets			
Non current assets			
Receivables	C & 8	**10,100**	10,210
Current assets			
Receivables	C & 8	**3,904**	3,816
Total assets		**14,004**	14,026
Equity			
Capital			
Ordinary share capital	F & 10	**4,781**	4,781
Preference share capital	11	**250**	250
Share premium		**8,859**	8,859
Retained earnings	12	**27**	26
Total equity		**13,917**	13,916
Liabilities			
Non current liabilities			
Tax liabilities	E & 9	**34**	53
Current liabilities			
Payables and other financial liabilities	I & 13	**53**	57
Total liabilities		**87**	110
Total equity and liabilities		**14,004**	14,026

The financial statements on pages 15 to 26 were approved by the Board of Directors on 9 March 2016 and signed on its behalf by

D F S Rogers
Director

The accounting policies (identified alphabetically) on pages 11 to 14 and notes (identified numerically) on pages 20 to 26 are an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2015

No Statement of Cash Flows is presented as all balances would be nil (*2014: nil*). All the Company's cash requirements are met by fellow Group companies (refer to note 15(a) for further disclosure of transactions on the Company's behalf by its related parties).

The accounting policies (identified alphabetically) on pages 11 to 14 and notes (identified numerically) on pages 20 to 26 are an integral part of these financial statements.

Notes to the financial statements

1. Directors

All directors are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate parent company, Aviva plc. T D Stoddard was a director of Aviva plc during the year and his emoluments are disclosed in that company's report and accounts.

D F S Rogers, T D Stoddard and K A Cooper are remunerated for their roles as employees across the Group. They are not remunerated directly for their services as directors for the Company and the amount of time spent performing their duties is incidental to their role across the Aviva Group. This is consistent with the prior year.

2. Employees

The Company has no employees. Employees are employed by subsidiary undertakings of Aviva plc, Aviva Employment Services Limited and Aviva Investors Employment Services Limited as well as Friends Life entities; Friends Life Services Limited, Friends Life Management Services Limited and Sesame Services Limited. Disclosures relating to employees may be found in the annual report and financial statements of these companies respectively.

3. Auditors' remuneration

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

	2015	2014
	£'000	£'000
Audit Services:		
Statutory audit of the Company's financial statements	**9**	9

There were no non-audit fees paid to the Company's auditors in the year (*2014: £nil*). All fees have been borne by Aviva plc.

4. Investment income

	Note	**2015**	2014
		£m	£m
Interest income			
From loans due from parent company	15(a)(ii)	**166**	247
Total investment income		**166**	247

Notes to the financial statements (continued)

5. Tax

(a) Tax charged to the Income Statement

(i) The total tax charge comprises:

	2015	2014
	£m	£m
Current tax	**(34)**	(53)
Total tax charged to income statement	**(34)**	(53)

(ii) There were no unrecognised tax losses and no temporary differences of previous years used to reduce the current tax expense in either 2015 or 2014.

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

There was no tax credited or charged to other comprehensive income in either 2015 or 2014.

(c) Tax reconciliation

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

	Note	**2015**	2014
		£m	£m
Profit for the year before tax		**166**	247
Tax calculated at standard UK corporation tax rate of 20.25% *(2014: 21.5%)*		**(34)**	(53)
Tax charge for the period	5(a)(i)	**(34)**	(53)

UK legislation was substantively enacted in July 2013 to reduce the UK corporation tax rate from 21% to 20% from 1 April 2015, resulting in an effective rate for the year ended 31 December 2015 of 20.25%.

As legislated in Finance (No 2) Act 2015, which was substantively enacted on 26 October 2015, the UK corporate rate will reduce further to 19% from 1 April 2017 and to 18% from 1 April 2020. There is no impact on the Company's net assets from the reductions in the rates as the Company does not have any recognised or unrecognised deferred tax balances.

6. Dividends

	2015	2014
	£m	£m
Ordinary dividends declared and charged to equity in the year		
Interim dividend 2014 - 0.8993 pence per share, paid on 19 December 2014	**-**	172
Interim dividend 2015 - 0.5751 pence per share, paid on 31 December 2015	**110**	-
	110	172
Preference dividends declared and charged to equity in the year	**21**	21
Total dividends for the year	**131**	193

Notes to the financial statements (continued)

7. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2015	2014
Profit attributable to equity holders of the Company (£m)	**111**	173
Weighted average number of ordinary shares in issue (thousands)	**19,125,601**	19,125,601

(b) Diluted

Diluted earnings per share is calculated the same ways as basis earnings per share, note 7(a), as there are no dilutive potential ordinary shares outstanding.

8. Receivables

	Note	**2015**	2014
		£m	£m
Amounts due from parent	15(a)(ii)	**3,904**	3,816
Loans due from parent	15(a)(i)	**10,100**	10,210
Total at 31 December		**14,004**	14,026
Expected to be recovered in less than one year		**3,904**	3,816
Expected to be recovered in greater than one year		**10,100**	10,210
		14,004	14,026

9. Tax liabilities

(a) Tax liability

	2015	2014
	£m	£m
Tax liability		
Expected to be payable in more than one year	**34**	53
Tax liability recognised in statement of financial position	**34**	53

Liabilities for prior years' tax to be settled by group relief of £53 million (*2014: £57 million*) are included within payables and other financial liabilities (note 13) and within the related party transactions (note 15(a)(*ii*)) and are payable in less than one year.

Notes to the financial statements (continued)

10. Ordinary share capital

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

	2015	2014
	£m	£m
Allotted, called up and fully paid		
19,125,600,632 (*2014: 19,125,600,632*) ordinary shares of 25 pence each	**4,781**	4,781

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital with effect from 1 October 2009. Whilst there is no longer any limitation on the number of shares that the Company may issue, the directors will still be limited as to the number of shares they can allot because authority to allot continues to be required under the Companies Act 2006.

Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

11. Preference share capital

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

	2015	2014
	£m	£m
Allotted, called up and fully paid		
140,000,000 8 ⅞ % cumulative irredeemable of £1 each	**140**	140
110,000,000 7 ⅞ % cumulative irredeemable of £1 each	**110**	110
	250	250

Whilst there is no longer any limitation on the number of shares that the Company may issue, the directors will still be limited as to the number of shares they can allot because authority to allot continues to be required under the Companies Act 2006.

The Company's cumulative irredeemable preference shares are listed on the London Stock Exchange under a Standard Listing. They are irredeemable but, subject to the provisions of the Companies Act 2006, the Company may at any time purchase any preference shares at either par or on the prevailing market price upon such terms as the Board shall determine.

The cumulative irredeemable preference shares rank, as to payment of a dividend and capital, ahead of the Company's ordinary share capital. The issued preference shares are non-voting except where their dividends are in arrears, on a winding up or where their rights are altered. On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares. The Company does not have a contractual obligation to deliver cash or other financial assets to the preference shareholders, and therefore the directors may make dividend payments at their discretion.

At the Annual General Meeting held on 5 June 2015, shareholders renewed the Company's authority to make market purchases of up to 140 million $8^{7}/_{8}$ % cumulative irredeemable preference shares of £1 each and up to 110 million $7^{7}/_{8}$ % cumulative irredeemable preference shares £1 each. These authorities were not used during the year or up to the date of this report. At the 2016 Annual General Meeting, shareholders will be asked to renew these authorities for another year.

Notes to the financial statements (continued)

12. Retained earnings

	Note	2015 £m	2014 £m
At 1 January		**26**	25
Profit for the year		**132**	194
Dividends	6	**(131)**	(193)
At 31 December		**27**	26

Retained earnings of £27 million (*2014: £26 million*) is freely distributable for dividend purposes with no constraints.

13. Payables and other financial liabilities

	Note	2015 £m	2014 £m
Amounts due to fellow group companies	15(a)(ii)	**53**	57
Total at 31 December		**53**	57

All payables and other financial liabilities are carried at cost, which approximates to fair value. The total is expected to be paid within one year after the Statement of Financial Position date.

14. Risk management

(a) The Company's approach to risk and capital management

Risk management framework

The Company's risk management framework is aligned with that of the Aviva plc Group and forms an integral part of the management and Board processes and decision-making framework.

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

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

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

(b) Management of financial and non-financial risks

(i) Market risk

Market risk is the risk of an adverse financial impact resulting from fluctuations in interest rates, foreign currency exchange rates, equity prices and property values. At the statement of financial position date, the Company did not have any material exposure to currency exchange rates, equity prices or property values.

Interest rate risk arises from the inter-company loans receivable (see note 8). The effect of a 100 basis point increase / decrease in interest rates would be an increase / decrease in interest income (before tax) of £101 million (*2014: increase / decrease of £102 million*). The fair value or net asset value of the Company's financial resources is not materially affected by fluctuations in interest rates.

Notes to the financial statements (continued)

14. Risk management continued

(b) Management of financial and non-financial risks continued

(ii) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations, or variations in market values as a result of changes in expectation related to these risks.

The Company's financial assets primarily comprise loans and a short term receivable due from its parent, Aviva plc, which has an external issuer credit rating of A-[1], and as such the credit risk arising from the counterparty failing to meet all or part of their obligations is considered remote. In addition, the loan amounting to £10,100 million (*2014: £10,210 million*) is secured by a legal charge against the ordinary share capital of Aviva Group Holdings Limited. Due to the nature of the financial assets, and the fact that the loans are intended to be held until settled, by the issuer (on maturity or earlier if redeemed before maturity), and not traded, the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the credit worthiness of Aviva plc. Financial assets that were past due or impaired at 31 December 2015 were £nil (*2014: £nil*).

(iii) Liquidity risk

Liquidity risk is the risk that the Company is not able to make payments as they become due because there are insufficient assets in cash form.

Within its financial resources, the Company does not hold any assets in a cash form, however cash settlements of its dividend obligations to the holders of its preference shares are discretionary and subject to Director resolution. Furthermore the cost of these dividends is passed to the Company through an intercompany charge. Tax charges are also settled through an intercompany charge.

(iv) Operational risk

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

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

(c) Capital management

The Company's capital risk determined with reference to the requirements of the Company's stakeholders. In managing capital we seek to maintain sufficient, but not excessive, financial strength to support the payment of preference dividends and the requirements of other stakeholders. The sources of capital used by the Company are equity shareholders' funds and preference shares. At 31 December 2015 the Company had £13,917 million (*2014: £13,916 million*) of total capital employed.

15. Related party transactions

(a) The Company had the following related party transactions

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

(i) Loans due from parent company

In 2005, the Company provided a facility to Aviva plc, its parent company, of £21,628 million. This loan accrued interest at 180 basis points above 3 month LIBOR and was transferred to a new loan on 19 December 2014.

In 2008, the Company provided a facility to Aviva plc, its parent company, of £12,371 million. This loan accrued interest at 150 basis points above 3 month LIBOR and was transferred to a new loan on 19 December 2014.

On 19 December 2014, the Company provided a facility to Aviva plc, its parent company, of £10,382 million which combined the two existing loans, noted above. This loan accrues interest at 65 basis points above 3 month LIBOR with settlement to be received in cash at maturity on 31 December 2017. As at the Statement of Financial Position date, the loan balance outstanding was £10,100 million (*2014: £10,210 million*). This facility has been secured against the ordinary share capital of Aviva Group Holdings Limited.

[1] Issuer credit ratings represent an issuer's ability to meet its overall financial commitments as they fall due.

Notes to the financial statements (continued)

15. Related party transactions continued

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

(i) Loans due from parent company continued

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

	2015 £m	2014 £m
1-5 years	**10,100**	10,210
	10,100	10,210
Effective interest rate	**1.23%**	2.07%

(ii) Other transactions

Services provided to related parties

	2015 Income earned in the year £m	2015 Receivable at year end £m	2014 Income earned in the year £m	2014 Receivable at year end £m
Immediate parent	**166**	**3,904**	247	3,816
	166	**3,904**	247	3,816

The services provided related to interest income of £166 million (*2014: £247 million*)

Services provided by related parties

	2015 Expenses paid in the year £'000	2015 Payable at year end £m	2014 Expenses paid in the year £'000	2014 Payable at year end £m
Immediate parent	**9**	**-**	9	-
Other Aviva Group companies	**-**	**53**	-	57
	9	**53**	9	57

Expenses paid represents audit fees paid by Aviva plc. Refer note 3.

Preference dividends of £21 million (*2014: £21 million*) were paid on behalf of the Company by its parent, Aviva plc.

Group relief

The services provided by related parties related to liabilities for prior years' tax settled by group relief.

Dividends paid

The only other related party transactions affecting the Company's equity related to ordinary dividends paid to Aviva plc of £110 million (*2014: £172 million*).

(b) Key management compensation

Key management, which comprises the directors of the Company, are not remunerated directly for their services as directors for the Company and the amount of time spent performing their duties is incidental to their role across the Aviva Group. The majority of such costs are borne by Aviva plc and are not recharged to the Company. Refer note 1 for details of director's remuneration.

(c) Parent entity

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