General Accident plc

Registered in Scotland No. SC119505

Annual Report and Financial Statements 2016

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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 2016

The directors present their strategic report for the Company for the year ended 31 December 2016.

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 2016, 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 2016 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 2016 and Preliminary Announcement for the year ended 31 December 2016. 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. 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 £9,990 million (*2015: £10,100 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 2016 or 31 December 2015.

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 £100 million (*2015*: *increase / decrease of £101 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	2016	2015
Effective interest rate earned on loans[1]	**1.59%**	1.62%
Value of loans that perform without defaulting on interest due or loan repayments expressed as a percentage of all loans	**100.00%**	100.00%

[1]Effective interest represents the interest received in the year as a proportion of the weighted average loan principal. The rate has decreased from 1.62% in 2015 to 1.59% in 2016 due to a reduction in the average value of 3 month LIBOR rate from 0.57% to 0.52%. Following a review of the effective interest calculation, comparative amounts have been amended from amounts previously reported.

On behalf of the Board on 8 March 2017

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 2016. This Directors' Report also comprises the management report required under Disclosure and Transparency Rule 4.1.5R.

Directors

The current directors and those in office during the year are as follows:

K A Cooper
D F S Rogers
T D Stoddard

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.

Future Outlook

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

Dividends

Interim ordinary dividends of £110 million on the Company's ordinary shares were declared and paid during 2016 (*2015: £110 million*). The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2016 (2015: £nil). The total cost of dividends paid during the year, including preference dividends of £21 million (*2015: £21 million*), amounted to £131 million (*2015: £131 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.

Financial instruments & financial risk management

The business of the Company includes use of financial instruments. Details of the Company's risk management objectives and policies and exposures to price risk, credit risk, liquidity risk and cash flow 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 8 June 2016, 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 2017 Annual General Meeting, shareholders will be asked to renew these authorities for another year.

Employees

The Company has no employees. All staff are employed by subsidiary undertakings of Aviva plc, Aviva Employment Services Limited and Aviva Investors Employment Services Limited; 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 auditor in connection with preparing their report, of which the auditor is unaware; and

(b) each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is 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 2017 Annual General Meeting for the re-appointment of PricewaterhouseCoopers LLP as auditor of the Company under the deemed appointment rules of Section 489 of the Companies Act 2006.

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 were in force throughout the year and 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; 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.

The directors consider that the annual report and accounts, 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.

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.

Directors' Report continued

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 2016. Further information on the Code can be found on the Financial Reporting Council's website, www.frc.org.uk.

On behalf of the Board on 8 March 2017

K A Cooper
Director

Independent auditors' report to the members of General Accident plc

Independent Auditors' 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 2016 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 2016 (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- 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; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is 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, based on the work undertaken in the course of the audit:

- 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
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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 Director's Responsibilities set out on page 7, 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 (continued)

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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Marcus Hine (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
8 March 2017

- The maintenance and integrity of the Aviva plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

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) and IFRS Interpretations Committee (IFRS IC) as issued by the International Accounting Standards Board (IASB) and as 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 2016. 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 2016.

(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 has no impact for the company's financial statements.

(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 adoption of these amendments has no impact on the company's financial statements.

(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 on the company's financial statements as the company does not meet the definition of an investment entity.

(iv) Amendments to IAS 1 – Disclosure Initiative

These amendments form part of the IASB's Disclosure Initiative and are intended to assist entities in applying judgement in considering presentation and disclosure requirements. The amendments clarify guidance in IAS 1 *Presentation of Financial Statements* on materiality and aggregation, the presentation of subtotals, the order of the notes to financial statements and the disclosure of accounting policies. The adoption of these amendments has no impact on the company's financial statements.

(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 and there is no impact on the company's financial statements.

Accounting policies continued

(A) Basis of preparation continued

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) Narrow scope amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The revisions to IAS *12 Income Taxes* clarify the accounting for deferred tax assets on unrealised losses and state that deferred tax assets should be recognised when an asset is measured at fair value and that fair value is below the asset's tax base. It also provides further clarification on the estimation of probable future taxable profits that may support the recognition of deferred tax assets. The adoption of this amendment is not expected to have an impact on the consolidated financial statements as the clarifications are consistent with our existing interpretation. The amendment is effective from 1 January 2017 and has not yet been endorsed by EU.

(ii) Amendments to IAS 7 – Disclosure initiative

The amendments to IAS 7, *Statement of Cash Flows*, which form part of the IASB's Disclosure Initiative, require disclosure of the movements in liabilities arising from financing activities with cash and non-cash changes presented separately. The amendment is effective from 1 January 2017 and has not yet been endorsed by EU. The adoption of this amendment will have no impact on the company's financial statements.

(iii) 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. This standard applies to annual reporting periods beginning on or after 1 January 2018 and has been endorsed by the EU. The adoption of this amendment will have no impact on the company's financial statements.

(iv) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

In June 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*. The amendments clarify that the fair value of a cash-settled share-based payment is determined on a basis that is consistent with that used for equity-settled share-based payments. The amendments also clarify the classification of share-based payments settled net of withholding tax as well as the accounting consequences resulting from a modification of share-based payments from cash-settled to equity-settled. The adoption of this amendment will have no impact on the company's financial statements. The amendments are effective from 1 January 2018 and have not yet been endorsed by the EU.

(v) IFRS 9, Financial Instruments (including amendments to IFRS 4, Insurance Contracts)

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

In September 2016, the IASB published amendments to IFRS 4 *Insurance Contracts* that address the accounting consequences of the application of IFRS 9 to insurers prior to the publication of the forthcoming accounting standard for insurance contracts. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9 until the earlier of the effective date of a new insurance contract standard or 2021.The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied.

The adoption of this amendment will have no impact on the company's financial statements as all financial instruments are measured at amortised cost.

Accounting policies continued

(vi) IFRS 16 Leases

In January 2016, the IASB published IFRS 16 *Leases* which will replace IAS 17 *Leases*. IFRS 16 introduces a definition of a lease with a single lessee accounting model eliminating the classification of either operating or finance leases. Lessees will be required to account for all leases in a similar manner to the current financial lease accounting recognising lease assets and liabilities on the statement of financial position. Lessor accounting remains similar to current practice. The adoption of this amendment will have no impact on the company's financial statements.

(vii) Annual Improvements to IFRSs 2014-2016

These improvements consist of amendments to three IFRSs including IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates*. The amendments clarify existing guidance. The amendments to IFRS 1 and IAS 28 are effective for annual reporting periods beginning on or after 1 January 2018; the amendment to IFRS 12 for annual reporting periods beginning on or after 1 January 2017. The adoption of these amendments will have no impact on the company's financial statements. These amendments have not yet been endorsed by the EU.

(viii) Amendments to IAS 40 – Transfers of Investment Property

In December 2016, the IASB published amendments to IAS 40 *Investment Property* to clarify that transfers of property to, or from, investment property should only be made when there is evidence of a change in use of the property. The adoption of these amendments will have no impact on the company's financial statements. The amendments are effective from 1 January 2018 and have not yet been endorsed by the EU.

(ix) IFRIC 22, Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB published IFRIC 22 *Foreign Currency Transactions and Advance Consideration* to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. For the purpose of determining the exchange rate, the date of the transaction is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. The adoption of this standard will have no impact on the company's financial statements. The standard is effective for annual reporting beginning on or after 1 January 2018 and has not yet been endorsed by the EU.

(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.

Accounting policies continued

(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.

(I) 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.

(J) Critical accounting policies and the use of estimates

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

The Company does not have any critical accounting policies and does not rely on estimation or assumption in these financial statements.

Income Statement
For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Income			
Investment income	B & 4	**160**	166
Profit for the year before tax		**160**	166
Tax charge	E & 5	**(32)**	(34)
Profit for the year after tax attributable to owners of the company		**128**	132
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 2016

	2016	2015
	£m	£m
Profit for the year	**128**	132
Total comprehensive income for the year	**128**	132

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 2016

	Note	Ordinary share capital £m	Preference share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 1 January 2015		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**
Profit for the year and total comprehensive income		**-**	**-**	**-**	**128**	**128**
Dividends paid	H & 6	**-**	**-**	**-**	**(131)**	**(131)**
Balance at 31 December 2016		**4,781**	**250**	**8,859**	**24**	**13,914**

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 2016

	Note	2016 £m	Restated 2015[1] £m
Assets			
Non current assets			
Receivables[1]	C & 8	**13,925**	13,930
Current assets			
Receivables[1]	C & 8	**55**	74
Total assets		**13,980**	14,004
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	**24**	27
Total equity		**13,914**	13,917
Liabilities			
Non current liabilities			
Tax liabilities	E & 9	**32**	34
Current liabilities			
Payables and other financial liabilities	I & 13	**34**	53
Total liabilities		**66**	87
Total equity and liabilities		**13,980**	14,004

[1] The presentation of current and non-current receivables has been amended following a review of payment patterns on amounts due from the parent. Receivables of £3,830 million have been reclassified from current to non-current in the prior year. For further details refer note 8.

The financial statements on pages 15 to 26 were approved by the Board of Directors on 8 March 2017 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 2016

No Statement of Cash Flows is presented as all balances would be £nil (*2015: £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, Aviva Investors Employment Services Limited, 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.

	2016	2015
	£'000	£'000
Audit Services:		
Statutory audit of the Company's financial statements	**10**	9

There were no non-audit fees paid to the Company's auditors in the year (*2015: £nil*). All fees have been borne by Aviva plc.

4. Investment income

	Note	**2016**	2015
		£m	£m
Interest income			
From loans due from parent company	15(a)(ii)	**160**	166
Total investment income		**160**	166

Notes to the financial statements continued

5. Tax charge

(a) Tax charged to the Income Statement

(i) The total tax charge comprises:

	2016	2015
	£m	£m
Current tax	**(32)**	(34)
Total tax charged to income statement	**(32)**	(34)

(ii) There were no unrecognised tax losses and no temporary differences of previous years used to reduce the current tax expense in either 2016 or 2015.

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

There was no tax credited or charged to other comprehensive income in either 2016 or 2015.

(c) Tax reconciliation

The tax on the Company's profit before tax is in line with the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

	Note	**2016**	2015
		£m	£m
Profit for the year before tax		**160**	166
Tax calculated at standard UK corporation tax rate of 20% *(2015: 20.25%)*		**(32)**	(34)
Tax charge for the year	5(a)(i)	**(32)**	(34)

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, further reduced the corporation tax rate to 17% from 1 April 2020. These reduced rates were used in the calculation of the UK's deferred tax assets and liabilities as at 31 December 2016. 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 paid

	2016	2015
	£m	£m
Ordinary dividends declared and charged to equity in the year		
Interim dividend 2015 - 0.5751 pence per share, paid on 31 December 2015	**-**	110
Interim dividend 2016 - 0.5751 pence per share, paid on 31 December 2016	**110**	-
	110	110
Preference dividends declared and charged to equity in the year	**21**	21
Total dividends for the year	**131**	131

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.

	2016	2015
Profit attributable to equity holders of the Company (£m)	**107**	111
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 basic earnings per share, note 7(a), as there are no dilutive potential ordinary shares outstanding.

8. Receivables

	Note	**2016** **£m**	Restated 2015 £m
Amounts due from parent	15(a)(ii)	**3,990**	3,904
Loans due from parent	15(a)(i)	**9,990**	10,100
Total at 31 December		**13,980**	14,004
Expected to be recovered in less than one year[1]		**55**	74
Expected to be recovered in greater than one year[1]		**13,925**	13,930
		13,980	14,004

[1]The presentation of current and non-current receivables has been amended following a review of payment patterns on amounts due from the parent. Comparatives have been restated as shown below. This change in presentation has no impact on the total receivables position.

Effect of restatement from change in classifaction:

	2015		
	As previously reported £m	Effect of change £m	Restated £m
Expected to be recovered in less than one year	3,904	(3,830)	74
Expected to be recovered in greater than one year	10,100	3,830	13,930
	14,004	-	14,004

9. Tax liabilities

(a) Tax liability

	2016 **£m**	2015 £m
Tax liability		
Expected to be payable in more than one year	**32**	34
Tax liability recognised in Statement of Financial Position	**32**	34

Liabilities for prior year's tax to be settled by group relief of £34 million (*2015: £53 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:

	2016	2015
	£m	£m
Allotted, called up and fully paid		
19,125,600,632 (*2015: 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:

	2016	2015
	£m	£m
Allotted, called up and fully paid		
140,000,000 (2015: 140,000,000) 8 ⅞ % cumulative irredeemable of £1 each	**140**	140
110,000,000 (2015: 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 8 June 2016, 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 2017 Annual General Meeting, shareholders will be asked to renew these authorities for another year.

Notes to the financial statements continued

12. Retained earnings

	Note	2016 £m	2015 £m
At 1 January		**27**	26
Profit for the year		**128**	132
Dividends	6	**(131)**	(131)
At 31 December		**24**	27

Retained earnings of £24 million (*2015: £27 million*) is freely distributable for dividend purposes with no constraints.

13. Payables and other financial liabilities

	Note	2016 £m	2015 £m
Amounts due to fellow group companies	15(a)(ii)	**34**	53
Total at 31 December		**34**	53

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 £100 million (*2015: increase / decrease of £101 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 receivables 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 £9,990 million (*2015: £10,100 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 2016 were £nil (*2015: £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.

The Company does not hold any assets in cash form. Cash settlements of its dividend obligations to holders of preference shares, which are discretionary and subject to Director resolution, pass through an intercompany account. Group relief is also settled through an intercompany account.

(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 Control 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 2016 the Company had £13,914 million (*2015: £13,917 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

On 19 December 2014, the Company provided a facility to Aviva plc, its parent company, of £10,382 million. 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. It is the intention of both parties that this facility will be renewed in full upon maturity and has been presented within 1 – 5 years maturity. As at the Statement of Financial Position date, the loan balance outstanding was £9,990 million (*2015: £10,100 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:

	2016	2015
	£m	£m
1-5 years	**9,990**	10,100
	9,990	10,100
Effective interest rate[1]	**1.59%**	1.62%

[1]*Following a review of the effective interest calculation, comparative amounts have been amended from amounts previously reported.*

(ii) Other transactions

Services provided to related parties

	2016		2015	
	Income earned in the year	**Receivable at year end**	Income earned in the year	Receivable at year end
	£m	**£m**	£m	£m
Immediate parent	**160**	**3,990**	166	3,904
	160	**3,990**	166	3,904

The services provided related to interest income of £160 million (*2015: £166 million*)

Services provided by related parties

	2016		2015	
	Expenses paid in the year	**Payable at year end**	Expenses paid in the year	Payable at year end
	£'000	**£m**	£'000	£m
Immediate parent	**10**	**-**	9	-
Other Aviva Group companies	**-**	**34**	-	53
	10	**34**	9	53

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

Preference dividends of £21 million (*2015: £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 (*2015: £110 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.