General Accident plc

Registered in Scotland No. SC119505

Annual Report and Financial Statements 2017

Contents

Directors and Officers

Directors

K A Cooper
T D Stoddard
S Maillet

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 2017

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

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 2017, 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 2017 is shown in the Statement of Financial Position on page 19, with the trading results shown in the Income Statement on page 16.

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 2017 and Preliminary Announcement for the year ended 31 December 2017. 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- (issuer credit ratings represent an issuer's ability to meet its overall financial commitments as they fall due), and as such the risk of counterparty default is considered remote. In addition, the loan amounting to £9,900 million (*2016: £9,990 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 2017 or 31 December 2016.

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 £99 million (*2016*: *increase / decrease of £100 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.

Strategic Report continued

Key performance indicators

The performance of the business can be assessed through the use of key performance indicators (KPIs). A summary of the KPIs is set out below:

Measure	**2017**	2016
Effective interest rate earned on loans	**1.38%**	1.59%

Effective interest represents the interest received in the year as a proportion of the weighted average loan principal. The rate has decreased from 1.59% in 2016 to 1.38% in 2017 due to a reduction in the average value of 3 month LIBOR rate from 0.52% to 0.34%.

On behalf of the Board on 7 March 2018

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 2017. This Directors' Report also comprises of the management report required under Disclosure and Transparency Rule 4.1.5R.

Directors

The names of the present directors of the Company appear on page 3.

D F S Rogers resigned as a director of the Company on 13 March 2017.

S Maillet was appointed as a director of the Company on 13 March 2017.

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 £90 million on the Company's ordinary shares were declared and paid during 2017 (*2016: £110 million*). The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2017 *(2016: £nil).* The total cost of dividends paid during the year, including preference dividends of £21 million (*2016: £21 million*), amounted to £111 million (*2016: £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 liquidity risk, and operational 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 & 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 24 May 2017, 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 2018 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 Sesame Services Limited. Disclosures relating to employees may be found in the annual report and financial statements of these companies respectively.

Directors' Report continued

Statement of disclosure 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 auditors are 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 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 2018 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 Annual Report and the financial statements in accordance with applicable law and regulations.

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

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

The directors are responsible for 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. The directors 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 ultimate parent 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 2017. 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 7 March 2018

K A Cooper
Director

Independent Auditors' Report to the members of General Accident plc

Report on the audit of the Financial Statements

Our opinion

In our opinion, General Accident plc's financial statements

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

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2017; the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity for the year then ended; the Accounting Policies; and the Notes to the Financial Statements.

Our opinion is consistent with our reporting to those charged with governance.

Basis for opinion

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

Independence

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

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

We have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

- Overall materiality: £139.7 million (*2016: £139.8 million*), based on 1% of Total assets.
- We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.
- We have determined that there are no key audit matters to communicate in our report.

Independent auditors' report to the members of General Accident plc (continued)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, the Companies Act 2006 and UK tax legislation. Our tests included, but were not limited to, the review of the financial statement disclosures to underlying supporting documentation and enquiries of management. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

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

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We determined that there were no key audit matters applicable to the company to communicate in our report.

How we tailored the audit scope

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

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£139.7 million (*2016: £139.8 million*).
How we determined it	1% of Total assets.
Rationale for benchmark applied	In determining our materiality, we considered financial metrics which we believed to be relevant, and concluded, consistent with last year that total assets is the most relevant benchmark given General Accident plc is primarily a financing vehicle for the provision of loans.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £7 million (*2016: £7 million*) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

Independent auditors' report to the members of General Accident plc (continued)

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Independent auditors' report to the members of General Accident plc (continued)

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

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

Marcus Hine (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 March 2018

Accounting policies

The Company is a public limited company incorporated and domiciled in the United Kingdom (UK) and limited by shares. 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 as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The financial statements have been prepared under the historical cost convention. 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 2017.

(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.

(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.

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) 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 Company has adopted IFRS 9 from 1 January 2018. The adoption will have no significant impact on the Company's balance sheet.

Accounting policies continued

(A) Basis of preparation continued

(ii) Annual Improvements to IFRSs 2014-2016

These improvements consist of amendments to three IFRSs including IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates. The amendments to IFRS 1 and IAS 28 are effective for annual reporting periods beginning on or after 1 January 2018; the amendment to IFRS 12 for annual reporting periods beginning on or after 1 January 2017. These amendments have been endorsed by the EU. The adoption of these amendments will have no impact on the Company’s financial statements.

(iii) IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB published IFRIC 23 Uncertainty over Income Tax Treatments. The standard is effective for annual reporting beginning on or after 1 January 2019 and has not yet been endorsed by the EU. The adoption of these amendments will have no impact on the Company’s financial statements.

(B) 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.

(C) 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.

(D) 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.

(E) Statement of Cash Flows

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

(F) 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

(G) 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.

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.

(H) 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.

(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.

Income Statement
For the year ended 31 December 2017

	Note	**2017**	2016
		£m	£m
Income			
Investment income	C & 4	**138**	160
Profit for the year before tax		**138**	160
Tax charge	F & 5	**-**	(32)
Profit for the year after tax attributable to owners of the company		**138**	128
Earnings per share			
Basic (pence per share)	7	**0.61**	0.56
Diluted (pence per share)	7	**0.61**	0.56

The accounting policies (identified alphabetically) on pages 13 to 15 and notes (identified numerically) on pages 21 to 27 are an integral part of these financial statements.

Statement of Comprehensive Income
For the year ended 31 December 2017

	2017	2016
	£m	£m
Profit for the year	**138**	128
Total comprehensive income for the year	**138**	128

The accounting policies (identified alphabetically) on pages 13 to 15 and notes (identified numerically) on pages 21 to 27 are an integral part of these financial statements.

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

	Note	Ordinary share capital £m	Preference share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 1 January 2016		4,781	250	8,859	27	13,917
Profit for the year and total comprehensive income		-	-	-	128	128
Dividends paid	G & 6	-	-	-	(131)	(131)
Balance at 31 December 2016		**4,781**	**250**	**8,859**	**24**	**13,914**
Profit for the year and total comprehensive income		**-**	**-**	**-**	**138**	**138**
Dividends paid	G & 6	**-**	**-**	**-**	**(111)**	**(111)**
Balance at 31 December 2017		**4,781**	**250**	**8,859**	**51**	**13,941**

The accounting policies (identified alphabetically) on pages 13 to 15 and notes (identified numerically) on pages 21 to 27 are an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2017

	Note	2017 £m	2016 £m
Assets			
Non current assets			
Receivables	D & 8	**13,920**	13,925
Current assets			
Receivables	D & 8	**53**	55
Total assets		**13,973**	13,980
Equity			
Capital			
Ordinary share capital	G & 10	**4,781**	4,781
Preference share capital	11	**250**	250
Share premium		**8,859**	8,859
Retained earnings	12	**51**	24
Total equity		**13,941**	13,914
Liabilities			
Non current liabilities			
Tax liabilities	F & 9	**-**	32
Current liabilities			
Payables and other financial liabilities	I & 13	**32**	34
Total liabilities		**32**	66
Total equity and liabilities		**13,973**	13,980

The financial statements were approved by the Board of Directors on 7 March 2018 and signed on its behalf by

K A Cooper
Director

The accounting policies (identified alphabetically) on pages 13 to 15 and notes (identified numerically) on pages 21 to 27 are an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2017

No Statement of Cash Flows is presented as all balances would be £nil (*2016: £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 13 to 15 and notes (identified numerically) on pages 21 to 27 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.

T D Stoddard, K A Cooper and S Maillet 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 *(2016: Nil).* All staff are employed by subsidiary undertakings of Aviva plc, Aviva Employment 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.

	2017	2016
	£'000	£'000
Audit Services:		
Statutory audit of the Company's financial statements	**10**	10

There were no non-audit fees paid to the Company's auditors in the year (*2016: £nil*). All fees have been borne by Aviva plc.

4. Investment income

	Note	**2017**	2016
		£m	£m
Interest income from loans due from parent company	15(a)(i)	**138**	160
Total investment income		**138**	160

Notes to the financial statements continued

5. Tax charge

(a) Tax charged to the Income Statement

(i) The total tax charge comprises:

	2017 £m	2016 £m
Current tax	-	(32)
Total tax charged to income statement	-	(32)

(ii) There were no unrecognised tax losses and no temporary differences of previous years used to reduce the current tax expense in either 2017 or 2016.

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

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

(c) Tax reconciliation

The tax on the Company's profit before tax for 2017 is lower than *(2016: the same as)* the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

	Note	2017 £m	2016 £m
Profit for the year before tax		138	160
Tax calculated at standard UK corporation tax rate of 19.25% *(2016: 20.00%)*		(27)	(32)
Surrender of losses from group undertakings for no charge		27	-
Tax charge for the year	5(a)(i)	-	(32)

The rate of corporation tax changed to 19.00% with effect from 1 April 2017. Finance Act 2016, which received Royal Assent on 15 September 2016, will reduce the corporation tax rate further to 17.00% from 1 April 2020. There is no current year impact on the Company's net assets from the future reduction in the tax rate, as the Company does not have any recognised or unrecognised deferred tax balances.

6. Dividends paid

	2017 £m	2016 £m
Ordinary dividends declared and charged to equity in the year		
Interim dividend 2016 - 0.5751 pence per share, paid on 31 December 2016	-	110
Interim dividend 2017 - 0.4706 pence per share, paid on 31 December 2017	90	-
	90	110
Preference dividends declared and charged to equity in the year	21	21
Total dividends for the year	111	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.

	2017	2016
Profit attributable to equity holders of the Company (£m)	**117**	107
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	**2017**	2016
		£m	£m
Amounts due from parent	15(a)(ii)	**4,073**	3,990
Loans due from parent	15(a)(i)	**9,900**	9,990
Total at 31 December		**13,973**	13,980
Expected to be recovered in less than one year		**53**	55
Expected to be recovered in greater than one year		**13,920**	13,925
		13,973	13,980

9. Tax liabilities

(a) Tax liability

	2017	2016
	£m	£m
Tax liability		
Expected to be payable in more than one year	**-**	32
Tax liability recognised in Statement of Financial Position	**-**	32

The tax liabilities of the Company will be settled by way of group relief with Aviva Group companies.

Liabilities for prior year's tax to be settled by group relief of £32 million *(2016: £34 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.

(b) Deferred taxes

There are no provided or unprovided deferred tax assets and liabilities at the year end *(2016 : £nil)*

Notes to the financial statements continued

10. Ordinary share capital

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

	2017	2016
	£m	£m
Allotted, called up and fully paid		
19,125,600,632 (*2016: 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:

	2017	2016
	£m	£m
Allotted, called up and fully paid		
140,000,000 (*2016: 140,000,000*) 8 ⅞ % cumulative irredeemable of £1 each	**140**	140
110,000,000 (*2016: 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 24 May 2017, 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 2018 Annual General Meeting, shareholders will be asked to renew these authorities for another year.

Notes to the financial statements continued

12. Retained earnings

	Note	2017 £m	2016 £m
At 1 January		**24**	27
Profit for the year		**138**	128
Dividends	6	**(111)**	(131)
At 31 December		**51**	24

Retained earnings of £51 million (*2016: £24 million*) is freely distributable for dividend purposes with no constraints.

13. Payables and other financial liabilities

	Note	2017 £m	2016 £m
Amounts due to fellow group companies	15(a)(ii)	**32**	34
Total at 31 December		**32**	34

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 £99 million (*2016: increase / decrease of £100 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- (issuer credit ratings represent an issuer's ability to meet its overall financial commitments as they fall due), 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 £9,900 million (*2016: £9,990 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 2017 were £nil (*2016: £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 is 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 2017 the Company had £13,941 million (*2016: £13,914 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 14 December 2017, the Company renewed a facility to Aviva plc, its parent company, of £9,990 million and the Board approved the extension of the maturity of the loan by five years from 31 December 2017 to 31 December 2022. The other terms of the loan will remain unchanged, including the rate of interest payable by Aviva plc to the Company (65 basis points above 3 months LIBOR and in the event that the LIBOR rate is less than zero, the rate shall be deemed to be zero). As at the Statement of Financial Position date, the loan balance outstanding was £9,900 million (*2016: £9,990 million*). This facility has been secured against the ordinary share capital of Aviva Group Holdings Limited.

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 loan is as follows:

	2017	2016
	£m	£m
1-5 years	**9,900**	9,990
	9,900	9,990
Effective interest rate	**1.38%**	1.59%

The interest received on this loan shown in the Income Statement is £138 million *(2016: £160 million)* Refer to note 4.

(ii) Other transactions

Services provided to related parties

	2017 Receivable at year end	2016 Receivable at year end
	£m	£m
Immediate parent	**4,073**	3,990
	4,073	3,990

Services provided by related parties

	2017		2016	
	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**	**-**	10	-
Other Aviva Group companies	**-**	**32**	-	34
	10	**32**	10	34

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

Preference dividends of £21 million (*2016: £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

Dividends paid relate to an intercompany transaction of £90 million (*2016: £110 million*) with the Company's parent, Aviva plc.

(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 directors' 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.